

ENTEGRIS INC
Form 10-K
February 22, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2012

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 001-32598

ENTEGRIS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of

41-1941551
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

129 Concord Road, Billerica, Massachusetts 01821

(Address of principal executive offices and zip code)

(978) 436-6500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on which Registered
Common Stock, \$0.01 Par Value	The Nasdaq Global Select Market
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant, based on the last sale price of the Common Stock on June 30, 2012, the last business day of registrant's most recently completed second fiscal quarter, was \$1,045,000,000. Shares held by each officer and director of the registrant and by each person who owned 10 percent or more of the outstanding Common Stock have been excluded from this computation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status for this purpose is not necessarily a conclusive determination for other purposes.

As of February 13, 2013, 138,679,824 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the registrant's Definitive Proxy Statement for its 2013 Annual Meeting of Stockholders scheduled to be held on May 8, 2013, or the 2013 Proxy Statement, which will be filed with the Securities and Exchange Commission, or SEC, not later than 120 days after December 31, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K. With the exception of the portions of the 2013 Proxy Statement expressly incorporated into this Annual Report on Form 10-K by reference, such document shall not be deemed filed as part of this Annual Report on Form 10-K.

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ENTEGRIS, INC.

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PART I

Item 1. Business.

THE COMPANY

Entegris is a worldwide developer, manufacturer and supplier of products and materials used in processing and manufacturing in the microelectronics and other high-technology industries. For the semiconductor industry, a subset of the microelectronics industry that constitutes the majority of our sales, our products maintain the purity and integrity of critical materials used in the semiconductor manufacturing process. For other high-technology applications, our products and materials are used to manufacture flat panel displays, light emitting diodes or LEDs, high-purity chemicals, such as photoresists, solar cells, gas lasers, optical and magnetic storage devices, and critical components for aerospace, glass manufacturing and biomedical applications. We sell our products worldwide through a direct sales force and through selected distributors.

The Company was incorporated in Delaware in March 2005 in connection with a strategic merger of equals transaction between Entegris, Inc., a Minnesota corporation (Entegris Minnesota), and Mykrolis Corporation, a Delaware corporation (Mykrolis). See OUR HISTORY below.

We offer a diverse product portfolio that includes more than 17,000 standard and customized products that we believe provide the most comprehensive offering of products and services to maintain the purity and integrity of critical materials used by the semiconductor and other high-technology industries. Our products include both unit driven and capital expense driven products. Unit-driven and consumable products are consumed or exhausted during the customer's manufacturing process and rely on the level of semiconductor and other manufacturing activity to drive growth. Capital expense driven products rely on the expansion of manufacturing capacity to drive growth. Our unit-driven and consumable product class includes membrane-based liquid filters and housings, metal-based gas filters, resin-based gas purifiers, wafer shippers, disk-shipping containers and test assembly and packaging products and consumable graphite and silicon carbide components used in plasma etch, ion implant and chemical vapor deposition (CVD) processes in semiconductor manufacturing. Our capital expense-driven products include our components, systems and subsystems that use electro-mechanical, pressure differential and related technologies, to permit semiconductor and other electronics manufacturers to monitor and control the flow and condition of process liquids used in these manufacturing processes, and our process carriers that protect the integrity of in-process wafers. Unit-driven and consumable products, including service revenue, accounted for approximately 66%, 63%, and 63% of our net sales for fiscal years 2012, 2011 and 2010, respectively, and capital expense-driven products accounted for approximately 34%, 37% and 37% of our net sales for the fiscal years 2012, 2011 and 2010, respectively.

Our Internet address is www.entegris.com. On this web site, under the Investors Financial Information SEC Filings section, we post the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC): our annual, quarterly, and current reports on Forms 10-K, 10-Q, and 8-K; our proxy statements; and any amendments to those reports or statements. All such filings are available on our web site free of charge. The SEC also maintains a web site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The content on our website, and any other website, as referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

SEMICONDUCTOR INDUSTRY BACKGROUND

Semiconductors, or integrated circuits, are the building blocks of today's electronics and the backbone of the information age. The market for semiconductors has grown significantly over past decades. This trend is expected to continue due to increased usage of and reliance on the Internet through expanding channels, and the continuing demand for applications in data processing, wireless communications, broadband infrastructure, personal computers, handheld electronic devices and other consumer electronics.

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The manufacture of semiconductors is a highly complex process that consists of two principal segments: front-end processes and back-end processes. The front-end process begins with the delivery of raw silicon wafers from wafer manufacturers to semiconductor manufacturers and requires hundreds of highly complex and sensitive manufacturing steps, during which a variety of materials, including chemicals, gases and metals are repeatedly applied to the silicon wafer to build the integrated circuits on the wafer surface. We offer products, such as liquid and gas filters and purifiers, fluid and gas handling components and wafer shippers and process carriers, to purify these materials and to support each of the primary front-end process steps, which are listed below, as well as products to transport in-process wafers between each of these steps.

Deposition. Deposition refers to placing layers of insulating or conductive materials on a wafer surface in thin films that make up the circuit elements of semiconductor devices. The two main deposition processes are physical vapor deposition, where a thin film is deposited on a wafer surface in a low-pressure gas environment, and CVD, where a thin film is deposited on a wafer surface using a gas medium and a chemical bonding process. In addition, electro-plating technology is utilized for the deposition of low resistance conductive materials such as copper. The control of uniformity and thickness of these films through our filtration and purification products, which purify the fluids and materials used during the process, is critical to the performance of the semiconductor circuit and, consequently, the manufacturing yield. In addition, our graphite chamber liners and shower heads are critical expendable components used in the CVD chamber.

Chemical Mechanical Planarization (CMP). CMP flattens, or planarizes, the topography of the surface of the wafer after deposition by use of CMP polishing pads and slurries containing abrasive particles in a chemical mixture. The purpose of CMP is to permit the patterning of small features on the resulting smooth surface by the photolithography process. Semiconductor manufacturers need our filtration and purification systems to filter the liquid slurries and to remove oversized particles and contaminants that can cause defects on a wafer's surface, while not affecting the functioning of the abrasive particles in the liquid slurries. Our filtration and purification systems thus enable semiconductor manufacturers to maintain acceptable manufacturing yields through the CMP process. In addition, manufacturers use our consumable polyvinyl alcohol (PVA) roller brushes to clean the wafer after completion of the CMP process to prepare the wafer for subsequent operations and our pad conditioners to prepare the surface of the CMP polishing pad.

Photolithography. Photolithography is the process step that defines the patterns of the circuits to be built on the chip. Before photolithography, a wafer is pre-coated with photoresist, a light-sensitive film composed of ultra-high purity chemicals in liquid form. The photoresist is exposed to specific forms of radiation, such as ultraviolet light, electrons or x-rays, to form patterns that eventually become the circuitry on the chip. This process is repeated many times, using different patterns and interconnects between layers to form the complex, multi-layer circuitry on a semiconductor chip. As device geometries decrease and wafer sizes increase, it is even more critical that these photoresists are dispensed onto the chip with accurate thickness and uniformity, as well as with low levels of contamination, and that the process gases are free of micro-contamination so that manufacturers can achieve acceptable yields in the manufacturing process. Our liquid filtration and liquid dispense systems play a critical role in assuring the pure, accurate and uniform dispense of photoresists onto the wafer. In addition, our gas micro-contamination systems eliminate airborne amine contaminants that can disrupt effective photolithography processes.

Etch and Resist Strip. Etch is the process of selectively removing precise areas of thin films that have been deposited on the surface of a wafer. The hardened photoresist protects the remaining material that makes up the circuits. During etch, specific areas of the film not covered by photoresist are removed to leave a desired circuit pattern. Similarly, resist strip is a process of removing the photoresist material from the wafer after the desired pattern has been etched on the wafer. Emerging advanced etch and resist strip applications require precisely controlled gas chemistries and flow rates in order to achieve precise etch and resist strip characteristics. Our gas filters and purifiers help assure the purity of these process gas streams, and our consumable graphite components deliver, baffle and confine these process gases during the etch process.

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Ion Implant. Ion implantation provides a means for introducing impurities into the silicon crystal, typically into selected areas defined by the photolithographic process. This selective implanting of ions into defined areas creates electrically conductive areas that form the transistors of the integrated circuits. Ion implanters have the ability to implant selected elements into the silicon wafers at precise locations and depths by bombarding the silicon surface with a precisely controlled beam of electrically charged ions of specific atomic mass and energy. These ions are embedded into the silicon crystal structure, changing the electrical properties of the silicon. The precision of ion implantation techniques permits customers to achieve the necessary control of this doping process to construct up to 500 billion transistors of uniform characteristics on a 300mm wafer. Since these transistors are the starting point of all subsequent process steps, repeatability, uniformity and yield are extremely important. Our consumable graphite components as well as our proprietary low temperature plasma coating process for core components are critical elements of ion implantation equipment.

Wet Cleaning. Ultra-high purity chemicals and photoresists of precise composition are used to clean the wafers, to pattern circuit images and to remove photoresists after etch. Before processes such as photoresist coating, thin film deposition, ion implantation, diffusion and oxidation, and after processes such as ion implantation and etch, the photoresists must be stripped off, and the wafer cleaned in multiple steps of chemical processes. To maintain manufacturing yields and avoid defective products, these chemicals must be maintained at very high purity levels without the presence of foreign material such as particles, ions or organic contaminants. Our liquid filters and purifiers are used to assure the purity of these chemicals.

Our wafer and reticle carriers are high-purity micro-environments which carry wafers between each of the above process steps, protecting them from damage and contamination during these transport operations. Our fluid handling components assure the delivery of pure liquid chemicals to each of these process steps. Front-end wafer processing can involve hundreds of steps and take several weeks. As a result, a batch of 25 fully processed wafers, the standard number of wafers that can be transported in one of our 200 mm and 300 mm products, can be worth several million dollars. Since significant value is added to the wafer during each successive manufacturing step, it is essential that the wafer be handled carefully and precisely to minimize damage. Thus, in the case of wafer carriers, precise wafer positioning, highly reliable and predictable cassette interface dimensions and advanced materials are crucial. The failure to prevent damage to wafers can severely impact integrated circuit performance, render an integrated circuit inoperable or disrupt manufacturing operations. Our products enable semiconductor manufacturers to: minimize contamination (semiconductor processing is now so sensitive that ionic contamination in certain processing chemicals is measured in parts per trillion); protect semiconductor devices from electrostatic discharge and shock; avoid process interruptions; prevent damage or abrasion to wafers and materials during automated processing caused by contact with other materials or equipment; prevent damage due to abrasion or vibration of work-in-process and finished goods during transportation to and from customer and supplier facilities; and eliminate the dangers associated with handling toxic chemicals.

Once the front-end manufacturing process is completed, finished wafers are transferred to back-end manufacturers or assemblers. The back-end semiconductor manufacturing process consists of test, assembly and packaging of finished wafers into integrated circuits. Our wafer shippers, wafer and reticle carriers and integrated circuit trays facilitate the storage, transport, processing and protection of wafers through these front-end and back-end manufacturing steps.

Semiconductor manufacturing has become increasingly complex in recent years as new technologies have been introduced to enhance device performance and as larger wafer sizes have been introduced to increase production efficiencies. This increasing complexity of semiconductor devices has substantially increased the cost of semiconductor fab infrastructure and equipment and has made achieving target yields more difficult for semiconductor manufacturers adopting advanced processes. This has resulted in a number of challenges including the need for more complex, higher-precision liquid and gas delivery, measurement, control and purification systems and subsystems in the front-end manufacturing processes in order to improve time-to-market and manufacturing yields, reduce manufacturing costs, improve production quality and enhance product reliability. To address these challenges, semiconductor equipment companies and device manufacturers are

outsourcing the design and manufacture of liquid delivery, measurement, control and purification systems,

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subsystems, components, and consumables to us and to other well-established subsystem and component companies that have worldwide presence and leading technologies. The design and performance of those liquid delivery systems, subsystems, components and consumables are critical to the front-end semiconductor manufacturing process because they directly affect cost of ownership and manufacturing yields. We continually seek opportunities to work with our customers to address these challenges.

Also in response to these challenges and to achieve continued productivity gains, semiconductor manufacturers have become increasingly focused on materials management solutions that enable them to safely store, handle, process and transport critical materials throughout the manufacturing process to minimize the potential for damage or degradation to their materials and to protect their investment in processed wafers. The need for efficient and reliable materials management is particularly important as new materials are introduced. Further processing wafers in higher manufacturing technology nodes, larger wafers and finer line widths is more costly and more complex than for smaller wafer sizes and larger line widths. In addition, new materials and circuit shrinkage create new contamination and material compatibility risks, rendering larger wafers more vulnerable to damage or contamination. We believe that these challenges provide opportunities for our advanced purification, dispense, shipping, transport, process and storage products and systems. We also seek to bring our advanced polymer engineering expertise and advanced tool design capabilities to bear on these challenges to provide our customers with innovative materials-based solutions.

Many of the processes used to manufacture semiconductors are also used to manufacture photovoltaic cells, LEDs, flat panel displays and magnetic storage devices resulting in the need for similar filtration, purification, control and measurement capabilities. We seek to leverage our products and expertise in serving semiconductor applications to address these important market opportunities.

OUR BUSINESS STRATEGY

Our objective is to be a leading global provider of innovative products and solutions for purifying, protecting and transporting critical materials used in processing and manufacturing in the semiconductor and other high-technology industries. We intend to build upon our position as a worldwide developer, manufacturer and supplier of liquid delivery systems, components and consumables used by semiconductor and other electronic device manufacturers and upon our expertise in advanced specialty materials to grow our business in these and other high value-added manufacturing process markets. Our strategy includes the following key elements:

Comprehensive and Diverse Product Offerings. The semiconductor manufacturing industry is driven by rapid technological changes and intense competition. We believe that semiconductor manufacturers are seeking process control suppliers who can provide a broad range of reliable, flexible and cost-effective products, as well as the technological and application design expertise necessary to deliver effective solutions. Our comprehensive product offering enables us to meet a broad range of customer needs and provide a single source of flexible product offerings for semiconductor device and capital equipment manufacturers as they seek to consolidate their supplier relationships to a smaller select group. In addition, we believe manufacturers of semiconductor tools are looking to their suppliers for subsystems that provide more integrated functionality and that seamlessly communicate with other equipment. We believe our offering of consumables and equipment, as well as our ability to integrate them, allows us to provide advanced subsystems.

Diversified Revenue Stream. We target a diversified revenue stream by balancing our sales of wafer transport and process carriers as well as component and subsystem equipment products with sales of our unit-driven and consumable products. Our unit-driven and consumable products provide a relatively more stable and recurring source of revenue in this cyclical industry. Our capital expense-driven products, which are generally dependent upon such factors as the construction and expansion of semiconductor manufacturing facilities and the retrofitting and renovation of existing semiconductor facilities, position us to benefit from increases in capital spending that are typically more subject to the volatility of industry cycles. In addition, we are applying our products and technologies to adjacent markets such as solar, aerospace, industrial and life science to generate revenue independent of the cyclicity of the semiconductor markets.

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Technology Leadership. With the emergence of smaller and more powerful semiconductor devices, and the deployment of new materials and processes to produce them, we believe there is a need for greater materials management within the semiconductor fabrication process. We seek to extend our technology by developing advanced products that address more stringent requirements for greater purification, protection and transport of high value-added materials and for contamination control, fluid delivery and monitoring, and system integration. We have continuously improved our products as our customers' needs have evolved. For example, we have developed proprietary materials blends for use in our wafer handling product family that address the contamination concerns of advanced semiconductor processing for below 32 nanometers; we have also developed advanced 300 mm wafer handling products utilizing advanced materials and have been actively developing products for handling 450 mm wafers, the next generation of semiconductor wafers. We have also expanded upon our proprietary two-stage dispense technology with integrated filtration for photoresist delivery, where the photoresist is filtered through one pump and precisely dispensed through a second pump at a different flow rate to reduce defects on wafers.

Strong Customer Base. We have established ongoing relationships with many leading original equipment manufacturers (OEMs) and materials suppliers in our key markets. These industry relationships have provided us with the opportunity for significant collaboration with our customers at the product design stage, which has facilitated our ability to introduce new products and applications that meet our customers' needs. For example, we work with our key customers at the pre-design and design stages to identify and respond to their requests for current and future generations of products. We target opportunities to offer new technologies in emerging applications, such as copper plating, chemical mechanical planarization, wet-dry cleaning systems, and extreme ultra-violet, or EUV, photolithography. We believe that our large customer base will continue to be an important source of new product development opportunities.

Global Presence. We have established a global infrastructure of design, manufacturing, distribution, service and support facilities to meet the needs of our customers. As semiconductor and other electronic device manufacturers have become increasingly global, they have required that suppliers offer comprehensive local repair and customer support services. In response to this trend, we have, for example, expanded our operations in Taiwan to provide manufacturing capabilities to support our important customers in the region, we have established sales and service offices in China in anticipation of a growing semiconductor manufacturing base in that region and we have transferred customer support and logistics activities to local regions, including our expanded presence in Singapore, to enhance our global and regional management of supply chain and manufacturing processes. We maintain our customer relationships through a combination of direct sales and support personnel and selected independent sales representatives and distributors in Asia, Europe and the Middle East.

Ancillary Markets. We leverage our accumulated expertise in the semiconductor industry by developing products for applications that employ similar production processes that utilize materials integrity management, high-purity fluids and integrated dispense system technologies. Our products are used in manufacturing processes outside of the semiconductor industry, including the manufacturing of flat panel displays, fuel cell components, high-purity chemicals, photoresists, solar cells, gas lasers, optical and magnetic storage devices and fiberoptic cables. We plan to continue to identify and develop products that address materials management and advanced materials processing applications where fluid management plays a critical role. We believe that by utilizing our technology to provide manufacturing solutions across multiple industries, we are able to increase the total available market for our products and reduce, to an extent, our exposure to the cyclicity of any particular market.

Strategic Acquisitions, Partnerships and Related Transactions. We plan to pursue strategic acquisitions and business partnerships that enable us to address gaps in our product offerings, secure new customers, diversify into complementary product markets and broaden our technological capabilities and product offerings. Our acquisition of Poco Graphite in August of 2008 is an example of this strategy. Poco Graphite reinforces our presence in the semiconductor industry by providing a group of new products critical to front-end manufacturing processes based on a materials science that we did not previously have in our technology portfolio. Further, as

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the dynamics of the markets that we serve shift, we will reevaluate the ability of our existing businesses to provide value-added solutions to those markets in a manner that contributes to achieving our objectives; in the event that we conclude that a business is not able to do this, we expect to restructure or replace that business. The sale of our cleaning equipment business in 2008 is an example of this strategy. Finally, we are continuously evaluating opportunities for strategic alliances and joint development efforts with key customers and other industry leaders.

OUR SEGMENTS

We design, manufacture and market our products through three business segments: (i) our contamination control solutions segment, which offers a wide range of products that purify, monitor and deliver critical liquids and gases to the semiconductor manufacturing process and similar manufacturing processes, (ii) our microenvironments segment, which offers products to preserve the integrity of wafers, reticles and electronic components at various stages of transport, processing and storage and (iii) our specialty materials segment, which offers materials, components and services to a wide range of customers in the semiconductor industry and in adjacent and unrelated industries. Each segment has dedicated manufacturing resources, and is composed of product-focused business units. Each product-focused business segment has its own dedicated marketing and engineering, research and development resources. There follows a detailed description of our three segments:

CONTAMINATION CONTROL SOLUTIONS

Liquid Filtration Products. Liquid processing occurs during multiple manufacturing steps including photolithography, deposition, planarization and surface etching and cleaning. The fluids that are used include various mixtures of acids, bases, solvents, slurries and photochemicals, which in turn are used over a broad range of operating conditions, including temperatures from 5 degrees Celsius up to 180 degrees Celsius. The design and performance of our liquid filtration and purification products are critical to the semiconductor manufacturing process because they directly affect the manufacturing yield. Specially designed proprietary filters remove sub-micron sized particles and bubbles from the different fluid streams that are used in the manufacturing process. Some of our filters are constructed with ultra-high molecular weight polyethylene flat sheet membranes that offer improved bubble clearance and gel removal to prevent defects in the wafers that occur if these elements are not removed. Our low hold-up volume disposable filters, with flat sheet membranes, use our Connectology technology to allow filter changes in less than a minute, significantly faster than conventional filters, to reduce the amount of expensive chemicals lost each time a filter is changed and to minimize operator exposure to hazardous solvents and vapors during changeout. In addition to the filtration of particles from fluids, we have also expanded our offerings for chemical purification, which targets the removal of specific molecules from a process chemical, to improve yield in processes such as wet cleaning.

Components and Systems. Chemicals spend most of their time in contact with fluid storage and management distribution systems, so it is critical for fluid storage and handling components to resist these chemicals and avoid contributing contaminants to the fluid stream. We offer chemical delivery products that allow the consistent and safe delivery of sophisticated chemicals from the chemical manufacturer to the point-of-use in the semiconductor fab. Most of these products are made from perfluoroalkoxy or PFA, a fluoropolymer resin widely used in the semiconductor industry because of its high purity and inertness to chemicals. The innovative design and reliable performance of our products under the most stringent of process conditions has made us a leader in high-purity fluid transfer products. Both semiconductor manufacturers and semiconductor OEMs use our chemical delivery products. Our comprehensive product line provides our customers with a single-source provider for their chemical storage and management needs throughout the manufacturing process. Our chemical delivery products include valves, fittings, tubing, pipe, chemical containers, custom fabricated products and associated connection systems for high-purity chemical applications.

Our proprietary photochemical filtration and dispense systems integrate our patented two-stage, filter device and valve control technologies. Our two-stage technology permits the filtering and dispense functions to operate independently so that filtering and dispensing of photochemicals can occur at different rates, reducing the

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differential pressure across the filter, conserving expensive photochemicals and resulting in reduced defects in wafers. As described above, we offer a line of proprietary filters specifically designed to efficiently connect with these systems. Our patented digital valve control technology improves chemical uniformity on wafers and improves ease of optimized system operation. In addition, our integrated high-precision liquid dispense systems enable uniform application of photoresists for the spin-coating process, where uniformity is measured in units of Angstroms, a tiny fraction of the thickness of a human hair.

We offer a wide variety of measurement and control products for high-purity and corrosive applications. For electronic measurement and control of liquids, we provide a complete line of pressure and flow measurement and control products as well as all-plastic capacitance sensors for leak detection, valve position, chemical level and other measurements. We also offer mechanical gauge pressure measurement products.

CMP Products. In addition to filters for the purification of liquid chemical slurries, we offer a line of consumable PVA roller brush products to clean the wafer following the chemical mechanical planarization process. Our unique Planarcore PVA roller brush is molded on the core to allow easy installation that reduces tool downtime and a dimensionally stable product that provides consistent wafer-to-wafer cleaning performance. In addition, our CMP pad conditioners, based on our silicon carbide capabilities, offer unique preparation solutions for each distinct CMP pad application.

Gas Filtration Products. Our Wafergard®, ChamberGard and Waferpure® particle and molecular filtration products purify the gas entering the process chamber in order to eliminate system and wafer problems due to particulate, atmospheric and chemical contaminants. These filters are able to retain all particles 0.003 microns and larger. Our metal filters, such as stainless steel and nickel filters, reduce outgassing and improve corrosion resistance. Our Waferpure® and Aeronex Gatekeeper® purifiers chemically react with and absorb contaminants, such as oxygen and water, to prevent contamination, and our ChamberGard vent diffusers reduce particle contamination and processing cycle times. We offer a wide variety of gas purification products to meet the stringent requirements of semiconductor processing. Our Aeronex Gas Purification Systems contain dual-resin beds, providing a continuous supply of purified gas without process interruption. These gas purification systems are capable of handling higher flow rates and longer duty cycles than cartridge purifiers. Our product line also includes filter housings and hybrid media chemical air filters which purify air entering tool enclosures and remove airborne molecular contaminants.

MICROENVIRONMENTS

Our microenvironment products fall into three sub-categories, wafer and reticle handling products, wafer shipping products and data storage products.

Wafer and Reticle Handling Products. We are a global producer of wafer and reticle handling products. We offer a wide variety of products that hold and position wafers as they travel between each piece of equipment used in the automated semiconductor manufacturing process. These specialized carriers provide precise wafer positioning, wafer protection and highly reliable and predictable cassette interfaces in automated fabs. Semiconductor manufacturers rely on our products to improve yields by protecting wafers from abrasion, degradation and contamination during the manufacturing process. We provide standard and customized products that meet a spectrum of industry standards and customers' wafer handling needs including front opening unified pods or FOUPs, wafer transport and process carriers, standard mechanical interface or SMIF pods and work-in-process boxes. To meet our customers' varying wafer processing and transport needs, we offer wafer process carriers in a variety of materials, including advanced polymeric materials, and in sizes ranging from 100 mm through 300 mm. In addition, we offer FOUPs for experimental 450mm wafers.

We are also a global provider of mask and reticle handling products, including reticle SMIF pods for the protection of extremely valuable and contamination-sensitive lithography reticles. Through our Clarilite branded product offerings, we are providing our customers with leading edge contamination control solutions.

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Wafer Shipping Products. We are a global provider of critical shipping products that preserve the integrity of raw silicon wafers as they are transported from wafer manufacturers to semiconductor manufacturers or finished wafers shipped to back end processors. We lead the market with our extensive, high-volume line of Ultrapak[®] and Crystalpak[®] products which are supplied to wafer manufacturers in a full range of sizes covering 100, 125, 150 and 200 mm wafers. We also offer a full-pitch, front-opening shipping box, or FOSB, for the transportation and automated interface of 300 mm wafers. We offer a complete shipping system, including both wafer shipping containers as well as secondary packaging that provides another level of protection for wafers. For experimental 450mm wafers, we offer a Single Wafer Shipper and a Multi-Application Carrier.

We currently offer outsourcing programs for wafer and device transportation and protection for both wafer manufacturing and wafer handling products. Our Wafercare[®] and DeviceCareSM services include product cleaning, certified re-use services for shipping products, on-site and off-site product maintenance and optimization, and end-of-life recycling for our wafer, device and disk-handling products. Re-use services can be customized depending on the customer's needs to provide product cleaning, logistics, recovery, certification and supply solutions for our products.

Data Storage Products. We provide products and solutions to manage two critical sectors in the data storage market: magnetic disks and the read/write heads used to read and write today's higher density disks. Because both of these hard disk drive components are instrumental in the transition to more powerful storage solutions, we offer products that protect and maintain the integrity of these components during their processing, storage and shipment. Our product offerings for magnetic hard disk drives include process carriers, boxes, packages, tools and shippers for aluminum and other disk substrates. Our optical hard disk drive products include stamper cases, process carriers, boxes and glass master carriers. Our read/write head products include transport trays, carriers, handles, boxes, individual disk substrate packages and accessories.

Rapidly changing packaging strategies for semiconductor applications are creating new materials management challenges for back-end manufacturers. We offer chip and matrix trays as well as carriers for bare die handling and integrated circuits. Our materials management products are compatible with industry standards and available in a wide range of sizes with various feature sets. Our standard trays offer dimensional stability and permanent electrostatic discharge protection. Our trays also offer a number of features including custom designs to minimize die movement and contact; shelves and pedestals to minimize direct die contact, special pocket features to handle various surface finishes to eliminate die sticking; and other features for automated or manual die placement and removal. In addition, we support our product line with a full range of accessories to address specific needs such as static control, cleaning, chip washing and other related requirements.

SPECIALTY MATERIALS

Our specialty materials products fall into two sub-categories, Poco Graphite Products and Specialty Coating Products. These products all provide high-value materials science enabling solutions in the form of materials, components or services that provide corrosion, high temperature, wear and chemical resistance, electrical and thermal conductivity and biocompatibility to a wide range of customers both within the semiconductor industry and in adjacent and unrelated industries.

Poco Graphite Products. These products are made from specialized graphite or silicon carbide. Our Poco Graphite products sold to the semiconductor industry are used for critical components for semiconductor manufacturing equipment at various stages of the semiconductor manufacturing process including CVD, where our expendable graphite chamber liners and shower heads are critical components used in the CVD chamber; dry or plasma etch, where our consumable graphite components deliver, baffle and confine the process gases during the etch process; and ion implant, where our consumable graphite components are critical elements of ion implantation equipment. In addition, our Poco Graphite high-quality graphite is used to make precision consumable electrodes for electrical discharge machining, a non-contact precision thermoelectric machining process for hard and exotic metals and other materials. Poco Graphite also manufactures a number of graphite hot glass contact materials for use in the manufacture of glass containers. Finally, Poco Graphite manufactures a

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number of graphite consumable products for various industrial applications including bushings and thrust washers for aerospace applications, substrates for industrial print heads, components for scan heads in industrial optical applications, cathodes for fuel cells and materials to manufacturers of artificial heart valves for human implantation.

Specialty Coating Products. We offer a variety of high-performance specialty coatings for critical components used in semiconductor and other high-technology manufacturing operations. These components, often in highly complex geometries, are coated by means of a proprietary low-temperature, plasma-assisted CVD process to provide corrosion and abrasion resistance and desired conductivity and hydrophobicity properties. We also provide complex assemblies such as electrostatic chucks for ion implant equipment, where our coatings prevent contamination of the process. Our coatings are also used in other high-technology applications such as aerospace optical components.

WORLDWIDE APPLICATIONS DEVELOPMENT AND FIELD SUPPORT CAPABILITIES

We provide strong technical support to our customers through local service groups and engineers consisting of field applications engineers, technical service groups, applications development groups and training capabilities. Our field applications engineers, located in the United States and approximately ten other countries, work directly with our customers on product qualification and process improvements in their facilities. In addition, in response to customer needs for local technical service and fast turnaround time, we maintain regional applications laboratories. Our applications laboratories maintain process equipment that simulate customers' applications and industry test standards and provide product evaluation, technical support and complaint resolution for our customers.

OUR CUSTOMERS AND MARKETS

Within the semiconductor market, our major customer groups include integrated circuit device manufacturers, OEMs that provide equipment to integrated circuit device manufacturers, gas and chemical manufacturing companies and manufacturers of high-precision electronics.

Our most significant customers based on sales in fiscal 2012 include leading device makers such as Micron Technology, Inc., Samsung Electronics Co., Ltd., Taiwan Semiconductor Manufacturing Co. Ltd. and United Microelectronics Corporation (UMC), leading OEM companies such as Applied Materials, Inc., ASML Holding N.V. Dainippon Screen Mfg. Co., Ltd. (DNS), Lam Research Corporation and Tokyo Electron Ltd. and leading wafer grower companies such as MEMC Electronic Materials, Inc., Shin-Etsu Chemical Co. Ltd., Siltronic AG and SUMCO Oregon Corp. We also sell our products to flat panel display OEMs, materials suppliers and end users. The major manufacturers for flat panel displays and flat panel display equipment are concentrated in Japan, Korea and other parts of Asia.

In our other high-technology markets, our customers include manufacturers and suppliers in the solar and life science industries and, for our Poco Graphite products, electrical discharge machining customers, glass container manufacturers, aerospace manufacturers and manufacturers of biomedical implantation devices.

In 2012, 2011 and 2010, net sales to our top ten customers accounted for approximately 36%, 29% and 28%, respectively, of our net sales. During those same periods no single customer accounted for more than 10% of our net sales and international net sales represented in excess of 69% of our net sales each year. Over 2,500 customers purchased products from us during 2012.

We may enter into supply agreements with our customers to govern the conduct of our business with our customers, including the manufacture of our products. These agreements generally have a term of one to three years, but do not contain any long-term purchase commitments. Instead, we work closely with our customers to develop non-binding forecasts of the future volume of orders. However, customers may cancel their orders, change production quantities from forecasted volumes or delay production for a number of reasons beyond our control.

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SALES AND MARKETING

We sell our products worldwide, primarily through our direct sales force and strategic distributors located in offices in all major semiconductor markets, as well as through independent distributors elsewhere. As of December 31, 2012, our sales and marketing force consisted of approximately 425 employees worldwide. Our direct sales force is also supplemented by independent distributors, sales representatives and agents.

Our semiconductor marketing efforts focus on our push/pull marketing strategy in order to maximize our selling opportunities. We work with OEMs to persuade them to design tools that require our products and we create end-user pull demand by persuading semiconductor manufacturers to specify our products. Our industry relationships have provided us with the opportunity for significant collaboration with our customers at the product design stage, which has facilitated our ability to introduce new products and applications that meet our customers needs. In addition, we are constantly identifying for our customers the variety of analytical, purification and process control challenges that may be addressed by our products. Further, we adapt our products and technologies to resolve process control issues identified by our customers. Our sales representatives provide our customers with worldwide support and information about our products.

We believe that our technical support services are important to our marketing efforts. These services include assisting in defining a customer s needs, evaluating alternative products, designing a specific system to perform the desired separation, training users and assisting customers in compliance with relevant government regulations. In addition, we maintain a network of service centers located in the United States and in key international markets to support our products.

COMPETITION

The market for our products is highly competitive. While price is an important factor, we compete primarily on the basis of the following factors:

- | | |
|------------------------------------|--|
| historical customer relationships; | breadth of product line; |
| technical expertise; | breadth of geographic presence; |
| product quality and performance; | advanced manufacturing capabilities; and |
| total cost of ownership; | after-sales service. |
| customer service and support; | |

We believe that we compete favorably with respect to all of the factors listed above, but we cannot assure you that we will continue to do so. We believe that our key competitive strengths include our broad product line, the low total cost of ownership of our products, our ability to provide our customers with quick order fulfillment and our technical expertise. However, our competitive position varies depending on the market segment and specific product areas within these segments. While we have longstanding relationships with a number of semiconductor and other electronic device manufacturers, we also face significant competition from companies that have longstanding relationships with other semiconductor and electronic device manufacturers and, as a result, have been able to have their products specified by those customers for use in manufacturers fabrication facilities. In the markets for our consumable products, we believe that our differentiated membrane and materials management technologies, strong supply chain capabilities that allow us to provide our customers with quick order fulfillment, and technical expertise, which enables us to develop membranes to meet specific customer needs and assist our customers in improving the functionality of our membranes for particular applications, allow us to compete favorably. In these markets our competitors compete against us on the basis of price, as well as alternative membrane technology having different functionality, manufacturing capabilities and breadth of geographic presence.

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The market for our products is highly fragmented, and we compete with a number of different companies. Our liquid filtration and other contamination control products compete with product offerings from a wide range of companies including both large companies, such as Pall Corporation, as well as small Asian filter manufacturers. Our contamination control components and systems also face worldwide competition from companies such as Saint-Gobain, Parker Hannifin Corp., Gemu Valves, Inc., Integrated Automation, Inc. (CKD) and Tokyo Keiso Co., Ltd. Our gas filtration products compete with companies such as SAES Pure Gas, Inc., Donaldson company, Inc. and Mott Corporation. Our microenvironment product lines face competition largely on a product-by-product basis. We face competition from companies such as Miraial Co. Ltd. (formerly Kakizaki), Dainichi Shoji Co., Inc., Gudeng Precision Industrial Co., Ltd. and Shin-Etsu Polymer Co., Ltd. and from regional suppliers such as e.PAK Resources Pte. Ltd. These companies compete with us primarily in 200 mm and 300 mm applications. Our data storage and finished electronic components products compete with companies such as Illinois Tool Works Inc. (ITW/Camtex), Peak International and 3M Company and from regional suppliers. Our Poco Graphite products compete with products manufactured by companies such as Mersen (France), Tokai Carbon Co., Ltd. (Japan) and Toyo Tanso Co., Ltd. (Japan). Some of our competitors are larger and have greater resources than we do. In some cases, our competitors are smaller than us, but well-established in specific product niches. We believe that none of our competitors competes with us across all of our product offerings and that, within the markets that we serve, we offer a broader line of products, make use of a wider range of process control technologies and address a broader range of applications than any single competitor.

ENGINEERING, RESEARCH AND DEVELOPMENT

Our aggregate engineering, research and development expenses in 2012, 2011 and 2010 were \$50.9 million, \$48.0 million and \$43.9 million, respectively. As of December 31, 2012, we had approximately 240 employees in engineering, research and development. In addition, we have followed a practice of supplementing our internal research and development efforts by licensing technology from unaffiliated third parties and/or acquiring distribution rights with respect to products incorporating externally owned technologies when we believe it is in our long-term interests to do so.

To meet the global needs of our customers, we have engineering, research and development capabilities in California, Minnesota, Massachusetts, Colorado, Texas, Japan, Korea, Taiwan, France and Malaysia. Our engineering, research and development efforts are directed toward developing and improving our technology platforms for semiconductor and advanced processing applications and identifying and developing products for new applications for which fluid management plays a critical role.

We use sophisticated methodologies to research, develop and characterize our materials and products. Our materials technology laboratories are equipped to analyze the physical, rheological, thermal, chemical and compositional nature of the polymers we use. Our materials lab includes standard and advanced polymer analysis equipment such as inductively coupled plasma mass spectrometry (ICP/MS), inductively coupled plasma atomic emission spectrometry (ICP/AES), fourier transform infrared spectroscopy (FTIR) and automated thermal desorption gas chromatography/mass spectrometry (ATD-GC/MS). This advanced analysis equipment allows us to detect contaminants in materials that could harm the semiconductor manufacturing process to levels as low as parts per billion, and in many cases parts per trillion.

Our capabilities to test and characterize our materials and products are focused on continuously reducing risks and threats to the integrity of the critical materials that our customers use in their manufacturing processes. We expect that technology and product engineering, research and development will continue to represent an important element in our ability to develop and characterize our materials and products.

Key elements of our engineering, research and development expenditures over the past three years have included the development of new product platforms to meet the manufacturing needs for 45, 32, 28 and 20 nanometer and smaller semiconductor devices. Driven by the proliferation of new materials and chemicals in the manufacturing processes and more demanding platforms for contamination control for 300 mm wafers, investments were made

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for new contamination control products in the area of copper interconnects, deep ultra-violet (DUV) and EUV photolithography, and chemical and gas management technologies for advanced wafer cleans, deposition and etch equipment. Additional investments were made in the area of advanced process control, monitoring and diagnostics capabilities for future generations of semiconductor manufacturing processes, including the development of a manufacturing capability for the production of Single Wafer Carriers, Multi Application Carriers and FOUPS for the next generation 450mm wafers. Our employees also work closely with our customers' development personnel. These relationships help us identify and define future technical needs on which to focus our engineering, research and development efforts. In addition, we participate in Semiconductor Equipment and Materials International (SEMI), an association of semiconductor equipment suppliers, and leading industry consortia, such as the Interuniversity Microelectronics Centre (IMEC) and Semiconductor Manufacturing Technology (SEMATECH), including its Global 450 Consortium (G450C). For example, we have participated with SEMI to develop specifications and with a major customer to develop wafer handling products for 450mm wafers. We also support research at academic and other institutions targeted at advances in materials science and semiconductor process development.

MANUFACTURING

Our customers rely on our products to assure the integrity of the critical materials used in their manufacturing processes by providing dimensional precision and stability, purity, cleanliness and consistent performance. Our ability to meet our customers' expectations, combined with our substantial investments in worldwide manufacturing capacity, position us to respond to the increasing materials integrity management demands of the microelectronics industry and other industries that require similar levels of materials integrity.

To meet our customer needs worldwide, we have established an extensive global manufacturing network with manufacturing and coating facilities in the United States, Japan, Taiwan, France, Malaysia and South Korea. Because we work in an industry where contamination control is paramount, we maintain Class 100 to Class 10,000 cleanrooms for manufacturing and assembly. We believe that our worldwide manufacturing operations and our advanced manufacturing capabilities are important competitive advantages. Our advanced manufacturing capabilities include:

Injection Molding. Our manufacturing expertise is based on our long experience with injection molding. Using molds produced from computer-aided processes, our manufacturing technicians utilize specialized injection molding equipment and operate within specific protocols and procedures established to consistently produce precision products.

Extrusion. Extrusion is accomplished through the use of heat and force from a screw to melt solid polymer pellets in a cylinder and then forcing the resulting melt through a die to produce tubing and pipe. We have established contamination-free on-line laser marking and measurement techniques to properly identify products during the extrusion process and ensure consistency in overall dimension and wall thickness. In addition, we use extrusion technology to extrude a polymer mix into flat sheet and hollow fiber membranes.

Blow Molding. Blow molding consists of the use of heat and force from a screw to melt solid polymer pellets in a cylinder and then forcing the resulting melt through a die to create a hollow tube. The molten tube is clamped in a mold and expanded with pressurized gas until it takes the shape of the mold. We utilize advanced three-layer processing to manufacture premium grade 55 gallon drums, leading to cost savings while simultaneously assuring durability, strength and purity.

Rotational Molding. Rotational molding is accomplished by the placing of a solid polymer powder in a mold, placing the mold in an oven and rotating the mold on two axes so that the melting polymer coats the entire surface of the mold. This forms a part in the shape of the mold upon cooling. We use rotational molding in manufacturing containers up to 5,000 liters.

Compression Molding. In compression molding, thermoset polymers are processed. Today, we use this manufacturing process primarily for manufacturing bipolar plates and end-plates for the fuel cell market. We use the same expertise as in injection molding to assure a consistently produced precision product.

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Membrane Casting. We cast membrane by extruding a polymer into flat sheet or hollow fiber format that is passed through a chamber with controlled atmospheric conditions to control the development of voids or pores in the membrane. Once cast, the membrane is subjected to solvent extraction and annealing steps. The various properties of the membranes that we offer are developed during subsequent process steps.

Cartridge Manufacturing. We fabricate the membrane we manufacture as well as membranes manufactured by others into finished filtration cartridges in a variety of configurations. The fabrication process involves membrane processing into pleated and other configurations around a central core and enclosing it in a framework of end caps and protective screening for use in fabricated cartridge housings. We also manufacture filter cartridges that are integrated into their own housings and incorporate our patented Connectology quick connect technology.

Specialty Coating Capabilities. We fabricate high performance electrostatic chucks by using highly engineered materials and advance vacuum coatings. We have proprietary low-temperature, plasma-assisted CVD and physical vapor deposition (PVD) processes that deposit coatings on a variety of vacuum compatible materials, including metals, alloys, ceramics, semiconductors and polymers, with superior density, purity and uniformity.

Graphite Synthesis. We have a differentiated proprietary graphite synthesis process that produces premium graphite with superior strength, uniformity and performance. This synthesis process consists of blending and forming petroleum cokes into green billets, baking over an extended period between 800 to 1,100°C, followed by a graphitization process at temperatures between 2,000 to 3,000°C. The graphite produced by this process is sold in bulk, machined into specific components or converted into silicon carbide through controlled exposure to silicon monoxide gas.

Machining. Machining consists of the use of computer-controlled equipment to create shapes, such as valve bodies and other specific components, out of solid polymer blocks or rods, premium graphite and silicon carbide. Our computerized machining capabilities enable speed and repeatability in volume manufacturing of our machined products, particularly products utilized in chemical delivery applications.

Assembly. We have established protocols, flow charts, work instructions and quality assurance procedures to assure proper assembly of component parts. The extensive use of robotics throughout our facilities reduces labor costs, diminishes the possibility of contamination and assures process consistency.

Tool Making. We employ tool development staff in the United States and Malaysia and have tool-making capabilities in Malaysia. Our toolmakers produce the majority of the tools we use throughout the world.

We have made significant investments in systems and equipment to create innovative products and tool designs. Our computer-aided design (CAD) equipment allows us to develop three-dimensional electronic models of desired customer products to guide design and tool-making activities. Our CAD equipment also aids in the rapid prototyping of products.

We also use computer-automated engineering in the context of mold flow analysis. Beginning with a three-dimensional CAD model, mold flow analysis is used to visualize and simulate how our molds will fill. The mold flow analysis techniques cut the time needed to bring a new product to market because of the reduced need for sampling and development. Also, our CAD equipment can create a virtual part with specific geometries, which drives subsequent tool design, tool manufacturing, mold flow analysis and performance simulation.

In conjunction with our three-dimensional product designs, we use finite element analysis software to simulate the application of a variety of forces or pressures to observe what will happen during product use. This analysis helps us anticipate forces that affect our products under various conditions. The program also assists our product designers by measuring anticipated stresses against known material strengths and establishing proper margins of safety.

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PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS

We rely on a combination of patent, copyright, trademark and trade secret laws and license agreements to establish and protect our proprietary rights. As of February 8, 2013 our patent portfolio included 256 current U.S. patents, 535 current foreign patents, including counterparts to U.S. filings, 85 pending U.S. patent applications, 26 pending filings under the Patent Cooperation Treaty not yet nationalized and 380 pending foreign patent applications. While we believe that patents may be important for aspects of our business, we believe that our success also depends upon close customer contact, innovation, technological expertise, responsiveness and worldwide distribution. Additionally, while our patented technology may delay or deter a competitor in offering a competing product, we do not believe that our patent portfolio functions as a barrier to entry for any of our competitors. In addition, while we license and will continue to license technology used in the manufacture and distribution of products from third parties, we do not consider any particular license to be material to our business. We also license our technology to third parties from time to time and, in particular, as required for our patented technology to be designated as the standard by SEMI or other standard setting organizations within the semiconductor industry.

We require each of our employees, including our executive officers, to enter into standard agreements pursuant to which the employee agrees to keep confidential all of our proprietary information and to assign to us all inventions made while employed by us.

The patent position of any manufacturer, including us, is subject to uncertainties and may involve complex legal and factual issues. Litigation has in the past and may in the future be necessary to enforce our patents and other intellectual property rights or to defend ourselves against claims of infringement or invalidity. The steps that we have taken in seeking patents and other intellectual property protections may prove inadequate to deter misappropriation of our technology and information. In addition, our competitors may independently develop technologies that are substantially equivalent or superior to our technology.

GOVERNMENTAL REGULATION

Our operations are subject to federal, state and local regulatory requirements relating to environmental, waste management and health and safety matters, including measures relating to the release, use, storage, treatment, transportation, discharge, disposal and remediation of contaminants, hazardous substances and wastes, as well as practices and procedures applicable to the construction and operation of our plants. There can be no assurance that we will not incur material costs and liabilities or that our past or future operations will not result in exposure to injury or claims of injury by employees or the public. Although some risk of costs and liabilities related to these matters is inherent in our business, as with many similar businesses, we believe that our business is operated in substantial compliance with applicable regulations. However, new, modified or more stringent requirements or enforcement policies could be adopted, which could adversely affect us. While we expect that capital expenditures will be necessary to assure that any new manufacturing facility is in compliance with environmental and health and safety laws, we do not expect these expenditures to be material. Otherwise, we are not presently aware of any facts or circumstances that would cause us to incur significant liabilities in the future related to environmental, health and safety law compliance.

EMPLOYEES

As of December 31, 2012, we had approximately 2,700, full-time employees, as well as approximately 350 temporary and part-time employees. Approximately 240 of our full-time employees work in engineering, research and development and approximately 425 work in sales and marketing. Given the variability of business cycles in the semiconductor industry and the quick response time required by our customers, it is critical that we be able to quickly adjust the size of our production staff to maximize efficiency. Therefore, we use skilled temporary labor as required.

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None of our employees are represented by a labor union or covered by a collective bargaining agreement other than statutorily mandated programs in certain European countries.

INFORMATION ABOUT OUR OPERATING SEGMENTS

Our financial reporting segments are Contamination Control Solutions (CCS), Microenvironments (ME), and Specialty Materials (SMD). In 2012, 2011 and 2010 approximately 69%, 71% and 71%, respectively, of our net sales were made to customers outside North America. Industry and geographic segment information is discussed in Note 16 to the Entegris, Inc. Consolidated Financial Statements (the Financial Statements) included in response to Item 8 below, which Note is incorporated herein by reference.

OTHER INFORMATION

On July 27, 2005, our Board of Directors adopted a shareholder rights plan (the Rights Plan) pursuant to which Entegris declared a dividend on August 8, 2005 to its shareholders of record on that date of one preferred share purchase right (a Right) for each share of Entegris common stock owned on August 8, 2005 and authorized the issuance of Rights in connection with future issuances of Entegris common stock. Each Right entitles the holder to purchase one-hundredth of a share of a series of preferred stock at an exercise price of \$50, subject to adjustment as provided in the Rights Plan. The Rights Plan is designed to protect Entegris shareholders from attempts by others to acquire Entegris on terms or by using tactics that could deny all shareholders the opportunity to realize the full value of their investment. The Rights are attached to the shares of our common stock until certain triggering events specified in the Rights Agreement occur, including, unless approved by our board of directors, an acquisition by a person or group of specified levels of beneficial ownership of our common stock or a tender offer for our common stock. Upon the occurrence of any of these triggering events, the Rights authorize the holders to purchase at the then-current exercise price for the Rights that number of shares of our common stock having a market value equal to twice the exercise price. The Rights are redeemable by us for \$0.01 and will expire on August 8, 2015. One of the events that would trigger the Rights is the acquisition, or commencement of a tender offer, by a person (an Acquiring Person, as defined in the shareholder rights plan), other than Entegris or any of our subsidiaries or employee benefit plans, of 15% or more of the outstanding shares of our common stock. An Acquiring Person may not exercise a Right.

Entegris products are made from a wide variety of raw materials that are generally available in quantity from alternate sources of supply. However, certain materials included in the Company's products, such as certain filtration membranes used by our Contamination Control Solutions segment, polymer resins used by our Microenvironments segment and petroleum coke used by our Specialty Materials segment are obtained from a single source or a limited group of suppliers. Although the Company seeks to reduce dependence on these sole and limited source suppliers, the partial or complete loss of these sources could interrupt our manufacturing operations and result in an adverse effect on the Company's results of operations. Furthermore, a significant increase in the price of one or more of these components could also adversely affect the Company's results of operations.

OUR HISTORY

Effective August 6, 2005 Entegris, Inc., a Minnesota corporation, and Mykrolis Corporation, a Delaware corporation, completed a strategic merger of equals transaction, pursuant to which they were each merged into the Company to carry on the combined businesses. We were incorporated in Delaware in March 2005 under the name Eagle DE, Inc. as a wholly owned subsidiary of Entegris Minnesota. Effective August 6, 2005 Entegris Minnesota merged into us in a reincorporation merger of which we were the surviving corporation. Immediately following that merger, Mykrolis merged into us and our name was changed to Entegris, Inc. Our stock is traded on the NASDAQ National Market System under the symbol ENTG .

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Entegris Minnesota was incorporated in June 1999 to effect the business combination of Fluoroware, Inc., which began operating in 1966, and EMPAK, Inc., which began operating in 1980. On July 10, 2000, Entegris Minnesota completed an initial public offering of approximately 19% of the total shares of the Company's common stock outstanding.

Mykrolis was organized as a Delaware corporation on October 16, 2000 under the name Millipore MicroElectronics, Inc. in connection with the spin-off by Millipore Corporation of its microelectronics business unit. On March 31, 2001, Millipore effected the separation of the Mykrolis business from Millipore's business by transferring to Mykrolis substantially all of the assets and liabilities associated with its microelectronics business. On August 9, 2001, Mykrolis completed an initial public offering of approximately 18% of the total shares of the Company's common stock outstanding. On February 27, 2002, Millipore completed the spin-off of Mykrolis by distributing to its stockholders the 82% of the Mykrolis common stock that it held following the Mykrolis initial public offering.

On August 11, 2008, we acquired Poco Graphite, Inc. (Poco Graphite), a privately held company based in Decatur, Texas, which augmented our base of business in the semiconductor industry and expanded our materials science capabilities to include graphite and silicon carbide.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a list, as of December 31, 2012, of our Executive Officers. All of the Corporate Officers listed below were elected to serve until the first Directors Meeting following the 2013 Annual Stockholders Meeting. All of the Other Executive Officers Listed below were appointed to their current positions by Corporate Officers.

Name	Age	Office	First Appointed To Office*
<u>CORPORATE OFFICERS</u>			
Bertrand Loy	47	<i>President & Chief Executive Officer</i>	2001
Gregory B. Graves	52	<i>Executive Vice President, Chief Financial Officer & Treasurer</i>	2002
Peter W. Walcott	66	<i>Senior Vice President, Secretary & General Counsel</i>	2001
John J. Murphy	60	<i>Senior Vice President, Human Resources</i>	2005
<u>OTHER EXECUTIVE OFFICERS</u>			
Todd Edlund	50	<i>Vice President, General Manager, Contamination Control Solutions Division</i>	2007
Gregory C. Morris	55	<i>Vice President, Global Sales</i>	2008
Michael D. Sauer	47	<i>Vice President, Controller & Chief Accounting Officer</i>	2011
William Shaner	45	<i>Vice President, General Manager, Microenvironments Division</i>	2007

* With either the Company or a predecessor company

Bertrand Loy has served as our President and Chief Executive Officer since November 2012. Prior to that, he served as the Executive Vice President and Chief Operating Officer since July 2008. Mr. Loy served as the Executive Vice President and Chief Administrative Officer from the effectiveness of the merger with Mykrolis until July 2008. He served as the Vice President and Chief Financial Officer of Mykrolis from January 2001 until the Merger. Prior to that, Mr. Loy served as the Chief Information Officer of Millipore Corporation from April

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1999 until December 2000. From 1995 until 1999, he served as the Division Controller for Millipore's Laboratory Water Division. From 1989 until 1995, Mr. Loy served Sandoz Pharmaceuticals (now Novartis) in a variety of financial, audit and controller positions located in Europe, Central America and Japan. Mr. Loy serves on the board of BTU International, Inc., a publicly held supplier of advanced thermal processing equipment.

Gregory B. Graves has served as our Executive Vice President and Chief Financial Officer since July 2008. Prior to that he served as Senior Vice President and Chief Financial Officer since April 2007. Prior to April 2007, he served as Senior Vice President, Strategic Planning & Business Development since the effectiveness of the merger with Mykrolis. Mr. Graves served as the Chief Business Development Officer of Entegris Minnesota since September 2002 and from September 2003 until August 2004 he also served as Senior Vice President of Finance. Prior to joining Entegris Minnesota, Mr. Graves held positions in investment banking and corporate development, including at U.S. Bancorp Piper Jaffray from June 1998 to August 2002 and at Dain Rauscher from October 1996 to May 1998. Mr. Graves was a director of Therma-Wave, Inc., a public company engaged in the production of process control metrology products from 2005 until it was acquired by KLA Tencor Corporation in mid-2007.

Peter W. Walcott has been our Senior Vice President, Secretary and General Counsel since the effectiveness of the merger with Mykrolis. He served as the Vice President, Secretary and General Counsel of Mykrolis since October 2000. Mr. Walcott served as the Assistant General Counsel of Millipore Corporation from 1981 until March 2001.

John J. Murphy joined us as our Senior Vice President, Human Resources in October of 2005. He served as the Senior Vice President Human Resources of HNTB, an engineering and architectural services firm, from February 2004 until October 2005 and as Corporate Vice President, Human Resources of Cadence Design Systems, Inc. from May of 2000 through October 2003. Prior to that Mr. Murphy held senior human resources positions with Williams Companies L.M. Ericsson Telephone Company and General Electric Company.

