ATMI

Matter that Matters

2005 Annual Report

Matter that Matters

Materials are the most important enabler of performance improvements for future semiconductors: Matter that Matters—the materials that enable the most advanced chip generations to be produced, without which continued increases in computing power in smaller packages at lower prices could never happen.

What's the Matter?

For semiconductors to continue to gain computing power while shrinking in size, manufacturing methods and materials must continually change. For the first 40 years or so in its history, the semiconductor industry didn't need to worry much about the handful of key materials used to make chips; it was mostly changes in the manufacturing equipment that allowed the wiring within devices to shrink to allow higher performance in smaller areas.

Historical semiconductor materials have reached the limits of their electrical and physical properties and won't allow the high performance levels required by the most advanced chips at ever-decreasing dimensions. These materials must be replaced.

ATMI is a semiconductor materials expert focused on developing new semiconductor materials that enhance customers' process efficiency.

To stay on its technology path—known as "Moore's Law"—the industry's key building block materials are changing, revolving around copper and related new materials. Chipmakers are moving quickly to adopt and use these new materials.

The problem: changing to copper means that other new materials must be used and new processing methods developed. Changing one material requires changing the materials around it. Every layer in a chip affects the layer before it and after it. Switching to copper wiring means changing many of the other materials that surround the wiring, as well as changing the processes to deposit, planarize, and clean the copper wiring. Each manufacturing step must be performed flawlessly to ensure high quality and high performance.

ATMI is the copper materials market leader, and, we believe, is the most expert because of its broad materials portfolio and years of copper-related process and materials experience.

Chipmakers are chip design, manufacturing, applications, and marketing experts—it is becoming more difficult for them to also be materials experts. Today, there's only a small window of opportunity when introducing a new chip to make a profit before competitors follow. Time to market for a new product becomes a critical competitive factor. Getting to market quickly requires adopting new materials and ramping new processes rapidly. The more process problems that can be addressed and solved in the early development cycle, the faster these new products can get to market.

ATMI develops both semiconductor process knowledge and new materials knowledge so it can transfer its extensive learning to customers to speed their new process ramps.

Successful materials and chipmaking process development takes years, yet the industry introduces a new chip generation every two years. Close working partnerships for all parties become vital for success.

ATMI is researching and developing the materials and process efficiency techniques to be used two generations out, working side-by-side with its customers as they plan their future chips.

Financial Highlights

(in thousands, except per share data)

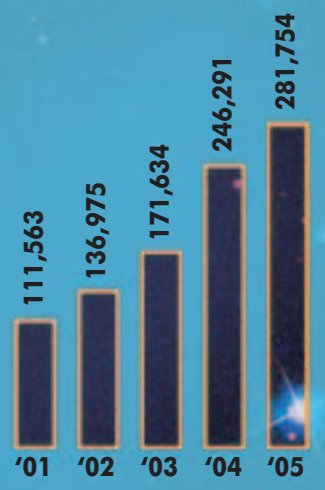
December 31,	**2005**	2004	2003	2002	2001
Revenues	**$281,754**	$246,291	$171,634	$136,975	$111,563
Operating income (loss)	**40,409**	37,379	6,686	4,136	(10,732)
Income from continuing operations	**30,722**	20,106	1,988	1,772	657
Income (loss) from operations of discontinued operations, net of taxes	**—**	3,313	(11,907)	(32,493)	(10,353)
Gain on disposal of discontinued operations, net of taxes	**—**	8,083	–	–	–
Net income (loss)	**30,722**	31,502	(9,919)	(30,721)	(9,696)
Diluted earnings per share from continuing operations	**$0.85**	$0.64	$ 0.06	$ 0.06	$ 0.02
Diluted earnings (loss) per share from operations of discontinued operations	**$ —**	$0.10	$(0.38)	$(1.05)	$(0.34)
Diluted earnings per share from gain on disposal of discontinued operations	**$ —**	$0.26	$ –	$ –	$ –
Diluted earnings (loss) per common share	**$0.85**	$1.00	$(0.32)	$(0.99)	$(0.32)
Weighted-average shares outstanding—assuming dilution	**36,276**	31,650	31,208	30,997	30,657

(in thousands)

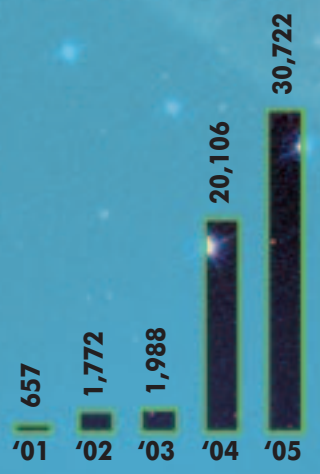
December 31,	**2005**	2004	2003	2002	2001
Working capital	**$274,323**	$190,874	$235,204	$276,717	$337,457
Total assets	**499,836**	470,100	414,442	416,482	459,056
Long-term obligations	**3,460**	118,255	115,406	115,346	118,118
Total stockholders' equity	**452,198**	297,576	254,251	256,390	280,014

See pages 9-36 for ATMI's detailed financial information.

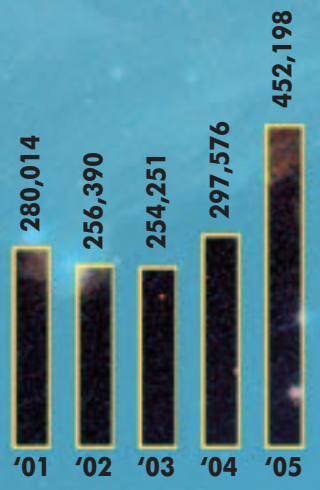
Revenues
(dollars, in thousands)



Income from Continuing Operations
(dollars, in thousands)



Stockholders' Equity
(dollars, in thousands)



Dear Shareholders:

ATMI's strategic intent is to be *The Source of Semiconductor Process Efficiency,* making us "invaluable" to our customers. Becoming and remaining an essential partner in the semiconductor industry is a never-ending journey. Though it's been an exciting first year as Chief Executive and we've accomplished a lot in a short time, there's still a full slate of challenges before us as we strive to expand our position as the preeminent market leader for innovative semiconductor materials, and materials packaging and dispensing solutions.

Today, preeminence in our markets is achieved by supplying innovative materials, and materials packaging and dispensing solutions as standalone products to our customers. By working with them to deliver Process Efficiency, we are transforming ATMI from a product company into a process partner who contributes a different level of knowledge and value directly linked to customer objectives: reduced development cycle times, lower development costs, faster time to market, and lower overall cost of ownership.

Alpha Laboratory > *Materials production scale-up*

Our strategic intent requires a specific mindset:

- We will support the leading customers wherever they are, with the best employees we have.
  - Our key customer teams of dedicated employees from sales, marketing, finance, research & development, and applications support not only serve our customers, but also educate and learn from them—using that knowledge to lead all of ATMI to increase the value our customers receive from our products and services.

- We will drive top-to-bottom continuous improvement efforts in our processes and people.
  - Our continuous improvement efforts focus includes leadership development at all levels of the Company. Employees devoted more than 20,000 working hours in 2005 to productivity education programs to strengthen problem-solving and team coordination skills. For example, over the past four years our Six Sigma productivity program has produced more than $15 million in manufacturing improvements, process efficiencies, and reduced development cycle time.

- We will deliver continuous innovation in products and services.
  - Because of our rich technical history and focus on generating intellectual property, customers consider ATMI an "innovation generator" who is critical to their success. Our track record has earned us the opportunity to closely collaborate with them on their technology requirements for future chip generations.

Though there are many things that happen day in and day out to challenge companies, our focus on our strategic intent and the objectives to achieve it doesn't waver. Helping make customers successful with each new chip generation creates long-term sustainable growth for us.

Process Efficiency

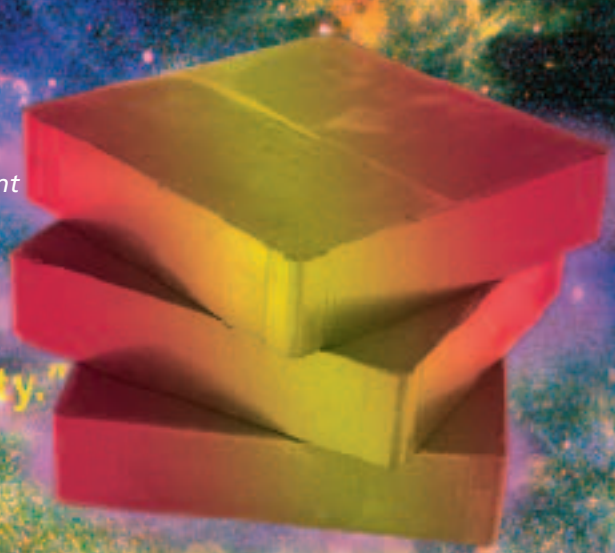
2005 Report Card

We were pleased with ATMI's 2005 performance, but are committed to doing even better. Revenues and operating income experienced steady year-over-year growth while we improved our market position in our key product areas, but higher than anticipated one-time expenses dampened the effect of this growth.

Behind the financial results are some key strategic goals; here's our report card on meeting them in 2005:

- Expand ATMI's presence in Asia—including technical support, product development, and additional manufacturing capabilities.
  - We acquired an interest in Anji Microelectronics (Shanghai, China) to accelerate our copper-related materials efforts, and to improve our position in this critical region.
  - We entered into an agreement with Ekay (Hsinchu, Taiwan) to manufacture select materials to supply the fast-growing Asia market.
  - We began work on Taiwan-based applications capabilities to support our plating and cleans businesses.
- Further improve supply chain productivity.
  - We relocated our materials packaging operations into an advanced manufacturing facility that will allow us to nearly quadruple our output at lower cost per unit.
  - We entered into an agreement with Woojin (Korea) to manufacture certain liquids packaging products, which will improve operating costs while creating new opportunities in South East Asia, especially in the flat panel market.

SDS Gas Source > *Manufacturing control*



"In the middle of difficulty lies opportunity."

—Albert Einstein

- Improve our position with key customers.
  - Of the seven chipmakers who produce more than 70% of all copper wafers, as of the end of 2005 we supply:
    - 5 of 7 with cleans materials, deposition materials, and photoresist packaging.
    - 6 of 7 with copper plating materials.
    - 7 of 7 with ion implant gases.
- We entered into more than 25 significant technical interactions with these seven copper leaders.

Top 10 Chipmakers = Top 10 Customers

We expect that today's seven volume copper chipmakers will grow to ten over the next few years; we intend to make these top ten chipmakers our Top Ten customers. Our key account program increases the level of understanding we have and brings together great minds from both sides to solve big problems—much of our innovation stems directly from the great ideas generated from customer interactions.

In the semiconductor industry, the first chipmaker to market achieves the highest portion of the profit to be earned. If ATMI products, expertise, and support can help our customers to get a new product to market faster while also improving their manufacturing efficiencies, we become much more valuable to them. Today, our interactions with our top customers span the most advanced commercial chip generations in production: 90 nanometers ("nm") and 65nm, and the next two generations—45nm and 32nm, which will enter production over the

In the 1950's, when the average cost of a new car was around $2,800, the cost of a transistor was about $10. Today, the average cost of a new car is about $28,000; of a transistor, $0.000001.

The amount of silicon used to make chips in 2005 was enough to pave a single lane highway from Pittsburgh to Portland, Maine; if you drove your car as fast as data moves through a chip, you'd have been at your destination in 1/200th of a second.

Innovation

next five years. An important consideration for our industry is that developing new materials can take years, and big investments are made before we see commercial volume sales. It is clear to us that the time, effort, and cost to arrive at new materials and process efficiency solutions can be reduced by looking at the materials interactions and compatibilities across the serial process steps that, when complete, create a chip.

To realize these opportunities, we've made additional investments designed to facilitate rapid experimentation and data exchange, working at a level other suppliers cannot—a level that the market truly needs. Our objective is to help our customers achieve improved return on their rapidly escalating process investment by offering them the opportunity to take full advantage of the capabilities we have. By contributing this higher level of knowledge, we are helping our customers increase their process efficiency while defining a new set of rules in the market.

Deposition > *Process efficiency laboratory*

2006 Challenges

While we moved the Company forward in 2005, we clearly have a lot to do in 2006 as our focus on the leading edge intensifies...

- ...pursue additional process efficiency solutions with smart and active materials packaging that tracks, senses, and optimizes material use.
- ...again redefine process efficiency in the ion implant process with *in situ* materials and process analysis, in combination with our SDS^3 product ramp.
- ...continue to expand our copper presence further through investment in cleaning, deposition, and planarization materials capabilities to ensure we meet the demands our customers are placing on us for solutions for 45nm and 32nm chip generations.
- ...further explore process efficiency opportunities for our materials packaging and gas storage and delivery solutions in semiconductor-like markets, such as biotechnology.

"Innovation distinguishes between a leader and a follower."

—Steve Jobs

The semiconductor industry produced 3.25 chips for every one of the nearly 140 billion gallons of gasoline consumed in the United States in 2005.

Ion Implantation > *Process efficiency laboratory*

- ...apply our Six Sigma skills to deliver our key strategic objectives and to optimize the processes that supported our performance last year.

The Future (Materials + Process Efficiency + Customer Focus = Growth)

Our strategic intent, while straightforward and challenging, is resonating with our customers and should drive greater value for our shareholders: ATMI, as *The Source of Semiconductor Process Efficiency*, will have the leading position with key customers for their critical process materials, and materials packaging and dispensing for future chip generations because we deliver to them the highest levels of process efficiency.