Todd Edlund has been Vice President and General Manager of our Contamination Control Solutions Division since December 2007. He served as the Vice President and General Manager of our Liquid Systems Business Unit from 2005 to 2007, and prior to that as Entegris Minnesota's Vice President of Sales for semiconductor markets from 2003 to 2005. Prior to 2003, Mr. Edlund held a variety of positions with our predecessor companies since 1995.

Gregory C. Morris has been Vice President, General Manager, Global Field Operations since 2008. Prior to that time, Mr. Morris was our North American Regional Sales Director since 2007, and the head of our Finished Electronics Products group from 2005 until 2007. Mr. Morris was President of the Entegris Minnesota Data Storage Business Unit from 2003-2005. From 2000 to 2003 Mr. Morris acted as General Manager of a wholly-owned subsidiary of Entegris Minnesota. Prior to 2000, Mr. Morris held a variety of positions with our predecessor companies since 1992.

Michael D. Sauer has been our Vice President, Controller and Chief Accounting Officer since June 2012. Prior to that time, he served as the Corporate Controller since 2008. From the effectiveness of the merger with Mykrolis until April 2008, Mr. Sauer served as Director of Treasury and Risk Management. Mr. Sauer joined Fluoroware, Inc., a predecessor to Entegris Minnesota in 1988 and held a variety of finance and accounting positions until 2001 when he became the Director of Business Development for Entegris Minnesota, the successor to Fluoroware, serving in that position until the merger with Mykrolis.

William Shaner has been our Vice President and General Manager, Microenvironments Division since 2007. He has served in a variety of sales, marketing, business development and engineering roles since joining Entegris in 1995.

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Item 1A. Risk Factors.

Risks Relating to our Business and Industry

The semiconductor industry has historically been highly cyclical, and industry downturns reduce net sales and profits.

Our business depends on the purchasing patterns of semiconductor manufacturers, which, in turn, depend on the current and anticipated demand for semiconductors and products utilizing semiconductors. The semiconductor industry has historically been highly cyclical with periodic significant downturns, which often have resulted in significantly decreased expenditures by semiconductor manufacturers. Even moderate cyclicity can cause our operating results to fluctuate significantly from one period to the next. We experienced significant revenue deterioration and incurred significant operating losses due to a severe downturn in both the capital and unit-driven segments of the semiconductor industry that began during the second half of 2008. We are unable to predict the ultimate duration and severity of future downturns for the semiconductor industry.

Furthermore, in periods of reduced demand, we must continue to maintain a satisfactory level of engineering, research and development expenditures and continue to invest in our infrastructure. At the same time, we have to manage our operations to be able to respond to any significant increases in demand, if they occur. In addition, because we typically do not have significant backlog, changes in order patterns have a more immediate impact on our revenues. We expect the semiconductor industry to continue to be cyclical. During downturns our revenue is reduced, and there is likely to be an increase in pricing pressure and shifts in product and customer mix, all of which may affect gross margin and net income. Such fluctuations in our results could cause our stock price to decline significantly. We believe that period-to-period comparisons of our results of operations may not be meaningful, and you should not rely upon them as indicators of our future performance.

The semiconductor industry is subject to rapid demand shifts, which are difficult to predict. As a result, our inability to meet demand in response to these rapid shifts may cause a reduction in our market share.

Our ability to increase sales of our products, particularly our capital equipment products, depends in part upon our ability to ramp up the use of our manufacturing capacity for such products in a timely manner and to mobilize our supply chain. In order to meet the demands of our customers, we may be required to ramp up our manufacturing capacity in as little as a few months. If we are unable to expand our manufacturing capacity on a timely basis or manage such expansion effectively, our customers could seek such products from other suppliers, and our market share could be reduced. Because demand shifts in the semiconductor industry are rapid and difficult to foresee, we may not be able to increase capacity quickly enough to respond to any such increase in demand.

We may not be able to accurately forecast demand for our products.

We typically operate our business on a just-in-time shipment basis with a modest level of backlog and we order supplies and plan production based on internal forecasts of demand. Due to these factors, we have, in the past, and may again in the future, fail to accurately forecast demand for our products, in terms of both volume and specific products for which there will be demand. This has led to, and may in the future lead to, delays in product shipments, disappointment of customer expectations, or, alternatively, an increased risk of excess inventory and of inventory obsolescence. If we fail to accurately forecast demand for our products, our business, financial condition and operating results could be materially and adversely affected.

Semiconductor industry up-cycles may not reach historic levels and instead may reflect a lower rate of long-term growth.

There may not be new high-opportunity applications to drive growth in the semiconductor industry, as was the case in earlier market cycles. Accordingly, the semiconductor industry may experience lower growth rates during

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any recovery cycle than has historically been the case and its longer-term performance may reflect this lower growth rate. We are unable to predict the duration or ultimate severity of any downturn or the growth rate of any recovery cycle that may follow.

If we are unable to maintain our technological expertise in design and manufacturing processes, we will not be able to successfully compete.

The microelectronics industry is subject to rapid technological change, changing customer requirements and frequent new product introductions. Because of this, the life cycle of our products is difficult to determine. We believe that our future success will depend upon our ability to develop and provide products that meet the changing needs of our customers, including the shrinking of integrated circuit line-widths and the use of new classes of materials, such as copper, titanium nitride and organic and inorganic dielectric materials, which are materials that have either a low or high resistance to the flow of electricity. This requires that we successfully anticipate and respond to technological changes in manufacturing processes in a cost-effective and timely manner. Any inability to develop the technical specifications for any of our new products or enhancements to our existing products or to manufacture and ship these products or enhancements in volume in a timely manner could harm our business prospects and significantly reduce our sales. In addition, if new products have reliability or quality problems, we may experience reduced orders, higher manufacturing costs, delays in acceptance and payment, additional service and warranty expense, and damage to our reputation.

Our sales are somewhat concentrated on a small number of key customers and, therefore, our net sales and profitability may materially decline if one or more of our key customers does not continue to purchase our existing and new products in significant quantities.

We depend and expect to continue to depend on a limited number of customers for a large portion of our business, and changes in several customers' orders could have a significant impact on our operating results. Our top ten customers accounted for 36%, 29% and 28%, of our net sales in 2012, 2011 and 2010, respectively. If any one of our key customers decides to purchase significantly less from us or to terminate its relationship with us, our net sales and profitability may decline significantly. We could also lose our key customers or significant sales to our key customers because of factors beyond our control, such as a significant disruption in our customers' businesses generally or in a specific product line. These customers may stop incorporating our products into their products with limited notice to us and suffer little or no penalty for doing so. In addition, if any of our customers merge or are acquired, we may experience lower overall sales from the merged or surviving companies. Because one of our strategies has been to develop long-term relationships with key customers in the product areas in which we focus, and because we have a long product design and development cycle for most of our products and prospective customers typically require lengthy product qualification periods prior to placing volume orders, we may be unable to replace these customers quickly or at all.

We are subject to order and shipment uncertainties and many of our costs are fixed, and, therefore, any significant changes, cancellations or deferrals of orders or shipments could cause our net sales and profitability to decline or fluctuate.

We do not usually obtain long-term purchase orders or commitments from our customers. Instead, we work closely with our customers to develop non-binding forecasts of the future volume of orders. Customers may cancel their orders, change production quantities from forecasted volumes or delay production for reasons beyond our control. Order cancellations or deferrals could cause us to hold inventory for longer than anticipated, which could reduce our profitability, restrict our ability to fund our operations and cause us to incur unanticipated reductions or delays in our revenue. Our customers often change their orders multiple times between initial order and delivery. Such changes usually relate to quantities or delivery dates, but sometimes relate to the specifications of the products we are supplying. If a customer does not pay for these products, we could incur significant charges against our income. In addition, our profitability may be affected by the generally fixed nature of our costs. Because a substantial portion of our costs is fixed, we may experience deterioration in gross margins when volumes decline.

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Competition from existing or new companies in the microelectronics industry could cause us to experience downward pressure on prices, fewer customer orders, reduced margins, the inability to take advantage of new business opportunities and the loss of market share.

We operate in a highly competitive industry. We compete against many domestic and foreign companies that have substantially greater manufacturing, financial, research and development and marketing resources than we do. In addition, some of our competitors may have more developed relationships with our existing customers than we do, which may enable them to have their products specified for use more frequently by these customers. We also face competition from the manufacturing operations of our current and potential customers, who continually evaluate the benefits of internal manufacturing versus outsourcing. As more OEMs dispose of their manufacturing operations and increase the outsourcing of their products to liquid and gas delivery system and other component companies, we may face increasing competitive pressures to grow our business in order to maintain our market share. If we are unable to maintain our competitive position, we could experience downward pressure on prices, fewer customer orders, reduced margins, the inability to take advantage of new business opportunities and a loss of market share. Further, we expect that existing and new competitors will improve the design of their existing products and will introduce new products with enhanced performance characteristics. The introduction of new products or more efficient production of existing products by our competitors could diminish our market share and increase pricing pressure on our products. Further, customers continue to demand lower prices, shorter delivery times and enhanced product capability. If we do not respond adequately to such pressures, we could lose customers or orders. If we are unable to compete successfully, we could experience pricing pressures, reduced gross margins and order cancellation, which could have a material adverse effect on our results of operations.

The limited market acceptance of our 300 mm shipper products as well as our other products could continue to harm our operating results.

The broad adoption of 300 mm wafers has contributed to the increasing complexity of the semiconductor manufacturing process. The greater diameter of these wafers requires higher tooling costs and presents more complex handling, storage and transportation challenges. We have made substantial investments in our 300 mm wafer shipping products, but there is no guarantee that our customers will adopt our 300 mm wafer shipping product lines. Sales of our shipping products for these applications has to date been and could continue in the future to be modest, and we might not recover our development costs.

Semiconductor and other electronic device manufacturers may direct semiconductor capital equipment manufacturers to use a specified supplier's product in their equipment. Accordingly, our success depends in part on our ability to have semiconductor and other electronic device manufacturers specify that our products be used at their fabrication facilities. Some of our competitors may have more developed relationships with semiconductor and other electronic device manufacturers, which enable them to have their products specified for use in manufacturers' fabrication facilities.

From time to time, we make capital investments in anticipation of future business opportunities; if we are unable to obtain the anticipated business, our revenue and profitability may decline.

In the semiconductor market, the first company to introduce an innovative product meeting an identified customer need often will have a significant advantage over offerings of competitive products. For this reason we may make significant capital investments in technology and manufacturing capacity in advance of future business developing and without any commitment from our customers to purchase products manufactured as a result of these investments. For example, we have made significant capital investments to develop the capability to manufacture shippers and FOUPS for 450mm wafers; the size and timing of the development of the market for 450mm wafer shippers and FOUPS remains uncertain, so we cannot assure you that we will be able to successfully sell significant quantities of our 450mm shipper and FOUP products or realize a return on our investment. If we are unable to achieve broad market acceptance for these products or if a competitive product is preferred by our customers, we may not be able to recoup our investment, we may lose market share and our revenue and profitability may decline.

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We may acquire other businesses, form joint ventures or divest businesses that could negatively affect our profitability, require us to incur debt and dilute your ownership of our company.

As part of our business strategy, we have, and we expect to continue to address gaps in our product offerings, diversify into complementary product markets or pursue additional technology and customers through acquisitions, joint ventures or other types of collaborations. We also expect to adjust our portfolio of businesses to meet our ongoing strategic objectives. As a result, we may enter markets in which we have no or limited prior experience and may encounter difficulties in divesting businesses that no longer meet our objectives. Competition for acquiring attractive businesses in our industry is substantial. In executing this part of our business strategy, we may experience difficulty in identifying suitable acquisition candidates or in completing selected transactions at appropriate valuations. Alternatively, we may be required to undertake multiple transactions at the same time in order to take advantage of acquisition opportunities that do arise; this could strain our ability to effectively execute and integrate these transactions. We would consider a variety of financing alternatives for each acquisition which could include borrowing funds, reducing our cash balances or issuing additional shares of our common stock to complete an acquisition. This could impair our liquidity and dilute your ownership of our Company. Further, we may not be able to successfully integrate any acquisitions that we do make into our existing business operations, and we could assume unknown or contingent liabilities or experience negative effects on our reported results of operations from dilutive results from operations and/or from future potential impairment of acquired assets, including goodwill, related to future acquisitions. We may experience difficulties in operating in foreign countries or over significant geographical distances and in retaining key employees or customers of an acquired business, and our management's attention could be diverted from other business issues. We may not identify or complete these transactions in a timely manner, on a cost-effective basis or at all, and we may not realize the benefits of any acquisition or joint venture.

We may not effectively penetrate new markets.

Part of our business strategy is to leverage our expertise in our core competencies for growth in new and adjacent markets, such as photovoltaic cells, LEDs, flat panel displays, lithium ion batteries and magnetic storage devices. Our ability to grow our business could be limited if we are unable to execute on this strategy.

Manufacturing Risks

Our dependence on single and limited source suppliers could affect our ability to manufacture our products.

We rely on single or limited source suppliers for some plastic polymers, filtration membranes and petroleum coke that are critical to the manufacturing of our products. At times, we have experienced a limited supply of certain polymers as well as the need to substitute polymers, resulting in delays, increased costs and the risks associated with qualifying new polymers with our customers. An industry-wide increase in demand for these polymers could affect the ability of our suppliers to provide sufficient quantities to us. If we are unable to obtain an adequate quantity of such supplies, our manufacturing operations may be interrupted.

In addition, suppliers may discontinue production of polymers specified in certain of our products, requiring us in some instances to certify an alternative source with our customers. If we are unable to obtain an adequate quantity of such supplies for any reason, our manufacturing operations may be adversely affected. Obtaining alternative sources would likely result in increased costs and shipping delays, which could decrease profitability and damage our relationships with current and potential customers.

Prices for polymers can vary widely. In the volatile oil price environment, some suppliers have added and may in the future add surcharges to the prices of the polymers we purchase. While we have long-term arrangements with certain key suppliers of polymers that fix our price for purchases up to specified quantities, if our polymer requirements exceed the quantities specified, we could be exposed to higher material costs. If the cost of polymers increases and we are unable to correspondingly increase the sales price of our products, our profit margins will decline.

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Our filtration products incorporate a wide variety of filter membranes designed to meet specific customer filtration needs, not all of which are produced internally. In the event that a manufacturer of outsourced membrane discontinues supply or production, we may be required to identify and qualify an alternative filter membrane for that application to incorporate into our products. This could require extensive lead times and increased costs which may cause us to lose sales and cause our profit margins to decline.

Our graphite synthesis process requires petroleum coke that meets specified criteria. While there are multiple suppliers for this petroleum coke, the sources are limited and our required criteria may cause the price of this petroleum coke to increase.

Our production processes are becoming increasingly complex, and our production could be disrupted if we are unable to avoid manufacturing difficulties.

Our manufacturing processes are complex and require the use of expensive and technologically sophisticated equipment and materials. These processes are frequently modified to improve manufacturing yields and product quality. We have, on occasion, experienced manufacturing difficulties, such as temporary shortages of raw materials and occasional critical equipment breakdowns that have delayed deliveries to customers. A number of our product lines are manufactured at only one or two facilities, and any disruption could impact our sales until another facility could commence or expand production of such products.

Our manufacturing operations are subject to numerous risks, including the introduction of impurities in the manufacturing process and other manufacturing difficulties that may not be well understood for an extended period of time and that could lower manufacturing yields and make our products unmarketable; the costs and demands of managing and coordinating geographically diverse manufacturing facilities; and the disruption of production in one or more facilities as a result of a slowdown or shutdown in another facility. We could experience these or other manufacturing difficulties, which might result in a loss of customers and exposure to warranty and product liability claims.

Third-party membrane suppliers may disrupt our ability to manufacture products to meet our customer needs.

Certain of our membrane products rely on membranes manufactured by third parties. In the event that these membranes are no longer available or cost-effective and we are unable to acquire an alternative source, our ability to manufacture these products may be disrupted and our profits may decline.

Our membrane manufacturing operations may be disrupted if we are unable to successfully transition manufacturing to our own facility.

The Fourth Amended and Restated Membrane Manufacturing Agreement (the *Membrane Agreement*) between us and Millipore Corporation, dated January 10, 2011, provides that our lease of space in Millipore's Bedford, Massachusetts facility and our right to use certain manufacturing equipment owned by Millipore expires on March 31, 2014. While we have purchased a building in Bedford, MA to house these membrane manufacturing operations, outfitting of this new building to become a functioning membrane manufacturing plant will require significant lead time and capital investment. In addition, the transition of membrane manufacturing operations to this new facility, which will also consolidate certain other existing operations in Massachusetts will be complex and time consuming. In addition, our current membrane manufacturing is operating at capacity. Consequently, delays in completion of our new membrane manufacturing facility, construction of the equipment to be used therein or obtaining necessary utilities or a failure to execute the transition of our membrane manufacturing operations effectively and expeditiously might disrupt our manufacture of membrane, exacerbate our capacity constraints and result in a loss of customers or exposure to warranty and product liability claims.

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We may lose sales if we are unable to timely procure, repair or replace capital equipment necessary to manufacture many of our products.

If our existing equipment fails, or we are unable to obtain new equipment quickly enough to satisfy any increased demand for our products, we may lose sales to competitors. In particular, we do not maintain duplicate tools or equipment for most of our important products. Fixing or replacing complex tools is time consuming, and we may not be able to replace a damaged tool in time to meet customer requirements. In addition, from time to time we may upgrade or add new manufacturing equipment that may require substantial lead times to build and qualify. Delays in building and qualifying new equipment could result in a disruption of our manufacturing processes and prevent us from meeting our customers' requirements so that they would seek other suppliers.

We incur significant cash outlays over long-term periods in order to research, develop, manufacture and market new products that may never reach market or may have limited market acceptance.

We make significant cash expenditures to engineer, research, develop and market new products. For example, we incurred \$50.9 million, \$48.0 million and \$43.9 million of engineering, research and development expense in 2012, 2011 and 2010, respectively. The development period for a product can be very long. Following development, it may take a number of years for sales of that product to reach a substantial level, if ever. We cannot be certain of the success of a new product. A product concept may never progress beyond the development stage or may only achieve limited acceptance in the marketplace. If this occurs, we do not receive a direct return on our expenditures and may not even realize any indirect benefits. Additionally, capacity expansion may be necessary in order to manufacture a new product. If sales levels do not increase to offset the additional fixed operating expenses associated with any such expansion, our profitability could decline and our prospects could be harmed.

We are subject to a variety of environmental laws that could cause us to incur significant expenses.

In addition to other regulatory requirements affecting our business, we are subject to a variety of federal, state, local and non-U.S. regulatory requirements relating to the use, disposal, clean-up of, and human exposure to, hazardous chemicals. We generate and handle materials that are considered hazardous waste under applicable law. Certain of our manufacturing operations require the discharge of substantial quantities of wastewater into publicly owned waste treatment works which require us to assure that our wastewater complies with volume and content limitations. If we fail to comply with any present or future regulations, we could be subject to future liabilities or the suspension of production. In addition, compliance with these or future laws could restrict our ability to expand our facilities or to build or acquire new facilities or may require us to acquire costly equipment, incur other significant expenses, such as remediation of contamination found on any site that we may acquire, or modify our manufacturing processes.

We are continually evaluating our manufacturing operations within our plants in order to achieve efficiencies and gross margin improvements. If we are unable to successfully manage transfers or realignments of our manufacturing operations, our ability to deliver products to our customers could be disrupted and our business, financial condition and results of operations could be adversely affected.

In order to enhance the efficiency and cost effectiveness of our manufacturing operations, we have in the past and may in the future move several product lines from one of our plants to another and to consolidate manufacturing operations in certain of our plants. Our product lines involve technically complex manufacturing processes that require considerable expertise to operate. If we are unable to establish stable processes to efficiently and effectively produce high quality products in relocated manufacturing processes in the destination plant, production may be disrupted and we may not be able to deliver these products to meet customer orders in a timely manner, which may cause us to lose credibility with our customers and harm our business. There can be no assurance that these complex manufacturing processes can be stabilized and that the cost savings that we anticipate will be achieved.

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Loss of our key personnel could harm our business because of their experience in the microelectronics industry and their technological expertise. Similarly, our inability to attract and retain new qualified personnel could inhibit our ability to operate and grow our business successfully.

We depend on the services of our key senior executives and technological experts because of their experience in the microelectronics industry and their technical expertise. The loss of the services of one or several of our key employees or an inability to attract, train and retain qualified and skilled employees, specifically research and development and engineering personnel, could result in the loss of customers or otherwise inhibit our ability to operate and grow our business successfully. In the past and currently, during downturns in the semiconductor industry our predecessor companies have, and we have, had to impose salary reductions on senior employees and freeze or eliminate merit increases in an effort to maintain our financial position. These actions may have an adverse effect on employee loyalty and may make it more difficult for us to attract and retain key personnel.

We face the risk of product liability claims.

The manufacture and sale of our products involve the risk of product liability claims. In addition, a failure of one of our products at a customer site could interrupt the business operations of the customer. Our existing insurance coverage limits may not be adequate to protect us from all liabilities that we might incur in connection with the manufacture and sale of our products if a successful product liability claim or series of product liability claims were brought against us.

If we are unable to protect our intellectual property rights, our business and prospects could be harmed.

Our future success and competitive position depend in part upon our ability to obtain and maintain proprietary technology used in our principal product families. We rely, in part, on patent, trade secret and trademark law to protect that technology. We routinely enter into confidentiality agreements with our employees. However, there can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach or that our confidential and proprietary information and technology will not be independently developed by or become otherwise known to third parties. We have obtained a number of patents relating to our products and have filed applications for additional patents. We cannot assure you that any of our pending patent applications will be approved, that we will develop additional proprietary technology that is patentable, that any patents owned by or issued to us will provide us with competitive advantages or that these patents will not be challenged by third parties. Patent filings by third parties, whether made before or after the date of our filings, could render our intellectual property less valuable. Competitors may misappropriate our intellectual property, and disputes as to ownership of intellectual property may arise. In addition, if we do not obtain sufficient international protection for our intellectual property, our competitiveness in international markets could be significantly impaired, which would limit our growth and future revenue. Furthermore, there can be no assurance that third parties will not design around our patents.

Protection of our intellectual property rights has in the past resulted and may continue to result in costly litigation.

We may from time to time be required to institute litigation in order to enforce our patents, copyrights or other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources and could negatively affect our sales, profitability and prospects regardless of whether we are able to successfully enforce our rights. For example, in January of 2011 we settled multiple patent litigations with Pall Corporation. We prosecuted and defended these cases vigorously and incurred substantial costs in pursuing them. It may become necessary for us to initiate other costly patent litigation against this or other competitors in order to protect and/or perfect our intellectual property rights. We cannot predict how any existing or future litigation will be resolved or what their impact will be on us.

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If we infringe on the proprietary technology of others, our business and prospects could be harmed.

Our commercial success will depend, in part, on our ability to avoid infringing or misappropriating any patents or other proprietary rights owned by third parties. If we are found to infringe or misappropriate a third party's patent or other proprietary rights, we could be required to pay damages to such third party, alter our products or processes, obtain a license from the third party or cease activities utilizing such proprietary rights, including making or selling products utilizing such proprietary rights. If we are required to obtain a license from a third party, there can be no assurance that we will be able to do so on commercially favorable terms, if at all.

International Risks

We conduct a significant amount of our sales activity and manufacturing efforts outside the United States, which subjects us to additional business risks and may cause our profitability to decline due to increased costs.

Sales to customers outside the United States accounted for approximately 69%, 71% and 71%, respectively, of our net sales in 2012, 2011 and 2010. We anticipate that international sales will continue to account for a majority of our net sales. In addition, a number of our key domestic customers derive a significant portion of their revenues from sales in international markets. We also manufacture a significant portion of our products outside the United States and are dependent on international suppliers for many of our parts. We intend to continue to pursue opportunities in both sales and manufacturing internationally. Our international operations are subject to a number of risks and potential costs that could adversely affect our revenue and profitability, including:

unexpected changes in regulatory requirements that could impose additional costs on our operations or limit our ability to operate our business;

greater difficulty in collecting our accounts receivable and longer payment cycles than are typical in domestic operations;

changes in labor conditions and difficulties in staffing and managing foreign operations;

expense and complexity of complying with U.S. and foreign import and export regulations;

liability for foreign taxes assessed at rates higher than those applicable to our domestic operations; and

political and economic instability.

In the past, we have incurred costs or experienced disruptions due to the factors described above and expect to do so in the future. For example, our operations in Asia, and particularly South Korea, Taiwan and Japan, have been negatively impacted in the past as a result of regional economic instability. In addition, Taiwan and South Korea account for a growing portion of the world's semiconductor manufacturing. There have historically been strained relations between China and Taiwan and there are continuing tensions between North Korea and South Korea and the United States. Any adverse developments in those relations could significantly disrupt the worldwide production of semiconductors, which may lead to reduced sales of our products. Furthermore, we incur additional legal compliance costs associated with our international operations and could become subject to legal penalties in foreign countries if we do not comply with local laws and regulations, which may be substantially different from those in the United States. In a number of foreign countries, some companies engage in business practices that are prohibited by U.S. law applicable to us such as the Foreign Corrupt Practices Act. Although we implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in countries where practices that violate such U.S. laws may be customary or common, will not take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have an adverse effect on our business and results of operations.

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We will lose sales if we are unable to obtain government authorization to export certain of our products, and we would be subject to legal and regulatory consequences if we do not comply with applicable export control laws and regulations.

Exports of certain of our products are subject to export controls imposed by the U.S. Government and administered by the U.S. Departments of State and Commerce. In certain instances, these regulations may require pre-shipment authorization from the administering department. For products subject to the Export Administration Regulations (EAR) administered by the Department of Commerce's Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product, the final destination, the identity of the end user and whether a license exception might apply. Virtually all exports of products subject to the International Traffic in Arms Regulations (ITAR) administered by the Department of State's Directorate of Defense Trade Controls, require a license. Certain of our products are subject to EAR and ITAR. Products developed and manufactured in our foreign locations are subject to export controls of the applicable foreign nation.

Given the current global political climate, obtaining export licenses can be difficult and time-consuming. Failure to obtain export licenses for these shipments could significantly reduce our revenue and materially and adversely affect our business, financial condition and results of operations. Compliance with U.S. Government regulations may also subject us to additional fees and costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position.

Our results of operations could be adversely affected by changes in taxation.

We have facilities in foreign countries and, as a result, are subject to taxation and audit by a number of taxing authorities. Tax rates vary among the jurisdictions in which we operate. Our results of operations could be affected by market opportunities or decisions we make that cause us to increase or decrease operations in one or more countries, or by changes in applicable tax rates or audits by the taxing authorities in countries in which we operate. In addition, we are subject to laws and regulations in various locations that govern the determination of which is the appropriate jurisdiction to decide when and how much profit has been earned and is subject to taxation in that jurisdiction. Changes in these laws and regulations could affect the locations where we are deemed to earn income, which could in turn affect our results of operations. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations could affect our ability to realize those deferred tax assets, which could also affect our results of operations. Each quarter we forecast our tax liability based on our forecast of our performance for the year. If that performance forecast changes, our forecasted tax liability may change.

From time to time we may undertake internal reorganizations of our foreign subsidiaries in order to rationalize and streamline our foreign operations, focus our management efforts on certain local opportunities and to take advantage of favorable business conditions in certain localities. While we exercise diligence in undertaking these internal reorganizations, there can be no assurance that these reorganizations will not result in adverse tax consequences in certain foreign countries in which we have operations. This could adversely impact our profitability from foreign operations and result in a material reduction in our results of operations.

Fluctuations in the value of the U.S. dollar in relation to other currencies may lead to lower net income and shareholders' equity or may cause us to raise prices, which could result in reduced net sales.

Foreign currency exchange rate fluctuations could have an adverse effect on our net sales, results of operations and shareholders' equity. Foreign currency fluctuations against the U.S. dollar could require us to increase prices to foreign customers, which could result in lower net sales by us to such customers. Alternatively, if we do not adjust the prices for our products in response to foreign currency fluctuations, our profitability could decline. In addition, sales made by our foreign subsidiaries are generally denominated in the currency of the country in which these products are sold, and the currency we receive in payment for such sales could be less valuable at the time of receipt versus the time of sale as a result of foreign currency exchange rate fluctuations.

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We may be subject to increased import duties as we seek to source more of the materials from which our products are made from foreign countries.

In an effort to reduce the cost of our products or to obtain the highest quality materials, we expect that our purchases of raw materials and components from foreign countries will increase. Those of our products manufactured in the United States or other countries from these materials and components may consequently be burdened by import duties imposed by the United States or those other countries, and these additional costs may be substantial and may put our products at a competitive disadvantage.

Volatility in the global economy could adversely affect results.

Financial markets in the United States, Europe and Asia have been experiencing extreme disruption in recent years, including, among other things, volatility in securities prices, severely diminished liquidity and credit availability, rating downgrades of sovereign debt and declining valuation of certain investments, declines in consumer confidence, declines in economic growth, volatility in unemployment rates, and uncertainty about economic stability. During 2008 and 2009, these conditions had a significant adverse impact on our industry and financial condition and results of operations. There may be further changes in the global economy, which could lead to further challenges in our business and negatively impact our financial results. Tightness of credit in financial markets could adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations and could result in a decrease in orders and spending for our products and services. We are unable to predict the likely duration and severity of the recent disruption in European or global financial markets and adverse economic conditions and the effects they may have on our business and financial condition. If uncertain economic conditions continue or further deteriorate, our business and results of operations could be further materially and adversely affected.

An increased concentration of wafer manufacturing in Japan could result in lower sales of our wafer shipper products.

A large percentage of the world's 300 mm raw silicon wafer manufacturing currently takes place in Japan. Our market share in Japan is currently lower than in other regions we serve. Further, we expect that a large percentage of 450 mm raw silicon wafer manufacturing will, in the future, take place in Japan. If we are unable to persuade these wafer suppliers to use our new 450 mm shippers, we may not be able to achieve a significant market share and may not be able to benefit from our investment in 450 mm shipper manufacturing capacity.

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of violence or war or natural catastrophes such as the March 2011 earthquake and tsunami in Japan may affect the markets in which we operate and hurt our profitability.

Terrorist attacks may negatively affect our operations and any security we issue. There can be no assurance that there will not be future terrorist attacks against the United States or U.S. businesses. These attacks or other armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Our primary facilities include headquarters, research and development and manufacturing facilities in the United States; sales, research and development and manufacturing facilities in Japan, South Korea, Taiwan and Malaysia; and sales and service facilities in Europe and Asia. Attacks may also disrupt the global insurance and reinsurance industries with the result that we may not be able to obtain insurance at historical terms and levels for our facilities. Furthermore, such attacks may make travel and the transportation of our supplies and products more difficult and more expensive and may ultimately affect the sales of our products in the United States and overseas. As a result of terrorism, the United States may enter into additional armed conflicts, which could have a further impact on our domestic and international sales, our supply chain, our production capacity and our ability to deliver products to our customers. The consequences of these armed conflicts and the associated instability are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business and any security we issue.

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While the March 2011 earthquake and tsunami in Japan did not materially impair manufacturing operations at our Yonezawa, Japan plant and while the June 2012 wildfires in Colorado Springs, CO did not materially impair manufacturing operations at our Colorado Springs plant, there can be no assurance that future such catastrophes will not impact our manufacturing operations or those of our supply chain partners by disrupting our ability to manufacture and deliver products to our customers, resulting in an adverse impact on our business and results of operations.

Risks Related to Owning our Securities

The price of our common stock has been volatile in the past and may be volatile in the future.

The price of our common stock has been volatile in the past and may be volatile in the future. While in 2012 the closing price of our stock on The NASDAQ Global Select Market (NASDAQ) ranged from a low of \$7.48 to a high of \$9.90, in 2011 and 2010 the price of our common stock showed much greater volatility: in 2011 the closing price of our stock on NASDAQ ranged from a low of \$6.11 to a high of \$10.44 and in 2010 the closing price of our stock on NASDAQ ranged from a low of \$3.64 to a high of \$7.70.

The trading price of our common stock is subject to significant volatility in response to various factors, some of which are beyond our control, including the following: the failure to meet the published expectations of securities analysts; changes in financial estimates by securities analysts; press releases or announcements by, or changes in market values of, comparable companies; volatility in the markets for high-technology stocks, general stock market price and volume fluctuations, which are particularly common among securities of high-technology companies; stock market price and volume fluctuations attributable to inconsistent trading volume levels; the cyclical nature of the semiconductor industry and current industry downturn; our performance; our ability to repay when due any debt obligations we may incur in the future; our ability to respond to rapid shifts in demand; our ability to compete effectively; loss of key customers or decline in order volumes for new and existing products; our high fixed costs; manufacturing difficulties; risks associated with our significant foreign operations; additions or departures of key personnel; involvement in or adverse results from litigation; and perceived dilution from stock issuances.

Furthermore, stock prices for many companies fluctuate widely for reasons that may be unrelated to their operating results. Those fluctuations and general economic, political and market conditions, such as recessions, terrorist or other military actions, or international currency fluctuations, as well as public perception of equity values of publicly traded companies may adversely affect the market price of our common stock. These market fluctuations may cause the trading price of our common stock to decrease. Future decreases in our stock price may adversely impact our ability to raise sufficient additional capital in the future, if needed.

If our common stock trades below book value or our business outlook worsens, we could be required to record material impairment losses for our long-lived assets, including property, plant and equipment and our identifiable intangibles.

In accordance with U.S. generally accepted accounting principles, we review our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its undiscounted cash flows, the asset will be written down to its fair value.

The evaluation of the recoverability of long-lived assets requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the identification of the asset group at the lowest level of independent cash flows and the primary asset of the group; and long-range forecasts of revenue, reflecting management's assessment of general economic and industry conditions, operating income, depreciation and amortization and working capital requirements.

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Due to the inherent uncertainty involved in making these estimates, which are made in a particular economic environment, actual results could differ from those estimates. In addition, changes in the underlying assumptions would have a significant impact on the conclusion that an asset group's carrying value is recoverable, or the determination of any impairment charge if it was determined that the asset values were indeed impaired.

Due to the uncertain economic environment within the semiconductor industry, we continually monitor circumstances and events to determine whether asset impairment testing is warranted.

It is possible that in the future we may no longer be able to conclude that there is no impairment of our long-lived assets, nor can we provide assurance that material impairment charges of long-lived assets will not occur in future periods.

Our annual and quarterly operating results are subject to fluctuations as a result of rapid demand shifts and our modest level of backlog, and if we fail to meet the expectations of securities analysts or investors, the market price of our common stock may decrease significantly.

Our sales and profitability can vary significantly from quarter to quarter and year to year. Because our expense levels are relatively fixed in the short-term, an unanticipated decline in revenue in a particular quarter could significantly reduce our net income, or lead to a net loss, in that quarter. In addition, we make a substantial portion of our shipments shortly after we receive the order, and therefore we operate with a relatively modest level of backlog. As a consequence of the just-in-time nature of shipments and the modest level of backlog, our results of operations may decline quickly and significantly in response to changes in order patterns or rapid decreases in demand for our products. We anticipate that fluctuations in operating results will continue in the future. Such fluctuations in our results could cause us to fail to meet the expectations of securities analysts or investors, which could cause the market price of our common stock to decline substantially. We believe that period-to-period comparisons of our results of operations may not be meaningful, and you should not rely upon them as indicators of our future performance.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our business and operating results could be harmed. We have in the past discovered, and may in the future identify material weaknesses in internal control over financial reporting. Each of these past material weaknesses represented a reasonable possibility that a material misstatement of our annual or interim financial statements would not have been prevented or detected.

Any failure to implement and maintain the improvements that we have made to our controls over our financial reporting, or difficulties encountered in the implementation of these improvements in our controls, could cause us to fail to meet our reporting obligations. Any failure in our internal controls that leads to a material weakness could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our stock.

Changes effected by the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act and related SEC regulations have in the past and are likely to continue to increase our costs.

The Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act required changes in some of our corporate governance, securities disclosure and compliance practices. In response to the requirements of those Acts, the Securities and Exchange Commission and the NASDAQ have promulgated new rules and listing standards covering a variety of subjects. Compliance with these rules and listing standards has increased our legal and financial and accounting

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costs, and we expect these increased costs to continue indefinitely. We also expect these developments may make it more difficult and more expensive for us to obtain director and officer liability insurance in the future, and we may be forced to accept reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our board of directors, particularly independent directors, or qualified executive officers.

Provisions in our charter documents, Delaware law and our shareholder rights plan may delay or prevent an acquisition of us, which could decrease the value of your shares.

Our certificate of incorporation and by-laws, Delaware law and our shareholder rights plan contain provisions that could make it harder for a third party to acquire us without the consent of our board of directors. These provisions include limitations on actions by our stockholders by written consent. In addition, our board of directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer.

Our restated certificate of incorporation makes us subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits publicly held Delaware corporations to which it applies from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. This provision could discourage others from bidding for our shares of common stock and could, as a result, reduce the likelihood of an increase in the price of our common stock that would otherwise occur if a bidder sought to buy our common stock.

Our shareholder rights plan will permit our stockholders to purchase shares of our common stock at a 50% discount upon the occurrence of specified events, including the acquisition by anyone of 15% or more of our common stock, unless such event is approved by our board of directors. Delaware law also imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. Although we believe these provisions provide for an opportunity to receive a higher bid by requiring potential acquirers to negotiate with our board of directors, these provisions apply even if the offer may be considered beneficial by stockholders. If a change of control or change in management is delayed or prevented, the market price of our common stock could decline.

Our certificate of incorporation authorizes the issuance of shares of blank check preferred stock.

Our certificate of incorporation provides that our board of directors is authorized to issue from time to time, without further stockholder approval, up to 5,000,000 shares of preferred stock in one or more series and to fix and designate the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, redemption rights and terms of redemption and liquidation preferences. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. Our issuance of preferred stock may have the effect of delaying or preventing a change in control. Our issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of common stock. The issuance of preferred stock could have the effect of decreasing the market price of our common stock.

Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote.

Subject to applicable NASDAQ standards, our board of directors has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares. Issuances of common stock or the exercise of employee and director stock options would dilute your percentage ownership interest, which will have the effect of reducing your influence over matters on which our stockholders vote. In addition, we may

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issue substantial quantities of our common stock in order to affect acquisitions which would also dilute your ownership interest. If the issuances are made at prices that reflect a discount from the then current trading price of our common stock, your interest in the book value of our common stock might be diluted.

Item 1B. Unresolved Staff Comments.

Not Applicable.

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Our principal executive offices are located in Billerica, Massachusetts. We also have manufacturing, design and equipment cleaning facilities in the United States, Japan, France, Taiwan, South Korea and Malaysia. Information about our principal facilities is set forth below:

Location	Principal Function	Approximate Square Feet	Leased/ Owned
Bedford, Massachusetts	Research & Manufacturing ^{(1) (4)}	80,000	Owned
Billerica, Massachusetts	Executive Offices, Research & Manufacturing ⁽¹⁾	175,000	Leased ⁽²⁾
Chaska, Minnesota	Executive Offices, Research & Manufacturing ^{(1) (3)}	192,000	Owned
Colorado Springs, Colorado	Manufacturing ⁽³⁾	82,000	Owned
Colorado Springs, Colorado	Manufacturing ⁽³⁾	40,000	Leased
Decatur, Texas	Manufacturing ⁽⁴⁾	359,000	Owned
Montpellier, France	Cleaning Services ⁽³⁾	53,000	Owned
Yonezawa, Japan	Manufacturing ^{(1) (3)}	196,000	Owned
Kulim, Malaysia	Manufacturing ^{(1) (3)}	195,000	Owned
Wonju City, South Korea	Manufacturing ⁽¹⁾	35,000	Owned

1. Facility used by our Contamination Control Solutions Division.
2. This lease has been extended through March 31, 2019 and is subject to one five-year renewal option.
3. Facility used by our Microenvironments Division.
4. Facility used by our Specialty Materials Division.

We lease approximately 4,200 square feet of manufacturing space in a facility located at 80 Ashby Road, Bedford, Massachusetts owned by Millipore Corporation pursuant to a Fourth Amended and Restated Membrane Manufacturing and Supply Agreement that expires March 31, 2014. We also lease approximately 13,000 square feet of research and development and manufacturing office space located in San Diego, California, approximately 12,000 square feet of office, research and development and manufacturing space located in Fridley, Minnesota and approximately 31,000 square feet of office, research and development and manufacturing space located in Franklin, Massachusetts.

In addition, we lease an aggregate of approximately 16,000 square feet of office, research and development and manufacturing space in three buildings located in Burlington, Massachusetts which currently houses our specialty coatings business. These leases are for a term expiring December 31, 2012, but we are negotiating an extension of these leases through March 2014. In 2012, we purchased real property in Bedford, Massachusetts, and we are in the process of building infrastructure upgrades and facilities at that property. When this facility is complete, our specialty coatings business will relocate to that facility. During 2011, we opened a new manufacturing facility in 20,000 square feet of leased space in Hsinchu, Taiwan for use by our Contamination Control Solutions Division.

We maintain a worldwide network of sales, service, repair or cleaning centers in the United States, Germany, France, Israel, Japan, Malaysia, Taiwan, Singapore, China and South Korea. Leases for our facilities expire through December 2018. We currently expect to be able to extend the terms of expiring leases or to find suitable replacement facilities on reasonable terms.

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We believe that our facilities are well-maintained and suitable for their respective operations. All of our facilities are generally utilized within a normal range of production volume. In addition to our operating facilities, our former headquarters building in Chaska, Minnesota is unoccupied and held for sale.

Item 3. Legal Proceedings.

While we are not currently involved in any legal proceedings that we believe will have a material impact on our consolidated financial position, results of operations or cash flows, from time to time the Company may be a party to litigation involving claims against the Company arising in the ordinary course of our business. We are not aware of any material potential litigation or claims against us which would have a material adverse effect upon our financial statements.

Item 4. Mine Safety Disclosures.

Not applicable.

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Market Information and Holders:

Entegris Common Stock, \$0.01 par value, trades on the NASDAQ Global Select Market under the symbol ENTG. The following table sets forth the high and low sales prices of the Company shares for each full quarterly period during fiscal 2012 and 2011. As of February 13, 2013 there were 1,339 shareholders of record. On February 13, 2013, the last sale price reported on the Nasdaq Global Select Market for our common stock was \$9.82 per share.

	Fiscal 2012		Fiscal 2011	
	Low	High	Low	High
First quarter	\$ 8.56	\$ 10.18	\$ 6.98	\$ 9.64
Second quarter	\$ 7.45	\$ 9.52	\$ 7.50	\$ 10.50
Third quarter	\$ 7.62	\$ 9.35	\$ 6.35	\$ 10.58
Fourth quarter	\$ 7.50	\$ 9.35	\$ 6.00	\$ 9.20

Dividend Policy:

The Company has never declared or paid any cash dividends on its capital stock. The Company currently intends to retain all available earnings for use in its business operations and does not anticipate paying any cash dividends in the foreseeable future. Furthermore, our Restated Credit Agreement contains restrictions that limit our ability to pay dividends. On July 27, 2005 the Entegris Board of Directors declared a dividend of one common stock purchase right for each share of Entegris Common Stock outstanding to shareholders of record on August 8, 2005, payable on August 8, 2005. For a description of the Common Stock Rights Plan see Other Information in Item 1 above. Each right generally entitles the holder to purchase one one-hundredth of a share of a series of preferred stock of Entegris at a price of \$50.

Issuer Sales of Unregistered Securities During the Past Three Years:

None

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The following graph compares the cumulative total shareholder return on the common stock of Entegris, Inc. from December 31, 2007 through December 31, 2012 with cumulative total return of (1) The NASDAQ Composite Index (NASDAQ), and (2) The Philadelphia Semiconductor Index, assuming \$100 was invested at the close of trading December 31, 2007 in Entegris, Inc. common stock, the NASDAQ Composite Index and the Philadelphia Semiconductor Index and that all dividends are reinvested.

	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012
Entegris, Inc.	\$ 100.00	\$ 25.38	\$ 61.17	\$ 86.54	\$ 101.13	\$ 106.35
NASDAQ Composite	\$ 100.00	\$ 60.04	\$ 87.27	\$ 103.11	\$ 102.30	\$ 120.45
Phila. Semi. Index	\$ 100.00	\$ 52.81	\$ 91.10	\$ 129.14	\$ 115.76	\$ 124.06

Issuer Purchases of Equity Securities:

On October 26, 2011, the Company announced that its Board of Directors had authorized the repurchase of up to an aggregate of \$50.0 million of the Company's common stock in open market transactions and in accordance with a pre-arranged stock trading plan established on November 22, 2011 for the purpose of repurchasing up to \$50 million of the registrant's common stock in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Plan). The Plan commenced on November 28, 2011 and the expiration date of the Plan was extended until February 8, 2013. There have been no repurchases of the Company's common stock under the Plan during the quarter ended December 31, 2012.

On December 12, 2012, the Board of Directors authorized a repurchase program for 2013 covering up to an aggregate of \$50.0 million of the Company's common stock in open market transactions and in accordance with one or more pre-arranged stock trading plans established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The repurchase program for 2013 will expire in December 2013 unless it is terminated or extended. The initial pre-arranged stock trading plan was established on February 19, 2013 and will expire August 19, 2013 and will cover the repurchase of up to \$30 million of the registrant's common stock.

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The table that follows presents selected financial data for each of the last five fiscal years from the Company's consolidated financial statements and should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. The selected financial data set forth below as of December 31, 2012 and 2011 and for the fiscal years ended December 31, 2012, 2011 and 2010 are derived from our audited financial statements included in this Annual Report on Form 10-K. All other selected financial data set forth below is derived from our audited financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our results of operations to be expected in the future.

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
<i>(In thousands, except per share amounts)</i>					
Operating Results					
Net sales	\$ 715,903	\$ 749,259	\$ 688,416	\$ 398,644	\$ 554,699
Gross profit	307,383	325,930	310,643	137,812	211,515
Selling, general and administrative expenses	147,405	140,847	147,051	117,001	147,531
Engineering, research and development expenses	50,940	47,980	43,934	35,039	40,086
Amortization of intangible assets	9,594	10,225	13,231	19,237	19,585
Impairment of goodwill					473,799
Restructuring charges				15,463	10,423
Operating profit (loss)	99,444	126,878	106,427	(48,928)	(479,909)
Income (loss) before income taxes and equity in affiliate net income (loss)	99,703	127,964	101,481	(59,888)	(496,413)
Income tax expense (benefit)	30,881	4,217	15,006	(2,996)	19,201
Income (loss) from continuing operations	68,825	124,246	85,122	(57,759)	(515,897)
Net income (loss) attributable to Entegris, Inc.	68,825	123,846	84,356	(57,721)	(517,002)
Earnings Per Share Data					
Diluted earnings (loss) per share continuing operations	\$ 0.50	\$ 0.91	\$ 0.63	\$ (0.49)	\$ (4.58)
Weighted average shares outstanding diluted	138,412	136,223	133,174	117,321	112,653
Operating Ratios % of net sales					
Gross profit	42.9%	43.5%	45.1%	34.6%	38.1%
Selling, general and administrative expenses	20.6	18.8	21.4	29.3	26.6
Engineering, research and development expenses	7.1	6.4	6.4	8.8	7.2
Amortization of intangible assets	1.3	1.4	1.9	4.8	3.5
Impairment of goodwill					85.4
Restructuring charges				3.9	1.9
Operating profit (loss)	13.9	16.9	15.5	(12.3)	(86.5)
Income (loss) before income taxes and equity in affiliate net income (loss)	13.9	17.1	14.7	(15.0)	(89.5)
Effective tax rate	31.0	3.3	14.8	5.0	(3.9)
Net income (loss) attributable to Entegris, Inc.	9.6	16.5	12.3	(14.5)	(93.2)
Cash Flow Statement Data					
Depreciation and amortization	\$ 37,607	\$ 37,064	\$ 41,198	\$ 50,127	\$ 46,343
Capital expenditures	49,929	30,267	16,794	13,162	26,987
Net cash provided by operating activities	115,162	157,286	140,898	4,193	66,260
Net cash used in investing activities	(72,467)	(28,431)	(11,985)	(9,843)	(199,921)
Net cash provided by (used in) financing activities	10,890	10,864	(65,709)	(40,690)	82,681
Balance Sheet and Other Data					
Current assets	\$ 579,324	\$ 502,999	\$ 387,091	\$ 267,458	\$ 313,128
Current liabilities	93,263	92,594	107,634	73,910	79,356
Working capital	486,061	410,405	279,457	193,548	233,772
Current ratio	6.21	5.43	3.60	3.62	3.95
Long-term debt				52,492	150,516
Shareholders' equity	694,799	608,238	459,619	346,192	336,170
Total assets	811,544	724,663	601,385	504,672	597,824
Return on average shareholders' equity %	10.6%	23.2%	20.9%	(16.9)%	(87.0)%

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Shares outstanding at end of period	138,458	135,821	132,901	130,043	113,102
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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the Company's consolidated financial condition and results of operations should be read along with the consolidated financial statements and the accompanying notes to the consolidated financial information included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve numerous risks and uncertainties, including, but not limited to, those described in the Cautionary Statements sections of this Item 7 below. The Company's actual results may differ materially from those contained in any forward-looking statements. You should review the section entitled Risk Factors of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Cautionary Statements

This Annual Report on Form 10-K and the documents incorporated by reference in this Annual Report on Form 10-K contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The information in this Management's Discussion and Analysis of Financial Condition and Results of Operations, except for the historical information, contains forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and financial performance. The words believe, expect, anticipate, intend, estimate, forecast, project, may, will, would, could, should and similar expressions are intended to identify forward-looking statements. You should read statements that contain these words carefully because they discuss future expectations, contain projections of future results of operations or of financial position or state other forward-looking information. All forecasts and projections in this report are forward-looking statements, and are based on management's current expectations of the Company's near-term results, based on current information available pertaining to the Company. The important factors listed below, as well as any cautionary language elsewhere in this Annual Report on Form 10-K, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations described in these forward-looking statements. The risks which could cause actual results to differ from those contained in such forward looking statements include, without limitation, the risks described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 under the headings Risks Relating to our Business and Industry, Manufacturing Risks, International Risks and Risks Related to Owning Our Securities as well as in the Company's quarterly reports on Form 10-Q and current reports on Form 8-K as filed with the Securities and Exchange Commission. Any forward-looking statements in this Annual Report on Form 10-K are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements, possibly materially. We disclaim any duty to update any forward-looking statements.

Overview

This overview is not a complete discussion of the Company's financial condition, changes in financial condition and results of operations; it is intended merely to facilitate an understanding of the most salient aspects of its financial condition and operating performance and to provide a context for the detailed discussion and analysis that follows and must be read in its entirety in order to fully understand the Company's financial condition and results of operations.

Entegris, Inc. is a leading provider of a wide range of products and services for purifying, protecting and transporting the critical materials used in processing and manufacturing in the microelectronics and other high-technology industries. Entegris derives most of its revenue from the sale of products and services to the semiconductor and related industries. The Company's customers consist primarily of semiconductor manufacturers, semiconductor equipment and materials suppliers as well as thin film transistor-liquid crystal display (TFT-LCD) and hard disk manufacturers, which are served through direct sales efforts, as well as sales and distribution relationships, in the United States, Asia, Europe and the Middle East.

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The Company offers a diverse product portfolio which includes more than 17,000 standard and customized products that it believes provide the most comprehensive offering of contamination control solutions and microenvironment products and services to maintain the purity and integrity of critical materials used by the semiconductor and other high-technology industries. Certain of these products are unit-driven and consumable products that rely on the level of semiconductor manufacturing activity to drive growth, while others are capital-expenditure driven and rely on expansion of manufacturing capacity to drive growth. The Company's unit-driven and consumable products includes membrane-based liquid filters and housings, metal-based gas filters, resin-based gas purifiers, wafer shippers, disk-shipping containers and test assembly and packaging products and consumable graphite and silicon carbide components used in plasma etch, ion implant and chemical vapor deposition processes in semiconductor manufacturing. The Company's capital expense-driven products include components, systems and subsystems that use electro-mechanical, pressure differential and related technologies to permit semiconductor and other electronics manufacturers to monitor and control the flow and condition of process liquids used in these manufacturing processes, and process carriers that protect the integrity of in-process wafers.

Key operating factors Key factors, which management believes have the largest impact on the overall results of operations of Entegris, Inc., include:

Level of sales Since a significant portion of the Company's product costs (except for raw materials, purchased components and direct labor) are largely fixed in the short-to-medium term, an increase or decrease in sales affects gross profits and overall profitability significantly. Also, increases or decreases in sales and operating profitability affect certain costs such as incentive compensation and commissions, which are highly variable in nature. The Company's sales are subject to the effects of industry cyclicality, technological change, substantial competition, pricing pressures and foreign currency fluctuation.

Variable margin on sales The Company's variable margin on sales is determined by selling prices and the costs of manufacturing and raw materials. This is affected by a number of factors, which include the Company's sales mix, purchase prices of raw material (especially polymers, stainless steel and purchased components), competition, both domestic and international, direct labor costs, and the efficiency of the Company's production operations, among others.

Fixed cost structure. The Company's operations include a number of large fixed or semi-fixed cost components, which include salaries, indirect labor and benefits, facility costs, lease expense, and depreciation and amortization. It is not possible to vary these costs easily in the short-term as volumes fluctuate. Accordingly, increases or decreases in sales volume can have a large effect on the usage and productivity of these cost components, resulting in a large impact on the Company's profitability.

Overall Summary of Financial Results for the Year Ended December 31, 2012

The Company's financial results for 2012 reflected the lower capital spending levels and sluggish production rates in the semiconductor industry that began in the latter half of 2011. Total net sales for the year ended December 31, 2012 were \$715.9 million, down \$33.4 million, or 4%, from sales of \$749.3 million for the year ended December 31, 2011. Sales in 2012 showed modest quarterly growth from late 2011 levels before declining in the latter half of the year.

The sales decrease in 2012 included unfavorable foreign currency translation effects of \$8.5 million related to the year-over-year weakening of most international currencies versus the U.S. dollar, most notably the Euro. Excluding this factor, net sales fell approximately 3% in 2012 when compared to 2011.

The year-over-year sales decrease, along with a slightly unfavorable sales mix, accounted for lower gross profits in 2012. These factors, along with lower levels of factory utilization, underlie the gross margin rate for 2012 of 42.9% compared to 43.5% a year ago.

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Operating costs, consisting of selling, general and administrative (SG&A) and engineering, research and development (ER&D) costs, increased 5% for the year ended December 31, 2012 when compared to the year-ago period. Included in SG&A for the year ended December 31, 2012 was a \$3.9 million charge associated with a CEO succession and transition plan.

The Company's effective tax rate was 31.0% in 2012 compared to 3.3% in 2011. Tax expense in 2011 included a \$41.0 million benefit associated with a decrease in the Company's U.S. deferred tax asset valuation allowance, primarily accounting for the year-to-year increase in the effective tax rate.

As a result of the aforementioned factors, net income attributable to the Company for 2012 was \$68.8 million, or \$0.50 per diluted share, compared to net income attributable to the Company of \$123.8 million, or \$0.91 per diluted share, in 2011.

During 2012, the Company's operating activities provided cash flow of \$115.2 million. Cash, cash equivalents and short-term investments were \$350.4 million at December 31, 2012 compared with \$273.6 million at December 31, 2011. The Company had no outstanding short-term bank borrowings or long-term debt at December 31, 2012.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires the Company to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. At each balance sheet date, management evaluates its estimates, including, but not limited to, those related to accounts receivable, sales return obligations, inventories, long-lived assets, income taxes and shared-based compensation. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. If management made different judgments or utilized different estimates, this could result in material differences in the amount and timing of the Company's results of operations for any period. In addition, actual results could be different from the Company's current estimates, possibly resulting in increased future charges to earnings.

The critical accounting policies affected most significantly by estimates, assumptions and judgments used in the preparation of the Company's consolidated financial statements are discussed below.

Accounts Receivable-Related Valuation Accounts The Company maintains allowances for doubtful accounts and for sales returns and allowances. Significant management judgments and estimates must be made and used in connection with establishing these valuation accounts.

The Company provides an allowance for doubtful accounts for all individual receivables judged to be unlikely for collection. In addition, for all other accounts receivable, the Company records an allowance for doubtful accounts based on a combination of factors. Specifically, management considers the age of receivable balances, historical bad debt write-off experience and current economic circumstances. The Company's allowance for doubtful accounts was \$2.3 million and \$1.0 million at December 31, 2012 and 2011, respectively. The increase in 2012 primarily reflects the recording of allowances for specific individual receivables.

An allowance for sales returns and allowances is established based on historical and current trends in both sales and product returns. At December 31, 2012 and 2011, the Company's reserve for sales returns and allowances was \$1.2 million and \$0.7 million, respectively. The increase in 2012 primarily reflects changes in the underlying variables of the Company's determination of its sales return allowances.

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Inventory Valuation The Company uses certain estimates and judgments to properly value its inventory. In general, the Company's inventories are recorded at the lower of cost or market. The Company evaluates its ending inventories for obsolescence and excess quantities each quarter. This evaluation includes analyses of inventory levels, historical write-off trends, expected product lives, and historical and projected sales levels by product. Inventories that are considered obsolete are written off or a full allowance is recorded. In addition, allowances are established for inventory quantities in excess of forecasted demand. Inventory allowances were \$5.7 million at both December 31, 2012 and 2011.

The Company's inventories include materials and products subject to technological obsolescence, which are sold in highly competitive industries. If future demand or market conditions are less favorable than current conditions or the Company's projected outlook for sales, inventory write-downs or additional allowances may be required and would be reflected in cost of sales in the period the revision is made.

Impairment of Long-Lived Assets As of December 31, 2012, the Company had \$157.0 million of net property, plant and equipment and \$47.2 million of net intangible assets. The Company routinely considers whether indicators of impairment of the value of its long-lived assets, particularly its manufacturing equipment, and its intangible assets, are present. A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances (triggering events) indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

- a. A significant decrease in the market price of a long-lived asset (asset group)
- b. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition
- c. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator
- d. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
- e. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)
- f. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

If such indicators are present, it is determined whether the sum of the estimated undiscounted cash flows attributable to the asset group in question is less than its carrying value. If less, an impairment loss is recognized based on the excess of the carrying amount of the asset group over its respective fair value. Fair value is determined by discounting estimated future cash flows, appraisals or other methods deemed appropriate. If the asset groups determined to be impaired are to be held and used, the Company recognizes an impairment charge to the extent the fair value attributable to the asset group is less than the assets' carrying value. The fair value of the assets then becomes the assets' new carrying value, which is depreciated or amortized over the remaining estimated useful life of the assets.

The Company's long-lived assets are grouped with other assets and liabilities at the lowest level (asset groups) for which the identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Company has four significant asset groups, identified by assessing the Company's identifiable cash flows and the interdependence of such cash flows: Contamination Control Solutions (CCS), Microenvironments (ME), POCO Graphite (POCO) and Entegris Specialty Coatings (ESC).

As described above, the evaluation of the recoverability of long-lived assets requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the identification of the asset group at the lowest level of independent cash flows, the primary asset of the group

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and long-range forecasts of revenue and costs, reflecting management's assessment of general economic and industry conditions, operating income, depreciation and amortization and working capital requirements.

Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. In addition, changes in the underlying assumptions would have a significant impact on the conclusion that an asset group's carrying value is recoverable, or the determination of any impairment charge if it was determined that the asset values were indeed impaired.

Based on current general economic conditions and trends within the semiconductor industry and the absence of any other triggering events, the Company has not been required to perform impairment testing for any of its asset groups since 2009. The Company will continue to monitor circumstances and events to determine whether asset impairment testing is warranted. It is possible that in the future the Company may no longer be able to conclude that there is no impairment of its long-lived assets, nor can the Company provide assurance that material impairment charges of long-lived assets will not occur in future periods.

Income Taxes In the preparation of the Company's financial statements, the income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. The Company is subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating the Company's ability to recover its deferred tax assets within the jurisdiction from which they arise, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, the Company begins with historical results adjusted for the results of discontinued operations and incorporates assumptions about the amount of future state, federal and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates management is using to manage the underlying business. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income (loss).

The Company has deferred tax assets related to certain federal and state credit carryforwards, and certain state and foreign net operating loss carryforwards of \$5.8 million and \$14.5 million as of December 31, 2012 and December 31, 2011, respectively. Management believes it is more likely than not that the benefit from a portion of these carryforwards will not be realized. In recognition of this risk, the Company provided a valuation allowance of \$5.0 million and \$4.6 million as of December 31, 2012 and December 31, 2011, respectively, relating to these carryforwards. If the Company's assumptions change and it determines it will be able to realize these carryforwards, the tax benefits relating to any reversal of the valuation allowance on the deferred tax assets will be recognized as a reduction of income tax expense.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results.

Share-Based Compensation U.S. generally accepted accounting principles require the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. The Company estimates the value of stock option and restricted stock awards on the date of grant.

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The fair value of restricted stock and restricted stock unit awards is valued based on the Company's stock price on the date of grant. The fair value of stock option awards is estimated on the date of grant using an option-pricing model affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the expected stock price volatility over the expected term of the awards, risk-free interest rate and dividend yield assumptions, and actual and projected employee stock option exercise behaviors and forfeitures. Because share-based compensation expense recognized in the consolidated statement of operations is based on awards ultimately expected to vest, it is recorded net of estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience and current expectations.

If the above factors change, and the Company uses different assumptions in future periods, the share-based compensation expense recorded may differ significantly from what was recorded in the current period.

Results of Operations**Year ended December 31, 2012 compared to year ended December 31, 2011**

The following table sets forth the results of operations and the relationship between various components of operations, stated as a percent of net sales, for the years ended December 31, 2012 and 2011. The Company's historical financial data was derived from its consolidated financial statements and related notes included elsewhere in this annual report.

<i>(Dollars in thousands)</i>	2012		2011	
		% of net sales		% of net sales
Net sales	\$ 715,903	100.0%	\$ 749,259	100.0%
Cost of sales	408,520	57.1	423,329	56.5
Gross profit	307,383	42.9	325,930	43.5
Selling, general and administrative expenses	147,405	20.6	140,847	18.8
Engineering, research and development expenses	50,940	7.1	47,980	6.4
Amortization of intangible assets	9,594	1.3	10,225	1.4
Operating income	99,444	13.9	126,878	16.9
Interest (income) expense, net	(10)	(0.0)	659	0.1
Other income, net	(249)	(0.0)	(1,745)	(0.2)
Income before income taxes and equity in net loss of affiliates	99,703	13.9	127,964	17.1
Income tax expense	30,881	4.3	4,217	0.6
Equity in net income of affiliates	(3)	(0.0)	(499)	(0.1)
Net income	\$ 68,825	9.6	\$ 124,246	16.6

Net sales For the year ended December 31, 2012, net sales were \$715.9 million, down \$33.4 million, or 4%, from sales for the year ended December 31, 2011. The Company's net sales for 2012 reflected the lower capital spending levels and sluggish production rates in the semiconductor industry that began in the latter half of 2011. Sales in 2012 showed modest quarterly growth from late 2011 levels before declining in the third and fourth quarters. The Company's operating segments experienced mixed sales results. See the Segment analysis included below in this section for additional detail.

The sales decrease in 2012 included unfavorable foreign currency translation effects of \$8.5 million related to the year-over-year weakening of most international currencies versus the U.S. dollar, most notably the Euro. Excluding this factor, net sales fell approximately 3% in 2012 when compared to 2011.

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On a geographic basis, total sales to North America were 31%, Asia Pacific 38%, Europe 12% and Japan 19% in 2012. Total sales to North America were 29%, Asia Pacific 38%, Europe 14% and Japan 19% in 2011. When comparing 2012 to 2011, all regions experienced year-over-year sales decreases except North America. Net sales to customers in Asia, Europe, and Japan decreased 3%, 19%, and 6%, respectively, and North America increased 2% from 2011 to 2012. Net sales for Asia and Europe were affected by unfavorable foreign currency translation effects of \$7.0 million and \$1.5 million, respectively. Net of those effects, sales decreased 3% and 12% for Asia and Europe, respectively.

Demand drivers for the Company's business primarily consist of semiconductor fab utilization and production (unit-driven) as well as capital spending for new or upgraded semiconductor fabrication equipment and facilities (capital-driven). The Company analyzes sales of its products by these two key drivers. Sales of unit-driven products represented 66% of total sales and sales of capital-driven products represented 34% of total sales in 2012. This compares to a unit-driven to capital-driven ratio of 63:37 for 2011. This shift in relative demand for capital-driven products reflects lower capital spending since mid-2011 by semiconductor customers for capacity-related products.

Sales of unit-driven products increased 1% in 2012. Unit-driven products generally have average lives of less than 18 months or need to be replaced based on usage levels. These products include liquid filters used in the photolithography, CMP and wet etch and clean processes, specialized graphite components, and wafer shippers used to ship raw wafers, particularly at wafer sizes of 200mm and below.

Year-over-year sales of capital-driven products decreased 14% in 2012. Capital-driven products include wafer process carriers, gas microcontamination control systems used in the deployment of advanced photolithography processes, fluid handling systems, including dispense pumps used in the photolithography process, and integrated liquid flow controllers used in various processes around the fab.

The Company believes the sales decreases noted above are primarily volume driven. Based on the information available, the Company believes it improved or maintained market share for its products and that the effect of selling price erosion was nominal. Additionally, given that no single customer accounts for more than 10% of the Company's annual revenue, the decrease in sales has not been driven by any one particular customer or group of customers, but rather by the decline in semiconductor and other high-technology sectors as a whole.

Gross profit Gross profit for 2012 decreased by \$18.5 million, to \$307.4 million, a decrease of 6% from \$325.9 million for 2011. The gross margin rate for 2012 was 42.9% versus 43.5% for 2011.

The year-over-year sales decrease accounted for the Company's lower gross profit in 2012. The reduction in gross profit related to a slightly unfavorable sales mix was offset by improved levels of factory utilization, primarily at the Company's Microenvironments segment, and higher royalty revenue.

Selling, general and administrative expenses Selling, general and administrative (SG&A) expenses for 2012 increased \$6.6 million, or 5%, to \$147.4 million from \$140.8 million in 2011. SG&A expenses, as a percent of net sales, increased to 20.6% from 18.8% a year earlier, reflecting both the decrease in net sales and increase in SG&A expenditure levels.

The increase in SG&A expenses includes a \$3.9 million charge associated with compensation to which the Company's former chief executive officer was entitled in connection with a succession and transition plan, a \$1.4 million increase in consultants' fees, and a \$1.3 million increase in the provision for bad debts. Other employee costs, which make up about two-thirds of SG&A expenses, were flat as lower accruals for incentive compensation were offset by increases in other employee cost categories, most notably benefit costs. The increase in SG&A costs was partially offset by favorable foreign currency translation effects of \$1.4 million.

Included in the twelve-month period ended December 31, 2011 was a \$0.7 million gain associated with the pension curtailment of the Company's Japan defined benefit pension plan. Refer to Note 13 to the Company's consolidated financial statements for further discussion.

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Engineering, research and development expenses Engineering, research and development (ER&D) expenses related to the support of current product lines and the development of new products and manufacturing technologies increased by \$3.0 million, or 6%, to \$50.9 million in 2012 compared to \$48.0 million in 2011. ER&D expenses as a percent of net sales were 7.1% compared to 6.4% a year ago, reflecting both the increase in ER&D expenditure levels and decrease in net sales.

The increase in ER&D expense mainly reflects higher employee costs (\$0.6 million) and a general increase in overall ER&D expense levels related to the support of current product lines and the development of new products and manufacturing technologies.

Moving into 2013, the Company intends to invest in its core membrane and coatings technologies to continue to create differentiated and high-value, unit-driven products for the most advanced and demanding semiconductor applications. In addition, the Company is committed to the ER&D spending and capital investment needed to sustain its initiative in 450 mm wafer handling as that technology is adopted over the next several years.

Amortization of intangible assets Amortization of intangible assets was \$9.6 million in 2012 compared to \$10.2 million for 2011. The decline reflects the absence of amortization expense for certain acquired developed technology and trade name assets that became fully amortized in 2011 or 2012.

Other income, net Other income was \$0.2 million in 2012 compared to other income of \$1.7 million in 2011. In 2012, other income includes a \$1.5 million gain recorded in the second quarter related to the remeasurement of the previously held 50% equity investment in a Taiwan joint venture entity in which the Company acquired a 100% interest in April 2012. The other income was partially offset by \$1.4 million of foreign currency transaction losses related to the remeasurement of yen-denominated assets and liabilities held by the Company. In 2011, other income primarily relates to a \$1.5 million gain recorded in connection with the sale of an equity investment.

Income tax expense The Company recorded income tax expense of \$30.9 million in 2012 compared to an income tax expense of \$4.2 million in 2011. The Company's effective tax rate was 31.0% in 2012, compared to 3.3% in 2011.

In 2012, the Company's effective tax rate was lower than the U.S. statutory rate of 35% primarily due to lower rates in various foreign jurisdictions compared to the U.S. statutory rate.

In 2011, the Company's effective tax rate was lower than the U.S. statutory rate of 35% due mainly to the \$41.0 million reduction of tax expense related to the decrease in the Company's deferred tax asset valuation allowance. Management concluded it is more likely than not that the Company would realize the U.S. net deferred tax assets and thereby released the valuation allowance on most of its U.S. deferred tax assets. The \$41.0 million of benefit to tax expense comprises \$19.8 million from the U.S. utilization of deferred tax assets during the year, \$0.2 million from the utilization of foreign deferred tax assets and \$21.0 million attributed to the release of the valuation allowance at December 31, 2011.

Equity in net income of affiliates The Company recorded equity in the net income of affiliates of \$3 thousand in 2012 compared to equity in the net income of affiliates of \$0.5 million in 2011. During 2012, the Company acquired the remaining 50% of Entegris Precision Technologies Corporation (EPT) in Taiwan, an entity in which it had previously owned a 50% equity interest accounted for under the equity method.

Net income attributable to Entegris, Inc. Net income attributable to the Company was \$68.8 million, or \$0.50 per diluted share, in 2012 compared to net income attributable to the Company of \$123.8 million, or \$0.91 per diluted share, in 2011. The decrease mainly reflects the Company's lower net sales and related gross profit decrease, slightly increased operating expenses and higher income tax expense, each described in greater detail above.

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Non-GAAP Measures Information The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP). The Company also utilizes certain non-GAAP financial measures as a complement to financial measures provided in accordance with GAAP in order to better assess and reflect trends affecting the Company's business and results of operations. See Non-GAAP Information included below in this section for additional detail, including the reconciliation of GAAP measures to the Company's non-GAAP measures.

The Company's non-GAAP financial measures are Adjusted EBITDA and Adjusted Operating Income, together with related measures thereof, and non-GAAP Earnings Per Share (EPS).

Adjusted EBITDA decreased 14% to \$141.0 million in 2012, compared to \$163.2 million in 2011. Adjusted EBITDA, as a percent of net sales, decreased to 19.7% from 21.8% a year earlier. Adjusted Operating Income decreased 17% to \$113.0 million in 2012, compared to \$136.4 million in 2011. Adjusted Operating Income, as a percent of net sales, decreased to 15.8% from 18.2% a year earlier. Non-GAAP Earnings Per Share decreased 30% to \$0.55 in 2012, compared to \$0.79 in 2011. The decline in the Adjusted EBITDA and Adjusted Operating Income measures reflect the reduction in net sales and related decrease in gross profit. In addition, Non-GAAP Earnings Per Share was adversely affected by a higher effective tax rate.

Segment Analysis

The following table and discussion concern the results of operations of the Company's three business segments for the years ended December 31, 2012 and 2011. See Note 16 Segment Reporting to the consolidated financial statements for additional information on the Company's three segments.

<i>(In thousands)</i>	2012	2011
Contamination Control Solutions:		
Net sales	\$ 461,838	\$ 483,958
Segment profit	116,356	140,313
Microenvironments:		
Net sales	\$ 182,375	\$ 182,150
Segment profit	37,223	29,959
Specialty Materials:		
Net sales	\$ 71,690	\$ 83,151
Segment profit	12,230	18,255

Contamination Control Solutions (CCS)

For the year ended December 31, 2012, CCS net sales decreased 5%, to \$461.8 million, from \$484.0 million in the comparable period last year. Net of unfavorable foreign currency effects of \$4.6 million, CCS net sales fell 4%. CCS sales decreased due to lower sales of products tied to semiconductor industry capital spending, which experienced a sharp drop in the second half of 2012. Sales of both fluid components and systems products, and gas filtration products fell in 2012. Sales of liquid filtration products, which are less affected by capital spending levels, improved due to strong initial acceptance and demand for new products supporting advanced semiconductor manufacturing processes.

CCS reported a segment profit of \$116.4 million for the year ended December 31, 2012 compared to \$140.3 million in the comparable period last year, a decrease of \$24.0 million, or 17%. The decrease in sales volume directly led to the decline in gross profit of \$18.2 million. Operating expenses increased 7%, with selling and marketing expenses, and engineering, research and development costs related to the support of current product lines and the development of new and high-value, unit-driven products for the most advanced and demanding semiconductor applications increasing by \$3.6 million and \$3.2 million, respectively. Those factors account for the year-over-year change in the CCS's profitability.

Microenvironments (ME)

For the year ended December 31, 2012, ME net sales remained flat at \$182.4 million, versus \$182.2 million in the comparable period last year. Net of unfavorable foreign currency effects of \$3.0 million, ME net sales increased 2%. Net sales reflected higher sales of 300mm process products related to the industry's migration to

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smaller advanced node processes and a \$3.3 million increase in royalty revenue, offset by lower sales of 200mm process and wafer shipper products.

ME reported a segment profit of \$37.2 million for the year ended December 31, 2012 compared to \$30.0 million in the comparable period last year, an increase of 24%. An increase in gross profit accounts for three-quarters of the improvement in segment profit, reflecting the \$3.3 million increase in royalty revenue and improved factory utilization. In addition, ME sales and marketing expenses fell by \$1.9 million in 2012.

Specialty Materials (SMD)

For the year ended December 31, 2012, SMD net sales decreased 14%, to \$71.7 million, down from \$83.2 million in the year ended December 31, 2011. The decrease reflected lower sales for both SMD's graphite-based components and specialty coated products, due to a weak semiconductor equipment market for SMD products as well as continued weakness in the solar market.

SMD reported a segment profit of \$12.2 million in 2012 compared to \$18.3 million in 2011, a decrease of 33%. The change in segment profit primarily reflected the decrease in gross profit associated with the lower sales in 2012 and the related reduction in factory utilization, particularly for SMD's specialized graphite manufacturing operation. The segment's operating expenses were essentially flat with a year ago.

Unallocated general and administrative expenses

Unallocated general and administrative expenses totaled \$56.8 million for the year ended December 31, 2012 compared to \$51.4 million for the year ended December 31, 2011. For the year ended December 31, 2012, unallocated general and administrative expenses included a \$3.9 million charge associated with compensation to which the Company's former chief executive officer was entitled in connection with the succession and transition plan as noted above. In addition, information technology expenses increased by \$1.2 million in 2012.

Year ended December 31, 2011 compared to year ended December 31, 2010

The following table sets forth the results of operations and the relationship between various components of operations, stated as a percent of net sales, for the years ended December 31, 2011 and 2010. The Company's historical financial data was derived from its consolidated financial statements and related notes included elsewhere in this annual report.

<i>(Dollars in thousands)</i>	2011		2010	
		% of net sales		% of net sales
Net sales	\$ 749,259	100.0%	\$ 688,416	100.0%
Cost of sales	423,329	56.5	377,773	54.9
Gross profit	325,930	43.5	310,643	45.1
Selling, general and administrative expenses	140,847	18.8	147,051	21.4
Engineering, research and development expenses	47,980	6.4	43,934	6.4
Amortization of intangible assets	10,225	1.4	13,231	1.9
Operating income	126,878	16.9	106,427	15.5
Interest expense, net	659	0.1	3,516	0.5
Other (income) expense, net	(1,745)	(0.2)	1,430	0.2
Income before income taxes and equity in net loss of affiliates	127,964	17.1	101,481	14.7
Income tax expense	4,217	0.6	15,006	2.2
Equity in net (income) loss of affiliates	(499)	(0.1)	1,353	0.2
Net income	\$ 124,246	16.6	\$ 85,122	12.4

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Net sales For the year ended December 31, 2011, net sales were \$749.3 million, up \$60.9 million, or 9%, from sales for the year ended December 31, 2010. Sales growth in 2011 reflected generally positive trends in the Company's core semiconductor markets, although the Company experienced lower net sales in the latter half of 2011 due to a slowdown in industry capital spending and sluggish production rates. The Company's three operating segments experienced mixed sales results. See the Segment analysis included below in this section for additional detail.

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The sales increase in 2011 included favorable foreign currency translation effects of \$34.6 million related to the year-over-year strengthening of most international currencies versus the U.S. dollar, most notably the Japanese yen, Korean won, Singaporean dollar, Euro and Taiwanese dollar. Excluding these factors, net sales rose approximately 4% in 2011 when compared to 2010.

On a geographic basis, total sales to North America were 29%, Asia Pacific 38%, Europe 14% and Japan 19% in 2011. Total sales to North America were 29%, Asia Pacific 39%, Europe 14% and Japan 18% in 2010. When comparing 2011 to 2010, all regions experienced year-over-year sales increases. Net sales to customers in North America, Asia, Europe, and Japan increased 10%, 5%, 12%, and 12%, respectively, from 2010 to 2011. A portion of the Asia, Europe, and Japan increases related to favorable foreign currency translation effects. Net of favorable currency translation effects, sales increased 0%, 7%, and 2% for Asia, Europe, and Japan, respectively.

Demand drivers for the Company's business primarily consist of semiconductor fab utilization and production (unit-driven) as well as capital spending for new or upgraded semiconductor fabrication equipment and facilities (capital-driven). The Company analyzes sales of its products by these two key drivers. Sales of unit-driven products increased 9%, while sales of capital-driven products increased 8%, in 2011 as compared with 2010. Sales of unit-driven products represented 63% of sales and sales of capital-driven products represented 37% of total sales in 2011. This compares to a unit-driven to capital-driven ratio of 63:37 for 2010.

The Company believes the sales increases noted above were primarily volume driven. Based on the information available, the Company believes it improved or maintained market share for its products in 2011 and that the effect of selling price erosion was nominal. Additionally, given that no single customer accounts for more than 10% of the Company's annual revenue, the increase in sales has not been driven by any one particular customer or group of customers, but rather by trends in the semiconductor and other high-technology sectors as a whole.

Gross profit Gross profit for 2011 increased by \$15.3 million, to \$325.9 million, an increase of 5% from \$310.6 million for 2010. The gross margin rate for 2011 was 43.5% versus 45.1% for 2010.

The year-over-year sales increase, along with a slight improvement in sales mix, accounted for the Company's higher gross profit in 2011. These factors were offset by reduced levels of factory utilization, underlying the lower comparative gross margin rate in 2011 when compared to 2010.

Selling, general and administrative expenses Selling, general and administrative (SG&A) expenses for 2011 decreased \$6.2 million, or 4%, to \$140.8 million from \$147.1 million in 2010. SG&A expenses, as a percent of net sales, decreased to 18.8% from 21.4% a year earlier, reflecting the increase in net sales and decrease in SG&A expenditure levels.

The decrease in SG&A expenses was due to lower employee costs of \$3.1 million, mainly reflecting decreases in incentive compensation in 2011, as well as decreases in professional fees of \$2.1 million and lower sales commission expense of \$1.5 million. In addition, the decrease in SG&A costs is partially offset by unfavorable foreign currency translation effects of \$5.3 million.

A \$0.7 million gain associated with the pension curtailment of the Company's Japan defined benefit pension plan was included in the twelve-month period ended December 31, 2011. Refer to Note 13 to the Company's consolidated financial statements for further discussion.

Engineering, research and development expenses Engineering, research and development (ER&D) expenses related to the support of current product lines and the development of new products and manufacturing technologies increased by \$4.0 million, or 9%, to \$48.0 million in 2011 compared to \$43.9 million in 2010. ER&D expenses as a percent of net sales were 6.4% compared to 6.4% a year ago, with the increase in ER&D expenditure levels offset by the effect of increased net sales.

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The increase in ER&D expense mainly reflected higher employee costs and increases in overall ER&D expense levels related to the support of current product lines and the development of new products and manufacturing technologies. In addition, the increase in ER&D costs reflected unfavorable foreign currency translation effects of \$0.8 million.

Amortization of intangible assets Amortization of intangible assets was \$10.2 million in 2011 compared to \$13.2 million for 2010. The decline reflected the absence of amortization expense for certain acquired developed technology and trade name assets that became fully amortized in either 2010 or 2011.

Interest expense Interest expense was \$0.9 million in 2011 compared to net interest expense of \$3.6 million in 2010. The variance was mainly due to absence of outstanding debt in 2011. Interest expense in 2011 included a charge of \$0.3 million for the accelerated write-off of previously capitalized debt issuance costs associated with the replacement of the Company's existing revolving credit facility with a new agreement. Interest expense for 2010 also included a charge for the accelerated write-off of previously capitalized debt issuance costs in the amount of \$0.9 million.

Interest income Interest income was \$0.2 million in 2011 compared to interest income of \$0.1 million in 2010. The increase was due to a considerably higher average invested cash balance in 2011.

Other (income) expense, net Other income was \$1.7 million in 2011 compared to other expense of \$1.4 million in 2010. In 2011, other income primarily related to a \$1.5 million gain recorded in connection with the sale of an equity investment.

In 2010, other expense reflected foreign currency transaction losses of \$2.3 million, primarily related to the remeasurement of yen-denominated assets and liabilities held by the Company's U.S. entity, offset in part by gains of \$0.9 million on the sale of the Company's interest in two equity investments.

Income tax expense The Company recorded income tax expense of \$4.2 million in 2011 compared to an income tax expense of \$15.0 million in 2010. The Company's year-to-date effective tax rate was 3.3% in 2011, compared to 14.8% in 2010.

In 2011, the Company's effective tax rate was lower than the U.S. statutory rate of 35% due mainly to the \$41.0 million benefit to tax expense from the reduction of the Company's deferred tax asset valuation allowance. Management concluded it was more likely than not that the Company would realize the U.S. net deferred tax assets and thus released the valuation allowance on most of its U.S. deferred tax assets. The \$41.0 million of benefit to tax expense comprised \$19.8 million from the U.S. utilization of deferred tax assets during the year, \$0.2 million from the utilization of foreign deferred tax assets, and \$21.0 million is attributed to the release of the valuation allowance at December 31, 2011.

In 2010, the Company's effective tax rate was lower than U.S. statutory rates mainly due to the \$13.7 million decrease in the Company's U.S. deferred tax asset valuation allowance. Management concluded the Company would realize certain deferred tax assets related to current taxes payable and thus released the allowance for a portion of its U.S. deferred tax assets. The effective tax rate also benefitted from the Company's tax holiday in Malaysia whereby, as a result of employment commitments, research and development expenditures and capital investments made by the Company, income from certain manufacturing activities in Malaysia is exempt from income taxes. The effective tax rate was also affected by lower tax rates in certain of the Company's taxable jurisdictions.

Equity in net (income) loss of affiliates The Company recorded equity in the net income of affiliates of \$0.5 million in 2011 compared to equity in the net loss of affiliates of \$1.4 million in 2010. Results in 2010 included an impairment loss of \$2.2 million as the Company determined that one of its investments accounted under the equity method was partially impaired.

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Net income attributable to Entegris, Inc. Net income attributable to the Company was \$123.8 million, or \$0.91 per diluted share, in 2011 compared to net income attributable to the Company of \$84.4 million, or \$0.63 per diluted share, in 2010. The improvement mainly reflects the Company's higher net sales and related gross profit increase, slightly reduced operating expenses and lower income tax expense, each described in greater detail above.

Non-GAAP Measures Information The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP). The Company also utilizes certain non-GAAP financial measures as a complement to financial measures provided in accordance with GAAP in order to better assess and reflect trends affecting the Company's business and results of operations. See Non-GAAP Information included below in this section for additional detail, including the reconciliation of GAAP measures to the Company's non-GAAP measures.

The Company's non-GAAP financial measures are Adjusted EBITDA and Adjusted Operating Income together with related measures thereof, and non-GAAP Earnings Per Share (EPS).

Adjusted EBITDA increased 11% to \$163.2 million in 2011, compared to \$147.6 million in 2010. Adjusted EBITDA, as a percent of net sales, increased to 21.8% from 21.4% a year earlier. Adjusted Operating Income increased 14% to \$136.4 million in 2011, compared to \$119.7 million in 2010. Adjusted Operating Income, as a percent of net sales, increased to 18.2% from 17.4% a year earlier. Non-GAAP Earnings Per Share increased 11% to \$0.79 in 2011, compared to \$0.71 in 2010.

Segment Analysis

The following table and discussion concern the results of operations of the Company's three business segments for the years ended December 31, 2011 and 2010. See Note 16 Segment Reporting to the consolidated financial statements for additional information on the Company's three segments.

<i>(In thousands)</i>	2011	2010
Contamination Control Solutions:		
Net sales	\$ 483,958	\$ 435,858
Segment profit	140,313	122,891
Microenvironments:		
Net sales	\$ 182,150	\$ 182,485
Segment profit	29,959	38,930
Specialty Materials:		
Net sales	\$ 83,151	\$ 70,073
Segment profit	18,255	11,080

Contamination Control Solutions (CCS)

For the year ended December 31, 2011, CCS net sales increased 11%, to \$484.0 million, from \$435.9 million in the comparable period last year. CCS reported a segment profit of \$140.3 million for the year ended December 31, 2011 compared to \$122.9 million in the comparable period last year, an increase of 14%.

CCS sales improved, particularly in the first half of the year, for all product groups, most notably for fluid handling components and systems, and liquid filtration products.

The increase in sales volume and the resulting improvement in gross profit primarily accounted for the year-over-year change in the segment's profitability. CCS operating expenses decreased 2%, mainly due to lower selling and engineering, research and development costs.

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Microenvironments (ME)

For the year ended December 31, 2011, ME net sales remained relatively flat to \$182.2 million, from \$182.5 million in the comparable period last year. ME reported a segment profit of \$30.0 million for the year ended December 31, 2011 compared to \$38.9 million in the comparable period last year, a decrease of 23%.

The change in net sales reflected lower sales of data storage and 200mm wafer products, offset partly by higher sales of 300mm process and shipper products.

A decline in gross profit, reflecting an unfavorable sales mix and higher manufacturing expenses, and engineering, development and research costs on new products, accounted for the year-over-year decline in the segment's segment profit. ME operating expenses in 2011 were flat when compared to the year-ago amounts.

Specialty Materials (SMD)

For the year ended December 31, 2011, SMD net sales increased 19%, to \$83.2 million, up from \$70.1 million in the year ended December 31, 2010. SMD reported a segment profit of \$18.3 million in 2011 compared to \$11.1 million in 2010, an increase of 65%.

The sales increase and related improvement in profitability reflected higher demand for both SMD's specialty coated and graphite-based products used in semiconductor manufacturing and in other industrial markets. The increase in gross profit reflected the sharp increase in sales as well as improved factory utilization. In addition, SMD's operating expenses decreased 5% in 2011 compared to 2010, mainly reflecting lower selling and engineering, research and development costs.

Unallocated general and administrative expenses

Unallocated general and administrative expenses totaled \$51.4 million for the year ended December 31, 2011 compared to \$53.2 million for the year ended December 31, 2010.

Quarterly Results of Operations

The following table presents selected data from the Company's consolidated statements of operations for the eight quarters ended December 31, 2012. This unaudited information has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this annual report. All adjustments that management considers necessary for the fair presentation of the unaudited information have been included in the quarters presented.

Table of Contents**QUARTERLY STATEMENTS OF OPERATIONS DATA (UNAUDITED)**

	2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>(In thousands)</i>								
Net sales	\$ 203,125	\$ 209,198	\$ 173,014	\$ 163,922	\$ 175,403	\$ 188,233	\$ 184,449	\$ 167,818
Gross profit	88,345	95,143	74,828	67,614	76,244	82,746	81,932	66,461
Selling, general and administrative expenses	35,790	39,126	33,533	32,398	35,048	35,989	39,095	37,273
Engineering, research and development expenses	12,532	12,462	11,957	11,029	11,989	12,726	13,314	12,911
Amortization of intangible assets	2,689	2,569	2,505	2,462	2,450	2,420	2,389	2,335
Operating profit	37,334	40,986	26,833	21,725	26,757	31,611	27,134	13,942
Net income attributable to Entegris, Inc.	29,175	32,522	21,988	40,161	17,859	21,673	18,037	11,256
<i>(Percent of net sales)</i>								
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	43.5	45.5	43.2	41.2	43.5	44.0	44.4	39.6
Selling, general and administrative expenses	17.6	18.7	19.4	19.8	20.0	19.1	21.2	22.2
Engineering, research and development expenses	6.2	6.0	6.9	6.7	6.8	6.8	7.2	7.7
Amortization of intangibles	1.3	1.2	1.4	1.5	1.5	1.3	1.3	1.4
Operating profit	18.4	19.6	15.5	13.3	15.3	16.8	14.7	8.3
Net income attributable to Entegris, Inc.	14.4	15.5	12.7	24.5	10.2	11.5	9.8	6.7

The Company's quarterly results of operations have been, and will likely continue to be, subject to significant fluctuations due to myriad factors, many of which are beyond the Company's control. The variability in sales, and its corresponding effect on gross profit, is the single most important factor underlying the changes in the Company's operating income over the past eight quarters. The fourth quarter of 2011 included a tax benefit of \$21.0 million attributable to the release of the valuation allowance on certain deferred tax assets.

The Company's financial results for the two-year period ended December 31, 2012 reflected the improvement in both the capital and unit-driven segments of the semiconductor industry that began during the second half of 2009. Quarterly sales of the Company's products and services reached their peak in the second quarter of 2011, before declining over the latter half of 2011 due to a slowdown in semiconductor industry capital spending and sluggish production rates. 2012, which continued to be characterized by sluggish semiconductor production rates and industry capital spending, saw slowly increasing quarterly sales levels from late 2011 levels before declining in the fourth quarter of 2012.

Liquidity and Capital Resources

The Company has historically financed its operations and capital requirements through cash flow from its operating activities, long-term loans, lease financing and borrowings under domestic and international short-term lines of credit. In fiscal 2000 and 2009, the Company raised capital via public offerings of its common stock.

Operating activities

Net cash flow provided by operating activities totaled \$115.2 million for the year ended December 31, 2012. Cash generated by the Company's operations included net income of \$68.8 million, as adjusted for the impact of various non-cash charges, primarily depreciation and amortization of \$37.6 million and share-based

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compensation expense of \$9.9 million. The net impact on cash flow from operations from changes in operating assets reduced cash otherwise generated by the Company's operations.

Working capital was \$486.1 million at December 31, 2012, which included \$350.4 million in cash and cash equivalents and short-term investments, an increase from \$410.4 million as of December 31, 2011, which included \$273.6 million in cash and cash equivalents.

Accounts receivable decreased by \$13.2 million during 2012, or \$10.6 million net of foreign currency translation adjustments. This decrease reflects the year-over-year decline sales of the Company's products and an improvement in the Company's collections as reflected in its days sales outstanding measure (DSO). The Company's DSO was 51 days at December 31, 2012 compared to 60 days at the beginning of the year.

Inventories at December 31, 2012 increased by \$5.2 million from a year earlier, or \$6.1 million after taking into account the impact of foreign currency translation adjustments and the provision for excess and obsolete inventory. The increase mainly reflects higher levels of finished goods.

Accounts payable and accrued expenses were \$9.2 million higher than a year ago, or \$6.3 million net of foreign currency translation adjustments. The Company made income tax payments, net of refunds, of \$29.7 million in 2012.

Investing activities Cash flow used in investing activities totaled \$72.5 million in 2012. Acquisition of property and equipment totaled \$49.9 million, which primarily reflected significant investments in equipment and tooling to manufacture 450mm wafer handling products and to establish an advanced membrane manufacturing and development center for critical filtration applications.

As of December 31, 2012, the Company expects its capital expenditures in 2013 to be approximately \$60 million to \$70 million, including approximately \$40 million to complete the Company's 450mm technology center and advanced membrane and coatings facility. Under the terms of its revolving credit facility, the Company is restricted from making capital expenditures in excess of \$85 million during any fiscal year. The Company does not anticipate that this limit on capital expenditures will have an adverse effect on the Company's operations.

The Company had net purchases of \$20.0 million less proceeds from maturities of commercial paper classified as short-term investments. Net of cash acquired, the Company expended \$3.0 million to acquire the remaining 50% of an equity method investee in which it had previously owned a 50% equity interest.

Financing activities Cash provided by financing activities totaled \$10.9 million during 2012. The Company received proceeds of \$7.4 million in connection with common shares issued under the Company's stock plans. Cash provided by financing activities also included \$3.9 million related to excess tax benefits from employee stock plans, partially offset by the purchase of shares of the Company's common stock at a total cost of \$0.4 million under the stock repurchase program authorized by the Company's Board of Directors in 2011.

The Company has a revolving credit facility maturing June 9, 2014, with a revolving credit commitment of \$30.0 million. As of December 31, 2012, the Company had no outstanding borrowings and \$0.2 million undrawn on outstanding letters of credit under the revolving credit facility. Through December 31, 2012, the Company was in compliance with all applicable financial covenants included in the terms of the revolving credit facility.

The Company also has a line of credit with two banks that provide for borrowings of Japanese yen for the Company's Japanese subsidiary equivalent to an aggregate of approximately \$14.0 million. There were no outstanding borrowings under these lines of credit at December 31, 2012.

On October 26, 2011, the Company announced that its Board of Directors had authorized the repurchase of up to an aggregate of \$50.0 million of the Company's common stock in open market transactions and in accordance with a pre-arranged stock trading plan established on November 22, 2011 for the purpose of repurchasing up to \$50 million of the registrant's common stock in accordance with Rule 10b5-1 under the Securities Exchange Act

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of 1934, as amended (the Plan). The Plan commenced on November 28, 2011 and the expiration date of the Plan was extended until February 8, 2013. There have been no repurchases of the Company's common stock under the Plan during the quarter ended December 31, 2012.

On December 12, 2012, the Board of Directors authorized a repurchase program for 2013 covering up to an aggregate of \$50.0 million of the Company's common stock in open market transactions and in accordance with one or more pre-arranged stock trading plans established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The repurchase program for 2013 will expire in December 2013 unless it is terminated or extended. The initial pre-arranged stock trading plan was established on February 19, 2013 and will expire August 19, 2013 and will cover the repurchase of up to \$30 million of the registrant's common stock.

At December 31, 2012, the Company's shareholders' equity stood at \$694.8 million, up 14% from \$608.2 million at the beginning of the year. The increase reflected net income attributable to the Company of \$68.8 million, additional paid-in capital of \$9.9 million associated with the Company's share-based compensation expense, \$7.4 million received in connection with common shares issued under the Company's stock option and employee stock purchase plans, and a tax benefit associated with stock plans of \$3.9 million, partially offset by the repurchase and retirement of its common stock of \$0.4 million and foreign currency translation effects of \$2.5 million.

As of December 31, 2012, the Company's sources of available funds were its cash and cash equivalents of \$330.4 million, short-term investments of \$20.0 million, funds available under its revolving credit facility and international credit facilities and cash flow generated from operations.

The Company believes that its cash and cash equivalents, short-term investments, funds available under its revolving credit facility and international credit facilities and cash flow generated from operations will be sufficient to meet its working capital and investment requirements for at least the next twelve months. If available liquidity is not sufficient to meet the Company's operating and debt service obligations as they come due, management would need to pursue alternative arrangements through additional equity or debt financing in order to meet the Company's cash requirements. There can be no assurance that any such financing would be available on commercially acceptable terms.

The Company considers the undistributed earnings of its foreign subsidiaries as of December 31, 2012 to be indefinitely reinvested. As of December 31, 2012, the amount of cash and cash equivalents associated with indefinitely reinvested foreign earnings was \$113.0 million. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the United States. The Company does not anticipate the need to repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business and believes its existing balances of domestic cash and cash equivalents, and short-term investments and operating cash flows will be sufficient to meet the Company's domestic cash needs for the next twelve months.

New Accounting Pronouncements

The Company does not anticipate that recently issued accounting guidance that has not yet been adopted will have a material impact on its consolidated financial statements. Refer to Note 1 to the Company's consolidated financial statements for a discussion of accounting pronouncements implemented in 2012.

Table of Contents**Contractual Obligations**

The following table summarizes the maturities of the Company's significant financial obligations as of December 31, 2012:

<i>(In thousands)</i>	Total	2013	2014	2015	2016	2017	Thereafter
Pension obligations	\$ 12,225	\$ 25	\$ 285	\$ 320	\$ 219	\$ 311	\$ 11,065
Capital purchase obligations ¹	36,330	36,330					
Operating leases	25,813	8,288	4,361	4,073	3,221	2,566	3,304
Total	\$ 74,368	\$ 44,643	\$ 4,646	\$ 4,393	\$ 3,440	\$ 2,877	\$ 14,369
Unrecognized tax benefits ²							

¹ Capital purchase obligations represent commitments for the construction or purchase of property, plant and equipment. They were not recorded as liabilities on the Company's consolidated balance sheet as of December 31, 2011, as the Company had not yet received the related goods or taken title to the property.

² The Company had \$5.4 million of total gross unrecognized tax benefits at December 31, 2012. The timing of any payments associated with these unrecognized tax benefits will depend on a number of factors. Accordingly, the Company cannot make reasonably reliable estimates of the amount and period of potential cash settlements, if any, with taxing authorities and are not included in the table above.

Non-GAAP Information The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP).

The Company also provides certain non-GAAP financial measures as a complement to financial measures provided in accordance with GAAP in order to better assess and reflect trends affecting the Company's business and results of operations. Regulation G, *Conditions for Use of Non-GAAP Financial Measures*, and other regulations under the Securities Exchange Act of 1934, as amended, define and prescribe the conditions for use of certain non-GAAP financial information. The Company provides non-GAAP financial measures of Adjusted EBITDA and Adjusted Operating Income together with related measures thereof, and non-GAAP Earnings Per Share (EPS).

Adjusted EBITDA, a non-GAAP term, is defined by the Company as net income attributable to Entegris, Inc. before (1) net income attributable to noncontrolling interest, (2) equity in net income of affiliates, (3) income tax expense (4) other income, net, (5) interest (income) expense, net, (6) gain associated with pension curtailment, (7) charge associated with CEO succession and transition plan, (8) amortization of intangible assets and (9) depreciation. Adjusted Operating Income, another non-GAAP term, is defined by the Company as its Adjusted EBITDA less depreciation. The Company also utilizes non-GAAP measures whereby Adjusted EBITDA and Adjusted Operating Income are each divided by the Company's net sales to derive Adjusted EBITDA Margin and Adjusted Operating Margin, respectively.

Non-GAAP EPS, a non-GAAP term, is defined by the Company as net income attributable to Entegris, Inc. before (1) amortization of intangible assets, (2) accelerated write-off of debt issuance costs, (3) gain associated with equity investments, (4) gain associated with pension curtailment, (5) charge associated with CEO succession and transition plan, (6) the tax effect of the aforementioned adjustments to net income attributable to Entegris, Inc. and (7) reversal of deferred tax valuation allowance divided by weighted common shares outstanding.

The Company provides supplemental non-GAAP financial measures to better understand and manage its business and believes these measures provide investors and analysts additional and meaningful information for the assessment of the Company's ongoing results. Management also uses these non-GAAP measures to assist in the evaluation of the performance of its business segments and to make operating decisions.

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Management believes the Company's non-GAAP measures help indicate the Company's baseline performance before certain gains, losses or other charges that may not be indicative of the Company's business or future outlook and offer a useful view of business performance in that the measures provide a more consistent means of comparing performance. The Company believes the non-GAAP measures aid investors' overall understanding of the Company's results by providing a higher degree of transparency for such items and providing a level of disclosure that will help investors understand how management plans, measures and evaluates the Company's business performance. Management believes that the inclusion of non-GAAP measures provides consistency in its financial reporting and facilitates investors' understanding of the Company's historical operating trends by providing an additional basis for comparisons to prior periods.

Management uses Adjusted EBITDA and Adjusted Operating Income to assist it in evaluations of the Company's operating performance by excluding items that management does not consider as relevant in the results of its ongoing operations. Internally, these non-GAAP measures are used by management for planning and forecasting purposes, including the preparation of internal budgets; for allocating resources to enhance financial performance; for evaluating the effectiveness of operational strategies; and for evaluating the Company's capacity to fund capital expenditures, secure financing and expand its business.

In addition, and as a consequence of the importance of these non-GAAP financial measures in managing its business, the Company's Board of Directors uses non-GAAP financial measures in the evaluation process to determine management compensation.

The Company believes that certain analysts and investors use Adjusted EBITDA, Adjusted Operating Income and non-GAAP EPS as supplemental measures to evaluate the overall operating performance of firms in the Company's industry. Additionally, lenders or potential lenders use Adjusted EBITDA measures to evaluate the Company's creditworthiness.

The presentation of non-GAAP financial measures is not meant to be considered in isolation, as a substitute for, or superior to, financial measures or information provided in accordance with GAAP. Management strongly encourages investors to review the Company's consolidated financial statements in their entirety and to not rely on any single financial measure.

Management notes that the use of non-GAAP measures has limitations:

First, non-GAAP financial measures are not standardized. Accordingly, the methodology used to produce the Company's non-GAAP financial measures is not computed under GAAP and may differ notably from the methodology used by other companies. For example, the Company's non-GAAP measure of Adjusted EBITDA may not be directly comparable to EBITDA or an adjusted EBITDA measure reported by other companies.

Second, the Company's non-GAAP financial measures exclude items such as amortization and depreciation that are recurring. Amortization of intangibles and depreciation have been, and will continue to be for the foreseeable future, a significant recurring expense with an impact upon the Company's results of operations, notwithstanding the lack of immediate impact upon cash flows.

Third, there is no assurance the Company will not have future restructuring activities, gains or losses on sale of equity investments, accelerated write-offs of debt-issuance costs or similar items and, therefore, may need to record additional charges (or credits) associated with such items, including the tax effects thereon. The exclusion of these items from the Company's non-GAAP measures should not be construed as an implication that these costs are unusual, infrequent or non-recurring.

Management considers these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP financial measures and evaluating these non-GAAP financial measures together with their most directly comparable financial measures calculated in accordance with GAAP. The calculations of Adjusted EBITDA, Adjusted operating income, and non-GAAP EPS, and reconciliations between these financial measures and their most directly comparable GAAP equivalents are presented below in the accompanying tables.

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The reconciliation of GAAP measures to Adjusted Operating Income and Adjusted EBITDA for the years ended December 31, 2012 and 2011 are presented below:

<i>(Dollars in thousands)</i>	2012	2011
Net sales	\$ 715,903	\$ 749,259
Net income attributable to Entegris, Inc.	\$ 68,825	\$ 123,846
Adjustments to net income attributable to Entegris, Inc.		
Net income attributable to noncontrolling interest		400
Equity in net income of affiliates	(3)	(499)
Income tax expense	30,881	4,217
Other income, net	(249)	(1,745)
Interest (income) expense, net	(10)	659
GAAP Operating income	99,444	126,878
Gain associated with pension curtailment		(726)
Charge associated with CEO succession and transition plan	3,928	
Amortization of intangible assets	9,594	10,225
Adjusted operating income	112,966	136,377
Depreciation	28,013	26,839
Adjusted EBITDA	140,979	163,216
Adjusted operating margin	15.8%	18.2%
Adjusted EBITDA as a % of net sales	19.7%	21.8%

The reconciliation of GAAP measures to Non-GAAP Earnings per Share for the years ended December 31, 2012 and 2011 are presented below:

<i>(Dollars in thousands)</i>	2012	2011
GAAP net income attributable to Entegris, Inc.	\$ 68,825	\$ 123,846
Adjustments to net income attributable to Entegris, Inc.:		
Amortization of intangible assets	9,594	10,225
Accelerated write-off of debt issuance costs		282
Gain on sale of equity investment	(1,522)	(1,523)
Gain associated with pension curtailment		(726)
Charge associated with CEO succession and transition plan	3,928	
Tax effect of adjustments to net income attributable to Entegris, Inc.	(4,643)	(3,355)
Reversal of deferred tax valuation allowance ⁽¹⁾		(20,999)
Non-GAAP net income attributable to Entegris, Inc.	\$ 76,182	\$ 107,750
Diluted earnings per common share attributable to Entegris, Inc.	\$ 0.50	\$ 0.91
Effect of adjustments to net income attributable to Entegris, Inc.	\$ 0.05	\$ (0.12)
Diluted non-GAAP earnings per common share attributable to Entegris, Inc.:	\$ 0.55	\$ 0.79

⁽¹⁾ This amount represents the reversal of the remaining valuation allowance on certain of the Company's deferred tax assets. The amount excludes the reversal of the valuation allowance on those deferred tax assets realized in 2011 based on earnings in those years.

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Quantitative and Qualitative Disclosure About Market Risks

Entegris' principal financial market risks are sensitivities to interest rates and foreign currency exchange rates. The Company's interest-bearing cash equivalents and short-term investments are subject to interest rate fluctuations. The Company's cash equivalents are instruments with maturities of three months or less. A 100 basis point change in interest rates would potentially increase or decrease annual net income by approximately \$2.2 million annually.

The cash flows and results of operations of the Company's foreign-based operations are subject to fluctuations in foreign exchange rates. The Company occasionally uses derivative financial instruments to manage the foreign currency exchange rate risks associated with its foreign-based operations. At December 31, 2012, the Company had no net exposure to any foreign currency forward contracts.

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Item 7a. Quantitative and Qualitative Disclosures about Market Risk.

The information required by this item can be found under the subcaption "Quantitative and Qualitative Disclosure About Market Risks" of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

Item 8. Financial Statements and Supplementary Data.

The information called for by this item is set forth in the Consolidated Financial Statements covered by the Report of Independent Registered Public Accounting Firm at the end of this report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

This item is not applicable.

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Item 9A. Controls and Procedures.

DISCLOSURE CONTROLS AND PROCEDURES

Management evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act)), as of December 31, 2012, the end of the fiscal period covered by this report on Form 10-K. The Securities and Exchange Commission, or SEC, rules define the term "disclosure controls and procedures" to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in its reports filed under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of the effectiveness of our disclosure controls and procedures by our management team with the participation of the Chief Executive Officer and the Chief Financial Officer, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms and is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(a) MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting of the Company. This system of internal financial reporting controls is designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with management's authorization. The design, monitoring and revision of the system of internal financial reporting controls involves, among other things, management's judgments with respect to the relative cost and expected benefits of specific control measures. The effectiveness of the control system is supported by the selection, retention and training of qualified personnel and an organizational structure that provides an appropriate division of responsibility and formalized procedures. The system of internal accounting controls is periodically reviewed and modified in response to changing conditions. Designated Company employees regularly monitor the adequacy and effectiveness of internal accounting controls.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, the effectiveness of internal controls over financial reporting may vary over time. Our system contains control-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2012.

KPMG LLP, the independent registered public accounting firm which audited the financial statements included in this annual report, has issued an attestation report on our internal control over financial reporting.

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(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information called for by this item with respect to registrant's directors, including information relating to the independence of certain directors, identification of the audit committee and the audit committee financial expert, and with respect to corporate governance is set forth under the caption Proposal 1 Election of Directors and Corporate Governance, respectively, in the Company's definitive Proxy Statement for the Entegris, Inc. Annual Meeting of Stockholders to be held on May 8, 2013, and to be filed with the Securities and Exchange Commission on or about April 5, 2013, which information is hereby incorporated herein by reference.

The information called for by this item with respect to registrant's compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is set forth under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the Company's definitive Proxy Statement for the Entegris, Inc. Annual Meeting of Stockholders to be held on May 8, 2013, and to be filed with the Securities and Exchange Commission on or about April 5, 2013, which information is hereby incorporated herein by reference.

Information called for by this item with respect to registrant's executive officers is set forth under Executive Officers of the Registrant in Item 1 of this report.

At their first meeting following the Merger, on August 10, 2005, our Board of Directors adopted a code of business ethics, The Entegris, Inc. Code of Business Ethics, applicable to all of our executives, directors and employees as well as a set of corporate governance guidelines. The Entegris, Inc. Code of Business Ethics, the Corporate Governance Guidelines and the charters for our Audit & Finance Committee, Governance & Nominating Committee and our Management Development & Compensation Committee all appear on our website at <http://www.Entegris.com> under Investors Corporate Governance. The Entegris Code of Business Ethics, Corporate Governance Guidelines and committee charters are also available in print to any shareholder that requests a copy. Copies may be obtained by contacting Peter W. Walcott, our Senior Vice President, Secretary and General Counsel through our corporate headquarters. The Company intends to comply with the requirements of Item 5.05 of Form 8-K with respect to any amendment to or waiver of the provisions of the Entegris, Inc. Code of Business Ethics applicable to the registrant's Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer by posting notice of any such amendment or waiver at the same location on our website.

Item 11. Executive Compensation.

The information called for by this item is set forth under the caption Compensation of Executive Officers and Management Development & Compensation Committee Report, respectively, in the Company's definitive Proxy Statement for the Entegris, Inc. Annual Meeting of Stockholders to be held on May 8, 2013, and to be filed with the Securities and Exchange Commission on or about April 5, 2013, which information is hereby incorporated herein by reference.