While our products themselves deliver one level of process efficiency—by producing superior technical results—we believe that, by combining them with smart and active packaging, sensing capabilities that optimize consumption rates, or other *in situ* capabilities designed to optimize performance, the process efficiency and value our customers realize will be taken to a much higher level, creating a greater return for them, and a fantastic market position for us.

ATMI is a company full of employees excited by the opportunities they have before them to improve our customers' process efficiency. We serve a market that, by its very nature, challenges us to be creative and aggressive in delivering our very best, so that we may be the marketplace winners over the long term. Our solid financial position helps to support these opportunities, giving us the chance to prove our value by fulfilling our customers' needs every day. Our customers value what we do because of our focus on *their* process efficiency—which simply describes our obsessive desire to understand their needs better than anyone else.

I am proud to speak for all of us at ATMI when I say that we believe our best days are ahead of us. We appreciate your continued support.

Douglas Neugold,
Chief Executive Officer

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SELECTED FINANCIAL DATA

Fiscal Year Ended December 31,	**2005**	2004	2003	2002	2001
Consolidated Statements of Operations:					
Revenues	**$281,754**	$246,291	$171,634	$136,975	$111,563
Cost of revenues	**140,251**	122,415	89,902 (3)	68,424	54,545 (11)
Gross profit	**141,503**	123,876	81,732	68,551	57,018
Operating expenses:					
Research and development	**22,284**	19,577	19,170 (4)	13,843	9,896
Selling, general, and administrative	**78,810**	66,920	54,145	50,572	51,843 (12)
Restructuring and other charges	**—**	—	1,731 (5)	—	6,011 (13)
Total operating expenses	**101,094**	86,497	75,046	64,415	67,750
Operating income (loss)	**40,409**	37,379	6,686	4,136	(10,732)
Interest income (expense), net	**5,407**	(3,442)	(3,862)	(1,803)	3,582
Other income (expense), net	**(432)**	(3,473) (2)	(5,453) (6)	390 (9)	7,003 (14)
Income (loss) before income taxes	**45,384**	30,464	(2,629)	2,723	(147)
Provision (benefit) for income taxes	**14,662**	10,358	(4,617) (7)	951	(804)
Income from continuing operations	**30,722**	20,106	1,988	1,772	657
Income (loss) from operations of discontinued operations, net of taxes	**—**	3,313	(11,907) (8)	(32,493) (10)	(10,353) (15)
Gain on disposal of discontinued operations, net of taxes	**—**	8,083	—	—	—
Net income (loss)	**$ 30,722**	$ 31,502	$ (9,919)	$(30,721)	$ (9,696)
Diluted earnings (loss) per share:					
Earnings per share from continuing operations	**$0.85**	$0.64	$ 0.06	$ 0.06	$ 0.02
Earnings (loss) per share from operations of discontinued operations	**—**	$0.10	$(0.38)	$(1.05)	$(0.34)
Earnings per share from gain on disposal of discontinued operations	**—**	$0.26	—	—	—
Earnings (loss) per common share	**$0.85**	$1.00	$(0.32)	$(0.99)	$(0.32)
Weighted-average shares outstanding—assuming dilution	**36,276**	31,650	31,208	30,997	30,657
Consolidated Balance Sheet Data:					
Cash, cash equivalents, and marketable securities (16)	**$256,137**	$238,960	$128,700	$166,178	$210,494
Working capital	**274,323**	190,874	235,204	276,717	337,457
Total assets	**499,836**	470,100	414,442	416,482	459,056
Long-term obligations	**3,460 (1)**	118,255	115,406	115,346	118,118
Total stockholders' equity	**452,198 (1)**	297,576	254,251	256,390	280,014

(1) Includes effect of conversion of the Company's 5.25% convertible subordinated notes due November 15, 2006 into 5,183,095 shares of common stock.
(2) Includes a $4.5 million asset impairment charge related to the Company's strategic investment portfolio.
(3) Includes charges of $2.7 million to write down inventory balances in the liquid chemistries and delivery equipment product lines.
(4) Includes $0.7 million of in-process research and development expensed in connection with the ESC, Inc. acquisition.
(5) Represents a $2.4 million asset impairment charge related to the Company's former liquid chemistries manufacturing facility, partially offset by a $0.7 million gain related to sublease income from a former tenant in the Company's Danbury, Connecticut facility.
(6) Includes $5.7 million of asset impairment charges related to the Company's strategic investment portfolio.
(7) Includes $3.0 million of tax benefit recognized as a result of a favorable U.S. Tax Court judgment.
(8) Includes a $2.6 million (net of $1.5 million tax benefit) charge for excess and obsolete inventory.
(9) Includes a $1.0 million gain from the sale of available-for-sale securities, offset by a $0.4 million write-down of other available-for-sale securities.
(10) Includes an asset impairment charge of $21.8 million (net of tax benefit of $12.8 million) to recognize the impairment of assets in the Company's former gallium arsenide epitaxial services business.
(11) Includes a $0.6 million inventory write-down.
(12) Includes a special charge for accounts receivables write down of $2.5 million as a reserve against the possible effects that the weakened economic environment and semiconductor industry downturn had on ATMI's customers.
(13) Represents severance and other costs incurred in connection with ATMI's restructuring efforts.
(14) Includes a gain on settlement of patent litigation, net of related expenses, and a $2.6 million gain on the sale of available-for-sale securities, offset by an asset impairment charge of approximately $0.4 million on available-for-sale securities.
(15) Includes a $0.7 million (net of tax benefit of $0.4 million) inventory write-down and a $5.4 million (net of tax benefit of $2.6 million) of costs incurred in connection with ATMI's restructuring efforts announced in the first and third quarters of 2001.
(16) Includes non-current marketable securities of $46.3 million, $105.8 million, $9.7 million, $6.0 million, and $2.0 million at December 31, 2005, 2004, 2003, 2002, and 2001, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

ATMI believes it is a leading supplier of materials, materials delivery systems, and high-purity materials packaging and dispensing products used worldwide in the manufacture of microelectronic devices. ATMI specifically targets semiconductor manufacturers, whose silicon "chips" form the foundation of microelectronics technology proliferating through information technology, automotive, communication, and consumer products industries. The market for semiconductor "chips" or devices is growing and continually changing, which drives demand for new products and technologies at lower cost. ATMI's objective is to meet the demands of semiconductor and other microelectronic manufacturers with solutions that maximize the efficiency of their manufacturing processes and minimize the time to ramp new processes and deliver new products. ATMI's customers include many of the leading semiconductor and flat-panel display manufacturers in the world, targeting leading-edge technologies in semiconductor manufacturing.

During 2004, ATMI significantly reduced its exposure to the capital equipment cycles of the semiconductor industry by selling non-core product lines. The non-core product lines that we exited by sale were environmental abatement equipment, materials sensing and monitoring equipment, specialty thin-film deposition services, outsourced parts cleaning and tool maintenance services, our smartcard device venture, and gallium nitride materials.

See Note 2 to our consolidated financial statements for additional details about the discontinued operations.

Critical Accounting Policies and Estimates

General

Management's discussion and analysis of ATMI's financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. We have determined that our most critical accounting policies include revenue recognition, allowances for doubtful accounts, inventories, marketable securities and investments, depreciation and amortization, goodwill, stock-based compensation, and income taxes. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB No. 104"). SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. We recognize revenue upon determination that all criteria for revenue recognition have been met. Revenues from product sales are recognized upon delivery to a common carrier when terms are FOB origin and upon receipt by a customer when terms are FOB destination. In instances where final acceptance of equipment is specified by the purchase agreement, revenue is deferred until all acceptance criteria have been satisfied. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected. We accrue for sales returns, warranty costs, and other allowances based on a current evaluation of our experience based on stated terms of the transactions. Should actual product failure rates or customer return experience differ from our estimates, revisions to the estimated accruals would be required.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established to represent our best estimate of the net realizable value of the outstanding accounts receivable balances. We estimate our allowance for doubtful accounts based on past due amounts and historical write-off experience, as well as trends and factors surrounding the credit risk of the specific customers. In an effort to identify adverse trends, we perform periodic credit evaluations of our customers and ongoing account balance reviews and agings of receivables. Amounts are considered past due when payment has not been received within the time frame of the credit terms extended. Write-offs are charged directly against the allowance for doubtful accounts and occur only after all collection efforts have been exhausted. Actual write-offs and adjustments could differ from the allowance estimates due to unanticipated changes in the business environment as well as factors and risks surrounding specific customers.

Inventories

We value inventories using the first-in, first-out (FIFO) cost method. Inventories are stated at the lower of cost or market and we write down the value of inventories for estimated obsolescence and excess quantities on hand and for known adverse conditions and circumstances. Each quarter, we make estimates of future demand by using the latest forecasts and known market conditions available to us. If actual market conditions are less favorable than those we have projected, then additional inventory write-downs may be required.

Marketable Securities

We account for marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as amended by FASB Staff Position FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," ("FSP 115-1"). FSP 115-1 provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of other-than-temporary impairment losses and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. All of the Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value, based on quoted market prices, with unrealized gains and losses included in stockholders' equity as a component of accumulated other comprehensive income, net of applicable taxes. Marketable securities that are in a temporarily impaired position, where management has the ability and intent to hold until anticipated recovery or maturity, are classified as either current or non-current based on the remaining contractual maturity of the security. Those securities in a temporarily impaired position with contractual maturities greater than one year are classified as non-current.

Cost-Basis Investments

We hold minority interests in companies having operations or technology in areas within or related to our strategic focus, which are in private companies whose value is difficult to determine. Investments in private companies are included in the consolidated balance sheets under the caption "other long-term assets." We review investments in private companies for impairment based upon the financial health and specific prospects for the issuer. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

Depreciation and Amortization

We depreciate our property, plant, and equipment using the straight-line method over the estimated useful life of the asset. The depreciation periods used are: buildings, 15 to 35 years; machinery and equipment, 3 to 15 years; furniture and fixtures, 5 years; and leasehold improvements are amortized over the lesser of the lease term or estimated useful life.

We amortize our patents and other amortizable intangible assets over their estimated useful lives. All amortizable intangible assets are amortized using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 14 years.

Goodwill and Other Intangible Assets

We account for goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). At December 31, 2005, the Company had $13.7 million of goodwill, representing the cost of acquisitions in excess of fair values assigned to the underlying net assets of acquired companies. In accordance with SFAS No. 142, goodwill is not amortized but is subject to annual impairment testing. The assessment of goodwill involves the estimation of the fair value of reporting units, as defined by SFAS No. 142. Management completed this annual assessment during the fourth quarter of 2005 based on the best information available as of the date of the assessment, which incorporated management's assumptions about expected future cash flows. Based on this assessment, there is no goodwill impairment as of December 31, 2005. Future cash flows can be affected by changes in the global economy and local economies, changes in the semiconductor industry, changes in technology, and the execution of management's plans. There can be no assurance that future events will not result in impairment of goodwill.

We review the carrying values of intangible assets and long-lived assets for impairment when facts or circumstances indicate that the carrying value of intangibles and long-lived assets or other assets may be impaired. An impairment review consists of a specific evaluation of the assets or groups of assets to determine whether any impairment exists, by comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount. If the review indicates that the asset is impaired, then an impairment loss representing the difference between the asset's fair value and its carrying value is recognized.

Stock-Based Compensation

We currently account for our stock-based awards under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related Interpretations. All options granted under our plans had exercise prices equal to market value of the underlying common stock on the date of grant. All stock-based compensation expense included in the statements of operations is calculated using the intrinsic-value method prescribed by APB No. 25. Unvested ("restricted") share grants awarded to employees are included in earnings as an expense over the vesting period of the award. In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and supersedes APB No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values at grant date or later modification. In addition, SFAS No. 123(R) will cause unrecognized expense (based on the amounts in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining requisite service period. We have elected to adopt SFAS No. 123(R) on January 1, 2006, using the modified prospective approach. Refer to Note 1 to our consolidated financial statements for further discussion of SFAS No. 123(R).

Income Taxes

We estimate and use our expected annual effective income tax rate to accrue income taxes on an interim basis. We update these estimates quarterly. We record valuation allowances to reduce our deferred income tax assets to an amount that we believe is more likely than not to be realized. We consider estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If we determine that we will not realize all or part of our deferred income tax assets in the future, we will make an adjustment to the carrying value of the deferred income tax assets, which would be reflected as an income tax expense. Conversely, if we determine that we will realize a deferred income tax asset, which currently has a valuation allowance, we will reverse the valuation allowance, which would be reflected as an income tax benefit in our financial statements.

We take tax positions in our worldwide corporate income tax filings based on careful interpretations of local statutes, rules, regulations, and

court decisions. Taxing jurisdictions may or may not challenge our application and interpretation of various tax laws. However, we do not anticipate that any sustained challenge by any taxing jurisdiction will have a material adverse effect on our financial position or net income.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements for information concerning recent accounting pronouncements.