Table of Contents**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**
Securities Authorized for Issuance Under Equity Compensation Plans:

As of December 31, 2012, our equity compensation plan information is as follows:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,367,489	\$ 8.20 ⁽¹⁾	7,655,166 ⁽²⁾
Equity compensation plans not approved by security holders			
Total	4,367,489	\$ 8.20	7,655,166

(1) The weighted average exercise price does not take into account the shares issuable upon outstanding restricted stock unit vesting, which have no exercise price.

(2) These shares are available under the 2010 Stock Plan for future issuance for stock options, restricted stock units, performance shares and stock awards in accordance with the terms of the 2010 Stock Plan.

The other information called for by this item is set forth under the caption "Ownership of Entegris Common Stock" in the Company's definitive Proxy Statement for the Entegris, Inc. Annual Meeting of Stockholders to be held on May 8, 2013, and to be filed with the Securities and Exchange Commission on or about April 5, 2013, which information is hereby incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information called for by this item with respect to certain transactions and relationships between the registrant and directors, executive officers and five percent stockholders is set forth under the caption "Corporate Governance" in the Company's definitive Proxy Statement for the Entegris, Inc. Annual Meeting of Stockholders to be held on May 8, 2013, and to be filed with the Securities and Exchange Commission on or about April 5, 2013, which information is hereby incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information called for by this item with respect to the fees paid to and the services performed by the registrant's principal accountant is set forth under the caption "Proposal 2 - Ratification of Selection of Independent Registered Public Accounting Firm for 2013" in the Company's definitive Proxy Statement for the Entegris, Inc. Annual Meeting of Stockholders to be held on May 8, 2013, and to be filed with the Securities and Exchange Commission on or about April 5, 2013, which information is hereby incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as a part of this report:

1. **Financial Statements.** The Consolidated Financial Statements listed under Item 8 of this report and in the Index to Consolidated Financial Statements on page F-1 of this report are incorporated by reference herein.

2. **Exhibits.**

A. *The following exhibits are incorporated by reference:*

Reg. S-K Item 601(b) Reference	Document Incorporated	Referenced Document on file with the Commission
(2)	Agreement and Plan of Merger, dated as of March 21, 2005, by and among Entegris, Inc., Mykrolis Corporation and Eagle DE, Inc.	Included as Annex B in the joint proxy statement/prospectus included in S-4 Registration Statement of Entegris, Inc. and Eagle DE, Inc. (No. 333-124719)
(2)	Agreement and Plan of Merger, dated as of March 21, 2005, by and between Entegris, Inc., and Eagle DE, Inc.	Included as Annex B in the joint proxy statement/prospectus included in S-4 Registration Statement of Entegris, Inc. and Eagle DE, Inc. (No. 333-124719)
(3)	By-Laws of Entegris, Inc., as amended December 17, 2008	Exhibit 3 to Entegris, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2008
(3)	Amended and Restated Certificate of Incorporation of Entegris, Inc., as amended	Exhibit 3.1 to Entegris, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2011
(4)	Form of certificate representing shares of Common Stock, \$.01 par value per share	Exhibit 4.1 to Form S-4 Registration Statement of Entegris, Inc. and Eagle DE, Inc. (No. 333-124719)

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(4)	Rights Agreement dated July 26, 2005 between Entegris and Wells Fargo Bank, N.A as rights agent	Exhibit 4.1 to Entegris, Inc. (Entegris Minnesota) Current Report on Form 8-K filed with the Securities and Exchange Commission on July 29, 2005
(10)	Entegris, Inc. 2010 Stock Plan, as amended*	Exhibit 10.1 to Entegris, Inc. Quarterly Report on Form 10-Q for the period ended July 3, 2010
(10)	Entegris, Inc. Outside Directors Stock Option Plan*	Exhibit 10.2 to Entegris, Inc. Registration Statement on Form S-1 (No. 333-33668)
(10)	Entegris, Inc. 2000 Employee Stock Purchase Plan*	Exhibit 10.3 to Entegris, Inc. Registration Statement on Form S-1 (No. 333-33668)
(10)	Amended and Restated Entegris Incentive Plan*	Exhibit 10.1 to Entegris, Inc. Quarterly Report on Form 10-Q for the period ended June 28, 2008
(10)	Lease Agreement, dated April 1, 2002 between Nortel Networks HPOCS Inc. and Mykrolis Corporation, relating to Executive office, R&D and manufacturing facility located at 129 Concord Road Billerica, MA	Exhibit 10.1.3 to Mykrolis Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002
(10)	Amendment of Lease between Entegris, Inc. and KBS Rivertech, LLC dated April 1, 2012	Exhibit 10.1 to Entegris, Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2012
(10)	Amended and Restated Employment Agreement, dated as of May 4, 2005, by and between Mykrolis Corporation and Gideon Argov*	Exhibit 10.13 to Mykrolis Corporation's Quarterly Report on Form 10-Q for the quarter ended April 2, 2005
(10)	Fluoropolymer Purchase and Sale Agreement, by and between E.I. Du Pont De Nemours and Company and the Registrant, dated January 1, 2011, as amended	Exhibit 10.2 to Entegris, Inc. Quarterly Report on Form 10-Q for the quarter ended April 2, 2011
(10)	Credit Agreement, dated June 9, 2011, among Entegris, Inc., Poco Graphite, Inc., the Lenders (as defined therein) and Wells Fargo Bank, NA, as Administrative Agent.	Exhibit 10.1 to Entegris, Inc. Quarterly Report on Form 10-Q for the period ended July 2, 2011

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(10)	First Amendment to Credit Agreement, dated August 1, 2012, among the Registrant, Poco Graphite, Inc., the Lenders as defined in the Credit Agreement and Wells Fargo Bank National Association	Exhibit 99.1 to Entegris, Inc. Current Report on Form 8-K filed on August 3, 2012
(10)	Form of Indemnification Agreement between Entegris, Inc. and each of its executive officers and Directors	Exhibit 10.30 to Entegris, Inc. Annual Report on Form 10-K for the fiscal year ended August 27, 2005
(10)	Form of Executive Change of Control Termination Agreement between Entegris, Inc. and certain of its executive officers*	Exhibit 10.31 to Entegris, Inc. Annual Report on Form 10-K for the fiscal year ended August 27, 2005
(10)	Severance Protection Agreement, dated July 26, 2011 between Entegris, Inc. and Gregory B. Graves*	Exhibit 10.2 to Entegris, Inc. Quarterly Report on Form 10-Q for the period ended July 2, 2011
(10)	Trust Agreement between Entegris, Inc. Fidelity Management Trust Company and Entegris Inc. 401(k) Savings and Profit Sharing Plan Trust, dated December 29, 2007.	Exhibit 10.3 to Entegris, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2007
(10)	Entegris, Inc. 2007 Deferred Compensation Plan*	Exhibit 10.2 to Entegris, Inc. Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2007
(10)	Entegris, Inc. Form of 2010 RSU Unit Award Agreement*	Exhibit 10.1 to Entegris, Inc. Quarterly Report on Form 10-Q for the fiscal period ended April 3, 2010
(10)	Entegris, Inc. Form of 2010 Stock Option Award Agreement*	Exhibit 10.1 to Entegris, Inc. Quarterly Report on Form 10-Q for the fiscal period ended April 3, 2010
(10)	Fourth Amended and Restated Membrane Manufacture and Supply Agreement, dated January 10, 2011, by and between Entegris, Inc. and Millipore Corporation.	Exhibit 10.1 to Entegris, Inc. Quarterly Report on Form 10-Q for the fiscal period ended April 2, 2011
(10)	Amended and Restated Supplemental Executive Retirement Plan for Key Salaried Employees*	Exhibit 10.2 to Entegris, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2008

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(10)	Amendment to Amended and Restated SERP*	Exhibit 10.15 to Entegris, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
(10)	Entegris, Inc. 2012 RSU Unit Award Agreement*	Exhibit 10.2 to Entegris, Inc. Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2012
(10)	Entegris, Inc. 2012 Stock Option Grant Agreement*	Exhibit 10.3 to Entegris, Inc. Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2012
(10)	Entegris, Inc. 401(k) Savings and Profit Sharing Plan (2012 Restatement)*	Exhibit 10.2 to Entegris, Inc. Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2012

* A management contract or compensatory plan

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B. *The Company hereby files as exhibits to this Annual Report on Form 10-K the following documents:*
Reg. S-K

Item 601(b)

Reference	Exhibit No.	Documents Filed Herewith
(10)	10.1	Executive Employment Agreement, effective November 28, 2012, between the Registrant and Bertrand Loy*
(10)	10.2	2011 RSU Unit Award Agreement*
(10)	10.3	2011 Stock Option Award Agreement*
(21)	21	Subsidiaries of Entegris, Inc.
(23)	23	Consent of Independent Registered Public Accounting Firm
(24)	24	Power of Attorney by the Directors of Entegris, Inc.
(31)	31.1	Certification required by Rule 13a-14(a) in accordance with Section 302 of the Sarbanes Oxley Act of 2002.
(31)	31.2	Certification required by Rule 13a-14(a) in accordance with Section 302 of the Sarbanes Oxley Act of 2002.
(32)	32.1	Certification required by Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32)	32.2	Certification required by Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(101)	101.1	Interactive data files pursuant to Rule 405 of Regulation S-T, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at December 31, 2012 and 2011, (ii) the Consolidated Statement of Operations for the years ended December 31, 2012, 2011 and 2010, (iii) the Consolidated Statements of Equity for the years ended December 31, 2012, 2011 and 2010, (iv) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010, (v) the Consolidated Statement of Cash Flows for the years ended December 31, 2012, 2011 and 2010 and (vi) the notes to the Consolidated Financial Statements.**

* A management contract or compensatory plan

** In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K is deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENTEGRIS, INC.

Dated: February 22, 2013

By /s/ BERTRAND LOY

Bertrand Loy
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ BERTRAND LOY Bertrand Loy	President, Chief Executive Officer and Director (Principal executive officer)	February 22, 2013
/s/ GREGORY B. GRAVES Gregory B. Graves	Executive Vice President, Chief Financial Officer & Treasurer (Principal financial officer)	February 22, 2013
/s/ MICHAEL D. SAUER Michael D. Sauer	Vice President, Controller & Chief Accounting Officer (Principal accounting officer)	February 22, 2013
PAUL L.H. OLSON* Paul L.H. Olson	Director, Chairman of the Board	February 22, 2013
MICHAEL A. BRADLEY* Michael A. Bradley	Director	February 22, 2013
MARVIN D. BURKETT* Marvin D. Burkett	Director	February 22, 2013
R. NICHOLAS BURNS* R. Nicholas Burns	Director	February 22, 2013
DANIEL W. CHRISTMAN* Daniel W. Christman	Director	February 22, 2013
ROGER D. McDANIEL * Roger D. McDaniel	Director	February 22, 2013
BRIAN F. SULLIVAN* Brian F. Sullivan	Director	February 22, 2013

*By /s/ BERTRAND LOY
BERTRAND LOY, ATTORNEY-IN-FACT

Table of Contents**EXHIBIT INDEX****Reg. S-K Item 601(b)**

Reference	Exhibit No.	Documents Filed Herewith
(10)	10.1	Executive Employment Agreement, effective November 28, 2012, between the Registrant and Bertrand Loy*
(10)	10.2	2011 RSU Unit Award Agreement*
(10)	10.3	2011 Stock Option Award Agreement*
(21)	21	Subsidiaries of Entegris, Inc.
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(101)	101.1	Interactive data files pursuant to Rule 405 of Regulation S-T, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at December 31, 2012 and 2011, (ii) the Consolidated Statement of Operations for the years ended December 31, 2012, 2011 and 2010, (iii) the Consolidated Statements of Equity for the years ended December 31, 2012, 2011 and 2010, (iv) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010, (v) the Consolidated Statement of Cash Flows for the years ended December 31, 2012, 2011 and 2010 and (vi) the notes to the Consolidated Financial Statements.**

* A management contract or compensatory plan

** In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K is deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

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ENTEGRIS, INC.

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<u>Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010</u>	F-4
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Entegris, Inc.:

We have audited the accompanying consolidated balance sheets of Entegris, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2012. We also have audited Entegris, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Entegris, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A.(b) *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entegris, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Entegris, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Minneapolis, Minnesota

February 22, 2013

Table of Contents**ENTEGRIS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except share and per share data)</i>	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 330,419	\$ 273,593
Short-term investments	19,995	
Trade accounts and notes receivable, net	94,016	107,223
Inventories, net	99,144	93,937
Deferred tax assets, deferred tax charges and refundable income taxes	20,201	15,805
Assets held for sale	5,998	5,998
Other current assets	9,551	6,443
Total current assets	579,324	502,999
Property, plant and equipment, net	157,021	130,554
Other assets:		
Intangible assets, net	47,207	56,453
Deferred tax assets and other noncurrent tax assets	17,167	25,119
Other	10,825	9,538
Total assets	\$ 811,544	\$ 724,663
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 36,341	\$ 30,609
Accrued payroll and related benefits	29,376	30,887
Other accrued liabilities	21,887	16,954
Deferred tax liabilities and income taxes payable	5,659	14,144
Total current liabilities	93,263	92,594
Pension benefit obligations and other liabilities	17,066	19,868
Deferred tax liabilities and other noncurrent tax liabilities	6,416	3,963
Commitments and contingent liabilities		
Equity:		
Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued and outstanding as of December 31, 2012 and 2011		
Common stock, par value \$.01; 400,000,000 shares authorized; issued and outstanding shares: 138,457,769 and 135,820,588	1,385	1,358
Additional paid-in capital	809,514	788,673
Retained deficit	(157,038)	(225,766)
Accumulated other comprehensive income	40,938	43,973
Total equity	694,799	608,238
Total liabilities and equity	\$ 811,544	\$ 724,663

See the accompanying notes to consolidated financial statements.

Table of Contents**ENTEGRIS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

<i>(In thousands, except per share data)</i>	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net sales	\$ 715,903	\$ 749,259	\$ 688,416
Cost of sales	408,520	423,329	377,773
Gross profit	307,383	325,930	310,643
Selling, general and administrative expenses	147,405	140,847	147,051
Engineering, research and development expenses	50,940	47,980	43,934
Amortization of intangible assets	9,594	10,225	13,231
Operating income	99,444	126,878	106,427
Interest expense	271	886	3,598
Interest income	(281)	(227)	(82)
Other (income) expense, net	(249)	(1,745)	1,430
Income before income taxes and equity in net (income) loss of affiliates	99,703	127,964	101,481
Income tax expense	30,881	4,217	15,006
Equity in net (income) loss of affiliates	(3)	(499)	1,353
Net income	68,825	124,246	85,122
Less net income attributable to the noncontrolling interest		400	766
Net income attributable to Entegris, Inc.	\$ 68,825	\$ 123,846	\$ 84,356
Amounts attributable to Entegris, Inc.:			
Basic net income per common share	\$ 0.50	\$ 0.92	\$ 0.64
Diluted net income per common share	\$ 0.50	\$ 0.91	\$ 0.63
Weighted shares outstanding			
Basic	137,306	134,685	131,685
Diluted	138,412	136,223	133,174

See the accompanying notes to consolidated financial statements.

Table of Contents**ENTEGRIS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net income	\$ 68,825	\$ 124,246	\$ 85,122
Other comprehensive income, net of tax			
Foreign currency translation adjustments	(2,524)	925	15,535
Reclassification of cumulative translation adjustment associated with sale of equity method investee		(1,715)	
Reclassification of cumulative translation adjustment associated with acquisition of business	(216)		
Pension liability adjustments, net of income tax expense of \$74, \$1,631, and \$330 for year ended December 31, 2012, 2011, and 2010	(295)	2,386	(837)
Other comprehensive income	(3,035)	1,596	14,698
Comprehensive income	65,790	125,842	99,820
Less comprehensive income attributable to the noncontrolling interest		620	929
Comprehensive income attributable to Entegris, Inc.	\$ 65,790	\$ 125,222	\$ 98,891

See the accompanying notes to consolidated financial statements

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ENTEGRIS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

<i>(In thousands)</i>	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Noncontrolling interest	Total
Balance at December 31, 2009	130,043	\$ 1,300	\$ 751,360	\$ (433,968)	\$ 27,500	\$ 3,465	\$ 349,657
Shares issued under stock plans	2,858	29	6,770				6,799
Share-based compensation expense			7,588				7,588
Tax benefit associated with stock plans			149				149
Pension liability adjustment					(837)		(837)
Foreign currency translation					15,372	163	15,535
Net income				84,356		766	85,122
Balance at December 31, 2010	132,901	1,329	765,867	(349,612)	42,035	4,394	464,013
Shares issued under stock plans	2,920	29	11,661				11,690
Share-based compensation expense			7,519				7,519
Tax benefit associated with stock plans			657				657
Purchase of noncontrolling interest			2,969		562	(5,014)	(1,483)
Pension liability adjustment					2,386		2,386
Reclassification of cumulative translation adjustment associated with sale of equity method investee					(1,715)		(1,715)
Foreign currency translation					705	220	925
Net income				123,846		400	124,246
Balance at December 31, 2011	135,821	1,358	788,673	(225,766)	43,973		608,238
Shares issued under stock plans	2,694	28	7,403				7,431
Share-based compensation expense			9,881				9,881
Repurchase and retirement of common stock	(57)	(1)	(329)	(97)			(427)
Tax benefit associated with stock plans			3,886				3,886
Pension liability adjustment					(295)		(295)
Reclassification of foreign currency translation associated with acquisition of business					(216)		(216)
Foreign currency translation					(2,524)		(2,524)
Net income				68,825			68,825
Balance at December 31, 2012	138,458	\$ 1,385	\$ 809,514	\$ (157,038)	\$ 40,938		\$ 694,799

Table of Contents**ENTEGRIS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(In thousands)</i>	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Operating activities:			
Net income	\$ 68,825	\$ 124,246	\$ 85,122
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	28,013	26,839	27,967
Amortization	9,594	10,225	13,231
Share-based compensation expense	9,881	7,519	7,588
Impairment of equity investments			2,164
Deferred tax valuation allowance	358	(41,038)	(13,600)
Provision for deferred income taxes	11,582	21,671	10,647
Charge for excess and obsolete inventory	4,007	3,167	998
Excess tax benefit from share-based compensation plans	(3,805)	(657)	(149)
Amortization of debt issuance costs		676	1,731
Net income attributable to noncontrolling interest		(400)	(766)
Other	1,701	(2,245)	(1,302)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Trade accounts receivable and notes receivable	10,626	19,336	(26,789)
Inventories	(6,118)	3,632	(14,285)
Accounts payable and accrued liabilities	6,265	(15,127)	34,860
Other current assets	(2,985)	1,253	(283)
Income taxes payable and refundable income taxes	(11,015)	(433)	13,243
Other	(11,767)	(1,378)	521
Net cash provided by operating activities	115,162	157,286	140,898
Investing activities:			
Acquisition of property and equipment	(49,929)	(30,267)	(16,794)
Purchase of short-term investments	(27,990)	(2,047)	
Proceeds from sale or maturities of short-term investments	8,000	2,000	
Other	(2,548)	1,883	4,809
Net cash used in investing activities	(72,467)	(28,431)	(11,985)
Financing activities:			
Principal payments on short-term borrowings and long-term debt			(259,157)
Proceeds from short-term borrowings and long-term debt			186,649
Issuance of common stock from employee stock plans	7,431	11,690	6,799
Other	3,459	(826)	
Net cash provided by (used in) financing activities	10,890	10,864	(65,709)
Effect of exchange rate changes on cash and cash equivalents	3,241	(80)	2,050
Increase in cash and cash equivalents	56,826	139,639	65,254
Cash and cash equivalents at beginning of period	273,593	133,954	68,700
Cash and cash equivalents at end of period	\$ 330,419	\$ 273,593	\$ 133,954

Supplemental Cash Flow Information

<i>(In thousands)</i>	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Non-cash transactions:			
Equipment purchases in accounts payable	\$ 3,429	\$ 1,372	\$ 517
Intangible assets received as partial consideration in sale of equity interest		1,712	
Schedule of interest and income taxes paid:			
Interest paid	\$ 271	\$ 210	\$ 2,072
Income taxes, net of refunds received	29,697	22,034	3,592

See accompanying notes to consolidated financial statements.

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ENTEGRIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Entegris, Inc. (Entegris or the Company) is a leading provider of products and services that purify, protect and transport the critical materials used in key technology-driven industries, primarily the semiconductor and related industries.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. On an ongoing basis, Entegris evaluates its estimates, including those related to receivables, inventories, property, plant and equipment, intangible assets, accrued expenses, income taxes and share-based compensation, among others. Actual results could differ from those estimates.

Concentrations of Suppliers Certain materials included in the Company's products are obtained from a single source or a limited group of suppliers. Although the Company seeks to reduce dependence on those sole and limited source suppliers, the partial or complete loss of these sources could have at least a temporary adverse effect on the Company's results of operations. Furthermore, a significant increase in the price of one or more of these components could adversely affect the Company's results of operations.

Cash and Cash Equivalents Cash and cash equivalents include cash on hand and highly liquid debt securities with original maturities of three months or less, which are valued at cost which approximates fair value.

Allowance for Doubtful Accounts An allowance for uncollectible trade receivables is estimated based on a combination of write-off history, aging analysis and any specific, known troubled accounts. The Company maintains an allowance for doubtful accounts that management believes is adequate to cover expected losses on trade receivables.

Inventories Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property, Plant, and Equipment Property, plant and equipment are carried at cost and are depreciated on the straight-line method over the estimated useful lives of the assets. When assets are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts, and gains or losses are recognized in the same period. Maintenance and repairs are expensed as incurred; significant additions and improvements are capitalized. Long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of asset(s) may not be recoverable based on estimated future undiscounted cash flows. The amount of impairment, if any, is measured as the difference between the net book value and the estimated fair value of the asset(s).

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Investments The Company's nonmarketable investments are accounted for under either the cost or equity method of accounting, as appropriate. All nonmarketable investments are periodically reviewed to determine whether declines, if any, in fair value below cost basis are other-than-temporary. If the decline in fair value is determined to be other-than-temporary, an impairment loss is recorded and the investment written down to a new cost basis.

Fair Value of Financial Instruments The carrying value of cash equivalents, accounts receivable and accounts payable approximates fair value due to the short maturity of those instruments.

Intangible Assets Amortizable intangible assets include, among other items, patents, unpatented and other developed technology and customer-based intangibles, and are amortized using the straight-line method over their respective estimated useful lives of 3 to 15 years. The Company reviews intangible assets, along with other long-lived assets, for impairment if changes in circumstances or the occurrence of events suggest the remaining value may not be recoverable.

Derivative Financial Instruments The Company records derivatives as assets or liabilities on the balance sheet and measures such instruments at fair value. Changes in fair value of derivatives are recorded each period in current results of operations or other comprehensive income.

The Company periodically enters into forward foreign currency contracts to reduce exposures relating to rate changes in certain foreign currencies. Certain exposures to credit losses related to counterparty nonperformance exist. However, the Company does not anticipate nonperformance by the counterparties since they are large, well-established financial institutions. None of these derivatives is accounted for as a hedge transaction. Accordingly, changes in the fair value of forward foreign currency contracts are recorded as other (income) expense, net in the Company's statement of operations. The fair values of the Company's derivative financial instruments are based on prices quoted by financial institutions for these instruments. The Company had no net exposure to any forward contracts at December 31, 2012 and December 31, 2011.

Foreign Currency Translation Assets and liabilities of foreign subsidiaries are generally translated from foreign currencies into U.S. dollars at period-end exchange rates, and the resulting gains and losses arising from translation of net assets located outside the U.S. are recorded as a cumulative translation adjustment, a component of accumulated other comprehensive income (loss) in the consolidated balance sheets. Income statement amounts are translated at the weighted average exchange rates for the year. Translation adjustments are not adjusted for income taxes as substantially all translation adjustments relate to permanent investments in non-U.S. subsidiaries. Gains and losses resulting from foreign currency transactions are included in other income, net in the consolidated statements of operations.

Revenue Recognition Revenue and the related cost of sales are generally recognized upon shipment of the products. Revenue for product sales is recognized upon delivery, when persuasive evidence of an arrangement exists, when title and risk of loss have been transferred to the customer, collectability is reasonably assured, and pricing is fixed or determinable. Shipping and handling fees related to sales transactions are billed to customers and are recorded as sales revenue.

The Company sells its products throughout the world primarily to companies in the microelectronics industry. The Company performs continuing credit evaluations of its customers and generally does not require collateral. Letters of credit may be required from its customers in certain circumstances. The Company provides for estimated returns when the revenue is recorded based on historical and current trends in both sales and product returns.

The Company collects various sales and value-added taxes on certain product and service sales that are accounted for on a net basis.

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Shipping and handling costs Shipping and handling costs incurred are recorded in cost of sales in the consolidated statements of operations.

Engineering, research and development expenses Engineering, research and development expenses costs are expensed as incurred.

Share-based Compensation The Company measures the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at the date of grant. The cost is recognized over the period during which an employee is required to provide services in exchange for the award. Compensation expense is based on the grant date fair value. Because share-based compensation expense recognized in the consolidated statements of operations for the years ended December 31, 2012, 2011 and 2010 is based on awards ultimately expected to vest, it has been reduced for expected forfeitures which are estimated at the time of grant with such estimates revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Income Taxes The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that it believes these assets are more likely than not to be realized. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that the Company would not be able to realize all or part of its deferred tax assets. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company's policy for recording interest and penalties associated with audits and unrecognized tax benefits is to record such items as a component of income before taxes. Penalties are recorded in other (income) expense, net and interest to be paid or received is recorded in interest expense or interest income, respectively, in the statement of operations.

Comprehensive Income Comprehensive income represents the change in equity resulting from items other than shareholder investments and distributions. The Company's foreign currency translation adjustments and minimum pension liability adjustments are included in accumulated other comprehensive income. Comprehensive income and the components of accumulated other comprehensive income are presented in the accompanying consolidated statements of equity and comprehensive income.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, *Presentation of Comprehensive Income*, which requires entities to present reclassification adjustments included in other comprehensive income on the face of the financial statements and allows entities to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also eliminates the option for entities to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU No. 2011-05 was effective for the Company in the first quarter of 2012. Adoption of this ASU relates to the presentation of financial information and had no effect on the Company's consolidated financial position or results of operations.

Table of Contents**(2) ACQUISITIONS****Acquisition of Pureline Co., Ltd.**

In 2007, the Company acquired a 40% ownership interest in Pureline Co., Ltd. (Pureline), a privately held company located in Munmak, South Korea and manufacturer of fluid handling products. The Company accounted for its interest in Pureline under the equity method of accounting. Concurrent with its 2007 investment in Pureline, the Company obtained two options, each to purchase 30% of the remaining outstanding shares of Pureline based upon a multiple of Pureline's calendar 2008 and 2009 adjusted earnings, respectively, by July 31 of the subsequent year.

On July 31, 2009, the Company exercised the first of its options and acquired an additional 30% equity interest in Pureline as described below. As of the date of the exercise, the Company owned a 70% controlling interest in Pureline. Accordingly, the transaction was accounted for under the acquisition method of accounting and the results of operations of Pureline are included in the Company's consolidated financial statements as of and since July 31, 2009. Pureline's sales and operating results for the five months ended December 31, 2009 were not material to the Company's consolidated financial statements.

The Company remeasured its previously held equity interest in Pureline at its July 31, 2009 fair value. The July 31, 2009 fair value of the equity interest in Pureline held by the Company before the acquisition date was \$4.3 million. Based on the carrying value of the Company's equity interest in Pureline before the business combination, the Company recognized a gain of \$0.2 million in earnings. In prior reporting periods, the Company recognized changes in the value of its equity interest in Pureline related to translation adjustments in other comprehensive loss. Accordingly, the \$0.8 million recognized previously in other comprehensive loss was reclassified and included in the calculation of the charge to earnings.

In connection with the transaction, the Company measured and recorded the fair value of the 30% noncontrolling interest in Pureline. The fair value of the noncontrolling interest in Pureline at July 31, 2009 was \$3.2 million.

During the second quarter ended July 3, 2010, the Company received proceeds of \$3.6 million from the South Korean government in connection with eminent domain proceedings whereby the Company relinquished its existing land and building to the government upon the completion of a new facility in South Korea. The new building was completed in the fourth quarter of 2010 and the previously occupied building and land were relinquished in 2011 to the South Korean government.

On April 4, 2011, the Company exercised the second option and purchased the 30% noncontrolling interest in Pureline for \$1.483 million. Based on the carrying value of the Company's noncontrolling interest in Pureline as of the date of the transaction, the Company recorded increases to additional paid-in capital and accumulated other comprehensive income as reflected in the Company's consolidated statements of equity. The cash outflow is reflected as a financing activity in the Company's consolidated statements of cash flows.

(3) SHORT-TERM INVESTMENTS

Available-for-sale investments as of December 31, 2012 were as follows:

<i>(In thousands)</i>	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Commercial paper	\$ 19,999	\$	\$ (4)	\$ 19,995
Total available-for-sale investments	\$ 19,999	\$	\$ (4)	\$ 19,995

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Investments with continuous unrealized losses for less than 12 months and their related fair values as of December 31, 2012 were as follows:

<i>(In thousands)</i>	Less than 12 months Fair value	Gross unrealized losses
Commercial paper	\$ 19,995	\$ (4)
Total	\$ 19,995	\$ (4)

Unrealized losses from corporate bonds are primarily attributable to general changes in interest rates and market conditions. Management does not believe the unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of December 31, 2012.

The amortized cost and fair value of available-for-sale debt investments as of December 31, 2012, by contractual maturity, were as follows:

<i>(In thousands)</i>	Cost basis	Fair value
Due in 1 year or less	\$ 19,999	\$ 19,995
Total	\$ 19,999	\$ 19,995

The net unrealized holding gains (losses) on available-for-sale investments that have been included in other comprehensive income (loss) and the net gains (losses) reclassified from accumulated other comprehensive income (loss) into earnings for the year ended December 31, 2012 were as follows:

<i>(In thousands)</i>	2012
Net unrealized holding losses included in other comprehensive income	\$ (4)
Net gains (losses) reclassified from accumulated other comprehensive income (loss) into earnings	\$

(4) TRADE ACCOUNTS AND NOTES RECEIVABLE

Trade accounts and notes receivable from customers at December 31, 2012 and 2011 consist of the following:

<i>(In thousands)</i>	2012	2011
Accounts receivable	\$ 86,717	\$ 95,890
Notes receivable	9,613	12,370
	96,330	108,260
Less allowance for doubtful accounts	2,314	1,037
	\$ 94,016	\$ 107,223

Table of Contents**(5) INVENTORIES**

Inventories at December 31, 2012 and 2011 consist of the following:

<i>(In thousands)</i>	2012	2011
Raw materials	\$ 27,720	\$ 26,385
Work-in-process	10,242	12,258
Finished goods ^(a)	60,667	54,688
Supplies	515	606
	\$ 99,144	\$ 93,937

(a) Includes consignment inventories held by customers for \$5,229 and \$5,157 at December 31, 2012 and 2011, respectively.

(6) PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment at December 31, 2012 and 2011 consist of the following:

<i>(In thousands)</i>	2012	2011	Estimated useful lives in years
Land	\$ 11,065	\$ 11,548	
Buildings and improvements	85,239	75,603	5-35
Manufacturing equipment	151,559	141,206	5-10
Molds	79,959	72,536	3-5
Office furniture and equipment	65,950	61,064	3-8
Construction in progress	26,551	7,285	
	420,323	369,242	
Less accumulated depreciation	263,302	238,688	
	\$ 157,021	\$ 130,554	

The table below sets forth the depreciation expense for the years ended December 31, 2012, 2011, and 2010:

<i>(In thousands)</i>	2012	2011	2010
Depreciation expense	\$ 28,013	\$ 26,839	\$ 27,967

(7) INVESTMENTS

At December 31, 2012 and 2011, the Company held equity investments totaling \$2.4 million and \$3.8 million, respectively. These investments all represent interests in privately held companies. All investments at December 31, 2012 are accounted for under the cost method.

During 2012, the Company acquired the remaining 50% of Entegris Precision Technologies Corporation (EPT) in Taiwan, an entity in which it had previously owned a 50% equity interest accounted for under the equity method. The transaction was accounted for under the acquisition method of accounting and the results of operations of the entity are included in the Company's consolidated financial statements as of and since April 2, 2012. The investee's sales and operating results are not material to the Company's consolidated financial statements. The Company paid \$3.4 million in cash for the additional 50% equity interest in the entity. A detailed description of the transaction can be found in Note 14 under

the heading Items Measured at Fair Value on a Nonrecurring Basis .

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During 2011, the Company recorded a gain of \$1.5 million on the sale of an equity method investment that was classified within other (income) expense, net in the consolidated statements of operations. A detailed description of the transaction can be found in Note 14 under the heading Items Measured at Fair Value on a Nonrecurring Basis .

During 2010, the Company determined that one of its investments was partially impaired. The Company recorded an impairment loss of \$2.2 million that was classified in equity in net loss of affiliates in the statement of operations. Also in 2010, the Company sold two of its equity investments for \$0.9 million. The Company recorded gains of \$0.9 million that were classified within other (income) expense, net in the consolidated results of operations.

(8) INTANGIBLE ASSETS

Intangible assets at December 31, 2012 and 2011 consist of the following:

<i>(In thousands)</i>	2012 Gross carrying Amount	Accumulated amortization	Net carrying value	Weighted average life in years
Patents	\$ 19,104	\$ 18,226	\$ 878	9.1
Developed technology	76,414	59,147	17,267	7.5
Trademarks and trade names	12,677	6,633	6,044	12.1
Customer relationships	56,700	33,761	22,939	11.1
Other	1,510	1,431	79	9.4
	\$ 166,405	\$ 119,198	\$ 47,207	9.3

<i>(In thousands)</i>	2011 Gross carrying amount	Accumulated amortization	Net carrying value	Weighted average life in years
Patents	\$ 19,035	\$ 17,985	\$ 1,050	9.1
Developed technology	76,639	56,524	20,115	7.5
Trademarks and trade names	12,561	5,579	6,982	12.1
Customer relationships	56,630	28,450	28,180	11.1
Other	1,604	1,478	126	9.0
	\$ 166,469	\$ 110,016	\$ 56,453	9.3

The table below sets forth the amortization expense for the years ended December 31, 2012, 2011, and 2010:

<i>(In thousands)</i>	2012	2011	2010
Amortization expense	\$ 9,594	\$ 10,225	\$ 13,231

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The amortization expense for each of the five succeeding years and thereafter relating to intangible assets currently recorded in the consolidated balance sheets is estimated to be the following at December 31, 2012:

Fiscal year ending December 31	<i>(In millions)</i>
2013	\$ 9.0
2014	8.0
2015	5.8
2016	5.8
2017	5.8
Thereafter	12.8
	\$ 47.2

(9) FINANCING ARRANGEMENTS

On June 9, 2011, the Company entered into a Credit Agreement (Agreement) with Wells Fargo Bank, National Association, as administrative agent, and certain other banks parties thereto.

The Agreement provides for a \$30.0 million revolving credit facility maturing June 9, 2014. The financial covenants in the Agreement require that the Company maintain a cash flow leverage ratio of at least 3.0 to 1.0, measured by comparing quarterly total funded debt to EBITDA. In addition, the Company and its subsidiaries must maintain minimum cash and cash equivalents and certain other approved investments of at least \$25.0 million, with \$10.0 million held by the Borrowers with the Agent or its affiliates in bank accounts in the United States. Cash and cash equivalents and investments held by foreign subsidiaries are valued at 65% of the applicable currency value for purposes of these calculations. In addition to the financial metric covenants required under the revolving credit facility, under the terms of the Agreement, as amended in August 2012, the Company is restricted from making annual capital expenditures during any fiscal year in excess of \$85.0 million. At both December 31, 2012 and 2011, the Company had no outstanding borrowings and was in compliance with all applicable debt covenants included in the terms of the Agreement.

Under the terms of the Agreement, the Company may elect that the loans comprising each borrowing bear interest at a rate per annum equal to either (a) the sum of 2.50%, plus the one month LIBOR rate then in effect, for base rate loans (Base Rate Loans); or (b) the sum of 2.50% plus, (i) the one-month LIBOR rate then in effect, (ii) the two-month LIBOR rate then in effect or (iii) the three-month LIBOR rate then in effect, for LIBOR loans (LIBOR Loans). The interest rate on Base Rate Loans will remain the same while such loan is outstanding, while the interest rate for LIBOR Loans will only be effective for the interest period which corresponds to the effective LIBOR rate. LIBOR Loans will convert to Base Rate Loans at the end of an applicable interest period unless the Company requests a new LIBOR Loan. Base Rate Loans may be converted to LIBOR Loans at the Company's option with three days notice to the Agent. In addition, the Company pays a commitment fee of 0.375% on the unborrowed commitments under the Agreement.

The Company has entered into unsecured line of credit agreements, which expire at various dates, with two international commercial banks, which provide for borrowings of Japanese yen for its foreign subsidiaries, equivalent to \$14.0 million as of December 31, 2012. Interest rates for these facilities are based on a factor of the banks' reference rates. Borrowings outstanding under international line of credit agreements were none at both December 31, 2012 and 2011.

Table of Contents**(10) LEASE COMMITMENTS**

As of December 31, 2012, the Company was obligated under noncancellable operating lease agreements for certain sales offices and manufacturing facilities, manufacturing equipment, vehicles, information technology equipment and warehouse space. Future minimum lease payments for noncancellable operating leases with initial or remaining terms in excess of one year are as follows:

Fiscal year ending December 31	(In thousands)
2013	\$ 8,288
2014	4,361
2015	4,073
2016	3,221
2017	2,566
Thereafter	3,304
Total minimum lease payments	\$ 25,813

Total rental expense for all equipment and building operating leases for the years ended December 31, 2012, 2011, and 2010, were \$9.4 million, \$9.4 million, and \$10.9 million, respectively.

(11) INCOME TAXES

Income before income taxes for the years ended December 31, 2012, 2011 and 2010 was derived from the following sources:

(In thousands)	2012	2011	2010
Domestic	\$ 49,056	\$ 68,839	\$ 50,644
Foreign	50,647	59,125	50,837
Income before income taxes	\$ 99,703	\$ 127,964	\$ 101,481

Income tax (benefit) expense for the years ended December 31, 2012, 2011, and 2010 is summarized as follows:

(In thousands)	2012	2011	2010
Current:			
Federal	\$ 5,797	\$ 2,382	\$ 2,587
State	654	1,335	662
Foreign	11,183	17,784	15,292
	17,634	21,501	18,541
Deferred (net of valuation allowance):			
Federal	11,165	(19,853)	
State	168	(647)	
Foreign	1,914	3,216	(3,535)
	13,247	(17,284)	(3,535)
Income tax expense	\$ 30,881	\$ 4,217	\$ 15,006

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Income tax expense differs from the expected amounts based upon the statutory federal tax rates for the years ended December 31, 2012, 2011, and 2010 as follows:

<i>(In thousands)</i>	2012	2011	2010
Expected federal income tax at statutory rate	\$ 34,896	\$ 44,788	\$ 35,519
State income taxes before valuation allowance, net of federal tax effect	440	1,013	605
Income (losses) without tax expense (benefit)	(40)	(1,357)	215
Effect of foreign source income	(5,314)	1,959	(6,891)
Valuation allowance	358	(41,038)	(13,600)
Other items, net	541	(1,148)	(842)
Income tax expense	\$ 30,881	\$ 4,217	\$ 15,006

As a result of commitments made by the Company related to investments in tangible property and equipment, the establishment of a research and development center in 2006 and certain employment commitments, income from certain manufacturing activities in Malaysia is exempt from tax for years up through 2015. The income tax benefits attributable to the tax status of this subsidiary are estimated to be \$2.4 million (two cents per diluted share), none, and \$6.5 million (5 cents per diluted share) for the years ended December 31, 2012, 2011, and 2010, respectively.

The significant components of the Company's deferred tax assets and deferred tax liabilities at December 31, 2012 and 2011 are as follows:

<i>(In thousands)</i>	2012	2011
Deferred tax assets attributable to:		
Accounts receivable	\$ 389	\$ 300
Inventory	2,643	2,789
Accruals not currently deductible for tax purposes	10,054	10,831
Net operating loss and credit carryforwards	2,669	11,403
Capital loss carryforward	3,105	3,105
Depreciation	2,870	4,553
Equity compensation	3,155	2,280
Asset impairments	1,021	1,021
Purchased intangibles	1,396	339
Other, net	3,604	3,090
Gross deferred tax assets	30,906	39,711
Valuation allowance	(4,990)	(4,632)
Total deferred tax assets	25,916	35,079
Deferred tax liabilities attributable to:		
Depreciation	(1,252)	(918)
Purchased intangible assets	(692)	(674)
Total deferred tax liabilities	(1,944)	(1,592)
Net deferred tax assets	\$ 23,972	\$ 33,487

Deferred tax assets are generally required to be reduced by a valuation allowance if, based on the weight of available positive and negative evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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As of December 31, 2012 and 2011, the Company had a net U.S. deferred tax asset position of \$18.7 million and \$26.2 million, respectively, which are composed of temporary differences and various tax credit carryforwards. Management believes that it is more likely than not that the benefit from certain state net operating loss carryforwards, state credits, and a federal capital loss carryforward will not be realized. In recognition of this risk, management has provided a valuation allowance of \$4.4 million and \$4.3 million as of December 31, 2012 and 2011, respectively, on the related deferred tax assets. If the assumptions change and management determines the assets will be realized, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets at December 31, 2012 will be recognized as a reduction of income tax expense. The increase in the amount of certain state credits in fiscal 2012 that will not be realized increased the valuation allowance resulting in tax expense of \$0.1 million. Management estimates taxable income of \$45.9 million will be necessary to utilize the remaining U.S. deferred tax assets as of December 31, 2012.

As of December 31, 2012 and 2011, the Company had a net non-U.S. deferred tax asset position of \$10.2 million and \$11.9 million, respectively, for which management determined based upon the available evidence a valuation allowance of \$0.6 million and \$0.3 million as of December 31, 2012 and 2011, respectively, were required against the non-U.S. deferred tax assets. For other non-U.S. jurisdictions, management is relying upon projections of future taxable income to utilize deferred tax assets. Estimated taxable income of \$34.2 million will be necessary to utilize the non-U.S. deferred tax assets, of which an estimated \$17.0 million is related to Nihon Entegris KK, the Company's Japanese subsidiary.

At December 31, 2012, there were approximately \$299.6 million of accumulated undistributed earnings of subsidiaries outside the United States all of which are considered to be reinvested indefinitely. Management has considered its future cash needs and affirms its intention to indefinitely invest such earnings overseas to be utilized for working capital purposes, expansion of existing operations, possible acquisitions and other international items. No U.S. tax has been provided on such earnings. If they were remitted to the Company, applicable U.S. federal and foreign withholding taxes may be partially offset by available foreign tax credits. Management has concluded that it is impracticable to compute the full actual tax impact, but it estimates that \$4.6 million of withholding taxes would be incurred if the \$299.6 million were distributed.

At December 31, 2012, the Company had state operating loss carryforwards of approximately \$2.0 million, which begin to expire in 2013; foreign tax credit carryforwards of approximately \$5.7 million, which begin to expire in 2019; and foreign operating loss carryforwards of \$5.1 million, which begin to expire in 2015.

Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax positions will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that fail to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The provisions also provide guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

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Reconciliations of the beginning and ending balances of the total amounts of gross unrecognized tax benefits for the years ended December 31, 2012 and 2011 are as follows:

<i>(In thousands)</i>	2012	2011
Gross unrecognized tax benefits at beginning of year	\$ 2,467	\$ 2,527
Increases in tax positions for prior years		11
Decreases in tax positions for prior years	(19)	
Increases in tax positions for current year	4,608	992
Settlements	(1,044)	(291)
Lapse in statute of limitations	(593)	(772)
Gross unrecognized tax benefits at end of year	\$ 5,419	\$ 2,467

The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$0.7 million at December 31, 2012.

The Company's policy for recording interest and penalties associated with tax audits is to record such items as a component of income before taxes.

Penalties are recorded in other expense or income, and interest paid or received is recorded in interest expense or interest income, respectively, in the consolidated statements of operations. For the years ended December 31, 2012 and 2011, the Company has accrued interest and penalties related to unrecognized tax benefits of \$1.0 million and \$1.0 million, respectively. Interest and penalties of \$(0.0) million, \$(0.0) million and \$(0.6) million were recognized in the consolidated statements of operations for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company files income tax returns in the U.S. and in various state, local and foreign jurisdictions. The statute of limitations related to the consolidated Federal income tax return is closed for all years up to and including 2008. With respect to foreign jurisdictions, the statute of limitations varies from country to country, with the earliest open year for the Company's major foreign subsidiaries being 2007.

Due to the potential for resolution of a foreign examination and the expiration of various statutes of limitations, it is reasonably possible that the Company's gross unrecognized tax benefit balance may decrease within the next twelve months by approximately \$1.9 million.

On January 2, 2013 President Obama signed into law H.R. 8, the American Taxpayer Relief Act of 2012. The Act reinstated the federal credit for increasing research expenditures retroactively to the beginning of 2012. Management estimates that during the first quarter of 2013, the Company will recognize a discrete tax benefit of approximately \$1.1 million related to the credit. While other provisions of the Act may impact the filing of the 2012 federal income tax return, none of the other Act provisions are expected to have a material impact on the financial statements.

(12) EQUITY**Share Repurchase Program**

On October 26, 2011, the Company announced that its Board of Directors had authorized the repurchase of up to an aggregate of \$50 million of the Company's common stock in open market transactions and in accordance with a pre-arranged stock trading plan established on November 22, 2011 for the purpose of repurchasing up to \$50 million of the registrant's common stock in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Plan"). The Plan commenced on November 28, 2011 and the expiration date of the Plan was extended until February 8, 2013.

On December 12, 2012, the Board of Directors authorized a repurchase program for 2013 covering up to an aggregate of \$50 million of the Company's common stock in open market transactions and in accordance with

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one or more pre-arranged stock trading plans established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Share-based Compensation Expense

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on their estimated fair values on the date of grant. Share-based compensation expense is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Share-based compensation expense for the years ended December 31, 2012, 2011 and 2010 is reflected in the table below:

(In thousands)	2012	2011	2010
Share-based compensation expense	\$ 9,881	\$ 7,519	\$ 7,588

Employee Stock Plan

At December 31, 2009, the Company had outstanding stock awards under five stock incentive plans: the Entegris, Inc. 1999 Long-Term Incentive and Stock Option Plan; the Entegris, Inc. Outside Directors' Option Plan and three former Mykrolis stock option plans assumed by the Company on August 10, 2005; the 2001 Equity Incentive Plan; the 2003 Employment Inducement and Acquisition Stock Option Plan; and the 2001 Non-Employee Director Stock Option Plan. On December 17, 2009, the Company's Board of Directors approved the 2010 Stock Plan, subject to the approval of the Company's stockholders. On May 5, 2010, the stockholders approved the 2010 Stock Plan. The 2010 Stock Plan replaced the above existing plans for future stock awards and stock option grants. Subsequent to the replacement of the prior plans on May 5, 2010, no awards were or will be made under the prior plans.

The 2010 Stock Plan provides for the issuance of stock options and other share-based awards to selected employees, directors, and other individuals or entities that provide services to the Company or its affiliates. The 2010 Stock Plan has a term of ten years. Under the 2010 Stock Plan, the Board of Directors or a committee selected by the Board of Directors will determine for each award, the term, price, number of shares, rate at which each award is exercisable and whether restrictions are imposed on the shares subject to the awards. The exercise price for option awards generally may not be less than the fair market value per share of the underlying common stock on the date granted. The 2010 Stock Plan allows that after December 31, 2009 any stock awards that were awarded from the expired plans mentioned above that are forfeited, expired or otherwise terminate without issuance of such stock award again be available for issuance under the 2010 Stock Plan.

General Option Information

Option activity for the 2010 Stock Plan and predecessor plans for the years ended December 31, 2012, 2011 and 2010 is summarized as follows:

	2012		2011		2010	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
<i>(Shares in thousands)</i>						
Options outstanding, beginning of year	3,561	\$ 6.53	5,001	\$ 6.25	6,663	\$ 6.80
Granted	470	9.27	511	8.75	746	5.42
Exercised	(1,293)	3.76	(1,698)	5.95	(1,190)	4.68
Canceled	(173)	9.83	(253)	9.41	(1,218)	10.31
Options outstanding, end of year	2,565	\$ 8.20	3,561	\$ 6.53	5,001	\$ 6.25
Options exercisable, end of year	1,828	\$ 8.18	2,078	\$ 7.53	3,013	\$ 8.15

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Options outstanding for the Company's stock plans at December 31, 2012 are summarized as follows:

(Shares in thousands)	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life in years	Weighted-average exercise price	Number exercisable	Weighted average exercise price
Range of exercise prices					
\$1.13 to \$3.08	183	3.1 years	\$ 1.26	183	\$ 1.26
\$4.61 to \$7.68	692	2.6 years	6.30	529	6.57
\$7.69 to \$9.22	767	3.0 years	8.63	504	8.56
\$9.23 to \$15.38	923	2.5 years	10.64	612	11.33
	2,565	2.7 years		1,828	

The weighted average remaining contractual term for options outstanding and exercisable for all plans at December 31, 2012 was 2.7 years and 1.7 years, respectively.

For all plans, the Company had shares available for future grants of 7.7 million shares, 8.6 million shares, and 9.5 million shares at December 31, 2012, 2011 and 2010, respectively.

For all plans, the total pre-tax intrinsic value of stock options exercised during the years ended December 31, 2012 and 2011 was \$6.7 million and \$5.0 million, respectively. The aggregate intrinsic value, which represents the total pre-tax intrinsic value based on the Company's closing stock price of \$9.18 at December 31, 2012, which theoretically could have been received by the option holders had all option holders exercised their options as of that date, was \$3.9 million and \$3.1 million for options outstanding and options exercisable, respectively.

Employee Stock Purchase Plan

The Company maintains the Entegris, Inc. Employee Stock Purchase Plan (ESPP). A total of 4.0 million common shares are reserved for issuance under the ESPP. The ESPP allows employees to elect, at six-month intervals, to contribute up to 10% of their compensation, subject to certain limitations, to purchase shares of common stock at a discount of 15% from the fair market value on the first day or last day of each six-month period. The Company treats the ESPP as a compensatory plan. As of December 31, 2012, 3.3 million shares had been issued under the ESPP. At December 31, 2012, 0.7 million shares remained available for issuance under the ESPP. Employees purchased 0.3 million shares, 0.4 million shares, and 0.4 million shares, at a weighted-average price of \$7.34, \$4.35, and \$2.88 during the years ended December 31, 2012, 2011 and 2010, respectively.

The table below sets forth the amount of cash received by the Company from the exercise of stock options and employee contributions to the ESPP during the years ended December 31, 2012, 2011 and 2010:

(In thousands)	2012	2011	2010
Exercise of stock options and employee contributions to the ESPP	\$ 7,431	\$ 11,690	\$ 6,799

Table of Contents**Restricted Stock Awards**

Restricted stock awards are awards of common stock made under the 2010 Stock Plan and predecessor plans that are subject to restrictions on transfer and to a risk of forfeiture if the awardee terminates employment with the Company prior to the lapse of the restrictions. The value of such stock is determined using the market price on the grant date. Compensation expense for restricted stock awards is generally recognized using the straight-line single-option method. A summary of the Company's restricted stock activity for the years ended December 31, 2012, 2011 and 2010 is presented in the following table:

<i>(Shares in thousands)</i>	2012		2011		2010	
	Number	Weighted average	Number	Weighted average	Number	Weighted average
	of shares	of grant date fair value	of shares	of grant date fair value	of shares	of grant date fair value
Unvested, beginning of year	2,298	\$ 5.49	2,738	\$ 4.43	3,263	\$ 3.74
Granted	744	9.21	795	8.65	1,205	5.75
Vested	(1,132)	5.42	(1,087)	5.22	(1,640)	4.04
Forfeited	(108)	6.22	(148)	4.89	(90)	4.11
Unvested, end of year	1,802	\$ 7.02	2,298	\$ 5.49	2,738	\$ 4.43

The weighted average remaining contractual term for unvested restricted shares at December 31, 2012 and 2011 was 1.8 years and 2.0 years, respectively.

As of December 31, 2012, the total compensation cost related to unvested stock options and restricted stock awards not yet recognized was \$2.4 million and \$8.9 million, respectively, and is expected to be recognized over the next 2.5 years on a weighted-average basis.

Valuation and Expense Information

The following table summarizes the allocation of share-based compensation expense related to employee stock options, restricted stock awards and grants under the employee stock purchase plan accounted for under ASC 718 for the years ended December 31, 2012, 2011 and 2010:

<i>(In thousands)</i>	2012	2011	2010
Cost of sales	\$ 575	\$ 650	\$ 604
Engineering, research and development expenses	500	566	476
Selling, general and administrative expenses	8,806	6,303	6,523
Share-based compensation expense	9,881	7,519	7,603
Tax benefit	3,686	2,805	2,836
Share-based compensation expense, net of tax	\$ 6,195	\$ 4,714	\$ 4,767

Stock Options

Share-based payment awards in the form of stock option awards for 0.5 million, 0.5 million and 0.7 million options were granted to employees during the years ended December 31, 2012, 2011, and 2010. Compensation expense is based on the grant date fair value. The awards vest annually over a three-year or four-year period and have a contractual term of seven years. The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key inputs and assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the Company's stock, the risk-free rate and the Company's dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of reasonableness of the original estimates of fair value made by the Company.

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The fair value of each stock option grant was estimated at the date of grant using a Black-Scholes option pricing model. The following table presents the weighted-average assumptions used in the valuation and the resulting weighted-average fair value per option granted for the years ended December 31, 2012, 2011 and 2010:

<i>Employee stock options:</i>	2012	2011	2010
Volatility	82.4%	79.3%	75.2%
Risk-free interest rate	0.6%	1.8%	2.1%
Dividend yield	0%	0%	0%
Expected life	3.8 years	4 years	3.9 years
Weighted average fair value per option	\$ 5.42	\$ 5.14	\$ 3.25

A historical daily measurement of volatility is determined based on the expected life of the option granted. The risk-free interest rate is determined by reference to the yield on an outstanding U.S. Treasury note with a term equal to the expected life of the option granted. Expected life is determined by reference to the Company's historical experience. The Company determines the dividend yield by dividing the expected annual dividend on the Company's stock by the option exercise price.

Shareholder Rights Plan On July 27, 2005, the Company's Board of Directors adopted a shareholder rights plan (the Rights Plan) pursuant to which Entegris declared a dividend on August 8, 2005 to its shareholders of record on that date of one preferred share purchase right (a Right) for each share of Entegris common stock owned on August 8, 2005 and authorized the issuance of Rights in connection with future issuances of Entegris common stock. Each Right entitles the holder to purchase one-hundredth of a share of a series of preferred stock at an exercise price of \$50, subject to adjustment as provided in the Rights Plan. The Rights Plan is designed to protect Entegris' shareholders from attempts by others to acquire Entegris on terms or by using tactics that could deny all shareholders the opportunity to realize the full value of their investment. The Rights are attached to the shares of the Company's common stock until certain triggering events specified in the Rights Agreement occur, including, unless approved by the Company's Board of Directors, an acquisition by a person or group of specified levels of beneficial ownership of Entegris common stock or a tender offer for Entegris common stock. Upon the occurrence of any of these triggering events, the Rights authorize the holders to purchase at the then-current exercise price for the Rights, that number of shares of the Company's common stock having a value equal to twice the exercise price. The Rights are redeemable by the Company for \$0.01 and will expire on August 8, 2015. One of the events which will trigger the Rights is the acquisition, or commencement of a tender offer, by a person (an Acquiring Person, as defined in the shareholder rights plan), other than Entegris or any of its subsidiaries or employee benefit plans, of 15% or more of the outstanding shares of the Company's common stock. An Acquiring Person may not exercise a Right.

(13) BENEFIT PLANS

401(k) Plan The Company maintains the Entegris, Inc. 401(k) Savings and Profit Sharing Plan (the 401(k) Plan) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Plan, eligible employees may defer a portion of their pre-tax wages, up to the Internal Revenue Service annual contribution limit. Entegris matches employees' contributions to a maximum match of 4% of the employee's eligible wages. The employer matching contribution expense under the Plan was \$3.0 million, \$3.2 million and \$2.5 million in the fiscal years ended December 31, 2012, 2011 and 2010, respectively.

Defined Benefit Plans The employees of the Company's subsidiaries in Japan, Taiwan and Germany are covered in defined benefit pension plans. The Company uses a December 31 measurement date for its pension plans.

In the third quarter of 2011, the Company's Japan defined benefit pension plan (the Plan) was amended. Under the amendment, employees will no longer accrue benefits under the Plan and instead will participate in a defined contribution arrangement from the date on which their benefits under the Plan were frozen. The Company

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remeasured the projected benefit obligation and plan assets of the amended plan, which resulted in a \$4.675 million reduction in the Company's pension liability. In addition, the Plan's assets of \$5.7 million were used to settle a portion of the defined benefit pension liability associated with the plan. The Company's remaining pension liability associated with the Plan is \$13.9 million as of December 31, 2011. The Company recognized a curtailment gain of \$726 thousand million in connection with this amendment in the third quarter of 2011 that is classified within Selling, general, and administrative expenses in the Company's consolidated statements of operations.

The tables below set forth the Company's estimated funded status as of December 31, 2012 and 2011:

<i>(In thousands)</i>	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of period	\$ 16,364	\$ 26,515
Acquisitions		16
Service cost	89	1,268
Interest cost	163	290
Actuarial losses (gain)	367	(27)
Benefits paid	(3,329)	(2,596)
Curtailments		(4,675)
Settlements		(5,710)
Foreign exchange impact	(1,047)	1,283
Benefit obligation at end of period	12,607	16,364
Change in plan assets:		
Fair value of plan assets at beginning of period	357	6,040
Return on plan assets	4	(36)
Employer contributions	8	866
Benefits paid		(1,133)
Settlements		(5,511)
Foreign exchange impact	13	131
Fair value of plan assets at end of period	382	357
Funded status:		
Plan assets less than benefit obligation - Net amount recognized	\$ (12,225)	\$ (16,007)

Amounts recognized in the consolidated balance sheet consist of:

<i>(In thousands)</i>	2012	2011
Noncurrent liability	\$ (12,225)	\$ (16,007)
Accumulated other comprehensive loss, net of taxes	1,058	764

Amounts recognized in accumulated other comprehensive loss, net of tax consist of:

<i>(In thousands)</i>	2012	2011
Net actuarial loss	\$ 1,028	\$ 648
Prior service cost	287	295
Unrecognized transition obligation	(12)	(13)
Gross amount recognized	1,303	930
Deferred income taxes	(245)	(166)

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Net amount recognized	\$ 1,058	\$ 764
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Information for pension plans with an accumulated benefit obligation in excess of plan assets:

<i>(In thousands)</i>	2012	2011
Projected benefit obligation	\$ 12,607	\$ 16,364
Accumulated benefit obligation	11,293	15,280
Fair value of plan assets	382	357

The components of the net periodic benefit cost for the years ended December 31, 2012, 2011 and 2010 are as follows:

<i>(In thousands)</i>	2012	2011	2010
Pension benefits:			
Service cost	\$ 89	\$ 1,268	\$ 1,654
Interest cost	163	290	319
Expected return on plan assets	(7)	(65)	(76)
Amortization of prior service cost	19	126	163
Amortization of net transition obligation	(1)	(1)	(1)
Amortization of plan loss	20	49	247
Recognized actuarial net loss	1	1	
Acquisition		16	
Curtailments		(726)	
Net periodic pension benefit cost	\$ 284	\$ 958	\$ 2,306

The estimated amount that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2013 is as follows:

<i>(In thousands)</i>	
Transition obligation	\$ (1)
Prior service cost	19
Net actuarial loss	40
	\$ 58

Assumptions used in determining the benefit obligation and net periodic benefit cost for the Company's pension plans for the years ended December 31, 2012, 2011 and 2010 are presented in the following table as weighted-averages:

	2012	2011	2010
Benefit obligations:			
Discount rate	1.19%	1.40%	1.29%
Rate of compensation increase	4.18%	4.22%	5.23%
Net periodic benefit cost:			
Discount rate	1.80%	1.38%	1.36%
Rate of compensation increase	2.84%	5.14%	5.26%
Expected return on plan assets	1.14%	1.52%	1.53%

The plans' expected return on assets as shown above is based on management's expectations of long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this assumption, management considers historical and expected returns for the asset classes in which the plans are invested, as well as current economic and capital market conditions. The discount rate primarily used by the Company is based on market yields at the valuation date on government bonds as well as the estimated maturity of benefit payments.

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Plan Assets

At December 31, 2012 and 2011, the Company's pension plan assets are deposited in Bank of Taiwan in the form of money market funds, where Bank of Taiwan is the assigned funding vehicle for the statutory retirement benefit.

The fair value measurements of the Company's pension plan assets at December 31, 2012, by asset category are as follows:

<i>(In thousands)</i> Asset category	Total	Quoted prices in active markets for identical		
		assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Taiwan plan assets (a)	\$ 382	\$ 382		
	\$ 382	\$ 382		

(a) This category includes investments in the government of Taiwan's pension fund. The government of Taiwan is responsible for the strategy and allocation of the investment contributions.

The fair value measurements of the Company's pension plan assets at December 31, 2011, by asset category are as follows:

<i>(In thousands)</i> Asset category	Total	Quoted prices in active markets for identical		
		assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Taiwan plan assets (a)	\$ 357	\$ 357		
	\$ 357	\$ 357		

(a) This category includes investments in the government of Taiwan's pension fund. The government of Taiwan is responsible for the strategy and allocation of the investment contributions.

Cash Flows

The Company expects to make the following contributions and benefit payments:

<i>(In thousands)</i>	Contributions	Payments
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2013	\$	629	\$	25
2014				285
2015				320
2016				219
2017				311
Years 2018-2022				2,187

(14) FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 Quoted prices in active markets accessible at the reporting date for identical assets and liabilities.

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Level 2 Quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets and liabilities in markets that are not considered active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are significant to the valuation and are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Financial Assets Measured at Fair Value on a Recurring Basis

The following table presents the Company's financial assets and liabilities that are measured at fair value on a recurring basis at December 31, 2012 and 2011.

<i>(In thousands)</i>	December 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents								
Commercial paper	\$	\$ 59,980	\$	\$ 59,980	\$	\$ 14,605	\$	\$ 14,605
Money market fund deposits	73,026			73,026	83,320			83,320
Short-term investments								
Commercial paper		19,995		19,995				
Total assets measured and recorded at fair value	\$ 73,026	\$ 79,995	\$	\$ 153,001	\$ 83,320	\$ 14,605	\$	\$ 97,925
Liabilities:								
Derivative financial instruments								
Foreign exchange forward contracts	\$	\$ 4,603	\$	\$ 4,603	\$	\$ 491	\$	\$ 491
Total liabilities measured and recorded at fair value	\$	\$ 4,603	\$	\$ 4,603	\$	\$ 491	\$	\$ 491

Items Measured at Fair Value on a Nonrecurring Basis

On April 2, 2012, the Company acquired the remaining 50% of Entegris Precision Technologies Corporation (EPT) in Taiwan, an entity in which it had previously owned a 50% equity interest accounted for under the equity method. The transaction was accounted for under the acquisition method of accounting and the results of operations of the entity are included in the Company's consolidated financial statements as of and since April 2, 2012. The investee's sales and operating results are not material to the Company's consolidated financial statements. The Company paid \$3.4 million in cash for the additional 50% equity interest in the entity.

The Company remeasured its previously held equity interest in the entity at its April 2, 2012 fair value of \$2.9 million. Based on the carrying value of the Company's equity interest in EPT before the business combination, the Company recognized a gain of \$1.3 million. In prior reporting periods, the Company recognized changes in the value of its equity interest in EPT related to translation adjustments in other comprehensive income. Accordingly, the \$216 thousand recognized previously in other comprehensive income was reclassified and included in the calculation of the gain.

The purchase price has been allocated based on the fair values of all of the assets acquired and liabilities assumed. The valuation of the assets acquired and liabilities assumed, as well as the Company's previously held equity interest, was based on the information that was available as of the acquisition date and the expectations and assumptions that have been deemed reasonable by the Company's management.

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In performing these valuations, the Company used independent appraisals and discounted cash flows and other factors as the best evidence of fair value. The key underlying assumptions of the discounted cash flows were projected revenues, gross margin expectations and operating cost estimates. There are inherent uncertainties and management judgment required in these determinations. No assurance can be given that the underlying assumptions will occur as projected. The fair value measurements of the assets acquired and liabilities assumed were based on valuations involving significant unobservable inputs, or Level 3 in the fair value hierarchy.

The sum of the purchase price of the additional 50% equity interest and the fair value of the equity interest in the investee held by the Company at the acquisition date exceeded the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed by \$2.2 million.

In the second quarter of 2011, the Company recorded a gain of \$1.5 million on the sale of an equity investment that was classified within other (income) expense, net in the consolidated statements of operations. The gain comprised two components – a \$0.2 million loss related to the disposition of the equity interest and a \$1.715 million gain related to the cumulative translation reclassification adjustment associated with the equity method investee. The carrying value of the investment at the time of the sale was \$4.1 million. The Company received assets recorded at fair value of \$3.9 million (\$1.8 million of cash, \$0.4 million of equipment, and \$1.712 million of intangible assets) resulting in the aforementioned loss. The fair value measurement of the intangible assets received was based on valuations involving significant unobservable inputs, generally utilizing the market approach, or Level 3 in the fair value hierarchy.

In 2010, the Company recorded an other-than-temporary impairment of \$2.2 million related to an equity investment. The fair value of the investment after impairment was \$4.1 million at December 31, 2010 and is classified as a Level 3 investment in the fair value hierarchy. The fair value measurement of the equity investment was based on a valuation involving significant unobservable inputs, generally utilizing the market approach.

The fair value measurements of the assets acquired and liabilities assumed in the acquisition of Pureline as described in Note 2 to the consolidated financial statements were generally based on valuations involving significant unobservable inputs, or Level 3 in the fair value hierarchy.

(15) EARNINGS PER SHARE (EPS)

Basic EPS is computed by dividing net income attributable to Entegris, Inc. by the weighted average number of shares of common stock outstanding during each period. The following table presents a reconciliation of the share amounts used in the computation of basic and diluted earnings per share:

<i>(In thousands)</i>	2012	2011	2010
Basic earnings per share Weighted common shares outstanding	137,306	134,685	131,685
Weighted common shares assumed upon exercise of options and vesting of restricted stock units	1,106	1,538	1,489
Diluted earnings per share Weighted common shares outstanding	138,412	136,223	133,174

We excluded the following shares underlying stock-based awards from the calculations of diluted EPS because their inclusion would have been anti-dilutive for the years ended December 31, 2012, 2011 and 2010:

<i>(In thousands)</i>	2012	2011	2010
Shares excluded from calculations of diluted EPS	1,431	1,471	3,753

Table of Contents**(16) SEGMENT INFORMATION**

The Company's financial reporting segments are: Contamination Control Solutions (CCS), Microenvironments (ME), and Specialty Materials (SMD).

CCS: provides a wide range of products and subsystems that purify, monitor and deliver critical liquids and gases used in the semiconductor manufacturing process.

ME: provides products that protect wafers, reticles and electronic components at various stages of transport, processing and storage.

SMD: provides specialized graphite components used in semiconductor equipment and offers low-temperature, plasma-enhanced chemical vapor deposition coatings of critical components of semiconductor manufacturing equipment used in various stages of the manufacturing process.

Intersegment sales are not significant. Corporate assets consist primarily of cash and cash equivalents, short-term investments, assets held for sale, investments, deferred tax assets and deferred tax charges.

Segment profit is defined as net sales less direct segment operating expenses, excluding certain unallocated expenses, consisting mainly of general and administrative costs for the Company's human resources, finance and information technology functions, as well as amortization of intangible assets, charges for the fair market value write-up of acquired inventory sold and restructuring charges before interest expense, income taxes and equity in earnings of affiliates.

Summarized financial information for the Company's reportable segments is shown in the following table:

<i>(In thousands)</i>	2012	2011	2010
Net sales:			
CCS	\$ 461,838	\$ 483,958	\$ 435,858
ME	182,375	182,150	182,485
SMD	71,690	83,151	70,073
Total net sales	\$ 715,903	\$ 749,259	\$ 688,416

<i>(In thousands)</i>	2012	2011	2010
Segment profit:			
CCS	\$ 116,356	\$ 140,313	\$ 122,891
ME	37,223	29,959	38,930
SMD	12,230	18,255	11,080
Total segment profit	\$ 165,809	\$ 188,527	\$ 172,901

<i>(In thousands)</i>	2012	2011	2010
Total assets:			
CCS	\$ 234,766	\$ 213,477	\$ 222,015
ME	86,755	89,642	95,999
SMD	90,797	94,191	108,872
Corporate	399,226	327,353	174,499

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Total assets	\$ 811,544	\$ 724,663	\$ 601,385
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<i>(In thousands)</i>	2012	2011	2010
Depreciation and amortization:			
CCS	\$ 15,725	\$ 15,682	\$ 18,632
ME	8,765	7,859	7,781
SMD	10,626	10,694	11,113
Corporate	2,491	2,829	3,672
Total depreciation and amortization	\$ 37,607	\$ 37,064	\$ 41,198

<i>(In thousands)</i>	2012	2011	2010
Capital expenditures:			
CCS	\$ 29,650	\$ 16,170	\$ 11,043
ME	12,632	8,618	2,175
SMD	3,980	3,039	1,368
Corporate	3,667	2,440	2,208
Total capital expenditures	\$ 49,929	\$ 30,267	\$ 16,794

The following table reconciles total segment profit to operating income:

<i>(In thousands)</i>	2012	2011	2010
Total segment profit	\$ 165,809	\$ 188,527	\$ 172,901
Less:			
Amortization of intangibles	9,594	10,225	13,231
Unallocated general and administrative expenses	56,771	51,424	53,243
Operating income	\$ 99,444	\$ 126,878	\$ 106,427
Interest expense	271	886	3,598
Interest income	(281)	(227)	(82)
Other (income) expense, net	(249)	(1,745)	1,430
Income before income taxes and equity in net income of affiliates	\$ 99,703	\$ 127,964	\$ 101,481

The following table presents amortization of intangibles for each of the Company's segments for the years ended December 31, 2012, 2011 and 2010:

<i>(In thousands)</i>	2012	2011	2010
Amortization of intangibles:			
CCS	\$ 4,230	\$ 4,588	\$ 7,553
ME	139	406	416
SMD	5,225	5,231	5,262
	\$ 9,594	\$ 10,225	\$ 13,231

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The following table summarizes total net sales, based upon the country to which sales to external customers were made for the years ended December 31, 2012, 2011 and 2010:

<i>(In thousands)</i>	2012	2011	2010
Net sales:			
United States	\$ 218,903	\$ 213,671	\$ 193,408
Japan	131,521	140,657	125,372
Germany	24,437	33,020	27,879
Taiwan	126,732	116,007	109,667
Singapore	25,607	28,337	31,432
South Korea	70,763	76,888	64,514
China	31,499	40,080	44,855
Other	86,441	100,599	91,289
	\$ 715,903	\$ 749,259	\$ 688,416

The following table summarizes property, plant and equipment, net, attributed to significant countries for the years ended December 31, 2012, 2011 and 2010:

<i>(In thousands)</i>	2012	2011	2010
Property, plant and equipment:			
United States	\$ 86,476	\$ 59,444	\$ 60,337
Japan	27,024	29,295	28,986
Malaysia	28,398	30,328	26,349
Other	15,123	11,487	11,053
	\$ 157,021	\$ 130,554	\$ 126,725

In the years ended December 31, 2012, 2011, and 2010, no single customer accounted for ten percent or more of net sales.

(17) COMMITMENTS AND CONTINGENT LIABILITIES

The Company is subject to various claims, legal actions, and complaints arising in the ordinary course of business. The Company believes the final outcome of these matters will not have a material adverse effect on its consolidated financial statements. The Company expenses legal costs as incurred.

(18) QUARTERLY INFORMATION-UNAUDITED

<i>(In thousands, except per share data)</i>	Fiscal quarter ended			
	March 31, 2012	June 30, 2012	September 29, 2012	December 31, 2012
Net sales	\$ 175,403	\$ 188,233	\$ 184,449	\$ 167,818
Gross profit	76,244	82,746	81,932	66,461
Net income	17,859	21,673	18,037	11,256
Basic income per share	0.13	0.16	0.13	0.08
Diluted income per share	0.13	0.16	0.13	0.08

Fiscal quarter ended

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<i>(In thousands, except per share data)</i>	April 2, 2011	July 2, 2011	October 1, 2011	December 31, 2011
Net sales	\$ 203,125	\$ 209,198	\$ 173,014	\$ 163,922
Gross profit	88,345	95,143	74,828	67,614
Net income	29,175	32,522	21,988	40,161
Basic income per share	0.22	0.24	0.16	0.30
Diluted income per share	0.22	0.24	0.16	0.29

F-31

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Pay

6-Month AUD-BBR-BBSW

3.000 12/17/2019 AUD 6,200 89 24 113 3 0

See Accompanying Notes

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Schedule of Investments PIMCO Income Strategy Fund (Cont.)

Pay/Receive	Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/(Depreciation)	Market Value	Variation Margin	
									Asset	Liability
Pay	6-Month	AUD-BBR-BBSW	3.500%	06/17/2025	AUD 3,900	\$ 97	\$ 87	\$ 184	\$ 3	\$ 0
Receive ⁽⁵⁾	6-Month	EUR-EURIBOR	1.000	09/20/2027	EUR 5,200	6	(19)	(13)	11	0
Receive ⁽⁵⁾	6-Month	GBP-LIBOR	1.500	09/20/2027	GBP 15,300	(247)	(122)	(369)	43	0
						\$ 24,488	\$ 19,834	\$ 44,322	\$ 141	\$ (137)
Total Swap Agreements						\$ 24,807	\$ 20,029	\$ 44,836	\$ 151	\$ (137)

FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED SUMMARY

The following is a summary of the market value and variation margin of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of July 31, 2017:

	Financial Derivative Assets				Financial Derivative Liabilities			
	Variation Margin				Variation Margin			
	Market Value		Asset		Market Value		Liability	
	Purchased	Options	Futures	Swap Agreements	Written	Options	Futures	Swap Agreements
Total Exchange-Traded or Centrally Cleared	\$ 0	\$ 0	\$ 151	\$ 151	\$ 0	\$ 0	\$ (137)	\$ (137)

(n) Securities with an aggregate market value of \$659 and cash of \$7,020 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of July 31, 2017. See Note 8, Master Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

- (1) If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash, securities or other deliverable obligations equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.
- (2) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate issues as of period end serve as indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.
- (3) The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.
- (4) The prices and resulting values for credit default swap agreements on credit indices serve as indicators of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices' credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.
- (5) This instrument has a forward starting effective date. See Note 2, Securities Transactions and Investment Income, in the Notes to Financial Statements for further information.

(o) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation)			
						Asset	Liability		
BOA	08/2017	EUR	586	\$	677	\$	0	\$	(16)
	08/2017	GBP	407		527		0		(10)
BPS	08/2017	EUR	13,658		15,559		0		(610)
	08/2017	JPY	202,842		1,814		0		(26)
CBK	08/2017	GBP	2,603		3,365		0		(70)
GLM	08/2017		241		312		0		(6)
	08/2017	\$	37,067	GBP	28,209		153		0
	09/2017	GBP	28,209	\$	37,108		0		(153)
JPM	08/2017	\$	476	GBP	369		10		0
MSB	08/2017		17,241	EUR	14,707		169		0
	09/2017	EUR	14,707	\$	17,271		0		(169)
TOR	08/2017	\$	1,824	JPY	202,842		16		0
	09/2017	JPY	202,842	\$	1,827		0		(16)
UAG	08/2017	EUR	463		529		0		(19)
	08/2017	GBP	25,327		32,488		0		(928)
Total Forward Foreign Currency Contracts							\$ 348		\$ (2,023)

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See Accompanying Notes

July 31, 2017

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION⁽¹⁾

Counterparty	Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at July 31, 2017 ⁽²⁾	Notional Amount ⁽³⁾	Premiums Paid/(Received)	Unrealized Appreciation/Depreciation	Swap Agreements, at Value	
								Asset	Liability
BPS	Petrobras Global Finance BV	1.000%	12/20/2024	3.536%	\$ 500	\$ (98)	\$ 20	\$ 0	\$ (78)
GST	Petrobras Global Finance BV	1.000	12/20/2024	3.536	700	(139)	31	0	(108)
HUS	Petrobras Global Finance BV	1.000	12/20/2019	1.407	200	(16)	14	0	(2)
	Petrobras Global Finance BV	1.000	09/20/2020	1.821	20	(3)	3	0	0
	Petrobras Global Finance BV	1.000	12/20/2024	3.536	800	(166)	42	0	(124)
MYC	Petrobras Global Finance BV	1.000	12/20/2019	1.407	4,100	(379)	345	0	(34)
						\$ (801)	\$ 455	\$ 0	\$ (346)
Total Swap Agreements						\$ (801)	\$ 455	\$ 0	\$ (346)

FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER SUMMARY

The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral pledged as of July 31, 2017:

Counterparty	Financial Derivative Assets				Financial Derivative Liabilities				Total Over the Counter	Net Market Value of OTC Derivatives	Collateral Pledged	Net Exposure ⁽⁴⁾
	Forward Foreign Contracts	Purchased Options	Swap Agreements	Total Over the Counter	Forward Foreign Contracts	Written Options	Swap Agreements	Swap Agreements				
BOA	\$ 0	\$ 0	\$ 0	\$ 0	\$ (26)	\$ 0	\$ 0	\$ (26)	\$ (26)	\$ 0	\$ (26)	
BPS	0	0	0	0	(636)	0	(78)	(714)	(714)	583	(131)	
CBK	0	0	0	0	(70)	0	0	(70)	(70)	0	(70)	
GLM	153	0	0	153	(159)	0	0	(159)	(6)	0	(6)	
GST	0	0	0	0	0	0	(108)	(108)	(108)	278	170	
HUS	0	0	0	0	0	0	(126)	(126)	(126)	161	35	
JPM	10	0	0	10	0	0	0	0	10	0	10	
MSB	169	0	0	169	(169)	0	0	(169)	0	0	0	
MYC	0	0	0	0	0	0	(34)	(34)	(34)	229	195	
TOR	16	0	0	16	(16)	0	0	(16)	0	0	0	

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UAG	0	0	0	0	(947)	0	0	(947)	(947)	733	(214)
Total Over the Counter	\$ 348	\$ 0	\$ 0	\$ 348	\$ (2,023)	\$ 0	\$ (346)	\$ (2,369)			

(p) Securities with an aggregate market value of \$1,984 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of July 31, 2017.

- (1) If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash, securities or other deliverable obligations equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.
- (2) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate issues as of period end serve as indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.
- (3) The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.
- (4) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 8, Master Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

See Accompanying Notes

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Schedule of Investments PIMCO Income Strategy Fund (Cont.)

FAIR VALUE OF FINANCIAL DERIVATIVE INSTRUMENTS

The following is a summary of the fair valuation of the Fund's derivative instruments categorized by risk exposure. See Note 7, Principal Risks, in the Notes to Financial Statements on risks of the Fund.

Fair Values of Financial Derivative Instruments on the Statements of Assets and Liabilities as of July 31, 2017:

	Derivatives not accounted for as hedging instruments					Total
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	
Financial Derivative Instruments - Assets						
Exchange-traded or centrally cleared						
Swap Agreements	\$ 0	\$ 10	\$ 0	\$ 0	\$ 141	\$ 151
Over the counter						
Forward Foreign Currency Contracts	\$ 0	\$ 0	\$ 0	\$ 348	\$ 0	\$ 348
	\$ 0	\$ 10	\$ 0	\$ 348	\$ 141	\$ 499
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Swap Agreements	\$ 0	\$ 0	\$ 0	\$ 0	\$ 137	\$ 137
Over the counter						
Forward Foreign Currency Contracts	\$ 0	\$ 0	\$ 0	\$ 2,023	\$ 0	\$ 2,023
Swap Agreements	0	346	0	0	0	346
	\$ 0	\$ 346	\$ 0	\$ 2,023	\$ 0	\$ 2,369
	\$ 0	\$ 346	\$ 0	\$ 2,023	\$ 137	\$ 2,506

The effect of Financial Derivative Instruments on the Statements of Operations for the period ended July 31, 2017:

	Derivatives not accounted for as hedging instruments					Total
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	
Net Realized Gain on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Swap Agreements	\$ 0	\$ 392	\$ 0	\$ 0	\$ 21,219	\$ 21,611
Over the counter						

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Forward Foreign Currency Contracts	\$ 0	\$ 0	\$ 0	\$ 1,452	\$ 0	\$ 1,452
Swap Agreements	0	96	0	0	0	96
	\$ 0	\$ 96	\$ 0	\$ 1,452	\$ 0	\$ 1,548
	\$ 0	\$ 488	\$ 0	\$ 1,452	\$ 21,219	\$ 23,159

Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments

Exchange-traded or centrally cleared						
Swap Agreements	\$ 0	\$ 78	\$ 0	\$ 0	\$ (18,744)	\$ (18,666)
Over the counter						
Forward Foreign Currency Contracts	\$ 0	\$ 0	\$ 0	\$ (1,690)	\$ 0	\$ (1,690)
Swap Agreements	0	809	0	0	0	809
	\$ 0	\$ 809	\$ 0	\$ (1,690)	\$ 0	\$ (881)
	\$ 0	\$ 887	\$ 0	\$ (1,690)	\$ (18,744)	\$ (19,547)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of July 31, 2017 in valuing the Fund's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 07/31/2017
Investments in Securities, at Value				
Loan Participations and Assignments	\$ 0	\$ 13,924	\$ 1,439	\$ 15,363
Corporate Bonds & Notes				
Banking & Finance	0	83,838	2,078	85,916
Industrials	0	67,518	0	67,518
Utilities	0	19,947	0	19,947
Convertible Bonds & Notes				
Industrials	0	1,996	0	1,996
Municipal Bonds & Notes				
California	0	2,410	0	2,410
Common Stocks				
Illinois	\$ 0	\$ 6,646	\$ 0	\$ 6,646
Virginia	0	339	0	339
West Virginia	0	6,755	0	6,755
U.S. Government Agencies	0	7,041	2,357	9,398
Non-Agency Mortgage-Backed Securities	0	44,768	0	44,768
Asset-Backed Securities	0	69,473	4,682	74,155
Sovereign Issues	0	10,345	0	10,345
Common Stocks				
Energy	143	0	0	143
Financials	0	0	505	505

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See Accompanying Notes

July 31, 2017

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 07/31/2017
Warrants				
Industrials	\$ 0	\$ 0	\$ 185	\$ 185
Utilities	5	0	0	5
Preferred Securities				
Banking & Finance	0	2,477	0	2,477
Industrials	0	0	7,120	7,120
Short-Term Instruments				
Repurchase Agreements	0	18,865	0	18,865
U.S. Treasury Bills	0	2,644	0	2,644
Total Investments	\$ 148	\$ 358,986	\$ 18,366	\$ 377,500

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 07/31/2017
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	\$ 0	\$ 151	\$ 0	\$ 151
Over the counter	0	348	0	348
	\$ 0	\$ 499	\$ 0	\$ 499
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	0	(137)	0	(137)
Over the counter	0	(2,369)	0	(2,369)
	\$ 0	\$ (2,506)	\$ 0	\$ (2,506)
Total Financial Derivative Instruments	\$ 0	\$ (2,007)	\$ 0	\$ (2,007)
Totals	\$ 148	\$ 356,979	\$ 18,366	\$ 375,493

There were no significant transfers among Levels 1 and 2 during the period ended July 31, 2017.

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Fund during the period ended July 31, 2017:

Category and Subcategory	Beginning Balance at 07/31/2016	Net Purchases	Net Sales	Accrued Discounts/Gain/(Loss) (Premiums)	Realized Gain/(Loss)	Net Change in Unrealized Appreciation/(Depreciation) ⁽¹⁾	Transfers in Level 3	Transfers out of Level 3	Ending Balance at 07/31/2017	Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at
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07/31/2017⁽¹⁾

Investments in Securities, at Value																				
Loan Participations and Assignments	\$	0	\$	1,410	\$	(6)	\$	4	\$	0	\$	31	\$	0	\$	0	\$	1,439	\$	31
Corporate Bonds & Notes																				
Banking & Finance		2,656		100		(671)		1		84		(92)		0		0		2,078		0
U.S. Government Agencies		2,235		0		(41)		40		16		107		0		0		2,357		104
Asset-Backed Securities		3,692		1,575		0		11		0		(596)		0		0		4,682		(596)
Common Stocks																				
Financials		58		377		0		0		0		70		0		0		505		70
Warrants																				
Industrials		0		0		0		0		0		185		0		0		185		185
Preferred Securities																				
Industrials		0		7,299		0		0		0		(179)		0		0		7,120		(179)
Totals	\$	8,641	\$	10,761	\$	(718)	\$	56	\$	100	\$	(474)	\$	0	\$	0	\$	18,366	\$	(385)

The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category and Subcategory	Ending Balance at 07/31/2017	Valuation Technique	Unobservable Inputs	Input Value(s) (% Unless Noted Otherwise)
Investments in Securities, at Value				
Loan Participations and Assignments	\$ 169	Other Valuation Techniques ⁽²⁾		
	99	Proxy Pricing	Base Price	99.500
	1,171	Third Party Vendor	Broker Quote	98.000
Corporate Bonds & Notes				
Banking & Finance	2,078	Proxy Pricing	Base Price	101.000-114.491
U.S. Government Agencies	2,357	Proxy Pricing	Base Price	57.000
Asset-Backed Securities	4,682	Proxy Pricing	Base Price	52.170-100,000.000
Common Stocks				
Financials	505	Other Valuation Techniques ⁽²⁾		
Warrants				
Industrials	185	Other Valuation Techniques ⁽²⁾		
Preferred Securities				
Industrials	7,120	Fundamental Valuation	Company Assets	\$ 551,000.000
Total	\$ 18,366			

⁽¹⁾ Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at July 31, 2017 may be due to an investment no longer held or categorized as Level 3 at period end.

⁽²⁾ Includes valuation techniques not defined in the Notes to Financial Statements as securities valued using such techniques are not considered significant to the Fund.

See Accompanying Notes

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Schedule of Investments PIMCO Income Strategy Fund II

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 120.6%		
LOAN PARTICIPATIONS AND ASSIGNMENTS 3.9%		
BMC Software Finance, Inc.		
5.234% due 09/10/2022	\$ 7,031	\$ 7,084
CD&R Plumb Buyer LLC		
TBD% due 06/25/2018	200	199
CenturyLink, Inc.		
2.750% due 01/31/2025	1,000	988
Diamond BV		
TBD% due 07/25/2024	EUR 100	119
Drillships Ocean Ventures, Inc.		
7.750% due 07/25/2021	\$ 600	531
Forbes Energy Services LLC		
5.000% - 7.000% due 04/13/2021	268	277
HD Supply Waterworks Ltd.		
TBD% due 08/01/2024	40	40
iHeartCommunications, Inc.		
7.984% due 01/30/2019	10,700	8,734
Lightstone Generation LLC		
5.734% due 01/30/2024	1,977	1,960
Parexel International Corp.		
TBD% due 07/18/2018	200	199
Petroleo Global Trading BV		
TBD% due 02/19/2020	200	196
Sequa Mezzanine Holdings LLC		
6.758% - 6.814% due 11/28/2021	230	232
10.314% due 04/28/2022	90	92
Staples, Inc.		
TBD% due 08/02/2018	600	596
Team Health Holdings, Inc.		
3.984% due 02/06/2024	299	299
UPC Financing Partnership		
3.976% due 04/15/2025	200	201
Vistra Operations Co. LLC		
4.476% - 4.488% due 12/14/2023	597	602
Westmoreland Coal Co.		
7.796% due 12/16/2020	2,084	1,852
Total Loan Participations and Assignments (Cost \$25,001)		24,201
CORPORATE BONDS & NOTES 52.8%		
BANKING & FINANCE 26.6%		
AGFC Capital Trust		
3.054% due 01/15/2067	1,800	1,071
Ally Financial, Inc.		
8.000% due 11/01/2031	4,610	5,745
Ardonagh Midco PLC		
8.375% due 07/15/2023	GBP 700	931
AssuredPartners, Inc.		
7.000% due 08/15/2025 (c)	\$ 19	19
Banco Bilbao Vizcaya Argentaria S.A.		
6.750% due 02/18/2020 (h)	EUR 1,600	2,029
Banco do Brasil S.A.		
6.250% due 04/15/2024 (h)	\$ 3,020	2,616
9.000% due 06/18/2024 (h)	3,709	3,856
Banco Espirito Santo S.A.		
4.000% due 01/21/2019 ^	EUR 8,100	2,973
4.750% due 01/15/2018 ^	2,300	844

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		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Banco Santander S.A.			
6.250% due 09/11/2021 (h)		1,600	2,044
Barclays Bank PLC			
7.625% due 11/21/2022	\$	4,400	5,107
Barclays PLC			
6.500% due 09/15/2019 (h)	EUR	1,900	2,377
7.875% due 09/15/2022 (h)	GBP	415	607
8.000% due 12/15/2020 (h)	EUR	4,100	5,454
Blackstone CQP Holdco LP			
6.500% due 03/20/2021	\$	5,000	\$ 5,196
BNP Paribas S.A.			
7.375% due 08/19/2025 (h)(l)		3,310	3,773
Brighthouse Financial, Inc.			
4.700% due 06/22/2047		102	101
Brighthouse Holdings LLC			
6.500% due 07/27/2037 (h)		200	203
Cantor Fitzgerald LP			
6.500% due 06/17/2022 (l)		8,500	9,526
CBL & Associates LP			
5.950% due 12/15/2026 (l)		2,200	2,210
Co-operative Group Holdings Ltd.			
7.500% due 07/08/2026	GBP	6,150	9,917
Cooperatieve Rabobank UA			
6.625% due 06/29/2021 (h)	EUR	1,200	1,607
Credit Agricole S.A.			
7.875% due 01/23/2024 (h)	\$	3,500	3,957
Credit Suisse Group AG			
7.500% due 12/11/2023 (h)		7,243	8,254
Flagstar Bancorp, Inc.			
6.125% due 07/15/2021		3,500	3,745
GSPA Monetization Trust			
6.422% due 10/09/2029		3,715	4,248
Howard Hughes Corp.			
5.375% due 03/15/2025		74	77
HSBC Holdings PLC			
6.000% due 09/29/2023 (h)	EUR	3,530	4,782
6.000% due 05/22/2027 (h)	\$	200	210
Intrum Justitia AB			
2.750% due 07/15/2022	EUR	100	120
3.125% due 07/15/2024		100	120
Jefferies Finance LLC			
6.875% due 04/15/2022 (l)	\$	6,850	6,919
7.375% due 04/01/2020		2,890	2,984
7.500% due 04/15/2021		347	363
Jefferies LoanCore LLC			
6.875% due 06/01/2020		200	206
Lloyds Banking Group PLC			
7.625% due 06/27/2023 (h)	GBP	2,300	3,424
7.875% due 06/27/2029 (h)		250	395
MPT Operating Partnership LP			
5.250% due 08/01/2026	\$	1,292	1,357
Nationwide Building Society			
10.250% due 06/29/2049 (h)	GBP	13	2,610
Navient Corp.			
4.875% due 06/17/2019	\$	500	518
5.500% due 01/15/2019		8,300	8,642
5.625% due 08/01/2033		145	124
Novo Banco S.A.			
5.000% due 04/04/2019	EUR	311	296
5.000% due 04/23/2019		653	622
5.000% due 05/14/2019		431	411
5.000% due 05/21/2019		241	230
5.000% due 05/23/2019		240	229
OneMain Financial Holdings LLC			
6.750% due 12/15/2019	\$	1,353	1,422
Oppenheimer Holdings, Inc.			
6.750% due 07/01/2022		1,616	1,635

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Provident Funding Associates LP		
6.375% due 06/15/2025	30	31
Rio Oil Finance Trust		
9.250% due 07/06/2024	2,427	2,495
Royal Bank of Scotland Group PLC		
7.500% due 08/10/2020 (h)(l)	4,080	4,320
8.000% due 08/10/2025 (h)(l)	5,190	5,693
8.625% due 08/15/2021 (h)	1,700	1,882
Santander UK Group Holdings PLC		
6.750% due 06/24/2024 (h)	GBP 2,025	2,867
7.375% due 06/24/2022 (h)	4,100	5,841
Spirit Realty LP		
4.450% due 09/15/2026	\$ 1,500	1,449
	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Springleaf Finance Corp.		
6.125% due 05/15/2022	\$ 674	\$ 709
8.250% due 10/01/2023	1,300	1,469
Tesco Property Finance PLC		
5.411% due 07/13/2044	GBP 4,404	6,283
6.052% due 10/13/2039	2,595	3,903
		163,048
INDUSTRIALS 20.0%		
Altice Financing S.A.		
7.500% due 05/15/2026 (l)	\$ 3,200	3,556
AMC Networks, Inc.		
4.750% due 08/01/2025	90	91
BMC Software Finance, Inc.		
8.125% due 07/15/2021	1,800	1,867
Boxer Parent Co., Inc. (9.000% Cash or 9.750% PIK)		
9.000% due 10/15/2019 (d)	4,650	4,667
Burger King Worldwide, Inc.		
4.250% due 05/15/2024	205	207
Caesars Entertainment Operating Co., Inc.		
8.500% due 02/15/2020 ^(i)	1,475	1,918
9.000% due 02/15/2020 ^(i)	2,262	2,946
10.000% due 12/15/2018 ^	6,190	5,904
Charter Communications Operating LLC		
5.375% due 05/01/2047	66	69
Chesapeake Energy Corp.		
4.554% due 04/15/2019	134	133
CommScope Technologies LLC		
5.000% due 03/15/2027	2	2
Community Health Systems, Inc.		
6.250% due 03/31/2023	161	165
CSN Resources S.A.		
6.500% due 07/21/2020	535	408
DAE Funding LLC		
4.000% due 08/01/2020 (c)	60	61
4.500% due 08/01/2022 (c)	60	61
5.000% due 08/01/2024 (c)	160	164
Diamond Resorts International, Inc.		
10.750% due 09/01/2024	2,500	2,719
DriveTime Automotive Group, Inc.		
8.000% due 06/01/2021	800	806
Dynegy, Inc.		
8.034% due 02/02/2024	1,859	1,803
Exela Intermediate LLC		
10.000% due 07/15/2023	120	117
Ferroglobe PLC		
9.375% due 03/01/2022	2,100	2,263
Ford Motor Co.		
7.700% due 05/15/2097 (l)	10,460	13,036
Fresh Market, Inc.		
9.750% due 05/01/2023	8,000	6,580
HCA, Inc.		

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4.500% due 02/15/2027	940	964
5.500% due 06/15/2047	101	106
7.500% due 11/15/2095	1,200	1,241
iHeartCommunications, Inc.		
9.000% due 09/15/2022	3,450	2,553
Intelsat Jackson Holdings S.A.		
7.250% due 10/15/2020	3,840	3,706
9.750% due 07/15/2025	200	207
Intelsat Luxembourg S.A.		
7.750% due 06/01/2021	6,888	4,443
8.125% due 06/01/2023	7,535	4,702
Intrepid Aviation Group Holdings LLC		
6.875% due 02/15/2019	7,420	7,364
Kinder Morgan Energy Partners LP		
6.375% due 03/01/2041	400	458
Kinder Morgan, Inc.		
7.800% due 08/01/2031 (1)	3,500	4,481
Mallinckrodt International Finance S.A.		
4.750% due 04/15/2023	300	267

64 PIMCO CLOSED-END FUNDS

See Accompanying Notes

July 31, 2017

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
New Albertson s, Inc.		
6.570% due 02/23/2028	\$ 6,800	\$ 5,219
Park Aerospace Holdings Ltd.		
5.250% due 08/15/2022	13	13
5.500% due 02/15/2024	36	37
Petroleos Mexicanos		
6.500% due 03/13/2027	526	580
6.750% due 09/21/2047	280	295
PetSmart, Inc.		
5.875% due 06/01/2025	112	108
Prime Security Services Borrower LLC		
9.250% due 05/15/2023	621	695
QVC, Inc.		
4.375% due 03/15/2023	420	432
5.950% due 03/15/2043	4,515	4,424
Russian Railways via RZD Capital PLC		
7.487% due 03/25/2031	GBP 1,300	2,131
Sabine Pass Liquefaction LLC		
5.875% due 06/30/2026 (l)	\$ 2,500	2,819
Safeway, Inc.		
7.250% due 02/01/2031	245	227
Scientific Games International, Inc.		
10.000% due 12/01/2022	779	872
SFR Group S.A.		
7.375% due 05/01/2026 (l)	5,564	6,044
Sirius XM Radio, Inc.		
3.875% due 08/01/2022	57	58
Spirit Issuer PLC		
3.000% due 12/28/2031	GBP 1,000	1,288
6.582% due 12/28/2027	1,000	1,424
Symantec Corp.		
5.000% due 04/15/2025	\$ 45	47
UCP, Inc.		
8.500% due 10/21/2017	2,000	2,020
Unique Pub Finance Co. PLC		
5.659% due 06/30/2027	GBP 3,822	5,692
6.542% due 03/30/2021	1,175	1,697
United Group BV		
4.375% due 07/01/2022	EUR 100	119
4.875% due 07/01/2024	100	118
UPCB Finance Ltd.		
3.625% due 06/15/2029	190	224
Valeant Pharmaceuticals International, Inc.		
6.500% due 03/15/2022	\$ 89	94
7.000% due 03/15/2024	171	183
Westmoreland Coal Co.		
8.750% due 01/01/2022	6,335	5,535
Wynn Las Vegas LLC		
5.250% due 05/15/2027	62	64
		122,494
UTILITIES 6.2%		
AT&T, Inc.		
2.215% due 02/14/2023 (c)	100	100
2.850% due 02/14/2023 (c)	200	200
3.400% due 08/14/2024 (c)	400	401

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3.900% due 08/14/2027 (c)		360	360
4.900% due 08/14/2037 (c)		366	365
5.150% due 02/14/2050 (c)		550	550
5.300% due 08/14/2058 (c)		164	164
Gazprom Neft OAO Via GPN Capital S.A.			
6.000% due 11/27/2023 (l)		9,600	10,475
Northwestern Bell Telephone			
7.750% due 05/01/2030		12,625	14,577
Odebrecht Drilling Norbe Ltd.			
6.350% due 06/30/2022 ^		358	223
Odebrecht Offshore Drilling Finance Ltd.			
6.625% due 10/01/2023 ^(j)		3,858	1,379
6.750% due 10/01/2023 ^(j)		4,221	1,512
Petrobras Global Finance BV			
6.125% due 01/17/2022		466	491
6.625% due 01/16/2034	GBP	100	133
6.750% due 01/27/2041	\$	2,400	2,313
		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
7.250% due 03/17/2044	\$	251	\$ 253
7.375% due 01/17/2027		694	753
8.375% due 05/23/2021		2,319	2,620
Sprint Capital Corp.			
6.900% due 05/01/2019		1,100	1,173
			38,042
Total Corporate Bonds & Notes (Cost \$311,947)			323,584
CONVERTIBLE BONDS & NOTES 0.7%			
INDUSTRIALS 0.7%			
DISH Network Corp.			
3.375% due 08/15/2026		3,400	4,241
Total Convertible Bonds & Notes (Cost \$3,400)			4,241
MUNICIPAL BONDS & NOTES 7.3%			
CALIFORNIA 1.2%			
Riverside County, California Redevelopment Successor Agency Tax Allocation Bonds, Series 2010			
7.500% due 10/01/2030		1,200	1,289
San Francisco, California City & County Redevelopment Agency Tax Allocation Bonds, Series 2009			
8.406% due 08/01/2039		1,650	2,220
Stockton Public Financing Authority, California Revenue Bonds, (BABs), Series 2009			
7.942% due 10/01/2038		3,500	3,862
			7,371
ILLINOIS 0.2%			
Chicago, Illinois General Obligation Bonds, Series 2015			
7.375% due 01/01/2033		180	195
7.750% due 01/01/2042		330	346
Illinois State General Obligation Bonds, (BABs), Series 2010			
6.725% due 04/01/2035		35	39
7.350% due 07/01/2035		20	23
Illinois State General Obligation Bonds, Series 2003			
5.100% due 06/01/2033		280	281
			884
OHIO 3.5%			
Ohio State University Revenue Bonds, Series 2011			
4.800% due 06/01/2111		21,000	21,427
VIRGINIA 0.1%			
Tobacco Settlement Financing Corp., Virginia Revenue Bonds, Series 2007			

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6.706% due 06/01/2046 835 717

WEST VIRGINIA 2.3%

Tobacco Settlement Finance Authority, West Virginia Revenue Bonds, Series 2007		
0.000% due 06/01/2047 (g)	45,700	2,377
7.467% due 06/01/2047	12,305	11,682
		14,059
Total Municipal Bonds & Notes (Cost \$38,767)		44,458

U.S. GOVERNMENT AGENCIES 2.6%

Fannie Mae		
3.500% due 02/25/2042 (a)	1,128	150
4.232% due 10/25/2029	530	556
4.500% due 11/25/2042 (a)	2,960	539
5.018% due 01/25/2040 (a)	404	66
5.482% due 01/25/2029	400	449
6.082% due 10/25/2029	330	362
	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Freddie Mac		
0.000% due 08/25/2046 (b)(g)	\$ 3,050	\$ 1,869
0.100% due 08/25/2046 (a)	39,298	172
3.000% due 02/15/2033 (a)	2,433	282
3.500% due 12/15/2032 (a)	4,063	534
6.174% due 11/25/2055	8,741	4,994
8.727% due 09/15/2035	776	1,171
8.782% due 12/25/2027	2,895	3,403
11.982% due 03/25/2025	736	997
Ginnie Mae		
3.500% due 06/20/2042 - 10/20/2042 (a)	886	125
4.000% due 10/16/2042 - 10/20/2042 (a)	539	74
Total U.S. Government Agencies (Cost \$14,778)		15,743

NON-AGENCY MORTGAGE-BACKED SECURITIES 22.5%

Banc of America Alternative Loan Trust		
6.000% due 01/25/2036 ^	127	119
Banc of America Funding Corp.		
6.000% due 01/25/2037	7,429	5,909
Banc of America Funding Trust		
3.578% due 01/20/2047 ^	1,406	1,328
BCAP LLC Trust		
3.278% due 07/26/2037	11,676	10,465
3.517% due 08/26/2037	14,119	9,243
3.517% due 08/28/2037	6,895	6,458
3.548% due 05/26/2036	113	2
4.061% due 09/26/2036	5,272	4,607
5.045% due 03/26/2037	1,042	629
5.750% due 12/26/2035	5,145	4,405
6.250% due 11/26/2036	5,160	4,541
8.440% due 05/26/2037	1,756	770
12.536% due 06/26/2036	475	222
Bear Stearns ALT-A Trust		
1.732% due 01/25/2036 ^	1,593	1,602
3.226% due 09/25/2047 ^	7,240	5,707
3.268% due 11/25/2036 ^	530	437
3.315% due 11/25/2035	8,437	7,233
3.625% due 09/25/2035 ^	731	599
Chase Mortgage Finance Trust		
3.224% due 12/25/2035 ^	12	11
5.500% due 05/25/2036 ^	37	34
Citicorp Mortgage Securities Trust		
5.500% due 04/25/2037	120	120
6.000% due 09/25/2037	1,428	1,484

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Citigroup/Deutsche Bank Commercial Mortgage Trust		
5.688% due 10/15/2048	2,300	1,234
Commercial Mortgage Loan Trust		
6.155% due 12/10/2049	2,161	1,364
Countrywide Alternative Loan Resecuritization Trust		
6.000% due 05/25/2036 ^	3,136	2,644
6.000% due 08/25/2037 ^	1,367	1,085
Countrywide Alternative Loan Trust		
3.404% due 04/25/2036 ^	1,430	1,268
5.500% due 03/25/2035	344	270
5.500% due 01/25/2036	841	715
5.500% due 03/25/2036 ^	149	120
5.750% due 01/25/2035	462	465
5.750% due 02/25/2035	487	466
5.750% due 12/25/2036 ^	905	646
6.000% due 02/25/2035	447	455
6.000% due 04/25/2036	682	531
6.000% due 04/25/2037 ^	2,206	1,655
6.250% due 11/25/2036 ^	955	852
6.250% due 12/25/2036 ^	658	488
6.500% due 08/25/2036 ^	596	406
Countrywide Home Loan Mortgage Pass-Through Trust		
1.812% due 03/25/2035 ^	5,721	4,621
6.000% due 07/25/2037	2,181	1,772
6.250% due 09/25/2036 ^	733	617
Credit Suisse First Boston Mortgage Securities Corp.		
6.000% due 11/25/2035 ^	532	461
Credit Suisse Mortgage Capital Certificates		
1.440% due 10/26/2036	7,033	4,683

See Accompanying Notes

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Schedule of Investments PIMCO Income Strategy Fund II (Cont.)