Results of Operations

The following table sets forth selected financial data as a percentage of total revenues for the periods indicated:

	2005	2004	2003
Revenues	**100.0%**	100.0%	100.0%
Cost of revenues	**49.8**	49.7	52.4
Gross profit	**50.2**	50.3	47.6
Operating expenses:			
Research and development	**7.9**	7.9	11.2
Selling, general, and administrative	**28.0**	27.2	31.5
Restructuring and other charges	**0.0**	0.0	1.0
Total operating expenses	**35.9**	35.1	43.7
Operating income	**14.3**	15.2	3.9
Interest income (expense), net	**1.9**	(1.4)	(2.2)
Impairment of investments	**(0.1)**	(1.8)	(3.3)
Other income (expense), net	**0.0**	0.4	0.1
Income (loss) before income taxes	**16.1**	12.4	(1.5)
Provision (benefit) for income taxes	**5.2**	4.2	(2.7)
Income from continuing operations	**10.9**	8.2	1.2
Income (loss) from operations of discontinued operations, net	**—**	1.3	(6.9)
Gain on sale of discontinued operations, net	**—**	3.3	0.0
Net income (loss)	**10.9%**	12.8%	(5.7)%

Comparison of Years Ended December 31, 2005, 2004, and 2003

Revenues. Revenues increased 14.4% to $281.8 million in 2005 from $246.3 million in 2004, primarily due to wafer start-driven volume increases in the Company's copper advanced interconnect materials such as cleans and plating products, increased SDS® product sales volumes, and strength in the Asian flat panel display market driving volume increases in our advanced high-purity materials packaging and dispensing systems. Revenues increased by 43.5% to $246.3 million in 2004 from $171.6 million in 2003. This increase is primarily because of increased wafer starts driving increased revenues in almost all product lines. Wafer starts in copper advanced interconnect applications increased at a faster pace than industry-wide wafer starts, which drove higher growth rates for our advanced materials and high-purity materials packaging and dispensing systems. Revenues also increased as a full year of sales were realized in 2004 from the acquisitions and alliances that were completed in 2003. Excluding the effect of the acquisitions and alliances, revenues grew 33.9%.

Gross Profit. Gross profit increased 14.2% to $141.5 million in 2005 from $123.9 million in 2004. Gross margin decreased slightly to 50.2% in 2005 from 50.3% in 2004. The increase in gross profit in 2005 was driven primarily by the revenue volume increases discussed above, which were partially offset by costs incurred to expedite shipments of cleans products to Asia to keep pace with increased demand in that region, by increased costs associated with operating parallel facilities in preparation for the move of our advanced high-purity materials packaging and dispensing systems manufacturing operations to a new facility, and by slight shifts in product mix within our product portfolio. The facility move described previously was completed in the fourth quarter of 2005. We have initiated a project in Asia to build certain cleans chemistry manufacturing capacity in that region in order to get closer to our customers, and thereby reduce or eliminate logistics and expediting costs. We expect to complete this project toward the end of 2006. Gross profit increased 51.6% to $123.9 million in 2004 from $81.7 million in 2003. Gross margin increased to 50.3% in 2004 from 47.6% in 2003. The increase in gross profit in 2004 was a result of increased revenues and improved manufacturing efficiencies, partially offset by costs incurred to increase production and expedite shipments of cleans products to Asia. Gross profit in 2004 included positive cost adjustments of $1.5 million related to a third party manufacturing agreement; however, this was offset by approximately $1.6 million of excess and obsolete inventory charges incurred during the year.

Research and Development Expenses. Research and development expenses increased 13.8% to $22.3 million in 2005 from $19.6 million in 2004. The increase was primarily related to new product development efforts in our copper advanced interconnect, SDS®, and advanced high-purity materials packaging and dispensing systems applications. As a percentage of revenues, research and development spending has remained flat at 7.9% in 2005 compared to 2004. Research and development expenses increased 2.1% to $19.6 million in 2004 from $19.2 million in 2003. The 2003 research and development expenses included a $0.7 million charge to write off acquired in-process research and development from the ESC acquisition. The increase in spending, excluding the $0.7 million charge, is mainly attributable to research and development efforts to support new product development in advanced interconnect and the SDS® product lines. As a percentage of revenues, research and development expenses decreased to 7.9% in 2004, compared to 11.2% in 2003, primarily because of the increase in sales.

Selling, General, and Administrative Expenses. Selling, general, and administrative ("SG&A") expenses increased 17.8% to $78.8 million in 2005 from $66.9 million in 2004. As a percentage of revenues, SG&A expenses increased to 28.0% in 2005 from 27.2% in 2004. The primary drivers of the increased SG&A spending were patent litigation costs relating to the patent infringement claims disclosed in Note 15 to the accompanying consolidated financial statements, increased accounting costs, and expenses associated with restricted stock awards. SG&A expenses increased 23.6% to $66.9 million in 2004, compared to $54.1 million in 2003. Increased patent litigation costs, incentive compensation costs, and a full year of infrastructure costs associated with the acquired ESC product line in 2004 versus six months of these costs in 2003 drove the increased expenditures in 2004 as compared to 2003. As a percentage of revenues, SG&A expenses decreased to 27.2% in 2004 as compared to 31.5% in 2003, primarily because of increased sales volumes in 2004 over 2003.

Restructuring and Other Charges. The 2003 results include the recognition of $1.7 million of restructuring and other charges. The $1.7 million charge includes $2.4 million for abandoned assets in the Company's former materials and liquid delivery systems manufacturing facility in Burnet, Texas, including $1.1 million of liquid chemistry canisters that were not returned to the Company by various customers.

Partially offsetting the charge was a $0.7 million gain related to sublease income from a former tenant in the Company's Danbury, Connecticut research and development facility.

Operating Income. Operating income increased 8.1% to $40.4 million in 2005 from $37.4 million in 2004, for the reasons noted in the captions above. Operating income increased to $37.4 million in 2004, from $6.7 million in 2003, for the reasons noted above.

Interest Income. Interest income increased to $7.3 million in 2005, from $3.5 million in 2004 because of higher invested balances from cash generated from operations, cash generated by the sale of discontinued operations, and higher short-term investment returns due to Federal Reserve interest rate increases. Interest income increased to $3.5 million in 2004, from $3.0 million in 2003, primarily because of higher invested balances from cash generated by the sale of discontinued operations and higher short-term investment returns due to Federal Reserve interest rate increases.

Interest Expense. Interest expense decreased to $1.9 million in 2005 from $6.9 million in 2004 because of the conversion of the Company's 5.25% convertible subordinated notes due November 15, 2006 (the "Notes") into 5.183 million shares of common stock during the second quarter of 2005. Interest expense was $6.9 million for both 2004 and 2003.

Impairment of Investments. The 2005 results include a $0.4 million charge to recognize the impairment of a strategic cost-basis investment. The 2004 results include a $4.5 million charge to recognize the impairment of a strategic cost-basis investment. The 2003 results include a $5.7 million charge to recognize impairments on two of the Company's strategic cost-basis investments.

Loss from Equity-method Investee. In July 2005, the Company purchased a minority interest in Anji Microelectronics Co., Ltd. ("Anji"), for approximately $7.7 million, including direct acquisition costs. Anji is a developer of advanced semiconductor materials with operations in Shanghai, China. The investment in Anji is being accounted for using the equity method of accounting. As a result, we recognized a $0.3 million loss in 2005, representing our share of Anji's losses from the date of the investment.