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Credit Suisse Mortgage Capital Mortgage-Backed Trust		
5.750% due 04/25/2036 ^	\$ 200	\$ 159
Epic Drummond Ltd.		
0.000% due 01/25/2022	EUR 137	162
First Horizon Alternative Mortgage Securities Trust		
6.000% due 08/25/2036 ^	\$ 1,414	1,191
First Horizon Mortgage Pass-Through Trust		
3.000% due 11/25/2035 ^	477	417
3.332% due 05/25/2037 ^	489	406
GS Mortgage Securities Trust		
5.622% due 11/10/2039	1,001	921
IndyMac Mortgage Loan Trust		
6.500% due 07/25/2037 ^	3,648	2,434
JPMorgan Alternative Loan Trust		
3.079% due 03/25/2037 ^	1,411	1,261
3.351% due 03/25/2036 ^	2,456	1,976
3.409% due 05/25/2036 ^	2,375	1,833
JPMorgan Chase Commercial Mortgage Securities Trust		
5.623% due 05/12/2045	1,628	1,402
JPMorgan Mortgage Trust		
3.244% due 10/25/2035	356	345
3.378% due 02/25/2036 ^	488	438
6.500% due 09/25/2035	128	125
LB-UBS Commercial Mortgage Trust		
5.407% due 11/15/2038	923	707
5.562% due 02/15/2040	1,385	997
Lehman Mortgage Trust		
6.000% due 07/25/2037 ^	1,222	1,156
6.500% due 09/25/2037 ^	3,080	2,263
Lehman XS Trust		
1.452% due 06/25/2047	2,764	2,414
MASTR Asset Securitization Trust		
6.500% due 11/25/2037 ^	584	435
Merrill Lynch Mortgage Investors Trust		
3.214% due 03/25/2036 ^	2,159	1,582
Morgan Stanley Capital Trust		
5.991% due 06/11/2049	1,741	1,747
Nomura Asset Acceptance Corp. Alternative Loan Trust		
4.976% due 05/25/2035 ^	14	12
RBSSP Resecuritization Trust		
1.376% due 02/26/2047	1,628	1,641
Residential Accredited Loans, Inc. Trust		
4.284% due 12/26/2034 ^	1,376	1,090
6.000% due 08/25/2036 ^	433	375
Residential Asset Securitization Trust		
5.750% due 02/25/2036 ^	1,265	992
6.000% due 07/25/2037 ^	1,683	1,277
6.250% due 09/25/2037 ^	2,925	2,142
Residential Funding Mortgage Securities, Inc. Trust		
4.375% due 09/25/2035	1,019	862
4.599% due 08/25/2036 ^	1,644	1,461
Structured Adjustable Rate Mortgage Loan Trust		
3.243% due 11/25/2036 ^	3,051	2,768
3.291% due 07/25/2036 ^	740	589
3.391% due 01/25/2036 ^	2,793	2,138
Suntrust Adjustable Rate Mortgage Loan Trust		
3.531% due 02/25/2037 ^	374	335
WaMu Mortgage Pass-Through Certificates Trust		
3.030% due 10/25/2036 ^	1,031	916
3.160% due 02/25/2037 ^	719	684

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3.161% due 05/25/2037 ^		1,632	1,515
3.326% due 07/25/2037 ^		1,240	1,156
Wells Fargo Mortgage-Backed Securities Trust			
3.166% due 07/25/2036 ^		376	379
5.750% due 03/25/2037 ^		337	332
Total Non-Agency Mortgage-Backed Securities (Cost \$127,668)			137,778
ASSET-BACKED SECURITIES 20.6%			
Airspeed Ltd.			
1.496% due 06/15/2032		3,205	2,683
Apidos CLO			
0.000% due 07/22/2026		1,500	919
		PRINCIPAL	MARKET
		AMOUNT	VALUE
		(000S)	(000S)
Argent Securities Trust			
1.422% due 03/25/2036	\$	4,062	\$ 2,177
Bear Stearns Asset-Backed Securities Trust			
1.372% due 10/25/2036 ^		5,968	5,905
6.500% due 10/25/2036 ^		374	286
Belle Haven ABS CDO Ltd.			
1.551% due 07/05/2046		180,259	3,118
CIFC Funding Ltd.			
0.000% due 05/24/2026 (g)		2,400	1,605
0.000% due 07/22/2026 (g)		1,500	983
Citigroup Mortgage Loan Trust, Inc.			
1.382% due 12/25/2036		16,326	8,619
1.392% due 12/25/2036		4,324	2,898
Cork Street CLO Designated Activity Co.			
0.000% due 11/27/2028	EUR	2,366	2,466
3.600% due 11/27/2028		1,062	1,259
4.500% due 11/27/2028		929	1,103
6.200% due 11/27/2028		1,150	1,369
Countrywide Asset-Backed Certificates			
1.372% due 12/25/2046	\$	16,110	12,150
1.372% due 06/25/2047 ^		1,801	1,404
1.402% due 03/25/2037		2,545	2,422
1.432% due 06/25/2047		11,310	9,821
Countrywide Asset-Backed Certificates Trust			
1.982% due 11/25/2035		4,008	3,796
Fremont Home Loan Trust			
1.382% due 01/25/2037		15,493	8,997
Grosvenor Place CLO BV			
0.000% due 04/30/2029	EUR	500	467
HSI Asset Securitization Corp. Trust			
0.000% due 10/25/2036 (g)	\$	3,404	1,426
IndyMac Home Equity Mortgage Loan Asset-Backed Trust			
1.392% due 07/25/2037		3,375	2,130
JPMorgan Mortgage Acquisition Corp.			
1.522% due 01/25/2036		770	746
Lehman XS Trust			
6.290% due 06/24/2046		3,726	3,469
Long Beach Mortgage Loan Trust			
1.532% due 01/25/2036		5,000	3,785
Merrill Lynch Mortgage Investors Trust			
1.392% due 04/25/2037		589	333
Morgan Stanley Mortgage Loan Trust			
6.250% due 07/25/2047 ^		778	557
SLM Student Loan Trust			
0.000% due 10/28/2029 (g)		1	1,439
0.000% due 01/25/2042 (g)		4	3,504
SoFi Professional Loan Program LLC			
0.000% due 05/25/2040 (g)		4,400	2,295
0.000% due 07/25/2040 (g)		21	1,209
0.000% due 09/25/2040 (g)		1,758	995
South Coast Funding Ltd.			
1.785% due 08/10/2038		12,539	2,458
Specialty Underwriting & Residential Finance Trust			

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1.732% due 09/25/2036		14,063	11,421
Taberna Preferred Funding Ltd.			
1.531% due 12/05/2036		5,327	4,102
1.551% due 08/05/2036		451	341
1.551% due 08/05/2036 ^		8,914	6,730
1.771% due 07/05/2035		5,846	4,940

Total Asset-Backed Securities (Cost \$122,201) **126,327**

SOVEREIGN ISSUES 2.6%

Argentine Government International Bond			
7.820% due 12/31/2033	EUR	7,098	8,834
Autonomous Community of Catalonia			
4.900% due 09/15/2021		1,500	1,890
Autonomous Community of Valencia			
2.013% due 09/04/2017		2,500	2,969
Republic of Greece Government International Bond			
3.800% due 08/08/2017	JPY	204,000	1,854
4.750% due 04/17/2019	EUR	300	363

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Sri Lanka Government International Bond			
6.200% due 05/11/2027	\$	200	\$ 207

Total Sovereign Issues (Cost \$15,269) **16,117**

SHARES

COMMON STOCKS 0.5%

ENERGY 0.0%			
Forbes Energy Services Ltd. (e)(j)		21,825	234

FINANCIALS 0.5%

TIG FinCo PLC (j)		2,072,442	2,734
--------------------------	--	-----------	-------

Total Common Stocks (Cost \$3,720) **2,968**

WARRANTS 0.1%

INDUSTRIALS 0.1%			
Sequa Corp. - Exp. 04/28/2024		819,000	384

UTILITIES 0.0%

Dynegy, Inc. - Exp. 02/02/2024		62,273	12
---------------------------------------	--	--------	----

Total Warrants (Cost \$164) **396**

PREFERRED SECURITIES 4.3%

BANKING & FINANCE 1.9%			
Farm Credit Bank of Texas			
10.000% due 12/15/2020 (h)		9,150	11,249

INDUSTRIALS 2.4%

Sequa Corp.			
9.000%		15,193	14,820

Total Preferred Securities (Cost \$25,967) **26,069**

SHORT-TERM INSTRUMENTS 2.7%

REPURCHASE AGREEMENTS (k) 2.1%			
			13,099

**PRINCIPAL
AMOUNT
(000S)**

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U.S. TREASURY BILLS 0.6%		
0.961% due 08/31/2017 - 01/04/2018 (f)(g)(o)	3,542	3,537
Total Short-Term Instruments (Cost \$16,636)		16,636
Total Investments in Securities (Cost \$705,518)		738,518
Total Investments 120.6% (Cost \$705,518)	\$	738,518
Financial Derivative Instruments (m)(n) (0.7)%		
(Cost or Premiums, net \$(1,679))		(4,124)
Preferred Shares (15.1)%		(92,450)
Other Assets and Liabilities, net (4.8)%		(29,634)
Net Assets Applicable to Common Shareholders 100.0%	\$	612,310

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See Accompanying Notes

July 31, 2017

NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*):

* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) Interest only security.

(b) Principal only security.

(c) When-issued security.

(d) Payment in-kind security.

(e) Security did not produce income within the last twelve months.

(f) Coupon represents a weighted average yield to maturity.

(g) Zero coupon security.

(h) Perpetual maturity; date shown, if applicable, represents next contractual call date.

(i) Security is subject to a forbearance agreement entered into by the Fund which forbears the Fund from taking action to, among other things, accelerate and collect payments on the subject note with respect to specified events of default.

(j) RESTRICTED SECURITIES:

Issuer Description	Acquisition Date	Cost	Market Value	Market Value as Percentage of Net Assets
Forbes Energy Services Ltd. Odebrecht Offshore Drilling Finance Ltd.	10/09/2014 - 12/03/2014	\$ 944	\$ 234	0.04%
6.625% due 10/01/2023 Odebrecht Offshore Drilling Finance Ltd.	04/09/2015 - 07/30/2015	3,061	1,379	0.22
6.750% due 10/01/2023 TIG FinCo PLC	04/09/2015 - 07/30/2015 04/02/2015 - 07/20/2017	2,579 2,776	1,512 2,734	0.25 0.45
		\$ 9,360	\$ 5,859	0.96%

BORROWINGS AND OTHER FINANCING TRANSACTIONS**(k) REPURCHASE AGREEMENTS:**

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received)	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received ⁽¹⁾
JPS	1.170%	07/31/2017	08/01/2017	\$ 9,800	Ginnie Mae 3.000% due 08/20/2046	\$ (10,130)	\$ 9,800	\$ 9,800

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SSB	0.200	07/31/2017	08/01/2017	3,299	U.S. Treasury Notes 3.500% due 05/15/2020 ⁽²⁾	(3,369)	3,299	3,299
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Total Repurchase Agreements \$ (13,499) \$ 13,099 \$ 13,099

REVERSE REPURCHASE AGREEMENTS:

Counterparty	Borrowing Rate ⁽³⁾	Settlement Date	Maturity Date	Amount Borrowed ⁽³⁾	Payable for Reverse Repurchase Agreements
BCY	0.250%	06/16/2017	TBD ⁽⁴⁾	\$ (1,935)	\$ (1,936)
BPS	1.610	06/02/2017	08/31/2017	(5,359)	(5,373)
JML	1.950	07/14/2017	08/03/2017	(8,760)	(8,769)
	1.950	08/03/2017	08/18/2017	(8,410)	(8,410)
RBC	2.050	02/06/2017	08/07/2017	(5,793)	(5,851)
	2.050	05/11/2017	08/07/2017	(2,472)	(2,483)
	2.170	07/10/2017	01/10/2018	(5,502)	(5,509)
RDR	1.570	05/02/2017	08/02/2017	(4,268)	(4,285)
	1.760	08/02/2017	11/02/2017	(4,248)	(4,248)
SOG	1.780	06/08/2017	09/07/2017	(3,283)	(3,292)
UBS	1.700	07/07/2017	10/10/2017	(8,396)	(8,406)
	1.990	05/26/2017	08/28/2017	(3,390)	(3,403)
	2.040	06/09/2017	08/23/2017	(3,092)	(3,101)
	2.140	06/14/2017	09/14/2017	(4,583)	(4,596)
Total Reverse Repurchase Agreements					\$ (69,662)

See Accompanying Notes

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Schedule of Investments PIMCO Income Strategy Fund II (Cont.)
BORROWINGS AND OTHER FINANCING TRANSACTIONS SUMMARY

The following is a summary by counterparty of the market value of Borrowings and Other Financing Transactions and collateral pledged/(received) as of July 31, 2017:

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral Pledged/(Received)	Net Exposure ⁽⁵⁾
Global/Master Repurchase Agreement						
BCY	\$ 0	\$ (1,936)	\$ 0	\$ (1,936)	\$ 2,205	\$ 269
BPS	0	(5,373)	0	(5,373)	5,491	118
JML	0	(17,179)	0	(17,179)	10,911	(6,268)
JPS	9,800	0	0	9,800	(10,130)	(330)
RBC	0	(13,843)	0	(13,843)	15,782	1,939
RDR	0	(8,533)	0	(8,533)	8,962	429
SOG	0	(3,292)	0	(3,292)	3,556	264
SSB	3,299	0	0	3,299	(3,369)	(70)
UBS	0	(19,506)	0	(19,506)	22,510	3,004
Total Borrowings and Other Financing Transactions	\$ 13,099	\$ (69,662)	\$ 0			

CERTAIN TRANSFERS ACCOUNTED FOR AS SECURED BORROWINGS
Remaining Contractual Maturity of the Agreements

	Overnight and Continuous	Up to 30 days	31-90 days	Greater Than 90 days	Total
Reverse Repurchase Agreements					
Corporate Bonds & Notes	\$ 0	\$ (27,892)	\$ (21,667)	\$ (11,693)	\$ (61,252)
Total Borrowings	\$ 0	\$ (27,892)	\$ (21,667)	\$ (11,693)	\$ (61,252)
Gross amount of recognized liabilities for reverse repurchase agreements ⁽⁶⁾					\$ (61,252)

(1) Securities with an aggregate market value of \$69,421 have been pledged as collateral under the terms of the above master agreements as of July 31, 2017.

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- (1) Includes accrued interest.
 (2) Collateral is held in custody by the counterparty.
 (3) The average amount of borrowings outstanding during the period ended July 31, 2017 was \$(63,835) at a weighted average interest rate of 1.560%. Average borrowings may include sale-buyback transactions and reverse repurchase agreements, if held during the period.
 (4) Open maturity reverse repurchase agreement.
 (5) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 8, Master Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.
 (6) Unsettled reverse repurchase agreements liability of \$(8,410) is outstanding at period end.

(m) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION⁽¹⁾

Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at July 31, 2017 ⁽²⁾	Notional Amount ⁽³⁾	Premiums Paid/(Received)	Unrealized Appreciation/Depreciation	Market Value ⁽⁴⁾	Variation Margin	
								Asset	Liability
Frontier Communications Corp.	5.000%	06/20/2020	6.967%	\$ 6,500	\$ (215)	\$ (75)	\$ (290)	\$ 9	\$ 0

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION⁽¹⁾

Index/Tranches	Fixed Receive Rate	Maturity Date	Notional Amount ⁽³⁾	Premiums Paid/(Received)	Unrealized Appreciation/Depreciation	Market Value ⁽⁴⁾	Variation Margin	
							Asset	Liability
CDX.HY-24 5-Year Index	5.000%	06/20/2020	\$ 8,827	\$ 681	\$ 84	\$ 765	\$ 8	\$ 0
CDX.HY-25 5-Year Index	5.000	12/20/2020	7,575	(19)	641	622	4	0
CDX.HY-26 5-Year Index	5.000	06/20/2021	1,287	58	57	115	1	0
CDX.HY-28 5-Year Index	5.000	06/20/2022	2,900	204	34	238	2	0
				\$ 924	\$ 816	\$ 1,740	\$ 15	\$ 0

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See Accompanying Notes

July 31, 2017

INTEREST RATE SWAPS

Pay/Receive	Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/Depreciation	Market Value	Variation Margin	
									Asset	Liability
Pay	3-Month USD-LIBOR		2.750%	06/17/2025	\$ 149,020	\$ 9,092	\$ (2,153)	\$ 6,939	\$ 19	\$ 0
Pay	3-Month USD-LIBOR		2.250	06/15/2026	26,800	1,267	(1,126)	141	7	0
Pay ⁽⁵⁾	3-Month USD-LIBOR		2.500	12/20/2027	48,400	333	445	778	22	0
Pay	3-Month USD-LIBOR		3.500	06/19/2044	201,500	(6,574)	45,197	38,623	134	0
Receive	3-Month USD-LIBOR		2.250	12/21/2046	31,900	(2,902)	4,925	2,023	0	(39)
Receive	3-Month USD-LIBOR		1.750	06/21/2047	313,100	55,281	1,489	56,770	0	(289)
Pay	6-Month AUD-BBR-BBSW		3.000	12/17/2019	AUD 12,900	185	51	236	5	0
Pay	6-Month AUD-BBR-BBSW		3.500	06/17/2025	8,100	201	182	383	6	0
Receive ⁽⁵⁾	6-Month EUR-EURIBOR		1.000	09/20/2027	EUR 12,600	15	(47)	(32)	28	0
Receive ⁽⁵⁾	6-Month GBP-LIBOR		1.500	09/20/2027	GBP 24,000	(388)	(191)	(579)	68	0
						\$ 56,510	\$ 48,772	\$ 105,282	\$ 289	\$ (328)
Total Swap Agreements						\$ 57,219	\$ 49,513	\$ 106,732	\$ 313	\$ (328)

FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED SUMMARY

The following is a summary of the market value and variation margin of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of July 31, 2017:

	Financial Derivative Assets				Financial Derivative Liabilities			
	Market Value		Variation Margin		Market Value		Variation Margin	
	Purchased		Asset Swap		Written		Liability Swap	
	Options	Futures	Agreements	Total	Options	Futures	Agreements	Total
Total Exchange-Traded or Centrally Cleared	\$ 0	\$ 0	\$ 313	\$ 313	\$ 0	\$ 0	\$ (328)	\$ (328)

Cash of \$16,638 has been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of July 31, 2017. See Note 8, Master Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

(1) If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash, securities or other deliverable obligations equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

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- (2) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate issues as of period end serve as indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.
- (3) The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.
- (4) The prices and resulting values for credit default swap agreements on credit indices serve as indicators of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices' credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.
- (5) This instrument has a forward starting effective date. See Note 2, Securities Transactions and Investment Income, in the Notes to Financial Statements for further information.

(n) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered	Amount	Currency to be Received	Amount	Unrealized Appreciation/ (Depreciation)			
						Asset	Liability		
AZD	08/2017	AUD	494	\$	375	\$	0	\$	(21)
BOA	08/2017	EUR	1,172		1,355		0		(33)
	08/2017	GBP	1,683		2,180		0		(40)
BPS	08/2017	EUR	37,289		42,310		0		(1,832)
	08/2017	JPY	204,255		1,827		0		(26)
CBK	08/2017	EUR	207		241		0		(4)
	08/2017	GBP	203		262		0		(5)
GLM	08/2017		395		510		0		(11)
	08/2017	\$	52,022	GBP	39,591		214		0
	09/2017	GBP	39,591	\$	52,080		0		(214)
HUS	08/2017	AUD	172		131		0		(6)
JPM	08/2017	EUR	154		176		0		(7)
	08/2017	\$	852	GBP	660		18		0

See Accompanying Notes

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Schedule of Investments PIMCO Income Strategy Fund II (Cont.)

Counterparty	Settlement Month	Currency to be Delivered	Currency to be Received	Unrealized Appreciation/ (Depreciation)	
				Asset	Liability
MSB	08/2017	\$ 46,435	EUR 39,611	\$ 456	\$ 0
	09/2017	EUR 39,611	\$ 46,518	0	(456)
TOR	08/2017	\$ 1,837	JPY 204,255	16	0
	09/2017	JPY 204,255	\$ 1,839	0	(16)
UAG	08/2017	EUR 789	902	0	(32)
	08/2017	GBP 37,970	48,706	0	(1,392)
Total Forward Foreign Currency Contracts				\$ 704	\$ (4,095)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION⁽¹⁾

Counterparty	Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at July 31, 2017 ⁽²⁾	Notional Amount ⁽³⁾	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value	
								Asset	Liability
BPS	Petrobras Global Finance BV	1.000%	12/20/2024	3.536%	\$ 1,000	\$ (195)	\$ 40	\$ 0	\$ (155)
GST	Petrobras Global Finance BV	1.000	09/20/2020	1.821	10	(1)	1	0	0
	Petrobras Global Finance BV	1.000	12/20/2021	2.538	100	(16)	10	0	(6)
	Petrobras Global Finance BV	1.000	12/20/2024	3.536	1,400	(278)	61	0	(217)
HUS	Petrobras Global Finance BV	1.000	12/20/2019	1.407	300	(25)	22	0	(3)
	Petrobras Global Finance BV	1.000	09/20/2020	1.821	40	(6)	5	0	(1)
	Petrobras Global Finance BV	1.000	12/20/2024	3.536	1,700	(353)	89	0	(264)
MYC	Petrobras Global Finance BV	1.000	12/20/2019	1.407	8,700	(805)	733	0	(72)
						\$ (1,679)	\$ 961	\$ 0	\$ (718)
Total Swap Agreements						\$ (1,679)	\$ 961	\$ 0	\$ (718)

FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER SUMMARY

The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral pledged/(received) as of July 31, 2017:

Counterparty	Financial Derivative Assets				Financial Derivative Liabilities				Net Value of OTC Derivatives	Collateral Pledged/ (Received)	Net Exposure ⁽⁴⁾
	Forward Foreign Contracts	Purchased Options	Swap Agreements	Total Over the Counter	Forward Foreign Contracts	Written Options	Swap Agreements	Total Over the Counter			
AZD	\$ 0	\$ 0	\$ 0	\$ 0	\$ (21)	\$ 0	\$ 0	\$ (21)	\$ (21)	\$ 0	\$ (21)
BOA	0	0	0	0	(73)	0	0	(73)	(73)	0	(73)
BPS	0	0	0	0	(1,858)	0	(155)	(2,013)	(2,013)	1,684	(329)

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CBK	0	0	0	0	(9)	0	0	(9)	(9)	0	(9)
GLM	214	0	0	214	(225)	0	0	(225)	(11)	0	(11)
GST	0	0	0	0	0	0	(223)	(223)	(223)	305	82
HUS	0	0	0	0	(6)	0	(268)	(274)	(274)	377	103
JPM	18	0	0	18	(7)	0	0	(7)	11	0	11
MSB	456	0	0	456	(456)	0	0	(456)	0	0	0
MYC	0	0	0	0	0	0	(72)	(72)	(72)	(38)	(110)
TOR	16	0	0	16	(16)	0	0	(16)	0	0	0
UAG	0	0	0	0	(1,424)	0	0	(1,424)	(1,424)	1,101	(323)
Total Over the Counter	\$ 704	\$ 0	\$ 0	\$ 704	\$ (4,095)	\$ 0	\$ (718)	\$ (4,813)			

(o) Securities with an aggregate market value of \$3,537 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of July 31, 2017.

- (1) If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash, securities or other deliverable obligations equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.
- (2) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate issues as of period end serve as indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.
- (3) The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.
- (4) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 8, Master Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

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See Accompanying Notes

July 31, 2017

FAIR VALUE OF FINANCIAL DERIVATIVE INSTRUMENTS

The following is a summary of the fair valuation of the Fund's derivative instruments categorized by risk exposure. See Note 7, Principal Risks, in the Notes to Financial Statements on risks of the Fund.

Fair Values of Financial Derivative Instruments on the Statements of Assets and Liabilities as of July 31, 2017:

	Derivatives not accounted for as hedging instruments						Total
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts		
Financial Derivative Instruments - Assets							
Exchange-traded or centrally cleared							
Swap Agreements	\$ 0	\$ 24	\$ 0	\$ 0	\$ 289	\$ 313	
Over the counter							
Forward Foreign Currency Contracts	\$ 0	\$ 0	\$ 0	\$ 704	\$ 0	\$ 704	
	\$ 0	\$ 24	\$ 0	\$ 704	\$ 289	\$ 1,017	
Financial Derivative Instruments - Liabilities							
Exchange-traded or centrally cleared							
Swap Agreements	\$ 0	\$ 0	\$ 0	\$ 0	\$ 328	\$ 328	
Over the counter							
Forward Foreign Currency Contracts	\$ 0	\$ 0	\$ 0	\$ 4,095	\$ 0	\$ 4,095	
Swap Agreements	0	718	0	0	0	718	
	\$ 0	\$ 718	\$ 0	\$ 4,095	\$ 0	\$ 4,813	
	\$ 0	\$ 718	\$ 0	\$ 4,095	\$ 328	\$ 5,141	

The effect of Financial Derivative Instruments on the Statements of Operations for the period ended July 31, 2017:

	Derivatives not accounted for as hedging instruments						Total
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts		
Net Realized Gain on Financial Derivative Instruments							
Exchange-traded or centrally cleared							
Swap Agreements	\$ 0	\$ 1,092	\$ 0	\$ 0	\$ 50,049	\$ 51,141	

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Over the counter

Forward Foreign Currency Contracts	\$ 0	\$ 0	\$ 0	\$ 2,089	\$ 0	\$ 2,089
Swap Agreements	0	220	0	0	0	220
	\$ 0	\$ 220	\$ 0	\$ 2,089	\$ 0	\$ 2,309
	\$ 0	\$ 1,312	\$ 0	\$ 2,089	\$ 50,049	\$ 53,450

Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments

Exchange-traded or centrally cleared						
Swap Agreements	\$ 0	\$ 252	\$ 0	\$ 0	\$ (42,848)	\$ (42,596)

Over the counter

Forward Foreign Currency Contracts	\$ 0	\$ 0	\$ 0	\$ (3,144)	\$ 0	\$ (3,144)
Swap Agreements	0	1,690	0	0	0	1,690
	\$ 0	\$ 1,690	\$ 0	\$ (3,144)	\$ 0	\$ (1,454)
	\$ 0	\$ 1,942	\$ 0	\$ (3,144)	\$ (42,848)	\$ (44,050)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of July 31, 2017 in valuing the Fund's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 07/31/2017
Investments in Securities, at Value				
Loan Participations and Assignments	\$ 0	\$ 23,330	\$ 871	\$ 24,201
Corporate Bonds & Notes				
Banking & Finance	0	158,597	4,451	163,048
Industrials	0	120,474	2,020	122,494
Utilities	0	38,042	0	38,042
Convertible Bonds & Notes				
Industrials	0	4,241	0	4,241
Fair Value at 07/31/2017				
Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 07/31/2017
Municipal Bonds & Notes				
California	\$ 0	\$ 7,371	\$ 0	\$ 7,371
Illinois	0	884	0	884
Ohio	0	21,427	0	21,427
Virginia	0	717	0	717
West Virginia	0	14,059	0	14,059
U.S. Government Agencies	0	10,749	4,994	15,743
Non-Agency Mortgage-Backed Securities	0	137,778	0	137,778
Asset-Backed Securities	0	116,885	9,442	126,327

See Accompanying Notes

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Schedule of Investments PIMCO Income Strategy Fund II (Cont.)

July 31, 2017

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 07/31/2017
Sovereign Issues	\$ 0	\$ 16,117	\$ 0	\$ 16,117
Common Stocks				
Energy	234	0	0	234
Financials	0	0	2,734	2,734
Warrants				
Industrials	0	0	384	384
Utilities	12	0	0	12
Preferred Securities				
Banking & Finance	0	11,249	0	11,249
Industrials	0	0	14,820	14,820
Short-Term Instruments				
Repurchase Agreements	0	13,099	0	13,099
U.S. Treasury Bills	0	3,537	0	3,537
Total Investments	\$ 246	\$ 698,556	\$ 39,716	\$ 738,518
Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 07/31/2017
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	\$ 0	\$ 313	\$ 0	\$ 313
Over the counter	0	704	0	704
	\$ 0	\$ 1,017	\$ 0	\$ 1,017
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	0	(328)	0	(328)
Over the counter	0	(4,813)	0	(4,813)
	\$ 0	\$ (5,141)	\$ 0	\$ (5,141)
Total Financial Derivative Instruments	\$ 0	\$ (4,124)	\$ 0	\$ (4,124)
Totals	\$ 246	\$ 694,432	\$ 39,716	\$ 734,394

There were no significant transfers among Levels 1 and 2 during the period ended July 31, 2017.

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Fund during the period ended July 31, 2017:

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Category and Subcategory at 07/31/2016	Beginning Balance	Net Purchases	Net Sales	Accrued Discounts/ (Premiums)	Realized Gain/(Loss)	Net Change in Unrealized Appreciation/ (Depreciation) ⁽¹⁾	Transfers out of		Ending Balance at 07/31/2017	Net Change in Unrealized Appreciation/ (Depreciation) on Investments Held at 07/31/2017 ⁽¹⁾
							Level 3	Level 3		
Investments in Securities, at Value										
Loan Participations and Assignments	\$ 0	\$ 831	\$ 0	\$ 1	\$ 0	\$ 39	\$ 0	\$ 0	\$ 871	\$ 39
Corporate Bonds & Notes										
Banking & Finance	5,517	200	(1,249)	2	153	(172)	0	0	4,451	(1)
Industrials	1,991	0	0	3	0	26	0	0	2,020	26
U.S. Government Agencies	4,736	0	(87)	85	35	225	0	0	4,994	219
Asset-Backed Securities	5,917	4,499	0	23	0	(997)	0	0	9,442	(997)
Common Stocks										
Financials	316	2,040	0	0	0	378	0	0	2,734	378
Warrants										
Industrials	0	0	0	0	0	384	0	0	384	384
Preferred Securities										
Industrials	0	15,193	0	0	0	(373)	0	0	14,820	(373)
Totals	\$ 18,477	\$ 22,763	\$ (1,336)	\$ 114	\$ 188	\$ (490)	\$ 0	\$ 0	\$ 39,716	\$ (325)

The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category and Subcategory	Ending Balance at 07/31/2017	Valuation Technique	Unobservable Inputs	Input Value(s) (% Unless Noted Otherwise)
Investments in Securities, at Value				
Loan Participations and Assignments	\$ 277	Other Valuation Techniques ⁽²⁾		
	398	Proxy Pricing	Base Price	99.500
	196	Third Party Vendor	Broker Quote	98.000
Corporate Bonds & Notes				
Banking & Finance	4,451	Proxy Pricing	Base Price	101.000-114.491
Industrials	2,020	Proxy Pricing	Base Price	101.000
U.S. Government Agencies	4,994	Proxy Pricing	Base Price	57.000
Asset-Backed Securities	9,442	Proxy Pricing	Base Price	52.170-100,000.000
Common Stocks				
Financials	2,734	Other Valuation Techniques ⁽²⁾		
Warrants				
Industrials	384	Other Valuation Techniques ⁽²⁾		
Preferred Securities				
Industrials	14,820	Fundamental Valuation	Company Assets	\$ 551,000.000
Total	\$ 39,716			

(1) Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at July 31, 2017 may be due to an investment no longer held or categorized as Level 3 at period end.

(2) Includes valuation techniques not defined in the Notes to Financial Statements as securities valued using such techniques are not considered significant to the Fund.

Notes to Financial Statements

July 31, 2017

1. ORGANIZATION

PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, PIMCO High Income Fund, PIMCO Income Strategy Fund and PIMCO Income Strategy Fund II (each a Fund and collectively the Funds) are organized as closed-end management investment companies registered under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (the Act). Each Fund was organized as a Massachusetts business trust on the dates shown in the table below. Pacific Investment Management Company LLC (PIMCO or the Manager) serves as the Funds' investment manager.

Fund Name	Formation Date
PIMCO Corporate & Income Opportunity Fund	September 13, 2002
PIMCO Corporate & Income Strategy Fund	October 17, 2001
PIMCO High Income Fund	February 18, 2003
PIMCO Income Strategy Fund	June 19, 2003
PIMCO Income Strategy Fund II	June 30, 2004

Each Fund has authorized an unlimited number of Common Shares at a par value of \$0.00001 per share.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by each Fund in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Each Fund is treated as an investment company under the reporting requirements of U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

(a) Securities Transactions and Investment Income Securities transactions are recorded as of the trade date for financial reporting purposes. Realized gains (losses) from securities sold are recorded on the identified cost basis. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled beyond a standard settlement period for the security after the trade date. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as a Fund is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis from settlement date, with the exception of securities with a forward starting effective date, where interest income is recorded on the accrual basis from effective date. For convertible securities, premiums attributable to

the conversion feature are not amortized. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized appreciation (depreciation) on investments on the Statements of Operations, as appropriate. Tax liabilities realized as a result of such security sales are reflected as a component of net realized gain (loss) on investments on the Statements of Operations. Paydown gains (losses) on mortgage-related and other asset-backed securities, if any, are recorded as components of interest income on the Statements of Operations. Income or short-term capital gain distributions received from registered investment

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companies, if any, are recorded as dividend income. Long-term capital gain distributions received from registered investment companies, if any, are recorded as realized gains.

Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivable when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is probable.

(b) Cash and Foreign Currency The functional and reporting currency for the Funds is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the current exchange rates each business day. Purchases and sales of securities and income and expense items denominated in foreign currencies, if any, are translated into U.S. dollars at the exchange rate in effect on the transaction date. The Funds do not separately report the effects of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized gain (loss) and net change in unrealized appreciation (depreciation) from investments on the Statements of Operations. The Funds may invest in foreign currency-denominated securities and may engage in foreign currency transactions either on a spot (cash) basis at the rate prevailing in the currency exchange market at the time or through a forward foreign currency contract. Realized foreign exchange gains (losses) arising from sales of spot foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid are included in net realized gain (loss) on foreign currency transactions on the Statements of Operations. Net unrealized foreign exchange gains (losses) arising from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period are included in net change in unrealized appreciation (depreciation) on foreign currency assets and liabilities on the Statements of Operations.

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Notes to Financial Statements (Cont.)

(c) Distributions – Common Shares – The following table shows the anticipated frequency of distributions from net investment income and gains from the sale of portfolio securities and other sources to common shareholders.

Fund Name	Distribution Frequency	
	Declared	Distributed
PIMCO Corporate & Income Opportunity Fund	Monthly	Monthly
PIMCO Corporate & Income Strategy Fund	Monthly	Monthly
PIMCO High Income Fund	Monthly	Monthly
PIMCO Income Strategy Fund	Monthly	Monthly
PIMCO Income Strategy Fund II	Monthly	Monthly

Net realized capital gains earned by each Fund, if any, will be distributed no less frequently than once each year.

A Fund may engage in investment strategies, including the use of derivatives, to, among other things, generate current, distributable income even if such strategies could potentially result in declines in the Fund's net asset value (NAV). A Fund's income and gain-generating strategies, including certain derivatives strategies, may generate current income and gains taxable as ordinary income sufficient to support monthly distributions even in situations when the Fund has experienced a decline in net assets due to, for example, adverse changes in the broad U.S. or non-U.S. equity markets or the Fund's debt investments, or arising from its use of derivatives. A Fund may enter into opposite sides of interest rate swap and other derivatives for the principal purpose of generating distributable gains on the one side (characterized as ordinary income for tax purposes) that are not part of the Fund's duration or yield curve management strategies (paired swap transactions), and with a substantial possibility that the Fund will experience a corresponding capital loss and decline in NAV with respect to the opposite side transaction (to the extent it does not have corresponding offsetting capital gains). Consequently, common shareholders may receive distributions and owe tax at a time when their investment in a Fund has declined in value, which tax may be at ordinary income rates, and which may be economically similar to a taxable return of capital. The tax treatment of certain derivatives may be open to different interpretations. Any recharacterization of payments made or received by a Fund pursuant to derivatives potentially could affect the amount, timing or character of Fund distributions. In addition, the tax treatment of such investment strategies may be changed by regulation or otherwise.

Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may cause timing differences between income and capital gain recognition. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting.

As a result, income distributions and capital gain distributions declared during a fiscal period may differ significantly from the net investment income (loss) and realized gains (losses) reported on each Fund's annual financial statements presented under U.S. GAAP.

If a Fund estimates that a portion of one of its dividend distributions may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Fund will notify shareholders of record of the estimated composition of such distribution through a Section 19 Notice. For these purposes, a Fund estimates the source or sources from which a distribution is paid, to the close of the period as of which it is paid, in reference to its internal accounting records and related accounting practices. If, based on such accounting records and practices, it is estimated that a particular distribution does not include capital gains or paid-in surplus or other capital sources, a Section 19 Notice generally would not be issued. It is important to note that differences exist between a Fund's daily internal accounting records and practices, a Fund's financial statements presented in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. For instance, a Fund's internal accounting records and practices may take into account, among other factors, tax-related characteristics of certain sources of distributions that differ from treatment under U.S. GAAP. Examples of such differences may include, among others, the treatment of paydowns on mortgage-backed securities purchased at a discount and periodic payments under interest rate swap

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contracts. Accordingly, among other consequences, it is possible that a Fund may not issue a Section 19 Notice in situations where the Fund's financial statements prepared later and in accordance with U.S. GAAP and/or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital. Please visit www.pimco.com for the most recent Section 19 Notice, if applicable, for additional information regarding the estimated composition of distributions. Final determination of a distribution's tax character will be reported on Form 1099 DIV sent to shareholders for the calendar year.

Distributions classified as a tax basis return of capital, if any, are reflected on the Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed (overdistributed) net investment income (loss), accumulated undistributed (overdistributed) net realized gain (loss) and/or paid in capital to more appropriately conform U.S. GAAP to tax characterizations of distributions.

(d) New Accounting Pronouncements In August 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate,

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that raise substantial doubt about the entity's ability to continue as a going concern. The ASU is effective prospectively for annual periods ending after December 15, 2016, and interim periods thereafter. The Funds have adopted the ASU. The implementation of the ASU did not have an impact on the Funds' financial statements.

In May 2015, the FASB issued ASU 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The Funds have adopted the ASU. The implementation of the ASU did not have an impact on the Funds' financial statements.

In March 2016, the FASB issued ASU 2016-05 which provides guidance related to the impact of derivative contract novations on certain relationships under Accounting Standards Codification (ASC) 815. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In August 2016, the FASB issued ASU 2016-15 which amends ASC 230 to clarify guidance on the classification of certain cash receipts and cash payments in the Statement of Cash Flows. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In October 2016, the U.S. Securities and Exchange Commission (SEC) adopted new rules and forms, and amendments to certain current rules and forms, to modernize reporting and disclosure of information by registered investment companies. The amendments to Regulation S-X will require standardized, enhanced disclosure about derivatives in investment company financial statements, and will also change the rules governing the form and content of such financial statements. The compliance date for these amendments is August 1, 2017. Compliance is based on reporting period-end date. At this time, management is assessing the anticipated impact of these regulatory developments.

In November 2016, the FASB issued ASU 2016-18 which amends ASC 230 to provide guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents on the Statement of Cash Flows. The ASU is effective for annual periods

beginning after December 15, 2017, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In March 2017, the FASB issued ASU 2017-08 which provides guidance related to the amortization period for certain purchased callable debt securities held at a premium. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Funds have adopted the ASU. The implementation of the ASU did not have an impact on the Funds' financial statements.

3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The NAV of a Fund's shares is determined by dividing the total value of portfolio investments and other assets attributable to that Fund less any liabilities by the total number of shares outstanding of that Fund.

On each day that the New York Stock Exchange (NYSE) is open, Fund shares are ordinarily valued as of the close of regular trading (NYSE Close). Information that becomes known to the Funds or their agents after the time as of which NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day. Each Fund reserves the right to change the time as of which its respective NAV is calculated if the Fund closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from established market makers or prices (including evaluated prices) supplied by the Funds' approved pricing services, quotation reporting systems and other third-party sources (together, Pricing Services). The Funds will normally use pricing data for domestic equity securities received shortly after the NYSE Close and do not normally take into account trading, clearances or settlements that take place after the NYSE Close. If market value pricing is used, a foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by PIMCO to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may

Notes to Financial Statements (Cont.)

be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services. A Fund's investments in open-end management investment companies, other than exchange-traded funds (ETFs), are valued at the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees (the Board). Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, a Fund may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, a Fund may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. A Fund may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign exchanges may permit trading in foreign (non-U.S.) equity securities on days when a Fund is not open for business, which may result in a Fund's portfolio investments being affected when shareholders are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing

Services. As a result, the value of such investments and, in turn, the NAV of a Fund's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of investments traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that a Fund is not open for business. As a result, to the extent that a Fund holds foreign (non-U.S.) investments, the value of those investments may change at times when shareholders are unable to buy or sell shares and the value of such investments will be reflected in the Fund's next calculated NAV.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to PIMCO the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board (Valuation Oversight Committee), generally based on recommendations provided by the Manager. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, indicative market quotations (Broker Quotes), Pricing Services' prices), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of a Fund's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Manager the responsibility for monitoring significant events that may materially affect the values of a Fund's securities or assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When a Fund uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board or persons acting at their direction believe reflects fair value. Fair valuation may require subjective determinations about the value of a security. While the Funds' policy is intended to result in a calculation of a Fund's NAV that fairly reflects security values as of the time of pricing, the Funds cannot ensure that fair values determined by the Board or persons acting at their direction would

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accurately reflect the price that a Fund could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by a Fund may differ from the value that would be realized if the securities were sold.

(b) Fair Value Hierarchy U.S. GAAP describes fair value as the price that a Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

Level 1 Quoted prices in active markets or exchanges for identical assets and liabilities.

Level 2 Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.

Level 3 Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

Assets or liabilities categorized as Level 2 or 3 as of period end have been transferred between Levels 2 and 3 since the prior period due to changes in the method utilized in valuing the investments. Transfers from Level 3 to Level 2 are a result of the availability of current and reliable market-based data provided by Pricing Services or other valuation techniques which utilize significant observable inputs. In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers into and out of Level 3, if material, are disclosed in the Notes to Schedule of Investments for each respective Fund.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to realized gain (loss), unrealized appreciation (depreciation), purchases and sales, accrued discounts (premiums), and transfers into and out of the Level 3 category during the period. The end of period value is used for the

transfers between Levels of a Fund's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets or liabilities categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, and if material, a Level 3 reconciliation and details of significant unobservable inputs, have been included in the Notes to Schedule of Investments for each respective Fund.

(c) Valuation Techniques and the Fair Value Hierarchy

Level 1 and Level 2 trading assets and trading liabilities, at fair value The valuation methods (or techniques) and significant inputs used in determining the fair values of portfolio securities or other assets and liabilities categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

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Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The Pricing Services' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Fixed income securities purchased on a delayed-delivery basis or as a repurchase commitment in a sale-buyback transaction are marked to market daily until settlement at the forward settlement date and are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, ETFs, exchange-traded notes and financial derivative instruments, such as futures contracts, rights and warrants, or options on futures that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To

Notes to Financial Statements (Cont.)

the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using Pricing Services that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as forward foreign currency contracts, options contracts, or swap agreements, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. Other than swap agreements, which are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services, these contracts are normally valued on the basis of quotes obtained from a quotation reporting system, established market makers or Pricing Services (normally determined as of the NYSE Close). Depending on the product and the terms of the transaction, financial derivative instruments can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps and over the counter swaps derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. They are valued using a broker-dealer bid quotation based on market-based prices provided by Pricing Services (normally determined as of the NYSE close). Centrally cleared swaps and over the counter swaps can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models may use inputs that are observed from actively quoted markets such as the overnight index swap rate (OIS), London Interbank Offered Rate (LIBOR) forward rate, interest rates, yield curves and credit spreads. These securities are categorized as Level 2 of the fair value hierarchy.

Level 3 trading assets and trading liabilities, at fair value When a fair valuation method is applied by PIMCO that uses significant

unobservable inputs, investments will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy. The valuation techniques and significant inputs used in determining the fair values of portfolio assets and liabilities categorized as Level 3 of the fair value hierarchy are as follows:

Proxy pricing procedures set the base price of a fixed income security and subsequently adjust the price proportionally to market value changes of a pre-determined security deemed to be comparable in duration, generally a U.S. Treasury or sovereign note based on country of issuance. The base price may be a broker-dealer quote, transaction price, or an internal value as derived by analysis of market data. The base price of the security may be reset on a periodic basis based on the availability of market data and procedures approved by the Valuation Oversight Committee. Significant changes in the unobservable inputs of the proxy pricing process (the base price) would result in direct and proportional changes in the fair value of the security. These securities are categorized as Level 3 of the fair value hierarchy.

If third-party evaluated vendor pricing is not available or not deemed to be indicative of fair value, the Manager may elect to obtain Broker Quotes directly from the broker-dealer or passed through from a third-party vendor. In the event that fair value is based upon a single sourced Broker Quote, these securities are categorized as Level 3 of the fair value hierarchy. Broker Quotes are typically received from established

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market participants. Although independently received, the Manager does not have the transparency to view the underlying inputs which support the market quotation. Significant changes in the Broker Quote would have direct and proportional changes in the fair value of the security.

Fundamental analysis valuation estimates fair value by using an internal model that utilizes financial statements of the non-public underlying company. Significant changes in the unobservable inputs would result in direct and proportional changes in the fair value of the security. These securities are categorized as Level 3 of the fair value hierarchy.

Short-term debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost value of such short-term debt instruments is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. These securities are categorized as Level 2 or Level 3 of the fair value hierarchy depending on the source of the base price.

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4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Securities

Loan Participations, Assignments and Originations Certain Funds may invest in direct debt instruments which are interests in amounts owed to lenders or lending syndicates by corporate, governmental, or other borrowers. A Fund's investments in loans may be in the form of direct investments, participations in loans or assignments of all or a portion of loans from third parties or exposure to investments in or originations of loans through investments in a mutual fund or other pooled investment vehicle. A loan is often administered by a bank or other financial institution (the "agent") that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. A Fund may invest in multiple series or tranches of a loan, which may have varying terms and carry different associated risks. A Fund generally has no right to enforce compliance with the terms of the loan agreement with the borrower. As a result, a Fund may be subject to the credit risk of both the borrower and the agent that is selling the loan agreement.

In the event of the insolvency of the agent selling a participation, a Fund may be treated as a general creditor of the agent and may not benefit from any set-off between the agent and the borrower. When a Fund purchases assignments from agents it acquires direct rights against the borrowers of the loans. These loans may include participations in bridge loans, which are loans taken out by borrowers for a short period (typically less than one year) pending arrangement of more permanent financing through, for example, the issuance of bonds, frequently high yield bonds issued for the purpose of acquisitions.

Investments in loans are generally subject to risks similar to those of investments in other types of debt obligations, including, among others, credit risk, interest rate risk, variable and floating rate securities risk, and risks associated with mortgage-related securities. In addition, in many cases loans are subject to the risks associated with below-investment grade securities. The Funds may be subject to heightened or additional risks and potential liabilities and costs by investing in mezzanine and other subordinated loans or acting as an originator of loans, including those arising under bankruptcy, fraudulent conveyance, equitable subordination, lender liability, environmental and other laws and regulations, and risks and costs associated with debt servicing and taking foreclosure actions associated with the loans. To the extent that a Fund originates a loan, it may be responsible for all or a substantial portion of the expenses associated with initiating the loan. This may include significant legal and due diligence expenses, which will be indirectly borne by a Fund and its shareholders. A Fund may pay fees and expenses associated with originating a loan, including significant legal and due diligence expenses, irrespective of whether the loan transaction is ultimately consummated or closed.

Additionally, because loans are not ordinarily registered with the SEC or any state securities commission or listed on any securities exchange, there is usually less publicly available information about such instruments. In addition, loans may not be considered "securities" for purposes of the anti-fraud provisions under the federal securities laws and, as a result, as a purchaser of these instruments, a Fund may not be entitled to the anti-fraud protections of the federal securities laws. In the course of investing in such instruments, a Fund may come into possession of material nonpublic information and, because of prohibitions on trading in securities of issuers while in possession of such information, the Fund may be unable to enter into a transaction in a publicly-traded security of that issuer when it would otherwise be advantageous for the Fund to do so. Alternatively, a Fund may choose not to receive material nonpublic information about an issuer of such loans, with the result that the Fund may have less information about such issuers than other investors who transact in such assets.

The types of loans and related investments in which the Funds may invest include, among others, senior loans, subordinated loans (including second lien loans, B-Notes and mezzanine loans), whole loans, commercial real estate and other commercial loans and structured loans. The Funds may originate loans or acquire direct interests in loans through primary loan distributions and/or in private transactions. In the case of subordinated loans, there may be significant indebtedness ranking ahead of the borrower's obligation to the holder of such a loan, including in the event of the borrower's insolvency. Mezzanine loans are typically secured by a pledge of an equity interest in the mortgage borrower that owns

the real estate rather than an interest in a mortgage.

Investments in loans may include unfunded loan commitments, which are contractual obligations for future funding. Unfunded loan commitments may include revolving credit facilities, which may obligate a Fund to supply additional cash to the borrower on demand. Unfunded loan commitments represent a future obligation in full, even though a percentage of the committed amount may not be utilized by the borrower. When investing in a loan participation, a Fund has the right to receive payments of principal, interest and any fees to which it is entitled only from the agent selling the loan agreement and only upon receipt of payments by the agent from the borrower. Because investing in unfunded loan commitments creates a future obligation for a Fund to provide funding to a borrower upon demand in exchange for a fee, the Fund will segregate or earmark liquid assets with the Fund's custodian in amounts sufficient to satisfy any such future obligations. A Fund may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a loan. In certain circumstances, a Fund may receive a penalty fee upon the prepayment of a loan by a borrower. Fees earned or paid are recorded as a component of interest income or interest expense, respectively, on the Statements of Operations. As of July 31, 2017,

Notes to Financial Statements (Cont.)

PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, PIMCO High Income Fund, PIMCO Income Strategy Fund and PIMCO Income Strategy Fund II had \$1,700,488, \$983,572, \$1,311,237, \$387,292, and \$993,497, respectively, in unfunded loan commitments outstanding.

Mortgage-Related and Other Asset-Backed Securities Certain Funds may invest in mortgage-related and other asset-backed securities that directly or indirectly represent a participation in, or are secured by and payable from, loans on real property. Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. These securities typically provide a monthly payment which consists of both principal and interest. Interest may be determined by fixed or adjustable rates. In times of declining interest rates, there is a greater likelihood that a Fund's higher yielding securities will be pre-paid with the Fund being unable to reinvest the proceeds in an investment with as great a yield. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. Interest-only and principal-only securities are especially sensitive to interest rate changes, which can affect not only their prices but can also change the income flows and repayment assumptions about those investments. The timely payment of principal and interest of certain mortgage-related securities is guaranteed with the full faith and credit of the U.S. Government. Pools created and guaranteed by non-governmental issuers, including government-sponsored corporations, may be supported by various forms of insurance or guarantees, but there can be no assurance that private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. Many of the risks of investing in mortgage-related securities secured by commercial mortgage loans (CMBS) reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make lease payments, and the ability of a property to attract and retain tenants. These securities may be less liquid and may exhibit greater price volatility than other types of mortgage-related or other asset-backed securities. Other asset-backed securities are created from many types of assets, including without limitation, auto loans, credit card receivables, home equity loans, and student loans. The Funds may invest in any level of the capital structure of an issuer of

mortgage-backed or asset-backed securities, including the equity or first loss tranche.

Collateralized Debt Obligations (CDOs) include Collateralized Bond Obligations (CBOs), Collateralized Loan Obligations (CLOs) and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is typically backed by a

diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. For both CBOs and CLOs, the cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the equity tranche which bears the bulk of defaults from the bonds or loans in the trust and serves to protect the other, more senior tranches from default in all but the most severe circumstances. Since it is partially protected from defaults, a senior tranche from a CBO trust or CLO trust typically has higher ratings and lower yields than the underlying securities, and can be rated investment grade. Despite the protection from the equity tranche, CBO or CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults and aversion to CBO or CLO securities as a class. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which a Fund invests. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the collateral may decline in value or default, (iii) a Fund may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

Collateralized Mortgage Obligations (CMOs) are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds and divided into classes. CMOs are structured into multiple classes, often referred to as tranches, with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

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As CMOs have evolved, some classes of CMO bonds have become more common. For example, a Fund may invest in parallel-pay and planned amortization class (PAC) CMOs and multi-class pass-through certificates. Parallel-pay CMOs and multi-class pass-through certificates are structured to provide payments of principal on each payment date to more than one class. These simultaneous payments are taken into account in calculating the stated maturity date or final distribution date of each class, which, as with other CMO and multi-class pass-through structures, must be retired by its stated maturity date or final distribution date but may be retired earlier. PACs generally require payments of a specified amount of principal on each payment date. PACs are parallel-pay CMOs with the required principal amount

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on such securities having the highest priority after interest has been paid to all classes. Any CMO or multi-class pass-through structure that includes PAC securities must also have support tranches known as support bonds, companion bonds or non-PAC bonds which lend or absorb principal cash flows to allow the PAC securities to maintain their stated maturities and final distribution dates within a range of actual prepayment experience. These support tranches are subject to a higher level of maturity risk compared to other mortgage-related securities, and usually provide a higher yield to compensate investors. If principal cash flows are received in amounts outside a pre-determined range such that the support bonds cannot lend or absorb sufficient cash flows to the PAC securities as intended, the PAC securities are subject to heightened maturity risk. A Fund may invest in various tranches of CMO bonds, including support bonds and equity or first loss tranches (see Collateralized Debt Obligations above).

Stripped Mortgage-Backed Securities (SMBS) are derivative multi-class mortgage securities. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. SMBS will have one class that will receive all of the interest (the interest-only or IO class), while the other class will receive the entire principal (the principal-only or PO class). IOs and POs can be extremely volatile in response to changes in interest rates. As interest rates rise and fall, the value of IOs tends to move in the same direction as interest rates. POs perform best when prepayments on the underlying mortgages rise since this increases both the rate at which the principal is returned and the yield to maturity on the PO. When payments on mortgages underlying a PO are slower than anticipated, the life of the PO is lengthened and the yield to maturity is reduced. The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on a Fund's yield to maturity from these securities. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Funds may fail to recoup some or all of its initial investment in these securities even if the security is in one of the highest rating categories.

Payments received for IOs are included in interest income on the Statements of Operations. Because no principal will be received at the maturity of an IO, adjustments are made to the cost of the security on a monthly basis until maturity. These adjustments are included in interest income on the Statements of Operations. Payments received for POs are treated as reductions to the cost and par value of the securities.

Payment In-Kind Securities Certain Funds may invest in payment in-kind securities (PIKs). PIKs may give the issuer the option at each interest payment date of making interest payments in either cash or

additional debt securities. Those additional debt securities usually have the same terms, including maturity dates and interest rates, and associated risks as the original bonds. The daily market quotations of the original bonds may include the accrued interest (referred to as a dirty price) and require a pro rata adjustment from the unrealized appreciation (depreciation) on investments to interest receivable on the Statements of Assets and Liabilities.

Restricted Securities Certain Funds may invest in securities that are subject to legal or contractual restrictions on resale. These securities may generally be sold privately, but are required to be registered or exempted from such registration before being sold to the public. Private placement securities are generally considered to be restricted except for those securities traded between qualified institutional investors under the provisions of Rule 144A of the Securities Act of 1933. Disposal of restricted securities may involve time-consuming negotiations and expenses, and prompt sale at an acceptable price may be difficult to achieve. Restricted securities held by the Funds at July 31, 2017 are disclosed in the Notes to Schedules of Investments.

U.S. Government Agencies or Government-Sponsored Enterprises Certain Funds may invest in securities of U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its

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agencies or instrumentalities. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association (GNMA or Ginnie Mae), are supported by the full faith and credit of the U.S. Government; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the U.S. Treasury); and others, such as those of the Federal National Mortgage Association (FNMA or Fannie Mae), are supported by the discretionary authority of the U.S. Government to purchase the agency s obligations. U.S. Government securities may include zero coupon securities. Zero coupon securities do not distribute interest on a current basis and tend to be subject to a greater risk than interest-paying securities.

Government-related guarantors (*i.e.*, not backed by the full faith and credit of the U.S. Government) include FNMA and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). FNMA is a government-sponsored corporation. FNMA purchases conventional (*i.e.*, not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC issues Participation

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Certificates (PCs), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

Warrants Certain Funds may receive warrants. Warrants are securities that are usually issued together with a debt security or preferred stock and that give the holder the right to buy a proportionate amount of common stock at a specified price. Warrants are freely transferable and are often traded on major exchanges. Warrants normally have a life that is measured in years and entitle the holder to buy common stock of a company at a price that is usually higher than the market price at the time the warrant is issued. Warrants may entail greater risks than certain other types of investments. Generally, warrants do not carry the right to receive dividends or exercise voting rights with respect to the underlying securities, and they do not represent any rights in the assets of the issuer. In addition, their value does not necessarily change with the value of the underlying securities, and they cease to have value if they are not exercised on or before their expiration date. If the market price of the underlying stock does not exceed the exercise price during the life of the warrant, the warrant will expire worthless. Warrants may increase the potential profit or loss to be realized from the investment as compared with investing the same amount in the underlying securities. Similarly, the percentage increase or decrease in the value of an equity security warrant may be greater than the percentage increase or decrease in the value of the underlying common stock. Warrants may relate to the purchase of equity or debt securities. Debt obligations with warrants attached to purchase equity securities have many characteristics of convertible securities and their prices may, to some degree, reflect the performance of the underlying stock. Debt obligations also may be issued with warrants attached to purchase additional debt securities at the same coupon rate. A decline in interest rates would permit a Fund to sell such warrants at a profit. If interest rates rise, these warrants would generally expire with no value.

When-Issued Transactions Certain Funds may purchase or sell securities on a when-issued basis. These transactions are made conditionally because a security, although authorized, has not yet been issued in the market. Transactions to purchase or sell securities on a when-issued basis involve a commitment by a Fund to purchase or sell these securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. A Fund may sell when-issued securities before they are delivered, which may result in a realized gain (loss).

5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on a Fund's ability to lend or borrow cash or securities to the extent permitted under the Act, which may be viewed as borrowing or financing transactions by a Fund. The location of these instruments in each Fund's financial statements is described below. For a detailed description of credit and counterparty risks that can be associated with borrowings and other financing transactions, please see Note 7, Principal Risks.

(a) **Repurchase Agreements** Certain Funds may engage in repurchase agreements. Under the terms of a typical repurchase agreement, a Fund purchases an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and a Fund to resell, the obligation at an agreed-upon price and time. In an open maturity repurchase agreement, there is no pre-determined repurchase date and the agreement can be terminated by a Fund or counterparty at any time. The underlying securities for all repurchase agreements are held by a Fund's custodian or designated subcustodians under tri-party repurchase agreements and in certain instances will remain in custody with the counterparty. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Repurchase agreements, if any, including accrued interest, are included on the Statements of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statements of Operations. In periods of increased demand for collateral, a Fund may pay a fee for the receipt of collateral, which may result in interest expense to the Fund.

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(b) Reverse Repurchase Agreements Certain Funds may enter into reverse repurchase agreements. In a reverse repurchase agreement, a Fund delivers a security in exchange for cash to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed upon price and date. In an open maturity reverse repurchase agreement, there is no pre-determined repurchase date and the agreement can be terminated by the Fund or counterparty at any time. A Fund is entitled to receive principal and interest payments, if any, made on the security delivered to the counterparty during the term of the agreement. Cash received in exchange for securities delivered plus accrued interest payments to be made by a Fund to counterparties are reflected as a liability on the Statements of Assets and Liabilities. Interest payments made by a Fund to counterparties are recorded as a component of interest expense on the Statements of Operations. In periods of increased demand for the security, a Fund may receive a fee for use of the security by the counterparty, which may result in interest income to the Fund. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, a Fund s use of the proceeds of

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the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities. Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities to be repurchased may decline below the repurchase price, please see Note 7, Principal Risks.

6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Funds may use financial derivative instruments, the credit-risk-related contingent features in certain financial derivative instruments and how financial derivative instruments affect the Funds' financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statements of Assets and Liabilities and of the realized appreciation (depreciation) and changes in unrealized appreciation (depreciation) related to such instruments on the Statements of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedules of Investments. The financial derivative instruments outstanding as of period end and the amounts of realized and changes in unrealized appreciation (depreciation) on financial derivative instruments during the period, as disclosed in the Notes to Schedules of Investments, serve as indicators of the volume of financial derivative activity for the Funds.

PIMCO Corporate & Income Opportunity Fund is subject to regulation as a commodity pool under the Commodity Exchange Act pursuant to recent rule changes by the Commodity Futures Trading Commission (the "CFTC"). The Manager has registered with the CFTC as a Commodity Pool Operator and a Commodity Trading Adviser with respect to the Fund, and is a member of the National Futures Association. As a result, additional CFTC-mandated disclosure, reporting and recordkeeping obligations apply to PIMCO Corporate & Income Opportunity Fund. Compliance with the CFTC's regulatory requirements could increase PIMCO Corporate & Income Opportunity Fund's expenses, adversely affecting its total return.

(a) Forward Foreign Currency Contracts Certain Funds may enter into forward foreign currency contracts in connection with settling planned purchases or sales of securities, to hedge the currency exposure associated with some or all of a Fund's securities or as a part of an investment strategy. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a forward foreign currency contract fluctuates with changes in foreign currency exchange rates. Forward foreign currency contracts are marked to market daily, and the change in value is recorded by a Fund as an unrealized gain (loss). Realized gains (losses) are equal to the difference between the value of the contract at the time it was opened and the value at the time it was

closed and are recorded upon delivery or receipt of the currency. The contractual obligations of a buyer or seller of a forward foreign currency contract may generally be satisfied by taking or making physical delivery of the underlying currency, establishing an opposite position in the contract and recognizing the profit or loss on both positions simultaneously on the delivery date or, in some instances, paying a cash settlement before the designated date of delivery. These contracts may involve market risk in excess of the unrealized gain (loss) reflected on the Statements of Assets and Liabilities. Although forwards may be intended to minimize the risk of loss due to a decline in the value of the hedged currencies, at the same time, they tend to limit any potential gain which might result should the value of such currencies increase. In addition, a Fund could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar. To mitigate such risk, cash or securities may be exchanged as collateral pursuant to the terms of the underlying contracts.

(b) Swap Agreements Certain Funds may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between a Fund and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements may be privately negotiated in the over the counter market ("OTC swaps") or may be cleared through a third party, known as a

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central counterparty or derivatives clearing organization (Centrally Cleared Swaps). A Fund may enter into asset, credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements to manage its exposure to credit, currency, interest rate, commodity, equity and inflation risk. In connection with these agreements, securities or cash may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Centrally Cleared Swaps are marked to market daily based upon valuations as determined from the underlying contract or in accordance with the requirements of the central counterparty or derivatives clearing organization. Changes in market value, if any, are reflected as a component of net change in unrealized appreciation (depreciation) on the Statements of Operations. Daily changes in valuation of centrally cleared swaps, if any, are recorded as variation margin on the Statements of Assets and Liabilities. OTC swap payments received or paid at the beginning of the measurement period are included on the Statements of Assets and Liabilities and represent premiums paid or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). Upfront premiums received (paid) are initially recorded as liabilities (assets) and subsequently

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marked to market to reflect the current value of the swap. These upfront premiums are recorded as realized gain (loss) on the Statements of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain (loss) on the Statements of Operations. Net periodic payments received or paid by a Fund are included as part of realized gain (loss) on the Statements of Operations.

For purposes of applying a Fund's investment policies and restrictions, swap agreements are generally valued by a Fund at market value. In the case of a credit default swap, in applying certain of a Fund's investment policies and restrictions, the Funds will value the credit default swap at its notional value or its full exposure value (*i.e.*, the sum of the notional amount for the contract plus the market value), but may value the credit default swap at market value for purposes of applying certain of a Fund's other investment policies and restrictions. For example, a Fund may value credit default swaps at full exposure value for purposes of a Fund's credit quality guidelines (if any) because such value in general better reflects a Fund's actual economic exposure during the term of the credit default swap agreement. As a result, a Fund may, at times, have notional exposure to an asset class (before netting) that is greater or lesser than the stated limit or restriction noted in a Fund's prospectus. In this context, both the notional amount and the market value may be positive or negative depending on whether a Fund is selling or buying protection through the credit default swap. The manner in which certain securities or other instruments are valued by a Fund for purposes of applying investment policies and restrictions may differ from the manner in which those investments are valued by other types of investors.

Entering into swap agreements involves, to varying degrees, elements of interest, credit, market and documentation risk in excess of the amounts recognized on the Statements of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates or the asset upon which the swap is based.

A Fund's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that amount is positive. The risk may be mitigated by having a master netting arrangement between a Fund and the counterparty and by the posting of collateral to a Fund to cover a Fund's exposure to the counterparty. To the extent a Fund has a policy to limit the net amount owed to or to be received from a single counterparty under existing swap agreements, such limitation only applies to counterparties to OTC swaps and does not apply to centrally cleared swaps where the

counterparty is a central counterparty or derivatives clearing organization.

Credit Default Swap Agreements Certain Funds may use credit default swaps on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues to provide a measure of protection against defaults of the issuers (*i.e.*, to reduce risk where a Fund owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default. Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event that the referenced entity, obligation or index, as specified in the swap agreement, undergoes a certain credit event. As a seller of protection on credit default swap agreements, a Fund will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, a Fund would effectively add leverage to its portfolio because, in addition to its total net assets, a Fund would be subject to investment exposure on the notional amount of the swap.

If a Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, a Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If a Fund is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, a Fund will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced

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obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event).

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Credit default swap agreements on corporate or sovereign issues involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event).

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset-backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. Credit default swaps on credit indices may be used to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect or to take an active long or short position with respect to the likelihood of a particular referenced obligation's default. Credit default swaps on indices are instruments often used to attempt to protect investors owning bonds against default, but may also be used for speculative purposes.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues as of period end, if any, are disclosed in the Notes to Schedules of Investments. They serve as an indicator of the current status of payment/performance risk and represent the likelihood or risk of default for the reference entity. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of

default or other credit event occurring as defined under the terms of the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that a Fund as a seller of protection could be required to make under a credit default swap agreement equals the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of period end for which a Fund is the seller of protection are disclosed in the Notes to Schedules of Investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by a Fund for the same referenced entity or entities.

Interest Rate Swap Agreements Certain Funds are subject to interest rate risk exposure in the normal course of pursuing their investment objectives. The value of the fixed rate bonds that the Funds hold may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, a Fund may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by a Fund with another party for their respective commitment to pay or receive interest on the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party

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agrees to make payments to the other to the extent that interest rates exceed a specified rate, or cap , (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or floor , (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the buyer pays an upfront fee in consideration for the right to early terminate the swap transaction in whole, at zero cost and at a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different segments of money markets.

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Notes to Financial Statements (Cont.)

Asset Segregation Certain of the transactions described above can be viewed as constituting a form of borrowing or financing transaction by a Fund. In such event, a Fund may but is not required to cover its commitment under such transactions by segregating or earmarking assets in accordance with procedures adopted by the Board, in which case such transactions will not be considered senior securities by the Fund. With respect to forwards, futures contracts, options and swaps that are contractually permitted or required to cash settle (i.e., where physical delivery of the underlying reference asset is not required), a Fund (other than PIMCO Corporate & Income Opportunity Fund) is permitted to segregate or earmark liquid assets equal to the Fund's daily marked-to-market net obligation under the derivative instrument, if any, rather than the derivative's full notional value. By segregating or earmarking liquid assets equal to only its net marked-to-market obligation under derivatives that are required to cash settle, a Fund will have the ability to employ leverage to a greater extent than if a Fund were to segregate or earmark liquid assets equal to the full notional value of the derivative. For PIMCO Corporate & Income Opportunity Fund, with respect to forwards and futures contracts and interest rate swaps that are contractually required to cash settle (i.e., where physical delivery of the underlying reference asset is not permitted or physical settlement is not otherwise involved), the Fund is permitted to segregate or earmark liquid assets equal to the Fund's daily marked-to-market net obligation under the derivative instrument, if any, rather than the derivative's full notional value, but will segregate full notional value, as applicable, with respect to other derivative instruments (including written credit default swaps, written total return swaps and written options) that contractually require or permit physical delivery of securities or other underlying assets.

7. PRINCIPAL RISKS

In the normal course of business, the Funds trade financial instruments and enter into financial transactions where risk of potential loss exists due to such things as changes in the market (market risk) or failure or inability of the other party to a transaction to perform (credit and counterparty risk). See below for a detailed description of select principal risks. For a more comprehensive list of potential risks the Funds may be subject to, please see the Important Information About the Funds.

Market Risks A Fund's investments in financial derivative instruments and other financial instruments expose the Fund to various risks such as, but not limited to, interest rate, foreign (non-U.S.) currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities and other instruments held by a Fund will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by a Fund is likely to decrease. A nominal

interest rate can be described as the sum of a real interest rate and an expected inflation rate. Interest rate changes can be sudden and unpredictable, and a Fund may lose money if these changes are not anticipated by the Fund's management. A Fund may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended.

Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is a measure used to determine the sensitivity of a security's price to changes in interest rates that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. Duration is useful primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (i.e. yield) movements. All other things remaining equal, for each one percentage point increase in interest rates, the value of a portfolio of fixed income investments would generally be expected to decline by one percent for every year of the portfolio's average duration above zero. For example, the value of a portfolio of fixed income securities with an average duration of three years would generally be expected to decline by approximately 3% if interest rates rose by one percentage point. Convexity is an additional measure used to understand a security's interest rate sensitivity. Convexity measures the rate of change of duration in response to changes in interest rates and may be positive or negative. Securities with negative convexity may experience greater losses during periods of rising interest rates, and accordingly Funds holding such securities may be subject to a greater risk of losses in periods of rising interest rates. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). Under current economic conditions, interest rates are near historically low levels. Thus, the Funds currently face a heightened

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level of interest rate risk, especially since the Federal Reserve Board has ended its quantitative easing program and has begun, and may continue, to raise interest rates. To the extent the Federal Reserve Board continues to raise interest rates, there is a risk that rates across the financial system may rise. During periods of very low or negative interest rates, a Fund may be unable to maintain positive returns. Changing interest rates, including rates that fall below zero, may have unpredictable effects on markets, may result in heightened market volatility and may detract from Fund performance to the extent a Fund is exposed to such interest rates. Rising interest rates may result in a decline in value of a Fund's fixed-income investments and in periods of volatility. Further, while U.S. bond markets have steadily grown over the past three decades, dealer market making ability has remained relatively stagnant. As a result, dealer inventories of certain types of bonds and similar instruments, which provide a core indication of the ability of financial

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intermediaries to make markets, are at or near historic lows in relation to market size. Because market makers provide stability to a market through their intermediary services, the significant reduction in dealer inventories could potentially lead to decreased liquidity and increased volatility in the fixed income markets. Such issues may be exacerbated during periods of economic uncertainty. All of these factors, collectively and/or individually, could cause a Fund to lose value.

Foreign (non-U.S.) securities in this report are classified by the country of incorporation of a holding. In certain instances, a security's country of incorporation may be different from its country of economic exposure. If a Fund invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in financial derivatives that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the base currency of the Fund, or, in the case of hedging positions, that the Fund's base currency will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, a Fund's investments in foreign currency denominated securities may reduce the Fund's returns.

The market values of a Fund's investments may decline due to general market conditions which are not specifically related to a particular company or issuer, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity related investments generally have greater market price volatility than fixed income securities, although under certain market conditions fixed income securities may have comparable or greater price volatility. Credit ratings downgrades may also negatively affect securities held by a Fund. Even when markets perform well, there is no assurance that the investments held by a Fund will increase in value along with the broader market. In addition, market risk includes the risk that geopolitical events will disrupt the economy on a national or global level.

Credit and Counterparty Risks A Fund will be exposed to credit risk to parties with whom it trades and will also bear the risk of settlement default. A Fund seeks to minimize concentrations of credit risk by undertaking transactions with a large number of counterparties on

recognized and reputable exchanges, where applicable. Over the counter (OTC) derivative transactions are subject to the risk that a counterparty to the transaction will not fulfill its contractual obligations to the other party, as many of the protections afforded to centrally cleared derivative transactions might not be available for OTC derivative transactions. For derivatives traded on an exchange or through a central counterparty, credit risk resides with the Fund's clearing broker, or the clearinghouse itself, rather than with a counterparty in an OTC derivative transaction. A Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

Similar to credit risk, a Fund may be exposed to counterparty risk, or the risk that an institution or other entity with which a Fund has unsettled or open transactions will default. PIMCO, as the Manager, seeks to minimize counterparty risks to the Funds through a number of ways. Prior to entering into transactions with a new counterparty, the PIMCO Counterparty Risk Committee conducts an extensive credit review of such counterparty and must approve the use of such counterparty. Furthermore, pursuant to the terms of the underlying contract, to the extent that unpaid amounts owed to a Fund exceed a predetermined threshold, such counterparty is required to advance collateral to the Fund in the form of cash or securities equal in value to the unpaid amount owed to the Fund. A Fund may invest such collateral in securities or other instruments and will typically pay interest to the counterparty on the collateral received. If the unpaid amount owed to a Fund subsequently decreases, the Fund would be required to return to the counterparty all or a portion of the collateral previously advanced. PIMCO's attempts to minimize counterparty risk may, however, be unsuccessful.

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All transactions in listed securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once a Fund has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

To the extent a Fund has a policy to limit the net amount owed to or to be received from a single counterparty under existing swap agreements, such limitation only applies to counterparties to OTC swaps and does not apply to centrally cleared swaps where the counterparty is a central counterparty or derivatives clearing organization.

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Notes to Financial Statements (Cont.)**8. MASTER ARRANGEMENTS**

The Funds may be subject to various netting arrangements with select counterparties (Master Agreements). Master Agreements govern the terms of certain transactions, and are intended to reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that is intended to improve legal certainty. Each type of Master Agreement governs certain types of transactions. Different types of transactions may be traded out of different legal entities or affiliates of a particular organization, resulting in the need for multiple agreements with a single counterparty. As the Master Agreements are specific to unique operations of different asset types, they allow a Fund to close out and net its total exposure to a counterparty in the event of a default with respect to all the transactions governed under a single Master Agreement with a counterparty. For financial reporting purposes the Statements of Assets and Liabilities generally present derivative assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under most Master Agreements, collateral is routinely transferred if the total net exposure to certain transactions (net of existing collateral already in place) governed under the relevant Master Agreement with a counterparty in a given account exceeds a specified threshold, which typically ranges from zero to \$250,000 depending on the counterparty and the type of Master Agreement. United States Treasury Bills and U.S. dollar cash are generally the preferred forms of collateral, although other forms of AAA rated paper or sovereign securities may be used depending on the terms outlined in the applicable Master Agreement. Securities and cash pledged as collateral are reflected as assets on the Statements of Assets and Liabilities as either a component of Investments at value (securities) or Deposits with counterparty. Cash collateral received is not typically held in a segregated account and as such is reflected as a liability on the Statements of Assets and Liabilities as Deposits from counterparty. The market value of any securities received as collateral is not reflected as a component of NAV. A Fund's overall exposure to counterparty risk can change substantially within a short period, as it is affected by each transaction subject to the relevant Master Agreement.

Master Repurchase Agreements and Global Master Repurchase Agreements (individually and collectively Master Repo Agreements) govern repurchase, reverse repurchase, and sale-buyback transactions between a Fund and select counterparties. Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral. The market value of transactions under the Master Repo Agreement, collateral

pledged or received, and the net exposure by counterparty as of period end are disclosed in the Notes to Schedules of Investments.

Master Securities Forward Transaction Agreements (Master Forward Agreements) govern certain forward settling transactions, such as To-Be-Announced (TBA) securities, delayed-delivery or sale-buyback transactions by and between a Fund and select counterparties. The Master Forward Agreements maintain provisions for, among other things, transaction initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral. The market value of forward settling transactions, collateral pledged or received, and the net exposure by counterparty as of period end is disclosed in the Notes to Schedules of Investments.

Customer Account Agreements and related addenda govern cleared derivatives transactions such as futures, options on futures, and cleared OTC derivatives. Cleared derivatives transactions require posting of initial margin as determined by each relevant clearing agency which is segregated at a broker account registered with the CFTC, or the applicable regulator. In the United States, counterparty risk may be reduced as creditors of a futures broker do not have a claim to Fund assets in the segregated account. Portability of exposure reduces risk to the Funds. Variation margin, or changes in market value, are exchanged daily, but may not be netted between futures and cleared OTC derivatives unless the parties have agreed to a separate arrangement in respect of portfolio margining. The market value or accumulated unrealized appreciation (depreciation), initial margin posted, and any unsettled variation margin as of period end is disclosed in the Notes to Schedule of Investments.

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Prime Broker Arrangements may be entered into to facilitate execution and/or clearing of listed equity option transactions or short sales of equity securities between a Fund and selected counterparties. The arrangements provide guidelines surrounding the rights, obligations, and other events, including, but not limited to, margin, execution, and settlement. These agreements maintain provisions for, among other things, payments, maintenance of collateral, events of default, and termination. Margin and other assets delivered as collateral are typically in the possession of the prime broker and would offset any obligations due to the prime broker. The market values of listed options and securities sold short and related collateral are disclosed in the Notes to Schedules of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes (ISDA Master Agreements) govern bilateral OTC derivative transactions entered into by a Fund with select counterparties. ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral posting and events of default or termination. Events of termination include conditions that may entitle counterparties to elect

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to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements. In limited circumstances, the ISDA Master Agreement may contain additional provisions that add counterparty protection beyond coverage of existing daily exposure if the counterparty has a decline in credit quality below a predefined level. These amounts, if any, may be segregated with a third-party custodian. The market value of OTC financial derivative instruments, collateral received or pledged, and net exposure by counterparty as of period end are disclosed in the Notes to Schedules of Investments.

9. FEES AND EXPENSES

(a) **Management Fee** Pursuant to the Investment Management Agreement with PIMCO (the "Agreement"), and subject to the supervision of the Board, PIMCO is responsible for providing to each Fund investment guidance and policy direction in connection with the management of the Fund, including oral and written research, analysis, advice, and statistical and economic data and information. In addition, pursuant to the Agreement and subject to the general supervision of the Board, PIMCO, at its expense, provides or causes to be furnished most other supervisory and administrative services the Funds require, including but not limited to, expenses of most third-party service providers (e.g., audit, custodial, legal, transfer agency, printing) and other expenses, such as those associated with insurance, proxy solicitations and mailings for shareholder meetings, NYSE listing and related fees, tax services, valuation services and other services the Funds require for their daily operations.

Pursuant to the Agreement, PIMCO receives an annual fee, payable monthly, at the annual rates shown in the table below:

Fund Name	Annual Rate
PIMCO Corporate & Income Opportunity Fund	0.65% ⁽¹⁾
PIMCO Corporate & Income Strategy Fund	0.81% ⁽¹⁾
PIMCO High Income Fund	0.76% ⁽¹⁾
PIMCO Income Strategy Fund	0.86% ⁽²⁾
PIMCO Income Strategy Fund II	0.83% ⁽²⁾

(1) Management fees calculated based on the Fund's average daily NAV (including daily net assets attributable to any preferred shares of the Fund that may be outstanding).

(2) Management fees calculated based on the Fund's average weekly total managed assets. Total managed assets includes total assets of each Fund (including any assets attributable to any preferred shares or other forms of leverage that may be outstanding) minus accrued liabilities (other than liabilities representing leverage).

(b) **Fund Expenses** Each Fund bears other expenses, which may vary and affect the total level of expenses paid by shareholders, such as (i) salaries and other compensation or expenses, including travel expenses of any of the Fund's executive officers and employees, if any, who are not officers, directors, shareholders, members, partners or employees of PIMCO or its subsidiaries or affiliates; (ii) taxes and

governmental fees, if any, levied against the Fund; (iii) brokerage fees and commissions and other portfolio transaction expenses incurred by or for the Fund (including, without limitation, fees and expenses of outside legal counsel or third-party consultants retained in connection with reviewing, negotiating and structuring specialized loan and other investments made by the Fund, subject to specific or general authorization by the Fund's Board); (iv) expenses of the Fund's securities lending (if any), including any securities lending agent fees, as governed by a separate securities lending agreement; (v) costs, including interest expense, of borrowing money or engaging in other types of leverage financing, including, without limitation, through the use by the Fund of reverse repurchase agreements, tender option bonds, bank borrowings and credit facilities; (vi) costs, including dividend and/or interest expenses and other costs (including, without limitation, offering and related legal costs,

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fees to brokers, fees to auction agents, fees to transfer agents, fees to ratings agencies and fees to auditors associated with satisfying ratings agency requirements for preferred shares or other securities issued by the Fund and other related requirements in the Fund's organizational documents) associated with the Fund's issuance, offering, redemption and maintenance of preferred shares, commercial paper or other senior securities for the purpose of incurring leverage; (vii) fees and expenses of any underlying funds or other pooled investment vehicles in which the Fund invests; (viii) dividend and interest expenses on short positions taken by the Fund; (ix) fees and expenses, including travel expenses, and fees and expenses of legal counsel retained for their benefit, of Trustees who are not officers, employees, partners, shareholders or members of PIMCO or its subsidiaries or affiliates; (x) extraordinary expenses, including extraordinary legal expenses, that may arise, including expenses incurred in connection with litigation, proceedings, other claims, and the legal obligations of the Fund to indemnify its Trustees, officers, employees, shareholders, distributors, and agents with respect thereto; (xi) organizational and offering expenses of the Fund, including with respect to share offerings, such as rights offerings and shelf offerings, following the Fund's initial offering, and expenses associated with tender offers and other share repurchases and redemptions; and (xii) expenses of the Fund which are capitalized in accordance with U.S. GAAP.

Each of the Trustees of the Funds who is not an interested person under Section 2(a)(19) of the Act, (the Independent Trustees) also serves as a trustee of a number of other closed-end funds for which PIMCO serves as investment manager (together with the Funds, the PIMCO Closed-End Funds), as well as PIMCO Flexible Credit Income

Fund, a closed end management investment company managed by PIMCO that is operated as an interval fund (PFLEX), and PIMCO Managed Accounts Trust, an open-end investment company with multiple series for which PIMCO serves as investment adviser and

Notes to Financial Statements (Cont.)

administrator (PMAT and, together with the PIMCO Closed-End Funds and PFLEX the PIMCO-Managed Funds). In addition, each of the Independent Trustees also serves as a trustee of certain investment companies (together, the Allianz-Managed Funds), for which Allianz Global Investors U.S. LLC (AllianzGI U.S.), an affiliate of PIMCO, serves as investment adviser. Prior to the close of business on September 5, 2014, a predecessor entity of AllianzGI U.S. served as investment manager of PMAT and the PIMCO Closed-End Funds.

Each Independent Trustee currently receives annual compensation of \$225,000 for his or her service on the Boards of the PIMCO-Managed Funds, payable quarterly. The Independent Chairman of the Boards receives an additional \$75,000 per year, payable quarterly. The Audit Oversight Committee Chairman receives an additional \$50,000 annually, payable quarterly. Trustees are also reimbursed for meeting-related expenses.

Each Trustee's compensation for his or her service as a Trustee on the Boards of the PIMCO Managed Funds and other costs in connection with joint meetings of such Funds are allocated among the PIMCO-Managed Funds, as applicable, on the basis of fixed percentages between PMAT, PFLEX and the PIMCO Closed-End Funds. Trustee compensation and other costs will then be further allocated pro rata among the individual PIMCO-Managed Funds within each grouping based on each such PIMCO-Managed Fund's relative net assets.

10. RELATED PARTY TRANSACTIONS

The Manager is a related party. Fees payable to this party are disclosed in Note 9, Fees and Expenses, and the accrued related party fee amounts are disclosed on the Statements of Assets and Liabilities.

Certain Funds are permitted to purchase or sell securities from or to certain related affiliated funds under specified conditions outlined in procedures adopted by the Board. The procedures have been designed to ensure that any purchase or sale of securities by the Funds from or to another fund or portfolio that are, or could be, considered an affiliate, or an affiliate of an affiliate, by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 under the Act.

Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended July 31, 2017, the Funds below engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Fund Name	Purchases	Sales
PIMCO Corporate & Income Opportunity Fund	\$ 68,393	\$ 106,067
PIMCO Corporate & Income Strategy Fund	16,086	69,074
PIMCO High Income Fund	21,486	117,157
PIMCO Income Strategy Fund	14,236	31,521
PIMCO Income Strategy Fund II	16,025	30,284

11. GUARANTEES AND INDEMNIFICATIONS

Under each Fund's organizational documents, each Trustee and officer is indemnified, to the extent permitted by the Act, against certain liabilities that may arise out of performance of their duties to the Funds. Additionally, in the normal course of business, the Funds enter into

contracts that contain a variety of indemnification clauses. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred. However, the Funds have not had prior claims or losses pursuant to these contracts.

12. PURCHASES AND SALES OF SECURITIES

The length of time a Fund has held a particular security is not generally a consideration in investment decisions. A change in the securities held by a Fund is known as portfolio turnover. Each Fund may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover may involve correspondingly greater transaction costs to a Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The transaction costs and tax effects associated with portfolio turnover may adversely affect a Fund's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended July 31, 2017, were as follows (amounts in thousands):

Fund Name	U.S. Government/Agency		All Other	
	Purchases	Sales	Purchases	Sales
PIMCO Corporate & Income Opportunity Fund	\$ 23,727	\$ 8,195	\$ 803,973	\$ 489,288
PIMCO Corporate & Income Strategy Fund	13,427	5,438	290,539	257,495
PIMCO High Income Fund	10,495	6,472	331,347	371,020
PIMCO Income Strategy Fund	4,503	2,270	157,191	134,173
PIMCO Income Strategy Fund II	4,557	7,167	226,694	175,132

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13. COMMON SHARES OFFERING

On March 23, 2017, the SEC declared effective a registration statement filed using the shelf registration process for PIMCO Corporate & Income Opportunity Fund. Pursuant to the shelf registration, PIMCO Corporate & Income Opportunity Fund may offer and sell, from time to time, in one or more offerings, up to 14,500,000 of its Common Shares, par value \$0.00001 per share. The aggregate sale proceeds for the sales of the PIMCO Corporate & Income Opportunity Fund Common Shares are subject to an aggregate cap of \$229,680,000. The Fund may not sell any Common Shares at a price below the current NAV of such common shares, exclusive of any distributing commission or discount. Sales of the Common Shares, if any, may be made in negotiated transactions or transactions that are deemed to be at the

market, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. During the fiscal year ended July 31, 2017, the Fund sold 4,605,942 Common Shares. Proceeds from the offerings during the fiscal year ended July 31, 2017 (net of commissions and fees) were \$74,137,916.

14. AUCTION-RATE PREFERRED SHARES

Each series of Auction-Rate Preferred Shares (ARPS) outstanding of each Fund has a liquidation preference of \$25,000 per share plus any accumulated, unpaid dividends. Dividends are accumulated daily at an annual rate that is typically reset every seven days through auction procedures (or through default procedures in the event of failed auctions). Distributions of net realized capital gains, if any, are paid at least annually.

For the period ended July 31, 2017, the annualized dividend rates on the ARPS ranged from:

Fund Name	Shares Issued and Outstanding	High	Low	As of July 31, 2017
PIMCO Corporate & Income Opportunity Fund				
Series M	1,884	2.342%	0.662%	2.322%
Series T	1,770	2.322%	0.722%	2.302%
Series W	1,847	2.322%	0.622%	2.322%
Series TH	2,033	2.362%	0.682%	2.302%
Series F	1,984	2.362%	0.582%	2.302%
PIMCO Corporate & Income Strategy Fund				
Series M	406	1.757%	0.497%	1.742%
Series T	449	1.742%	0.542%	1.727%
Series W	473	1.742%	0.467%	1.742%
Series TH	434	1.772%	0.512%	1.727%
Series F	459	1.772%	0.437%	1.727%
PIMCO High Income Fund				
Series M	688	1.874%	0.530%	1.858%
Series T	958	1.858%	0.578%	1.842%

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Series W	738	1.858%	0.498%	1.858%
Series TH	757	1.890%	0.546%	1.842%
Series F	938	1.890%	0.466%	1.842%
PIMCO Income Strategy Fund				
Series T	766	2.444%	1.689%	2.444%
Series W	699	2.444%	1.689%	2.444%
Series TH	586	2.444%	1.689%	2.444%
PIMCO Income Strategy Fund II				
Series M	721	2.447%	1.687%	2.447%
Series T	881	2.444%	1.689%	2.444%
Series W	671	2.444%	1.689%	2.444%
Series TH	753	2.444%	1.689%	2.444%
Series F	672	2.445%	1.691%	2.444%

Each Fund is subject to certain limitations and restrictions while ARPS are outstanding. Failure to comply with these limitations and restrictions could preclude a Fund from declaring or paying any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of ARPS at their liquidation preference plus any accumulated, unpaid dividends.

Notes to Financial Statements (Cont.)

Preferred shareholders of each Fund, who are entitled to one vote per share, generally vote together with the common shareholders of the Fund but vote separately as a class to elect two Trustees of the Fund and on certain matters adversely affecting the rights of the ARPS.

Since mid-February 2008, holders of ARPS issued by the Funds have been directly impacted by a lack of liquidity, which has similarly affected ARPS holders in many of the nation's closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and ARPS holders have continued to receive dividends at the defined maximum rate, as defined for the Funds in the table below:

Fund Name	Applicable %	Reference Rate	Maximum Rate
PIMCO Corporate & Income Opportunity Fund	200% x	7-day AA Financial Composite Commercial Paper Rates	= Maximum Rate for PTY
PIMCO Corporate & Income Strategy Fund	150% x	7-day AA Financial Composite Commercial Paper Rates	= Maximum Rate for PCN
PIMCO High Income Fund	160% x	7-day AA Financial Composite Commercial Paper Rates	= Maximum Rate for PHK
	150% x	7-Day USD LIBOR	=
PIMCO Income Strategy Fund	The higher of		Maximum Rate for PFL
		OR	
	1.25% +	7-Day USD LIBOR	=
	150% x	7-Day USD LIBOR	=
PIMCO Income Strategy Fund II	The higher of		Maximum Rate for PFN
		OR	
	1.25% +	7-Day USD LIBOR	=

The maximum rate is a function of short-term interest rates and is typically higher than the rate that would have otherwise been set through a successful auction. If the Funds' ARPS auctions continue to fail and the maximum rate payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Fund's common shareholders could be adversely affected.

15. REGULATORY AND LITIGATION MATTERS

The Funds are not named as defendants in any material litigation or arbitration proceedings and are not aware of any material litigation or claim pending or threatened against them.

The foregoing speaks only as of the date of the preparation of this report.

16. FEDERAL INCOME TAX MATTERS

Each Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the Code) and distribute all of its taxable income and net realized gains, if applicable,

to shareholders. Accordingly, no provision for Federal income taxes has been made.

The Funds may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Manager has reviewed the Funds tax positions for all open tax years. As of July 31, 2017, the Funds have recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions they have taken or expect to take in future tax returns.

The Funds file U.S. tax returns. While the statute of limitations remains open to examine the Funds U.S. tax returns filed for the fiscal years ending in 2013-2016, no examinations are in progress or anticipated at this time. The Funds are not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

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July 31, 2017

As of July 31, 2017, the components of distributable taxable earnings are as follows (amounts in thousands):

	Undistributed Ordinary Income ⁽¹⁾	Undistributed Long-Term Capital Gains	Net Tax Basis Unrealized Appreciation/ (Depreciation) ⁽²⁾	Other Book-to-Tax Accounting Differences ⁽³⁾	Accumulated Capital Losses ⁽⁴⁾	Qualified Late-Year Loss Deferral Capital ⁽⁵⁾	Qualified Late-Year Loss Deferral Ordinary ⁽⁶⁾
PIMCO Corporate & Income Opportunity Fund	\$ 0	\$ 0	\$ 177,293	\$ (12,175)	\$ (133,313)	\$ 0	\$ 0
PIMCO Corporate & Income Strategy Fund	0	0	109,529	(6,203)	(79,525)	0	0
PIMCO High Income Fund	0	0	49,625	(12,773)	(145,036)	0	0
PIMCO Income Strategy Fund	1,503	0	38,145	(3,084)	(140,583)	0	0
PIMCO Income Strategy Fund II	8,944	0	85,345	(5,915)	(361,122)	0	0

A zero balance may reflect actual amounts rounding to less than one thousand.

- (1) Includes undistributed short-term capital gains, if any.
- (2) Adjusted for open wash sale loss deferrals and accelerated recognition of unrealized gain or loss on certain forward contracts for federal income tax purposes. Also adjusted for differences between book and tax realized and unrealized gain/loss on swap contracts, market discount and premium amortization, passive foreign investment companies (PFIC), partnership adjustments, convertible preferred securities, and Lehman securities.
- (3) Represents differences in income tax regulations and financial accounting principles generally accepted in the United States of America, mainly for straddle loss deferrals and distributions payable at fiscal year-end.
- (4) Capital losses available to offset future net capital gains expire in varying amounts as shown below.
- (5) Capital losses realized during the period November 1, 2016 through July 31, 2017 which the Funds elected to defer to the following taxable year pursuant to income tax regulations.
- (6) Specified losses realized during the period November 1, 2016 through July 31, 2017 and Ordinary losses realized during the period January 1, 2017 through July 31, 2017, which the Funds elected to defer to the following taxable year pursuant to income tax regulations.

As of July 31, 2017, the Funds had accumulated capital losses expiring in the following years (amounts in thousands).

The Funds will resume capital gain distributions in the future to the extent gains are realized in excess of accumulated capital losses.

	Expiration of Accumulated Capital Losses	
	7/31/2018	7/31/2019
PIMCO Corporate & Income Opportunity Fund	\$ 0	\$ 0
PIMCO Corporate & Income Strategy Fund	0	0
PIMCO High Income Fund	0	0
PIMCO Income Strategy Fund	106,315	0
PIMCO Income Strategy Fund II	277,492	0

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A zero balance may reflect actual amounts rounding to less than one thousand.

Under the Regulated Investment Company Modernization Act of 2010, a fund is permitted to carry forward any new capital losses for an unlimited period. Additionally, such capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term under previous law.

As of July 31, 2017, the Funds had the following post-effective capital losses with no expiration (amounts in thousands):

	Short-Term	Long-Term
PIMCO Corporate & Income Opportunity Fund	\$ 133,313	\$ 0
PIMCO Corporate & Income Strategy Fund	73,783	5,742
PIMCO High Income Fund	75,480	69,556
PIMCO Income Strategy Fund	33,725	543
PIMCO Income Strategy Fund II	78,989	4,641

A zero balance may reflect actual amounts rounding to less than one thousand.

Notes to Financial Statements (Cont.)

July 31, 2017

As of July 31, 2017, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

	Federal	Unrealized	Unrealized	Net Unrealized
	Tax Cost	Appreciation	(Depreciation)	Appreciation/
				(Depreciation)⁽⁷⁾
PIMCO Corporate & Income Opportunity Fund	\$ 1,489,965	\$ 114,873	\$ (27,376)	\$ 87,497
PIMCO Corporate & Income Strategy Fund	683,144	60,594	(20,392)	40,202
PIMCO High Income Fund	1,064,275	94,021	(45,909)	48,112
PIMCO Income Strategy Fund	359,992	27,179	(9,671)	17,508
PIMCO Income Strategy Fund II	703,851	57,131	(22,464)	34,667

A zero balance may reflect actual amounts rounding to less than one thousand.

⁽⁷⁾ Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals, market discount and premium amortization, convertible preferred securities, passive foreign investment companies (PFIC), partnership adjustments, and Lehman securities for federal income tax purposes.

For the fiscal years ended July 31, 2017 and July 31, 2016, respectively, the Funds made the following tax basis distributions (amounts in thousands):

	July 31, 2017			July 31, 2016		
	Ordinary	Long-Term		Ordinary	Long-Term	
	Income	Capital Gain	Return of	Income	Capital Gain	Return of
	Distributions⁽⁸⁾	Distributions	Capital⁽⁹⁾	Distributions⁽⁸⁾	Distributions	Capital⁽⁹⁾
PIMCO Corporate & Income Opportunity Fund	\$ 118,069	\$ 0	\$ 10,356	\$ 114,208	\$ 0	\$ 0
PIMCO Corporate & Income Strategy Fund	68,668	0	834	53,284	0	0
PIMCO High Income Fund	117,877	0	24,148	150,015	0	9,562
PIMCO Income Strategy Fund	28,374	0	0	28,121	0	0
PIMCO Income Strategy Fund II	58,627	0	0	62,313	0	0

A zero balance may reflect actual amounts rounding to less than one thousand.

⁽⁸⁾ Includes short-term capital gains distributed, if any.

⁽⁹⁾ A portion of the distributions made represents a tax return of capital. Return of capital distributions have been reclassified from undistributed net investment income to paid-in capital to more appropriately conform financial accounting to tax accounting.

17. SUBSEQUENT EVENTS

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In preparing these financial statements, the Funds management has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

On August 1, 2017, the following distributions were declared to common shareholders payable September 1, 2017 to shareholders of record on August 11, 2017:

PIMCO Corporate & Income Opportunity Fund	\$	0.130000 per common share
PIMCO Corporate & Income Strategy Fund	\$	0.112500 per common share
PIMCO High Income Fund	\$	0.080699 per common share
PIMCO Income Strategy Fund	\$	0.090000 per common share
PIMCO Income Strategy Fund II	\$	0.080000 per common share

On September 6, 2017, the following distributions were declared to common shareholders payable October 2, 2017 to shareholders of record on September 11, 2017:

PIMCO Corporate & Income Opportunity Fund	\$	0.130000 per common share
PIMCO Corporate & Income Strategy Fund	\$	0.112500 per common share
PIMCO High Income Fund	\$	0.080699 per common share
PIMCO Income Strategy Fund	\$	0.090000 per common share
PIMCO Income Strategy Fund II	\$	0.080000 per common share

There were no other subsequent events identified that require recognition or disclosure.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, PIMCO High Income Fund, PIMCO Income Strategy Fund, and PIMCO Income Strategy Fund II

In our opinion, the (i) accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations, of changes in net assets, and of cash flows and the financial highlights present fairly, in all material respects, the financial position of the PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, and PIMCO High Income Fund as of July 31, 2017, the results of each of their operations and each of their cash flows for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated, and (ii) accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the PIMCO Income Strategy Fund and PIMCO Income Strategy Fund II Funds as of July 31, 2017, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated, (hereafter referred to as the Funds), in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Funds management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of July 31, 2017 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Kansas City, Missouri

September 27, 2017

Glossary: (abbreviations that may be used in the preceding statements)

(Unaudited)

Counterparty Abbreviations:

AZD	Australia and New Zealand Banking Group	GLM	Goldman Sachs Bank USA	NOM	Nomura Securities International Inc.
BCY	Barclays Capital, Inc.	GST	Goldman Sachs International	RBC	Royal Bank of Canada
BOA	Bank of America N.A.	HUS	HSBC Bank USA N.A.	RDR	RBC Capital Markets
BPG	BNP Paribas Securities Corp.	JML	JP Morgan Securities Plc	RTA	Bank of New York Mellon Corp.
BPS	BNP Paribas S.A.	JPM	JPMorgan Chase Bank N.A.	SAL	Citigroup Global Markets, Inc.
BRC	Barclays Bank PLC	JPS	JPMorgan Securities, Inc.	SOG	Societe Generale
CBK	Citibank N.A.	MEI	Merrill Lynch International	SSB	State Street Bank and Trust Co.
DEU	Deutsche Bank Securities, Inc.	MSB	Morgan Stanley Bank, N.A	TOR	Toronto Dominion Bank
DUB	Deutsche Bank AG	MSC	Morgan Stanley & Co., Inc.	UAG	UBS AG Stamford
FBF	Credit Suisse International	MYC	Morgan Stanley Capital Services, Inc.	UBS	UBS Securities LLC
FOB	Credit Suisse Securities (USA) LLC	NGF	Nomura Global Financial Products, Inc.		

Currency Abbreviations:

AUD	Australian Dollar	EUR	Euro	JPY	Japanese Yen
BRL	Brazilian Real	GBP	British Pound	USD	USD (or \$)

Exchange Abbreviations:

OTC	Over the counter
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Index/Spread Abbreviations:

ABX.HE	Asset-Backed Securities Index - Home Equity	CDX.IG	Credit Derivatives Index - Investment Grade	CMBX	Commercial Mortgage-Backed Index
CDX.HY	Credit Derivatives Index - High Yield				

Municipal Bond or Agency Abbreviations:

AGM	Assured Guaranty Municipal
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Other Abbreviations:

ABS	Asset-Backed Security	CDI	Brazil Interbank Deposit Rate	LIBOR	London Interbank Offered Rate
ALT	Alternate Loan Trust	CDO	Collateralized Debt Obligation	PIK	Payment-in-Kind
BABs	Build America Bonds	CLO	Collateralized Loan Obligation	TBD	To-Be-Determined
BBR	Bank Bill Rate	DAC	Designated Activity Company	TBD%	Interest rate to be determined when loan settles
BBSW	Bank Bill Swap Reference Rate	EURIBOR	Euro Interbank Offered Rate		

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Federal Income Tax Information

(Unaudited)

As required by the Internal Revenue Code (Code) and Treasury Regulations, if applicable, shareholders must be notified within 60 days of the Funds' fiscal year end regarding the status of qualified dividend income and the dividend received deduction.

Dividend Received Deduction. Corporate shareholders are generally entitled to take the dividend received deduction on the portion of a Fund's dividend distribution that qualifies under tax law. The percentage of the following Funds' fiscal 2017 ordinary income dividend that qualifies for the corporate dividend received deduction is set forth below.

Qualified Dividend Income. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the Act), the following percentage of ordinary dividends paid during the calendar year was designated as qualified dividend income , as defined in the Act, subject to reduced tax rates in 2017 is set forth in the table below.

Qualified Interest Income and Qualified Short-Term Capital Gain (for non-U.S. resident shareholders only). Under the American Jobs Creation Act of 2004, the following amounts of ordinary dividends paid during the fiscal year ended July 31, 2017 are considered to be derived from qualified interest income, as defined in Section 871(k)(1)(E) of the Code, and therefore are designated as interest-related dividends, as defined in Section 871(k)(1)(C) of the Code. Further, the following amounts of ordinary dividends paid during the fiscal year ended July 31, 2017 are considered to be derived from qualified short-term capital gain, as defined in Section 871(k)(2)(D) of the Code, and therefore are designated as qualified short-term gain dividends, as defined by Section 871(k)(2)(C) of the Code are also set forth in the table below.

	Dividend Received Deduction %	Qualified Dividend Income %	Qualified Interest Income (000s)	Qualified Short-Term Capital Gain (000s)
PIMCO Corporate & Income Opportunity Fund	0.00%	0.58%	\$ 52,941	\$ 0
PIMCO Corporate & Income Strategy Fund	0.00%	1.11%	27,404	0
PIMCO High Income Fund	0.00%	0.16%	46,648	0
PIMCO Income Strategy Fund	0.00%	1.02%	12,109	0
PIMCO Income Strategy Fund II	0.00%	1.93%	25,457	0

A zero balance may reflect actual amounts rounding to less than one thousand.

Shareholders are advised to consult their own tax advisor with respect to the tax consequences of their investment in the Trust. In January 2018, you will be advised on IRS Form 1099-DIV as to the federal tax status of the dividends and distributions received by you in calendar year 2017.

Shareholder Meeting Results

(Unaudited)

Annual Shareholder Meeting Results

PIMCO Corporate & Income Opportunity Fund and PIMCO Corporate & Income Strategy Fund held their annual meetings of shareholders on April 28, 2017. Shareholders voted as indicated below:

PIMCO Corporate & Income Opportunity Fund	Affirmative	Withheld Authority
Re-election of Bradford K. Gallagher Class II to serve until the annual meeting held during the 2019-2020 fiscal year	62,078,692	2,006,698
Re-election of James A. Jacobson* Class II to serve until the annual meeting held during the 2019-2020 fiscal year	4,237	51

The other members of the Board of Trustees at the time of the meeting, namely, Ms. Deborah A. DeCotis and Messrs. Craig A. Dawson, Hans W. Kertess, John C. Maney, William B. Ogden, IV and Alan Rappaport continued to serve as Trustees of the Fund.

* Preferred Shares Trustee

PIMCO Corporate & Income Strategy Fund	Affirmative	Withheld Authority
Re-election of Bradford K. Gallagher Class III to serve until the annual meeting for the 2019-2020 fiscal year	33,891,141	953,859
Election of William B. Ogden, IV Class III to serve until the annual meeting held during the 2019-2020 fiscal year	33,763,462	1,081,538
Re-election of Craig A. Dawson Class III to serve until the annual meeting held during the 2019-2020 fiscal year	33,947,327	897,673
Election of John C. Maney Class I to serve until the annual meeting held during the 2017-2018 fiscal year	33,947,914	897,086

The other members of the Board of Trustees at the time of the meeting, namely, Ms. Deborah A. DeCotis and Messrs. Hans W. Kertess, James A. Jacobson and Alan Rappaport continued to serve as Trustees of the Fund.

Interested Trustee

PIMCO Income Strategy Fund, PIMCO Income Strategy Fund II and PIMCO High Income Fund held their annual meetings of shareholders on June 30, 2017. Shareholders voted as indicated below.

PIMCO Income Strategy Fund	Affirmative	Withheld Authority
Re-election of William B. Ogden, IV Class I to serve until the annual meeting held during the 2019-2020 fiscal year	21,711,000	524,118
Re-election of Hans W. Kertess* Class I to serve until the annual meeting held during the 2019-2020 fiscal year	1,968	28

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The other members of the Board of Trustees at the time of the meeting, namely, Ms. Deborah A. DeCotis and Messrs. Craig A. Dawson, Bradford K. Gallagher, James A. Jacobson, John C. Maney and Alan Rappaport continued to serve as Trustees of the Fund.

* Preferred Shares Trustee

PIMCO High Income Fund	Affirmative	Withheld Authority
Re-election of Bradford K. Gallagher Class II to serve until the annual meeting held during the 2019-2020 fiscal year	103,373,109	5,079,265
Re-election of Craig A. Dawson Class II to serve until the annual meeting held during the 2019-2020 fiscal year	103,472,112	4,980,262
Re-election of James A. Jacobson* Class II to serve until the annual meeting held during the 2019-2020 fiscal year	2,838	267

The other members of the Board of Trustees at the time of the meeting, namely, Ms. Deborah A. DeCotis and Messrs. Hans W. Kertess, John C. Maney, William B. Ogden, IV and Alan Rappaport continued to serve as Trustees of the Fund.

Interested Trustee

* Preferred Shares Trustee

PIMCO Income Strategy Fund II	Affirmative	Withheld Authority
Re-election of Hans W. Kertess Class III to serve until the annual meeting held during the 2019-2020 fiscal year	50,397,781	852,296
Re-election of James A. Jacobson Class III to serve until the annual meeting held during the 2019-2020 fiscal year	50,391,343	858,734
Re-election of John C. Maney Class III to serve until the annual meeting held during the 2019-2020 fiscal year	50,469,276	780,801

The other members of the Board of Trustees at the time of the meeting, namely, Ms. Deborah A. DeCotis and Messrs. Craig A. Dawson, Bradford K. Gallagher, William B. Ogden, IV and Alan Rappaport continued to serve as Trustees of the Fund.

Interested Trustee

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Changes to Boards of Trustees

(Unaudited)

Effective April 28, 2017, Mr. William B. Ogden, IV, who was previously a Class I Trustee of PCN, became a Class III Trustee of PCN.
Effective April 28, 2017, Mr. John C. Maney, who was previously a Class III Trustee of PCN, became a Class I Trustee of PCN.

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Dividend Reinvestment Plan

Each Fund has adopted a Dividend Reinvestment Plan (the Plan) which allows common shareholders to reinvest Fund distributions in additional common shares of the Fund. American Stock Transfer & Trust Company, LLC (the Plan Agent) serves as agent for common shareholders in administering the Plan. It is important to note that participation in the Plan and automatic reinvestment of Fund distributions does not ensure a profit, nor does it protect against losses in a declining market.

Automatic enrollment/voluntary participation Under the Plan, common shareholders whose shares are registered with the Plan Agent (registered shareholders) are automatically enrolled as participants in the Plan and will have all Fund distributions of income, capital gains and returns of capital (together, distributions) reinvested by the Plan Agent in additional common shares of a Fund, unless the shareholder elects to receive cash. Registered shareholders who elect not to participate in the Plan will receive all distributions in cash paid by check and mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, to the nominee) by the Plan Agent. Participation in the Plan is voluntary. Participants may terminate or resume their enrollment in the Plan at any time without penalty by notifying the Plan Agent online at www.astfinancial.com, by calling (844) 33-PIMCO (844-337-4626), by writing to the Plan Agent, American Stock Transfer & Trust Company, LLC, at P.O. Box 922, Wall Street Station, New York, NY 10269-0560, or, as applicable, by completing and returning the transaction form attached to a Plan statement. A proper notification will be effective immediately and apply to each Fund's next distribution if received by the Plan Agent at least three (3) days prior to the record date for the distribution; otherwise, a notification will be effective shortly following the Fund's next distribution and will apply to the Fund's next succeeding distribution thereafter. If you withdraw from the Plan and so request, the Plan Agent will arrange for the sale of your shares and send you the proceeds, minus a transaction fee and brokerage commissions.

How shares are purchased under the Plan For each Fund distribution, the Plan Agent will acquire common shares for participants either (i) through receipt of newly issued common shares from each Fund (newly issued shares) or (ii) by purchasing common shares of the Fund on the open market (open market purchases). If, on a distribution payment date, the net asset value per common share of a Fund (NAV) is equal to or less than the market price per common share plus estimated brokerage commissions (often referred to as a market premium), the Plan Agent will invest the distribution amount on behalf of participants in newly issued shares at a price equal to the greater of (i) NAV or (ii) 95% of the market price per common share on the payment date. If the NAV is greater than the

market price per common shares plus estimated brokerage commissions (often referred to as a market discount) on a distribution payment date, the Plan agent will instead attempt to invest the distribution amount through open market purchases. If the Plan Agent is unable to invest the full distribution amount in open market purchases, or if the market discount shifts to a market premium during the purchase period, the Plan Agent will invest any un-invested portion of the distribution in newly issued shares at a price equal to the greater of (i) NAV or (ii) 95% of the market price per share as of the last business day immediately prior to the purchase date (which, in either case, may be a price greater or lesser than the NAV per common shares on the distribution payment date). No interest will be paid on distributions awaiting reinvestment. Under the Plan, the market price of common shares on a particular date is the last sales price on the exchange where the shares are listed on that date or, if there is no sale on the exchange on that date, the mean between the closing bid and asked quotations for the shares on the exchange on that date.

The NAV per common share on a particular date is the amount calculated on that date (normally at the close of regular trading on the New York Stock Exchange) in accordance with each Fund's then current policies.

Fees and expenses No brokerage charges are imposed on reinvestments in newly issued shares under the Plan. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. There are currently no direct service charges imposed on participants in the Plan, although each Fund reserves the right to amend the Plan to include such charges. The Plan Agent imposes a transaction fee (in addition to brokerage commissions that are incurred) if it arranges for the sale of your common shares held under the Plan.

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Shares held through nominees In the case of a registered shareholder such as a broker, bank or other nominee (together, a nominee) that holds common shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of common shares certified by the nominee/record shareholder as representing the total amount registered in such shareholder's name and held for the account of beneficial owners who are to participate in the Plan. If your common shares are held through a nominee and are not registered with the Plan Agent, neither you nor the nominee will be participants in or have distributions reinvested under the Plan. If you are a beneficial owner of common shares and wish to participate in the Plan, and your nominee is unable or unwilling to become a registered shareholder and a Plan participant on your behalf, you may request that your nominee arrange to have all or a portion of your shares re-registered with the Plan Agent in your

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(Unaudited)

name so that you may be enrolled as a participant in the Plan. Please contact your nominee for details or for other possible alternatives. Participants whose shares are registered with the Plan Agent in the name of one nominee firm may not be able to transfer the shares to another firm and continue to participate in the Plan.

Tax consequences Automatically reinvested dividends and distributions are taxed in the same manner as cash dividends and distributions i.e., automatic reinvestment in additional shares does not relieve shareholders of, or defer the need to pay, any income tax that may be payable (or that is required to be withheld) on Fund dividends and distributions. The Funds and the Plan Agent reserve the right to amend or terminate the Plan. Additional information about the Plan, as well as a copy of the full Plan itself, may be obtained from the Plan Agent, American Stock Transfer & Trust Company, LLC, at P.O. Box 922, Wall Street Station, New York, NY 10269-0560; telephone number: (844) 33-PIMCO (844-337-4626); website: www.astfinancial.com.

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Management of the Funds

The chart below identifies Trustees and Officers of the Funds. Unless otherwise indicated, the address of all persons below is c/o Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019.