Other Income, net. Other income, net was $0.3 million in 2005 compared to $1.0 million in 2004. The decrease is primarily due to $1.0 million of losses on foreign currency exchange in 2005 because of weakness in the Japanese Yen against the U.S. dollar. Partially offsetting the foreign currency exchange losses in 2005 were gains of $0.3 million on the sale of land in Texas associated with the Company's former materials manufacturing site, and $0.4 million related to the sale of certain other assets. Other income, net was $1.0 million in 2004 compared to $0.3 million in 2003. Other income, net includes gains from the sale of available-for-sale securities of $0.3 million and $0.4 million in 2004 and 2003, respectively. Additionally, the increase in 2004 compared to 2003 is the result of favorable changes in foreign currency exchange rates in Europe and Asia.

Provision (Benefit) for Income Taxes. Provision for income taxes was $14.7 million in 2005 compared to $10.4 million in 2004. The increase in income before taxes was the primary driver for the increase in the provision for income taxes. The effective tax rate for 2005 was 32.3% compared to an effective tax rate of 34.0% for 2004. The effective tax rate of 32.3% in 2005 differs from the Federal statutory rate of 35.0% primarily because of state and foreign income taxes, offset by extra-territorial income ("ETI") exclusion benefits. The income tax provision for 2004 was $10.4 million compared to an income tax benefit of $4.6 million in 2003. The increase in income before taxes was the primary driver behind the increased income tax provision in 2004 compared to 2003. The 2003 income tax benefit included a $3.0 million tax benefit from a favorable judgment received from the U.S. Tax Court during 2003. Excluding this one-time benefit, the income tax benefit for 2003 was $1.6 million. The Company's effective tax rate for 2004 was 34.0%. The 2004 effective tax rate of 34.0% differed from the Federal statutory rate of 35.0%, primarily because of state and foreign income taxes, ETI exclusion benefits, and the change in valuation allowance of deferred tax assets. The effective tax rate for 2003 was an income tax benefit of 61.5%, excluding the one-time $3.0 million tax benefit described above. The effective tax rate of 61.5% differed from the Federal statutory rate of 35.0%, primarily because of state and foreign income taxes, ETI exclusion benefits, in-process research and development expenses, and the change in valuation allowance of deferred tax assets. As of December 31, 2005, the Company has a net deferred tax asset on its balance sheet of $5.7 million, primarily because of temporary differences, Federal and state tax credit carryforwards, and state net operating loss carryforwards, which are anticipated to be used to offset future taxable income (see Note 10 to the accompanying consolidated financial statements).

Income (Loss) from Operations of Discontinued Operations. Income from operations of discontinued operations in 2004, net of income taxes, was $3.3 million, compared to a loss, net of income taxes, of $11.9 million in 2003. The 2003 loss included a $4.1 million charge for excess and obsolete inventory. The overall improvement in the semiconductor capital equipment market in 2004 drove increased sales volumes leading to the increased income in 2004 compared to 2003. The results for the fourth quarter of 2003 exclude $2.2 million of depreciation and amortization expense because of assets being classified as "held for sale." Depreciation and amortization expense was recognized on these assets in all previous quarters.

Gain on Sale of Discontinued Operations. A gain of $8.1 million, net of income taxes, was recognized on the sale of discontinued operations in 2004. Each of the six businesses comprising discontinued operations was sold in 2004 at a price above existing net book value of each individual business.

Diluted Earnings (Loss) per Share. Diluted earnings per share were $0.85 in 2005, compared to $1.00 in 2004. Diluted earnings per share in 2004 of $1.00 was comprised of $0.64 per share from continuing operations, $0.10 per share from operations of discontinued operations, and a gain of $0.26 per share related to the sale of those discontinued operations. Diluted earnings per share were $1.00 for 2004, compared to a diluted loss per share of $0.32 in 2003. The diluted loss per share of $0.32 in 2003 was comprised of diluted earnings per share of $0.06 from continuing operations, offset by a loss of $0.38 per share from operations of discontinued operations. Diluted weighted-average shares outstanding were 36.3 million in 2005, compared to 31.7 million in 2004. The increase in diluted weighted-average shares outstanding was primarily because of the addition of shares from the conversion of the Notes to equity, the exercise of employee stock options, and shares issued pursuant to the employee stock purchase plan, partially offset by the repurchase of shares pursuant to the Company's share repurchase program. Diluted weighted-average shares outstanding were 31.7 million in 2004, compared to 31.2 million in 2003. The 0.5 million share increase from 2003 to 2004 was primarily because of the exercise of employee stock options and the issuance of employee stock purchase plan shares.

Liquidity and Capital Resources

Years Ended December 31, 2005, 2004, and 2003

The Company finances its activities principally through cash from operations and the issuance of equity. Additionally, the Company received proceeds from the sale of discontinued operations in 2004. The Company's working capital increased to $274.3 million at December 31, 2005 from $190.9 million at December 31, 2004, primarily due to income from continuing operations, reduction of the portion of the marketable securities portfolio classified as non-current, and proceeds from employee stock option exercises. Working capital decreased to $190.9 million at December 31, 2004 from $235.2 million at December 31, 2003. The decrease was mostly due to the classification of a substantial portion of the marketable securities portfolio to the non-current assets category of the consolidated balance sheet in 2004, partially offset by proceeds from sales of discontinued operations and from cash generated from operating activities.

Net cash provided by operating activities of continuing operations was $45.0 million in 2005 and was $33.6 million in 2004. In 2005, the Company used only $2.8 million of cash to increase inventory levels, while in 2004 the Company used $17.0 million of cash to increase inventory levels, primarily to support the significant increase in sales activity between 2004 and 2003. In 2005, changes in other assets accounts provided cash of $4.2 million, while in 2004, changes in other assets accounts used $9.9 million of cash. The positive cash flow from other assets in 2005 was primarily because of the collection of amounts owed by one of the buyers of a discontinued operation related to administrative transition services. Partially offsetting the favorable changes in cash flow noted above were unfavorable changes in other working capital accounts. In 2005, the Company used $9.5 million of cash for accounts payable and accrued expenses, while changes in the accounts payable and accrued expenses accounts provided $16.3 million of cash in 2004. Net cash provided by operating activities of continuing operations was $33.6 million in 2004 and $20.0 million in 2003. Increased earnings from continuing operations and favorable changes in the Company's working capital accounts such as accrued expenses, partially offset by an increased use of cash for inventories and other assets, were responsible for the increase. Cash used by operating activities of discontinued operations was $8.2 million in 2004, compared to $12.2 million in 2003, primarily due to improved operating performance of discontinued operations in 2004 compared to 2003.