Trustees

Name And Year of Birth	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past 5 Years
Independent Trustees					
Hans W. Kertess 1939	Chairman of the Board, Trustee	Trustee of PHK, PTY and PFL since 2003, Trustee of PCN since 2002 and Trustee of PFN since 2004, expected to stand for re-election at the annual meeting of shareholders held during the 2017-2018 fiscal year for PCN, the 2018-2019 fiscal year for PTY and PHK and the 2019-2020 fiscal year for PFL and PFN.	President, H. Kertess & Co., a financial advisory company; and Senior Adviser (formerly Managing Director), Royal Bank of Canada Capital Markets (since 2004).	88	None
Deborah A. DeCotis 1952	Trustee	Trustee of each Fund since 2011, expected to stand for re-election at the annual meeting of shareholders held during the 2017-2018 fiscal year for PHK, PTY and PFL and the 2018-2019 fiscal year for PFN and PCN.	Advisory Director, Morgan Stanley & Co., Inc. (since 1996); Member, Circle Financial Group (since 2009); and Member, Council on Foreign Relations (since 2013); Trustee, Smith College (since 2017); and Director, Watford Re (since 2017). Formerly, Co-Chair Special Projects Committee, Memorial Sloan Kettering (2005-2015); Trustee, Stanford University (2010-2015); Principal, LaLoop LLC, a retail accessories company (1999-2014); Director, Helena Rubenstein Foundation (1997-2010); and Director, Armor Holdings (2002-2010).	88	None
Bradford K. Gallagher 1944	Trustee	Trustee of each Fund since 2010, expected to stand for re-election at the annual meeting of shareholders held during the 2018-2019 fiscal year for PFL and PFN and the 2019-2020 fiscal year for PHK, PTY and PCN.	Retired. Founder, Spyglass Investments LLC, a private investment vehicle (since 2001). Formerly, Chairman and Trustee, The Common Fund (2005-2014); Partner, New Technology Ventures Capital Management LLC, a venture capital fund (2011-2013); Chairman and Trustee, Atlantic Maritime Heritage Foundation (2007-2012); and Founder, President and CEO, Cypress Holding Company and Cypress Tree Investment Management Company (1995-2001).	88	Formerly, Chairman and Trustee of Grail Advisors ETF Trust (2009-2010); and Trustee of Nicholas-Applegate Institutional Funds (2007-2010).
James A. Jacobson 1945	Trustee	Trustee of PCN, PTY and PHK since 2009, Trustee of PFL since 2012 and Trustee of PFN since 2013, expected to stand for re-election at the annual meeting of shareholders held during the 2017-2018 fiscal year for PFL, the 2018-2019 fiscal year for	Retired. Trustee (since 2002) and Chairman of Investment Committee (since 2007), Ronald McDonald House of New York; and Trustee, New Jersey City University (since 2014). Formerly, Vice Chairman and Managing Director, Spear, Leeds & Kellogg Specialists, LLC, a specialist firm on the New York Stock Exchange (2003-2008).	88	Formerly, Trustee, Alpine Mutual Funds Complex consisting of 18 funds.

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		PCN and the 2019-2020 fiscal year for PHK, PTY and PFN.		
William B. Ogden, IV	Trustee	Trustee of each Fund since 2006, expected to stand for re-election at the annual meeting of shareholders held during the 2017-2018 fiscal year for PFN, the 2018-2019 fiscal year for PHK and PTY and the 2019-2020 fiscal year for PFL and PCN.	Retired. Formerly, Asset Management Industry Consultant; and Managing Director, Investment Banking Division of Citigroup Global Markets Inc.	88 None
1945				
Alan Rappaport	Trustee	Trustee of each Fund (except PFL and PFN) since 2010 of PFN since 2012 and of PFL since 2014, expected to stand for re-election at the annual meeting of shareholders held during the 2017-2018 fiscal year for PCN, PFN and PFL and the 2018-2019 fiscal year for PHK and PTY.	Advisory Director (formerly Vice Chairman), Roundtable Investment Partners (since 2009); Adjunct Professor, New York University Stern School of Business (since 2011); Lecturer, Stanford University Graduate School of Business (since 2013); and Director, Victory Capital Holdings, Inc., an asset management firm (since 2013). Formerly, Member of Board of Overseers, NYU Langone Medical Center (2015-2016); Trustee, American Museum of Natural History (2005-2015); Trustee, NYU Langone Medical Center (2007-2015); Vice Chairman (formerly Chairman and President), U.S. Trust (formerly Private Bank of Bank of America, the predecessor entity of U.S. Trust) (2001-2008).	88 None
1953				

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(Unaudited)

Name And Year of Birth	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past 5 Years
Interested Trustees					
Craig A. Dawson* 1968	Trustee	Trustee of each Fund since 2014, expected to stand for re-election at the annual meeting of shareholders held during the 2017-2018 fiscal year for PTY and PFN, the 2018-2019 fiscal year for PFL and the 2019-2020 fiscal year for PHK and PCN.	Managing Director and Head of PIMCO Europe, Middle East and Africa (since 2016). Director of a number of PIMCO's European investment vehicles and affiliates (since 2008). Formerly, Head of Strategic Business Management, PIMCO (2014-2016), head of PIMCO's Munich office and head of European product management for PIMCO.	26	None
John C. Maney** 1959	Trustee	Trustee of each Fund since 2006, expected to stand for re-election at the annual meeting of shareholders held during the 2017-2018 fiscal year for PHK, PTY and PCN, the 2018-2019 fiscal year for PFL and the 2019-2020 fiscal year for PFN.	Managing Director of Allianz Asset Management of America L.P. (since January 2005) and a member of the Management Board and Chief Operating Officer of Allianz Asset Management of America L.P. (since November 2006). Formerly, Member of the Management Board of Allianz Global Investors Fund Management LLC (2007-2014) and Managing Director of Allianz Global Investors Fund Management LLC (2011-2014).	26	None

* Mr. Dawson is an interested person of the Funds, as defined in Section 2(a)(19) of the Act, due to his affiliation with PIMCO and its affiliates. Mr. Dawson's address is 650 Newport Center Drive, Newport Beach, CA 92660.

** Mr. Maney is an interested person of the Funds, as defined in Section 2(a)(19) of the Act, due to his affiliation with Allianz Asset Management of America L.P. and its affiliates. Mr. Maney's address is 650 Newport Center Drive, Newport Beach, CA 92660.

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Management of the Funds (Cont.)

(Unaudited)

Officers

Name, Address and Year of Birth	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years
Peter G. Strelow ¹ 1970	President	Since 2014	Managing Director and Chief Administrative Officer, PIMCO. President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Youse Guia ¹ 1972	Chief Compliance Officer	Since 2014	Senior Vice President and Deputy Chief Compliance Officer, PIMCO. Chief Compliance Officer, PIMCO-Managed Funds. Formerly, Head of Compliance, Allianz Global Investors U.S. Holdings LLC and Chief Compliance Officer of the Allianz Funds, Allianz Multi-Strategy Trust, Allianz Global Investors Sponsored Closed-End Funds, Premier Multi-Series VIT and The Korea Fund, Inc.
Joshua D. Ratner ² 1976	Vice President, Secretary and Chief Legal Officer	Since 2014	Executive Vice President and Senior Counsel, PIMCO. Chief Legal Officer, PIMCO Investments LLC. Vice President, Secretary and Chief Legal Officer, PIMCO-Managed Funds. Vice President - Senior Counsel, Secretary, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Ryan Leshaw ¹ 1980	Assistant Secretary	Since 2014	Senior Vice President and Senior Counsel, PIMCO. Assistant Secretary, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Associate, Willkie Farr & Gallagher LLP.
Wu-Kwan Kit ¹ 1981	Assistant Secretary	Since March 2017	Vice President and Counsel, PIMCO. Assistant Secretary, PIMCO-Managed Funds. Formerly, Assistant General Counsel, VanEck.
Stacie D. Anctil ¹ 1969	Vice President	Since 2015	Executive Vice President, PIMCO. Vice President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Eric D. Johnson ² 1970	Vice President	Since 2014	Executive Vice President, PIMCO. Vice President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Bijal Parikh ¹ 1978	Vice President	Since March 2017	Senior Vice President, PIMCO. Vice President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust and PIMCO Equity Series.
William G. Galipeau ¹ 1974	Treasurer	Since 2014	Executive Vice President, PIMCO. Treasurer, PIMCO-Managed Funds. Vice President, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Erik C. Brown ¹ 1967	Assistant Treasurer	Since 2015	Executive Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Christopher M. Morin ¹ 1980	Assistant Treasurer	Since 2016	Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Vice President of Operations, Standard Life Investments USA; Assistant Vice President, Brown Brothers Harriman.

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Jason J. Nagler ² 1982	Assistant Treasurer	Since 2015	Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Head of Mutual Fund Reporting, GMO, and Assistant Treasurer, GMO Trust and GMO Series Trust Funds.
Trent W. Walker ¹ 1974	Assistant Treasurer	Since 2014	Executive Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds. Treasurer, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Laura Melman ² 1966	Assistant Treasurer	Since March 2017	Senior Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Colleen Miller ² 1980	Assistant Treasurer	Since March 2017	Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Vice President Cohen & Steers Capital Management.

¹ The address of these officers is Pacific Investment Management Company LLC, 650 Newport Center Drive, Newport Beach, California 92660.

² The address of these officers is Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019.

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Approval of Investment Management Agreement

(Unaudited)

At an in-person meeting held on June 13, 2017 (the Approval Meeting), the Board of Trustees or Directors (for purposes of this disclosure, all Board members are hereinafter referred to as Trustees) of the Funds (the Board), including the Trustees who are not interested persons (as that term is defined in the Investment Company Act of 1940) of the Funds or PIMCO (the Independent Trustees), formally considered and unanimously approved the continuation of the Investment Management Agreement between each Fund and PIMCO (the Agreement) for an additional one-year period commencing on August 1, 2017. Prior to the Approval Meeting, the Contracts Review Committee of the Board of each Fund (together, the Committee) held an in-person meeting on June 13, 2017 (the Committee Meeting) and formally considered and recommended to the Board the continuation of the Agreement for each Fund. Prior to the Approval Meeting, on May 15, 2017, the Chair of the Committee participated in a conference call with members of management and PIMCO personnel and counsel to the Independent Trustees (Independent Counsel) to discuss the process for the Board's review of the Agreement and to consider certain information relating to the Funds, including, among other information, information relating to PIMCO's estimated profitability with respect to the Agreement, comparative fees and expenses and Fund performance. On May 16, 2017, PIMCO provided materials to the Committee for its consideration of the Agreement in response to a request from Independent Counsel (the Manager Request Letter), as well as other materials and information PIMCO believed was useful in evaluating the continuation of the Agreement.

On May 25, 2017, the Committee held a meeting via conference call (collectively with the May 15, 2017 conference call, the Committee Meeting and the Approval Meeting, the Contract Renewal Meetings), at which the members of the Committee, all of whom are Independent Trustees, considered the materials and information provided by PIMCO bearing on the continuation of the Agreement. The Committee also received and reviewed a memorandum from counsel to the Funds regarding the Trustees' responsibilities in evaluating the Agreement, which they discussed with Independent Counsel.

Following the presentation at the Committee Meeting, the Independent Trustees met separately in executive session with Independent Counsel to review and discuss all relevant information, including, but not limited to, information provided in response to the Manager Request Letter and information presented and discussed at the prior Contract Renewal Meetings.

In connection with their deliberations regarding the proposed continuation of the Agreement for each Fund, the Trustees, including the Independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. The Trustees also considered the nature, quality and extent of the various investment management,

administrative and other services performed by PIMCO under the Agreement.

It was noted that, in connection with their Contract Renewal Meetings, the Trustees relied upon materials provided by PIMCO which included, among other items: (i) information provided by Broadridge Financial Solutions, Inc./Lipper Inc. (Lipper), an independent third party, on the total return investment performance (based on net asset value and common share market price) of each Fund for various time periods, presented through comparisons to the investment performance of a group of funds identified by Lipper with investment classifications/objectives comparable to those of the Fund (for each Fund, its Lipper Performance Universe), (ii) information provided by Lipper on each Fund's management fees and other expenses under the Agreement and the management fees and other expenses of a smaller sample of comparable funds identified by Lipper (for each Fund, its Lipper Expense Group) as well as of a larger sample of comparable funds identified by Lipper (for each Fund, its Lipper Expense Universe), (iii) information regarding the market value performance of each Fund's common shares and related share price premium and/or discount information, (iv) information regarding the investment performance and fees for other funds and accounts managed by PIMCO, if any, with similar investment strategies to those of the Funds, (v) the estimated profitability to PIMCO with respect to each Fund for the one-year period ended December 31, 2016, (vi) descriptions of various functions performed by PIMCO for the Funds, such as portfolio management, compliance monitoring and portfolio trading practices, (vii) information regarding PIMCO's compliance policies

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applicable to the Funds, (viii) information regarding the Funds' use of leverage, (ix) summaries assigning a quadrant placement to each Fund based on an average of certain measures of performance and fees/expenses versus Lipper peer group medians (the Fund Scoring Summaries), (x) fact cards for each Fund that included summary information regarding each Fund, (xi) information regarding the comparative yields of the Funds, (xii) information regarding the risk-adjusted returns of the Funds, (xiii) possible fall-out benefits to PIMCO from its relationship with the Funds, and (xiv) information regarding the overall organization of PIMCO, including information regarding senior management, portfolio managers and other personnel providing investment management, administrative, compliance and other services to the Funds.

The Trustees' conclusions as to the continuation of the Agreement were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, attributing different weights to various factors.

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Approval of Investment Management Agreement (Cont.)

As part of their review, the Trustees examined PIMCO's abilities to provide high-quality investment management and other services to the Funds. Among other information, the Trustees considered the investment philosophy and research and decision-making processes of PIMCO; the experience of key advisory personnel of PIMCO responsible for portfolio management of the Funds; the ability of PIMCO to attract and retain capable personnel; and the capabilities of the senior management and staff of PIMCO. In addition, the Trustees reviewed the quality of PIMCO's services with respect to regulatory compliance and compliance with the investment policies of the Funds; the nature and quality of the supervisory and administrative services PIMCO is responsible for providing to the Funds; and conditions that might affect PIMCO's ability to provide high-quality services to the Funds in the future under the Agreement, including PIMCO's financial condition and operational stability. Based on the foregoing, the Trustees concluded that PIMCO's investment process, research capabilities and philosophy were well suited to the Funds given their investment objectives and policies, and that PIMCO would be able to continue to meet any reasonably foreseeable obligations under the Agreement.

In assessing the reasonableness of each Fund's fees under the Agreement, the Trustees considered, among other information, the Fund's management fee and its total expense ratio as a percentage of average net assets attributable to common shares and as a percentage of average managed assets (including assets attributable to common shares and leverage outstanding combined), and the management fee and total expense ratios of the Lipper Expense Group and Lipper Expense Universe for each Fund. In each case, the total expense ratio information was provided both inclusive and exclusive of interest and borrowing expenses. Fund-specific comparative fees/expenses reviewed by the Trustees are discussed below. The Fund-specific fee and expense results discussed below were prepared and provided by Lipper and were not independently verified by the Trustees.

The Trustees specifically took note of how each Fund compared to its Lipper peers as to performance, management fee expense and total expense ratio. The Trustees noted that, while the Funds are not currently charged a separate administration fee (recognizing that their management fees include a component for administrative services under the unitary fee arrangements), it was not clear in all cases whether the peer funds in the Lipper categories were separately charged such a fee by their investment managers, so that the total expense ratio, as opposed to any individual expense component, represented the most relevant comparison. The Trustees also considered that the total expense ratio seems to provide a more apt comparison than management fee expense because the Funds' unitary fee arrangements cover Operating Expenses (defined below) that are typically paid for or incurred by peer funds directly in addition to their management fees as discussed below. It was noted that the total

expense ratio comparisons reflect the effect of expense waivers/reimbursements, if any. The Trustees considered total expense ratio comparisons both including and excluding interest and borrowing expenses. The Trustees noted that only leveraged closed-end funds were considered for inclusion in the Lipper Expense Groups and Lipper Expense Universes presented for comparison with the Funds.

The Trustees noted that, for each Fund, the contractual management fee rate for the Fund under its unitary fee arrangement was at or below the median contractual management fees of the other funds in its Lipper Expense Group, calculated both on average net assets and on average managed assets, with the exception of PFL, whose contractual management fee rate was above the median in both cases. The Trustees took into account that each Fund's unitary fee arrangement covers substantially all of the Fund's other supervisory and administrative services required by the Fund that are typically paid for or incurred by closed-end funds directly in addition to a fund's management fee (such fees and expenses, Operating Expenses) and therefore would tend to be higher than the contractual management fee rates of other funds in the Lipper peer groups, which generally do not have a unitary fee structure and bear Operating Expenses directly and in addition to the management fee. The Trustees determined that a review of each Fund's total expense ratio with the total expense ratios of peer funds would generally provide more meaningful comparisons than considering contractual management fee rates in isolation.

In this regard, the Trustees noted PIMCO's view that the unitary fee arrangements have benefited and will continue to benefit common shareholders because they provide a management fee expense structure (including Operating Expenses) that is essentially fixed as a percentage

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of either managed assets (including assets attributable to preferred shares and certain other forms of leverage) or net assets (including assets attributable to preferred shares), as applicable, making it more predictable under ordinary circumstances in comparison to fee and expense structures, such as the structure in place for the Funds prior to September 6, 2014, under which the Funds' Operating Expenses (including certain third-party fees and expenses) can vary significantly over time. The Trustees also considered that the unitary fee arrangements generally insulate the Funds and common shareholders from increases in applicable third-party and certain other expenses because PIMCO, rather than the Funds, would bear the risk of such increases (though the Trustees also noted that PIMCO would benefit from any reductions in such expenses).

Fund-specific comparative performance results for the Funds reviewed by the Trustees are discussed below. The comparative performance information was prepared and provided by Lipper and was not independently verified by the Trustees. Due to the passage of time, these performance results may differ from the performance results for

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(Unaudited)

more recent periods. With respect to all Funds, the Trustees reviewed, among other information, comparative information showing performance of the Funds against the Lipper Performance Universes for the one-year, three-year, five-year and ten-year periods (to the extent each such Fund had been in existence) ended December 31, 2016. The Trustees also reviewed the Fund Scoring Summaries prepared by PIMCO at the Independent Trustees' request comparing each Fund's fees/expenses against those of its Lipper Expense Universe and performance against that of its Lipper Performance Universe, by identifying a quadrant designation based on the average of six different measures of fees/expenses versus performance (one-year, three-year and five-year performance for the period ended December 31, 2016, in each case, versus a Fund's management fees or total expense ratio). The Fund Scoring Summaries were based on net assets, one showing total expenses inclusive of interest and borrowing expenses and the other showing total expenses exclusive of interest and borrowing expenses. In addition, the Trustees also reviewed fact cards for each Fund that included summary information regarding each Fund, including investment objective and strategy, portfolio managers, assets under management, outstanding leverage, net asset value and market performance comparisons, comparative fee and expense information, premium/discount information and information regarding PIMCO's estimated profitability.

In addition, it was noted that the Trustees considered matters bearing on the Funds and their advisory arrangements at their meetings throughout the year, including a review of performance data at each regular meeting.

Among other information, the Trustees took into account the following regarding particular Funds.

PTY

With respect to the Fund's common share total return performance (based on net asset value) relative to its respective Lipper Performance Universe, consisting of 27 funds for one-year and three-year performance, 21 funds for five-year performance and 17 funds for ten-year performance, the Trustees noted that the Fund had first quintile performance for the one-year, three-year, five-year and ten-year periods ended December 31, 2016.

The Trustees noted that the Lipper Expense Group for the Fund consisted of a total of 13 funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the Lipper Expense Group ranged from \$54.1 million to \$929.0 million, and that no funds in the Lipper Expense Group were larger in asset size than the Fund. The Trustees noted that the Lipper Expense Universe for the Fund consisted of a total of 27 funds, including the Fund. The Trustees noted that the Fund's total expense ratio (including interest and borrowing expenses) calculated on both average managed assets

and average net assets was below the median total expense ratio (including interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on both average managed assets and average net assets was below the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe.

PCN

With respect to the Fund's common share total return performance (based on net asset value) relative to its respective Lipper Performance Universe, consisting of 27 funds for one-year and three-year performance, 21 funds for five-year performance and 17 funds for ten-year

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performance, the Trustees noted that the Fund had second quintile performance for the one-year period and first quintile performance for the three-year, five-year and ten-year periods ended December 31, 2016.

The Trustees noted that the Lipper Expense Group for the Fund consisted of a total of 13 funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the Lipper Expense Group ranged from \$54.1 million to \$704.4 million, and that two of the funds in the group were larger in asset size than the Fund. The Trustees noted that the Lipper Expense Universe for the Fund consisted of a total of 27 funds, including the Fund. The Trustees noted that the Fund's total expense ratio (including interest and borrowing expenses) calculated on both average managed assets and average net assets was below the median total expense ratio (including interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average managed assets was below the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average managed assets was above the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average net assets was below the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe.

PHK

With respect to the Fund's common share total return performance (based on net asset value) relative to its respective Lipper Performance Universe, consisting of 27 funds for one-year and three-year performance, 21 funds for five-year performance and 17 funds for ten-year performance, the Trustees noted that the Fund had second quintile

Approval of Investment Management Agreement (Cont.)

performance for the one-year period and first quintile performance for the three-year, five-year and ten-year periods ended December 31, 2016.

The Trustees noted that the Lipper Expense Group for the Fund consisted of a total of 13 funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the Lipper Expense Group ranged from \$148.3 million to \$836.7 million, and that no funds in the group were larger in asset size than the Fund. The Trustees noted that the Lipper Expense Universe for the Fund consisted of a total of 27 funds, including the Fund. The Trustees noted that the Fund's total expense ratio (including interest and borrowing expenses) calculated on both average managed assets and average net assets was below the median total expense ratio (including interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average managed assets was at the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average managed assets was below the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average net assets was below the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe.

PFL

With respect to the Fund's common share total return performance (based on net asset value) relative to its respective Lipper Performance Universe, consisting of 27 funds for one-year and three-year performance, 21 funds for five-year performance and 17 funds for ten-year performance, the Trustees noted that the Fund had second quintile performance for the one-year and three-year periods, first quintile performance for the five-year period, and fifth quintile performance for the ten-year period ended December 31, 2016.

The Trustees noted that the Lipper Expense Group for the Fund consisted of a total of 13 funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the Lipper Expense Group ranged from \$148.3 million to \$704.4 million, and that eight of the funds in the group were larger in asset size than the Fund. The Trustees noted that the Lipper Expense Universe for the Fund consisted of a total of 27 funds, including the Fund. The Trustees noted that the Fund's total expense ratio (including interest and borrowing expenses) calculated on both average managed assets and average net assets was below the median total expense ratio (including interest and borrowing expenses) of the funds in its

Lipper Expense Group and Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average managed assets was above the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average net assets was below the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe.

PFN

With respect to the Fund's common share total return performance (based on net asset value) relative to its respective Lipper Performance Universe, consisting of 27 funds for one-year and three-year performance, 21 funds for five-year performance and 17 funds for ten-year performance, the Trustees noted that the Fund had second quintile performance for the one-year and three-year periods, first quintile performance for the five-year period, and fifth quintile performance for the ten-year period ended December 31, 2016.

The Trustees noted that the Lipper Expense Group for the Fund consisted of a total of 13 funds, including the Fund. The Trustees also noted that the average net assets of the common shares of the funds in the Lipper Expense Group ranged from \$148.3 million to \$704.4 million, and that two of the funds in the group were larger in asset size than the Fund. The Trustees noted that the Lipper Expense Universe for the Fund consisted of a total of 27 funds, including the Fund. The Trustees noted that the Fund's total expense ratio (including interest and borrowing expenses) calculated on both average managed assets and average net assets was below the median total expense ratio (including interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average managed assets was at the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average managed assets was above the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Universe. The Trustees noted that the Fund's total expense ratio (excluding interest and borrowing expenses) calculated on average net assets was below the median total expense ratio (excluding interest and borrowing expenses) of the funds in its Lipper Expense Group and Lipper Expense Universe.

In addition to their review of Fund performance based on net asset value, the Trustees also considered the market value performance of each Fund's common shares and related share price premium and/or

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discount information based on the materials provided by Lipper and PIMCO. The Trustees also considered information provided by PIMCO regarding the dividend yields of the each Fund in comparison to funds in the Lipper General Bond Funds grouping as of December 31, 2016.

The Trustees considered information provided by PIMCO regarding the management fees charged by PIMCO to other funds and accounts with similar strategies to those of the Funds. The Trustees considered information provided by PIMCO indicating that, in comparison to certain other products managed by PIMCO, including open-end funds and exchange-traded funds, there are additional portfolio management challenges in managing closed-end funds such as the Funds, such as those associated with less liquid holdings, the use of leverage, issues relating to trading on a national exchange and attempting to meet a regular dividend. The Trustees were advised by PIMCO that, in light of these additional challenges, different pricing structures for closed-end funds such as the Funds and other products managed by PIMCO are to be expected, and that comparisons of pricing structures across these products may not always be apt comparisons, even where other products have similar investment objectives and strategies to those of the Funds.

The Trustees also took into account that the Funds have preferred shares outstanding and use leverage, such as by the use of reverse repurchase agreements, which increases the amount of management fees payable by the Funds under the Agreement (because each Fund's fees are calculated either based on net assets including assets attributable to preferred shares outstanding or based on total managed assets, including assets attributable to preferred shares and certain other forms of leverage outstanding). In this regard, the Trustees took into account that PIMCO has a financial incentive for the Funds to continue to use leverage, which may create a conflict of interest between PIMCO, on one hand, and the Funds' common shareholders, on the other. The Trustees further noted that this incentive may be greater under the unitary fee arrangements because the contractual management fee rates under the unitary fee arrangements are higher for each Fund than the Fund's management fee would otherwise be if it did not cover the Fund's Operating Expenses. Therefore, the total fees paid by each Fund to PIMCO under the unitary fee arrangements will vary more with increases and decreases in applicable leverage incurred by a Fund than under a non-unitary fee arrangement, all things being equal. The Trustees considered information provided by PIMCO and related presentations as to why each Fund's use of leverage continues to be appropriate and in the best interests of the respective Fund under current market conditions. The Trustees also considered PIMCO's representation that it will use leverage for the Funds solely as it determines to be in the best interests of the Funds from an investment perspective and without regard to the level of compensation PIMCO receives.

The Trustees also considered estimated profitability analyses provided by PIMCO, which included, among other information, (i) PIMCO's estimated pre- and post-distribution operating margin for each Fund, as well as PIMCO's estimated pre- and post-distribution operating margin for all of the closed-end funds advised by PIMCO, including the Funds (collectively, the Estimated Margins), in each case for the one-year period ended December 31, 2016; (ii) a year-over-year comparison of PIMCO's Estimated Margins for the one-year periods ended December 31, 2016 and December 31, 2015, and (iii) an overview of PIMCO's average fee rates with respect to all of the closed-end funds advised by PIMCO, including the Funds, compared to PIMCO's average fee rates with respect to its other clients, including PIMCO-advised separate accounts, open-end funds and hedge funds and private equity funds. The Trustees also took into account explanations from PIMCO regarding how certain corporate and shared expenses were allocated among the Funds and other funds and accounts managed by PIMCO for purposes of developing profitability estimates. Based on the profitability analyses provided by PIMCO, the Trustees determined, taking into account the various assumptions made, that such profitability did not appear to be excessive.

The Trustees also took into account the entrepreneurial and business risk PIMCO has undertaken as investment manager and sponsor of the Funds.

The Trustees also took into account that the Funds do not currently have any breakpoints in their management fees. The Trustees considered that, as closed-end investment companies, the Funds do not continually offer new shares to raise additional assets (as does a typical open-end investment company), but may raise additional assets through periodic shelf offerings and may also experience asset growth through investment performance and/or the increased use of leverage. The Trustees considered that the unitary fee arrangements provide inherent economies of scale because a Fund maintains competitive fixed unitary fees even if the particular Fund's assets decline and/or operating costs rise. The Trustees further considered that, in contrast, breakpoints are a proxy for charging higher fees on lower asset levels and that when a fund's assets decline, breakpoints may reverse, which causes expense ratios to increase. The Trustees also considered that, unlike the Funds' unitary fee arrangements,

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funds with pass through administrative fee structures may experience increased expense ratios when fixed dollar fees are charged against declining fund assets. The Trustees also considered that the unitary fee arrangements protect shareholders from a rise in operating costs that may result from, including, among other things, PIMCO's investments in various business enhancements and infrastructure. The Trustees noted that PIMCO has made extensive investments in these areas.

Additionally, the Trustees considered so-called fall-out benefits to PIMCO, such as reputational value derived from serving as investment

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Approval of Investment Management Agreement (Cont.)

(Unaudited)

manager to the Funds and research, statistical and quotation services PIMCO may receive from broker-dealers executing the Funds' portfolio transactions on an agency basis.

After reviewing these and other factors described herein, the Trustees concluded, with respect to each Fund, within the context of their overall conclusions regarding the Agreement and based on the information provided and related representations made by management, that they were satisfied with PIMCO's responses and efforts relating to the investment performance of the Funds. The Trustees also concluded that the fees payable under the Agreement represent reasonable compensation in light of the nature, extent and quality of services provided by PIMCO. Based on their evaluation of factors that they deemed to be material, including those factors described above, the Trustees, including the Independent Trustees, unanimously concluded that the continuation of the Agreement was in the interests of each Fund and its shareholders, and should be approved.

110 PIMCO CLOSED-END FUNDS

Privacy Policy¹

The Funds² consider customer privacy to be a fundamental aspect of their relationships with shareholders and are committed to maintaining the confidentiality, integrity and security of their current, prospective and former shareholders' non-public personal information. The Funds have developed policies that are designed to protect this confidentiality, while allowing shareholder needs to be served.

OBTAINING PERSONAL INFORMATION

In the course of providing shareholders with products and services, the Funds and certain service providers to the Funds, such as the Funds investment adviser or sub-adviser (Adviser), may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder's brokerage or financial advisory firm, financial advisor or consultant, and/or from information captured on applicable websites.

RESPECTING YOUR PRIVACY

As a matter of policy, the Funds do not disclose any non-public personal information provided by shareholders or gathered by the Funds to non-affiliated third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the Funds. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on shareholder satisfaction and gathering shareholder proxies. The Funds or their affiliates may also retain non-affiliated companies to market Fund shares or products which use Fund shares and enter into joint marketing arrangements with them and other companies. These companies may have access to a shareholder's personal and account information, but are permitted to use this information solely to provide the specific service or as otherwise permitted by law. In most cases, the shareholders will be clients of a third party, but the Funds may also provide a shareholder's personal and account information to the shareholder's respective brokerage or financial advisory firm and/or financial advisor or consultant.

SHARING INFORMATION WITH THIRD PARTIES

The Funds reserve the right to disclose or report personal or account information to non-affiliated third parties in limited circumstances where the Funds believe in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect their rights or property, or upon reasonable request by any fund advised by PIMCO in which a shareholder has invested. In addition, the Funds may disclose information about a shareholder or a shareholder's accounts to a non-affiliated third party at the shareholder's request or with the consent of the shareholder.

SHARING INFORMATION WITH AFFILIATES

The Funds may share shareholder information with their affiliates in connection with servicing shareholders' accounts, and subject to applicable law may provide shareholders with information about products and services that the Funds or their Adviser or its affiliates (Service Affiliates) believe may be of interest to such shareholders. The information that the Funds may share may include, for example, a shareholder's participation in the Funds or in other investment programs sponsored by a Service Affiliate, a shareholder's ownership of certain types of accounts (such as IRAs), information about the Funds' experiences or transactions with a shareholder, information captured on applicable websites, or other data about a shareholder's accounts, subject to applicable law. The Funds' Service Affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

PROCEDURES TO SAFEGUARD PRIVATE INFORMATION

The Funds take seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, the Funds have implemented procedures that are designed to restrict access to a shareholder's non-public personal information to internal personnel who need to know that information to perform their jobs, such as servicing shareholder accounts or notifying shareholders of new products or services. Physical, electronic and procedural safeguards are in place to guard a shareholder's non-public personal information.

INFORMATION COLLECTED FROM WEBSITES

Websites maintained by the Funds or their service providers may use a variety of technologies to collect information that help the Funds and their service providers understand how the website is used. Information collected from your web browser (including small files stored on your device that are commonly referred to as cookies) allow the websites to recognize your web browser and help to personalize and improve your user experience and enhance navigation of the website. In addition, the Funds or their Service Affiliates may use third parties to place advertisements for the Funds on other websites, including banner advertisements. Such third parties may collect anonymous information through the use of cookies or action tags (such as web beacons). The information these third parties collect is generally limited to technical and web navigation information, such as your IP address, web pages visited and browser type, and does not include personally identifiable information such as name, address, phone number or email address. If you are a registered user of the Funds' website, the Funds or their service providers or third party firms engaged by the Funds or their service providers may collect or share information submitted by you, which may include personally identifiable information. This information can be useful to the Funds when assessing and offering services and website features. You can

Privacy Policy¹ (Cont.)

(Unaudited)

change your cookie preferences by changing the setting on your web browser to delete or reject cookies. If you delete or reject cookies, some website pages may not function properly. The Funds do not look for web browser do not track requests.

CHANGES TO THE PRIVACY POLICY

From time to time, the Funds may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.

¹ Amended as of March 23, 2017.

² When distributing this Policy, a Fund may combine the distribution with any similar distribution of its investment adviser's privacy policy. The distributed, combined policy may be written in the first person (i.e., by using "we" instead of "the Funds").

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General Information

Investment Manager

Pacific Investment Management Company LLC

1633 Broadway

New York, NY 10019

Custodian

State Street Bank and Trust Company

801 Pennsylvania Avenue

Kansas City, MO 64105

Transfer Agent, Dividend Paying Agent and Registrar

American Stock Transfer & Trust Company, LLC

6201 15th Avenue

Brooklyn, NY 11219

Legal Counsel

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

1100 Walnut Street, Suite 1300

Kansas City, MO 64106

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This report is submitted for the general information of the shareholders of PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, PIMCO High Income Fund, PIMCO Income Strategy Fund and PIMCO Income Strategy Fund II.

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Item 2. Code of Ethics.

As of the end of the period covered by this report, the Registrant has adopted a code of ethics (the Code) that applies to the Registrant's principal executive officer and principal financial & accounting officer. The Registrant did not grant any waivers, including implicit waivers, from any provisions of the Code to the principal executive officer or principal financial & accounting officer during the period covered by this report.

A copy of the Code is included as an exhibit to this report.

Item 3. Audit Committee Financial Expert.

(a) The Board of Trustees has determined that James A. Jacobson, who serves on the Board's Audit Oversight Committee, qualifies as an audit committee financial expert as such term is defined in the instructions to this Item 3. The Board has also determined that Mr. Jacobson is independent as such term is interpreted under this Item 3.

Item 4. Principal Accountant Fees and Services.

(a)	<u>Fiscal Year Ended</u>	<u>Audit Fees</u>
	July 31, 2017	\$ 45,627
	July 31, 2016	\$ 45,910
(b)	<u>Fiscal Year Ended</u>	<u>Audit-Related Fees</u>
	July 31, 2017	\$ 18,000
	July 31, 2016	\$ 16,480
(c)	<u>Fiscal Year Ended</u>	<u>Tax Fees</u>
	July 31, 2017	\$
	July 31, 2016	\$ 17,250
(d)	<u>Fiscal Year Ended</u>	<u>All Other Fees</u> ⁽¹⁾
	July 31, 2017	\$
	July 31, 2016	\$

Audit Fees represents fees billed for each of the last two fiscal years for professional services rendered for the audit and review of the Registrant's annual financial statements for those fiscal years or services that are normally provided by the accountant in connection with statutory or regulatory filings or engagements for those fiscal years.

Audit-Related Fees represents fees billed for each of the last two fiscal years for assurance and related services that are reasonably related to the performance of the audit or review of the Registrant's financial statements, but not reported under **Audit Fees** above, and that include accounting consultations, agreed-upon procedure reports (inclusive of annual review of basic maintenance testing associated with the Preferred Shares), attestation reports and comfort letters for those fiscal years.

Tax Fees represents fees billed for each of the last two fiscal years for professional services related to tax compliance, tax advice and tax planning, including services relating to the filing or amendment of federal, state or local income tax returns, regulated investment company qualification reviews, and tax distribution and analysis reviews.

All Other Fees represents fees, if any, billed for other products and services rendered by the principal accountant to the Registrant other than those reported above under **Audit Fees**, **Audit-Related Fees** and **Tax Fees** for the last two fiscal years.

⁽¹⁾There were no **All Other Fees** for the last two fiscal years.

(e) **Pre-approval policies and procedures**

(1) The Registrant's Audit Oversight Committee has adopted pre-approval policies and procedures (the **Procedures**) to govern the Audit Oversight Committee's pre-approval of (i) all audit services and permissible non-audit services to be provided to the Registrant by its independent accountant, and (ii) all permissible non-audit services to be provided by such independent accountant to the Registrant's investment adviser and to any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the Registrant (collectively, the **Service Affiliates**) if the services provided directly relate to the Registrant's operations and financial reporting. In accordance with the **Procedures**, the Audit Oversight Committee is responsible for the engagement of the independent accountant to certify the Registrant's financial statements for each fiscal year. With respect to the pre-approval of non-audit services provided to the Registrant and its **Service Affiliates**, the **Procedures** provide that the Audit

Oversight Committee may annually pre-approve a list of types or categories of non-audit services that may be provided to the Registrant or its Service Affiliates, or the Audit Oversight Committee may pre-approve such services on a project-by-project basis as they arise. Unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Oversight Committee if it is to be provided by the independent accountant. The Procedures also permit the Audit Oversight Committee to delegate authority to one or more of its members to pre-approve any proposed non-audit services that have not been previously pre-approved by the Audit Oversight Committee, subject to the ratification by the full Audit Oversight Committee no later than its next scheduled meeting.

(2) With respect to the services described in paragraphs (b) through (d) of this Item 4, no amount was approved by the Audit Oversight Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

f) Not applicable.

g)

Entity	Aggregate Non-Audit Fees Billed to Entity	
	July 31, 2017	July 31, 2016
PIMCO Income Strategy Fund II Pacific Investment Management Company LLC (PIMCO)	\$ 18,000	\$ 33,730
	8,531,028	7,767,308
Total	\$ 8,549,028	\$ 7,801,038

- h) The Registrant's Audit Oversight Committee has considered whether the provision of non-audit services that were rendered to the Registrant's investment adviser, and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the Registrant which were not pre-approved (not requiring pre-approval) is compatible with maintaining the principal accountant's independence.

Item 5. Audit Committee of Listed Registrants.

The Registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The audit committee is comprised of:

Deborah A. DeCotis;

Bradford K. Gallagher;

James A. Jacobson;

Hans W. Kertess;

William B. Ogden, IV; and

Alan Rappaport.

Item 6. Schedule of Investments.

The Schedule of Investments is included as part of the reports to shareholders under Item 1.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

PIMCO has adopted written proxy voting policies and procedures (Proxy Policy) as required by Rule 206(4)-6 under the Advisers Act. In addition to covering the voting of equity securities, the Proxy Policy also applies generally to voting and/or consent rights of fixed income securities, including but not limited to, plans of reorganization, and waivers and consents under applicable indentures. The Proxy Policy does not apply, however, to consent rights that

primarily entail decisions to buy or sell investments, such as tender or exchange offers, conversions, put options, redemption and Dutch auctions. The Proxy Policy is designed and implemented in a manner reasonably expected to ensure that voting and consent rights (collectively, proxies) are exercised in the best interests of accounts.

With respect to the voting of proxies relating to equity securities, PIMCO has selected an unaffiliated third party proxy research and voting service (Proxy Voting Service), to assist it in researching and voting proxies. With respect to each proxy received, the Proxy Voting Service researches the financial implications of the proposals and provides a recommendation to PIMCO as to how to vote on each proposal based on the Proxy Voting Service's research of the individual facts and circumstances and the Proxy Voting Service's application of its research findings to a set of guidelines that have been approved by PIMCO. Upon the recommendation of the applicable portfolio managers, PIMCO may determine to override any recommendation made by the Proxy Voting Service. In the event that the Proxy Voting Service does not provide a recommendation with respect to a proposal, PIMCO may determine to vote on the proposals directly. With respect to the voting of proxies relating to fixed income securities, PIMCO's fixed income credit research group (the Credit Research Group) is responsible for researching and issuing recommendations for voting proxies. With respect to each proxy received, the Credit Research Group researches the financial implications of the proxy proposal and makes voting recommendations specific for each account that holds the related fixed income security. PIMCO considers each proposal regarding a fixed income security on a case-by-case basis taking into consideration any relevant contractual obligations as well as other relevant facts and circumstances at the time of the vote. Upon the recommendation of the applicable portfolio managers, PIMCO may determine to override any recommendation made by the Credit Research Group. In the event that the Credit Research Group does not provide a recommendation with respect to a proposal, PIMCO may determine to vote the proposal directly.

PIMCO may determine not to vote a proxy for an equity or fixed income security if: (1) the effect on the applicable account's economic interests or the value of the portfolio holding is insignificant in relation to the account's portfolio; (2) the cost of voting the proxy outweighs the possible benefit to the applicable account, including, without limitation, situations where a jurisdiction imposes share blocking restrictions which may affect the ability of the portfolio managers to effect trades in the related security; or (3) PIMCO otherwise has determined that it is consistent with its fiduciary obligations not to vote the proxy.

In the event that the Proxy Voting Service or the Credit Research Group, as applicable, does not provide a recommendation or the portfolio managers of a client account propose to override a recommendation by the Proxy Voting Service, or the Credit Research Group, as applicable, PIMCO will review the proxy to determine whether there is a material conflict between PIMCO and the applicable account or among PIMCO-advised accounts. If no material conflict exists, the proxy will be voted according to the portfolio managers' recommendation. If a material conflict does exist, PIMCO will seek to resolve the conflict in good faith and in the best interests of the applicable client account, as provided by the Proxy Policy. The Proxy Policy permits PIMCO to seek to resolve material conflicts of interest by pursuing any one of several courses of action. With respect to material conflicts of interest between PIMCO and a client account, the Proxy Policy permits PIMCO to either: (i) convene a committee to assess and resolve the conflict (the Proxy Conflicts Committee); or (ii) vote in accordance with protocols previously established by the Proxy Policy, the Proxy Conflicts Committee and/or other relevant procedures approved by PIMCO's Legal and Compliance department with respect to specific types of conflicts. With respect to material conflicts of interest between one or more PIMCO-advised accounts, the Proxy Policy permits PIMCO to: (i) designate a PIMCO portfolio manager who is not subject to the conflict to determine how to vote the proxy if the conflict exists between two accounts with at least one portfolio manager in common; or (ii) permit the respective portfolio managers to vote the proxies in accordance with each client account's best interests if the conflict exists between client accounts managed by different portfolio managers.

PIMCO will supervise and periodically review its proxy voting activities and the implementation of the Proxy Policy. PIMCO's Proxy Policy, and information about how PIMCO voted a client's proxies, is available upon request.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a)(1)

As of September 28, 2017, the following individuals have primary responsibility for the day-to-day implementation of the PIMCO Income Strategy Fund II (the Fund):

Alfred T. Murata

Mr. Murata has been a portfolio manager of the Fund since September 2014. Mr. Murata is a managing director in the Newport Beach office and a portfolio manager on the mortgage credit team. Prior to joining PIMCO in 2001, he researched and implemented exotic equity and interest rate derivatives at Nikko Financial Technologies.

Mohit Mittal

Mr. Mittal has been a portfolio manager of the Fund since September 2014. Mr. Mittal is a managing director and portfolio manager in the Newport Beach office. He manages investment grade credit, total return and unconstrained bond portfolios and is a member of the Americas Portfolio Committee. Previously, he was a specialist on PIMCO's interest rates and derivatives desk.

(a)(2)

The following summarizes information regarding each of the accounts, excluding the Fund, managed by the Portfolio Managers as of July 31, 2017, including accounts managed by a team, committee, or other group that includes a Portfolio Manager. Unless mentioned otherwise, the advisory fee charged for managing each of the accounts listed below is not based on performance.

PM	Registered Investment Companies		Other Pooled Investment Vehicles		Other Accounts	
	#	AUM(\$million)	#	AUM(\$million)	#	AUM(\$million)
Alfred T. Murata	18	\$109,232.59	8	\$16,904.35	11	\$1,566.61
Mohit Mittal	11	\$22,137.27	13	\$7,621.73*	136	\$57,332.66**

* Of these Other Pooled Investment Vehicles, 2 account(s) totaling \$1,717.95 million in assets pay(s) an advisory fee that is based in part on the performance of the accounts.

**Of these Other Accounts, 3 account(s) totaling \$682.95 million in assets pay(s) an advisory fee that is based in part on the performance of the accounts.

From time to time, potential and actual conflicts of interest may arise between a portfolio manager's management of the investments of the Fund, on the one hand, and the management of other accounts, on the other. Potential and actual conflicts of interest may also arise as a result of PIMCO's other business activities and PIMCO's possession of material non-public information about an issuer. Other accounts managed by a portfolio manager might have similar investment objectives or strategies as the Fund, track the same index as the Fund or otherwise hold, purchase, or sell securities that are eligible to be held, purchased or sold by the Fund. The other accounts might also have different investment objectives or strategies than the Fund. Potential and actual conflicts of interest may also arise as a result of PIMCO serving as investment adviser to accounts that invest in the Fund. In this case, such conflicts of interest could in theory give rise to incentives for PIMCO to, among other things, vote proxies of the Fund in a manner beneficial to the investing account but detrimental to the Fund. Conversely, PIMCO's duties to the Fund, as well as regulatory or other limitations applicable to the Fund, may affect the courses of action available to PIMCO-advised accounts (including certain funds) that invest in the Fund in a manner that is detrimental to such investing accounts. In addition, regulatory restrictions, actual or potential conflicts of interest or other considerations may cause PIMCO to restrict or prohibit participation in certain investments.

Because PIMCO is affiliated with Allianz, a large multi-national financial institution, conflicts similar to those described below may occur between the Fund and other accounts managed by PIMCO and PIMCO's affiliates or accounts managed by those affiliates. Those affiliates (or their clients), which generally operate autonomously from PIMCO, may take actions that are adverse to the Fund or other accounts managed by PIMCO. In many cases, PIMCO will not be in a position to mitigate those actions or address those conflicts, which could adversely affect the performance of the Fund or other accounts managed by PIMCO.

Knowledge and Timing of Fund Trades. A potential conflict of interest may arise as a result of the portfolio manager's day-to-day management of the Fund. Because of their positions with the Fund, the portfolio managers know the size, timing and possible market impact of the Fund's trades. It is theoretically possible that the portfolio managers could use this information to the advantage of other accounts they manage and to the possible detriment of the Fund.

Investment Opportunities. A potential conflict of interest may arise as a result of the portfolio manager's management of a number of accounts with varying investment guidelines. Often, an investment opportunity may be suitable for both the Fund and other accounts managed by the portfolio manager, but may not be available in sufficient quantities for both the Fund and the other accounts to participate fully. In addition, regulatory issues applicable to PIMCO or the

Fund or other accounts may result in the Fund not receiving securities that may otherwise be appropriate for it. Similarly, there may be limited opportunity to sell an investment held by the Fund and another account. PIMCO has adopted policies and procedures reasonably designed to allocate investment opportunities on a fair and equitable basis over time.

Under PIMCO's allocation procedures, investment opportunities are allocated among various investment strategies based on individual account investment guidelines and PIMCO's investment outlook. PIMCO has also adopted additional procedures to complement the general trade allocation policy that are designed to address potential conflicts of interest due to the side-by-side management of the Fund and certain pooled investment vehicles, including investment opportunity allocation issues.

Conflicts potentially limiting the Fund's investment opportunities may also arise when the Fund and other PIMCO clients invest in different parts of an issuer's capital structure, such as when the Fund owns senior debt obligations of an issuer and other clients own junior tranches of the same issuer. In such circumstances, decisions over whether to trigger an event of default, over the terms of any workout, or how to exit an investment may result in conflicts of interest. In order to minimize such conflicts, a portfolio manager may avoid certain investment opportunities that would potentially give rise to conflicts with other PIMCO clients or PIMCO may enact internal procedures designed to minimize such conflicts, which could have the effect of limiting the Fund's investment opportunities. Additionally, if PIMCO acquires material non-public confidential information in connection with its business activities for other clients, a portfolio manager may be restricted from purchasing securities or selling securities for the Fund. Moreover, the Fund or other accounts managed by PIMCO may invest in a transaction in which one or more other funds or accounts managed by PIMCO are expected to participate, or already have made or will seek to make, an investment. Such funds or accounts may have conflicting interests and objectives in connection with such investments, including, for example and without limitation, with respect to views on the operations or activities of the issuer involved, the targeted returns from the investment, and the timeframe for, and method of, exiting the investment. Additionally, a fund or other account managed by PIMCO may take an investment position or action that may be different from, or inconsistent with, an investment position or action taken by another fund or other account managed by PIMCO having similar or differing investment objectives. These positions and actions may adversely impact the Fund. For example, the Fund may buy a security and another fund or other account managed by PIMCO may establish a short position in that same security or in another security issued by the same issuer. The subsequent short sale may result in a decrease in the price of the security that the first fund holds. When making investment decisions where a conflict of interest may arise, PIMCO will endeavor to act in a fair and equitable manner as between the Fund and other clients; however, in certain instances the resolution of the conflict may result in PIMCO acting on behalf of another client in a manner that may not be in the best interest, or may be opposed to the best interest, of the Fund.

Performance Fees. A portfolio manager may advise certain accounts with respect to which the management fee is based entirely or partially on performance. Performance fee arrangements may create a conflict of interest for the portfolio manager in that the portfolio manager may have an incentive to allocate the investment opportunities that he or she believes might be the most profitable to such other accounts instead of allocating them to the Fund. PIMCO has adopted policies and procedures reasonably designed to allocate investment opportunities between the Fund and certain pooled investment vehicles on a fair and equitable basis over time.

(a)(3)

As of July 31, 2017 the following explains the compensation structure of the individuals who have primary responsibility for day-to-day portfolio management of the Fund:

Portfolio Manager Compensation

PIMCO's approach to compensation seeks to provide professionals with a Total Compensation Plan and process that is driven by PIMCO's mission and values. Key Principles on Compensation Philosophy include:

- PIMCO's pay practices are designed to attract and retain high performers;
- PIMCO's pay philosophy embraces a corporate culture of rewarding strong performance, a strong work ethic, and meritocracy;
- PIMCO's goal is to ensure key professionals are aligned to PIMCO's long-term success through equity participation; and
- PIMCO's Discern and Differentiate discipline guides total compensation levels.

The Total Compensation Plan consists of three components. The compensation program for portfolio managers is designed to align with clients' interests, emphasizing each portfolio manager's ability to generate long-term investment success for PIMCO's clients. A portfolio manager's compensation is not based solely on the performance of the Fund or any other account managed by that portfolio manager:

Base Salary Base salary is determined based on core job responsibilities, positions/levels and market factors. Base salary levels are reviewed annually, when there is a significant change in job responsibilities or position, or a significant change in market levels.

Performance Bonus Performance bonuses are designed to reward risk-adjusted performance and contributions to PIMCO's broader investment process. The compensation process is not formulaic and the following non-exhaustive list of qualitative and quantitative criteria are considered when determining the total compensation for portfolio managers:

Performance measured over a variety of longer- and shorter-term periods, including 5-year, 4-year, 3-year, 2-year and 1-year dollar-weighted and account-weighted, pre-tax total and risk-adjusted investment performance as judged against the applicable benchmarks (which may include internal investment performance-related benchmarks) for each account managed by a portfolio manager (including the Fund) and relative to applicable industry peer groups; greatest emphasis is placed on 5-year and 3-year performance, followed by 1-year performance;

Consistency of investment performance across portfolios of similar mandate and guidelines, rewarding low dispersion and consistency of outperformance;

Appropriate risk positioning and risk management mindset which includes consistency with PIMCO's investment philosophy, the Investment Committee's positioning guidance, absence of defaults, and appropriate alignment with client objectives;

Contributions to mentoring, coaching and/or supervising members of team;

Collaboration, idea generation, and contribution of investment ideas in the context of PIMCO's investment process, Investment Committee meetings, and day-to-day management of portfolios;

With much lesser importance than the aforementioned factors: amount and nature of assets managed by the portfolio manager, contributions to asset retention, and client satisfaction.

PIMCO's partnership culture further rewards strong long term risk adjusted returns with promotion decisions almost entirely tied to long term contributions to the investment process. 10-year performance can also be considered, though not explicitly as part of the compensation process.

Deferred Compensation Long Term Incentive Plan (LTIP) and/or M Options are awarded to key professionals. Employees who reach a total compensation threshold are delivered their annual compensation in a mix of cash and/or deferred compensation. PIMCO incorporates a progressive allocation of deferred compensation as a percentage of total compensation, which is in line with market practices.

The LTIP provides participants with deferred cash awards that appreciate or depreciate based on PIMCO's operating earnings over a rolling three-year period. The plan provides a link between longer term company performance and participant pay, further motivating participants to make a long term commitment to PIMCO's success.

The M Unit program provides mid-to-senior level employees with the potential to acquire an equity stake in PIMCO over their careers and to better align employee incentives with the Firm's long-term results. In the program, options are awarded and vest over a number of years and may convert into PIMCO equity which shares in the profit distributions of the Firm. M Units are non-voting common equity of PIMCO and provide a mechanism for individuals to build a significant equity stake in PIMCO over time.

The Carried Interest Compensation Plan awards entitle eligible individuals who provide services to PIMCO's Alternative Funds a percentage (points) of the carried interest otherwise payable to PIMCO in the event that the applicable performance measurements described in the Alternative Fund's partnership agreements are achieved. The awards are granted before any payments are made in respect of the awards and payout is contingent on long-term performance, and are intended to align the interests of the employees with that of PIMCO and the investors in the

Alternative Funds. While subject to forfeiture and vesting terms, payments to participants are generally made if and when the applicable carried interest payments are made to PIMCO. Eligibility to participate in LTIP, the M Unit program, and the Carried Interest Compensation Plan is contingent upon continued employment at PIMCO and all other applicable eligibility requirements.

Profit Sharing Plan. Portfolio managers who are Managing Directors of PIMCO receive compensation from a non-qualified profit sharing plan consisting of a portion of PIMCO's net profits. Portfolio managers who are Managing Directors receive an amount determined by the Compensation Committee, based upon an individual's overall contribution to the firm.

(a)(4)

The following summarizes the dollar range of securities of the Fund the Portfolio Managers beneficially owned as of July 31, 2017:

Portfolio Manager	Dollar Range of Equity Securities of the Fund Owned as of July 31, 2017
--------------------------	--

Alfred T. Murata	None
Mohit Mittal	None

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

None.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board of Trustees since the Fund last provided disclosure in response to this item.

Item 11. Controls and Procedures.

- (a) The principal executive officer and principal financial & accounting officer have concluded as of a date within 90 days of the filing date of this report, based on their evaluation of the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")), that the design of such procedures is effective to provide reasonable assurance that material information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.
- (b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a)(1) Exhibit 99.CODE Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act of 2002.
- (a)(2) Exhibit 99.CERT Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (b) Exhibit 99.906CERT Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PIMCO Income Strategy Fund II

By: /s/ PETER G. STRELOW
Peter G. Strelow
President (Principal Executive Officer)

Date: September 28, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ PETER G. STRELOW
Peter G. Strelow
President (Principal Executive Officer)

Date: September 28, 2017

By: /s/ WILLIAM G. GALIPEAU
William G. Galipeau
Treasurer (Principal Financial & Accounting Officer)

Date: September 28, 2017