Net cash used by investing activities of continuing operations was $55.5 million, $119.6 million, and $12.0 million in 2005, 2004, and 2003, respectively. Capital expenditures were $28.5 million, $16.8 million, and $15.3 million in 2005, 2004, and 2003, respectively. The 2005 capital spending was primarily for leasehold improvements made to the Company's newly leased advanced high-purity materials packaging and dispensing products facility in Minnesota, enterprise-wide information management systems enhancements designed to deliver manufacturing and other business efficiencies, including increased visibility to our international operations, and building improvements and new equipment purchases related to new advanced interconnect applications manufacturing in our Texas and Connecticut facilities. Capital spending in 2004 and 2003 was primarily related to information technology upgrades and manufacturing equipment purchases in the Texas, Minnesota, and Connecticut facilities. In 2005, the Company sold surplus land in Texas for proceeds of $0.4 million. In 2005, the Company purchased a minority interest in Anji Microelectronics Co., Ltd., a developer of advanced semiconductor materials with operations in Shanghai, China for $7.7 million, including direct acquisition costs. The Company invested $2.1 million during 2004 to purchase equity in an entity that is believed to be a leader in the development of next-generation implant materials. Acquisitions and other equity investments in 2003 included entering into a strategic alliance with Enthone, Inc., which included purchasing the exclusive worldwide selling and distribution rights to Enthone's copper electrochemical deposition products for $20.0 million and the acquisition of all the outstanding capital stock of ESC, Inc., a developer of novel surface preparation and cleaning materials for copper and advanced interconnect microelectronic fabrication processes for $16.4 million. In 2005, the Company sold its remaining 16.4% minority interest in the former Emosyn smartcard business for $3.1 million. For the years ended December 31, 2005, 2004, and 2003, the Company purchased $150.4 million, $210.7 million, and $103.4 million of marketable securities, respectively, consisting primarily of short-term corporate, federal, and municipal debt obligations. For the years ended December 31, 2005, 2004, and 2003, the Company received $127.5 million, $109.9 million, and $143.2 million, respectively, from proceeds from the sale or maturities of marketable securities. Net cash provided by investing activities of discontinued operations was $94.8 million for 2004 because of the proceeds received from the sales of the discontinued operations. Net cash used by investing activities of discontinued operations was $0.4 million in 2003.

Net cash provided by financing activities of continuing operations was $6.5 million, $7.3 million, and $4.0 million in 2005, 2004, and 2003, respectively. In 2005, the Company used $11.3 million to purchase treasury stock under its share repurchase program. During 2005, 2004, and 2003, the Company received net proceeds from the exercise of employee stock options and employee stock purchase plan shares of $18.0 million, $8.3 million, and $4.7 million, respectively. Net cash used by financing activities of discontinued operations was $0.1 million in 2003.

On April 8, 2005, all of the Company's 5.25% convertible subordinated notes were converted into 5,183,095 shares of common stock.

Summary of Contractual Obligations

Following is a summary of consolidated debt, lease, purchase, and other obligations at December 31, 2005 (see Notes 4, 6, 9, and 15 of the consolidated financial statements) (in thousands):

		Payments Due by Period			
Contractual obligations:	**Total**	Less than 1 Year	1-3 Years	4-5 Years	Thereafter
Debt	**$ 73**	$ 73	$ —	$ —	$ —
Operating leases	**7,803**	2,966	4,087	750	—
Purchase obligations:					
Inventory purchases	**1,642**	1,642	—	—	—
Capital expenditures	**758**	758	—	—	—
Other	**418**	418	—	—	—
Total purchase obligations	**2,818**	2,818	—	—	—
Acquisition earn-out obligation	**1,568**	1,568	—	—	—
Standby letters of credit	**250**	100	—	150	—
Other long-term liabilities	**316**	—	20	—	296
Total debt, lease, purchase, and other long-term liability obligations	**$12,828**	$7,525	$4,107	$900	$296

The Company believes that its existing cash and cash equivalents and marketable securities balances, and its existing operations and existing sources of liquidity will satisfy the Company's projected short-term working capital and other cash requirements. However, management also believes the level of financing resources available to the Company is an important competitive factor in its industry and may seek additional capital. Management also may repurchase shares of ATMI, Inc. common stock, as discussed above. Additionally, management considers, on a continuing basis, potential acquisitions of strategic technologies and businesses complementary to the Company's current business. There are presently no definitive agreements with respect to any such potential acquisitions. However, any such transaction could affect the Company's future capital needs.

Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements that are reasonably likely to have a current or future effect on its financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Operations Outside the United States

For the years ended December 31, 2005, 2004, and 2003, sales outside the United States, including Asia and Europe, accounted for 67.1%, 64.9%, and 58.4%, respectively, of the Company's revenues. Sales to Taiwan for the years ended December 31, 2005, 2004, and 2003 were 23.0%, 22.2%, and 15.3%, respectively, of the Company's revenues. Sales to Japan for the years ended December 31, 2005, 2004, and 2003 were 15.3%, 16.3%, and 15.8%, respectively, of the Company's revenues. Management anticipates that the Company's sales outside the United States will continue to account for a significant percentage of total revenues. The Company has wholly-owned subsidiaries in Taiwan, Singapore, China, Japan, and Germany where the Company sells and services several product lines. The Company also has a wholly-owned subsidiary in South Korea that manufactures, sells, and distributes materials delivery equipment and thin-film materials to the semiconductor industry in South Korea. In addition, the Company has a wholly-owned subsidiary in Belgium where it manufactures and sells high-purity materials packaging products.

Cautionary Statements Under the Private Securities Litigation Reform Act of 1995

Forward-Looking Statements

Disclosures included in this Annual Report contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may be identified by words such as "anticipate," "plan," "believe," "seek," "estimate," "expect," "could," and words of similar meanings and include, without limitation, statements about the expected future business and financial performance of ATMI such as financial projections, expectations for demand and sales of new and existing products, research and development programs, market and technology opportunities, international trends, business strategies, business opportunities, objectives of management for future operations, semiconductor industry (including wafer start) growth, and trends in the markets in which the Company participates. Forward-looking statements are based on management's current expectations and assumptions, which are inherently subject to uncertainties, risks, and changes in circumstances that are difficult to predict. Purchases of shares pursuant to the Company's share repurchase program may be subject to prevailing market prices for the Company's common stock, availability of shares for public or private purchase, other market conditions, and alternative uses and applications for the Company's cash that

may arise from time to time. Actual outcomes and results may differ materially from these expectations and assumptions because of changes in political, economic, business, competitive, market, regulatory, and other factors. ATMI undertakes no obligation to update publicly or review any forward-looking statements, whether because of new information, future developments or otherwise.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As of December 31, 2005, the Company's cash and cash equivalents and marketable securities included money market securities, corporate and municipal bond obligations, and commercial paper. As of December 31, 2005, an increase of 100 basis points in interest rates would reduce the fair value of the Company's marketable securities portfolio by approximately $1.1 million. Conversely, a reduction of 100 basis points in interest rates would increase the fair value of the Company's marketable securities portfolio by approximately $1.6 million.

Foreign Currency Exchange Risk

A substantial portion of the Company's sales are denominated in U.S. dollars and, as a result, the Company has relatively minimal exposure to foreign currency exchange risk with respect to sales made. Approximately 12% of the Company's sales are denominated in Japanese Yen ("JPY"), but the product is sourced in U.S. dollars. Management periodically reviews the Company's exposure to currency fluctuations. This exposure may change over time as business practices evolve and could have a material effect on the Company's financial results in the future. The Company currently uses forward exchange contracts to hedge certain JPY exposures, but does not use any other derivative financial instruments for trading or speculative purposes. At December 31, 2005, ATMI had $11.9 million notional amount of foreign exchange contracts, which are being used to hedge recorded foreign-denominated assets in JPY. Holding other variables constant, if there were a 10% adverse change in foreign exchange rates for the JPY, the fair market value of the contracts outstanding at December 31, 2005 would decrease by approximately $0.9 million. The effect of an immediate 10% change in other foreign exchange rates would not be expected to have a material impact on the Company's future operating results or cash flows.

Changes in Market Risk

There have been no material quantitative changes in market risk exposure between the fiscal years ended December 31, 2004 and December 31, 2005.

Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Annual Report. Based on such evaluation, our CEO and CFO concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures are effective in that they provide reasonable assurance that the information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods required by the SEC's rules and forms.

Changes to Internal Control over Financial Reporting

In the course of our ongoing preparations for making management's report on internal control over financial reporting included in this Annual Report, as required by Section 404 of the Sarbanes-Oxley Act of 2002, we have identified areas in need of improvement and have taken remedial actions to strengthen the affected controls as appropriate. From time to time, we make these and other changes to our internal control over financial reporting that are intended to enhance the effectiveness of our internal control over financial reporting and which do not have a material effect on our overall internal control. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate. There have been no changes to our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the fourth quarter of fiscal 2005 that we believe materially affected, or will be reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In making the assessment of internal control over financial reporting, our management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on that assessment and those criteria, management believes that our internal control over financial reporting was effective as of December 31, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report on management's assessment of internal control over financial reporting, which is included in this annual report.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

December 31,	**2005**	2004
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 30,951**	$ 36,395
Marketable securities, current portion	**178,900**	96,810
Accounts receivable, net of allowances of $695 and $701, respectively	**47,125**	43,680
Inventories, net	**39,850**	36,918
Deferred income taxes	**8,875**	13,046
Prepaid expenses and other current assets	**12,800**	18,294
Total current assets	**318,501**	245,143
Property, plant, and equipment, net	**82,821**	69,758
Goodwill	**13,681**	12,097
Other intangibles, net	**24,088**	29,179
Marketable securities, less current portion	**46,286**	105,755
Other long-term assets	**14,459**	8,168
Total assets	**$499,836**	$470,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 11,910**	$ 16,174
Accrued liabilities	**21,246**	20,849
Accrued salaries and related benefits	**8,945**	11,050
Income taxes payable	**102**	216
Other current liabilities	**1,975**	5,980
Total current liabilities	**44,178**	54,269
Notes payable	**—**	115,000
Deferred income taxes, non-current	**3,131**	3,014
Other long-term liabilities	**329**	241
Commitments and contingencies (Notes 4, 6, 9, and 15)		
Stockholders' equity:		
Preferred stock, par value $.01: 2,000 shares authorized; none issued	**—**	—
Common stock, par value $.01: 100,000 shares authorized; 37,877 and 31,478 issued and 37,446 and 31,478 outstanding in 2005 and 2004, respectively	**379**	315
Additional paid-in capital	**366,871**	223,694
Deferred equity-based compensation	**(5,506)**	(1,043)
Treasury stock at cost, 431 shares	**(12,118)**	—
Retained earnings	**100,473**	69,751
Accumulated other comprehensive income	**2,099**	4,859
Total stockholders' equity	**452,198**	297,576
Total liabilities and stockholders' equity	**$499,836**	$470,100

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

Year Ended December 31,	**2005**	2004	2003
Revenues	**$281,754**	$246,291	$171,634
Cost of revenues	**140,251**	122,415	89,902
Gross profit	**141,503**	123,876	81,732
Operating expenses:			
Research and development	**22,284**	19,577	19,170
Selling, general, and administrative	**78,810**	66,920	54,145
Restructuring and other charges (Note 14)	**—**	—	1,731
Total operating expenses	**101,094**	86,497	75,046
Operating income	**40,409**	37,379	6,686
Interest income	**7,269**	3,485	3,026
Interest expense	**(1,862)**	(6,927)	(6,887)
Impairment of investments	**(379)**	(4,471)	(5,708)
Loss from equity-method investee	**(310)**	—	—
Other income, net	**257**	998	254
Income (loss) before income taxes	**45,384**	30,464	(2,629)
Provision (benefit) for income taxes	**14,662**	10,358	(4,617)
Income from continuing operations	**30,722**	20,106	1,988
Income (loss) from operations of discontinued operations, net of income tax provision (benefit) of $1,784 in 2004 and $(5,649) in 2003	**—**	3,313	(11,907)
Gain on sale of discontinued operations, net of income tax provision of $4,352 in 2004	**—**	8,083	—
Net income (loss)	**$ 30,722**	$ 31,502	$ (9,919)
Basic earnings (loss) per share:			
Earnings per share from continuing operations	**$0.86**	$0.64	$ 0.07
Income (loss) per share from operations of discontinued operations	**—**	0.11	(0.40)
Gain on sale of discontinued operations	**—**	0.26	—
Income (loss) per common share	**$0.86**	$1.01	$(0.33)
Weighted-average shares outstanding	**35,707**	31,247	30,149
Diluted earnings (loss) per share:			
Earnings per share from operations of continuing operations	**$0.85**	$0.64	$ 0.06
Income (loss) per share from operations of discontinued operations	**—**	0.10	(0.38)
Gain on sale of discontinued operations	**—**	0.26	—
Income (loss) per common share	**$0.85**	$1.00	$(0.32)
Weighted-average shares outstanding	**36,276**	31,650	31,208

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Common Stock	Additional Paid-in Capital	Deferred Equity-Based Compen-sation	Treasury Stock	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
Balance at December 31, 2002	$307	$207,412	$ —	$ —	$ 48,168	$ 503	$256,390
Issuance of 197 shares of common stock pursuant to the exercise of employee stock options	2	3,034	—	—	—	—	3,036
Issuance of 102 shares of common stock pursuant to the employee stock purchase plan	1	1,620	—	—	—	—	1,621
Equity-based compensation	—	42	—	—	—	—	42
Income tax benefits from stock option exercises	—	684	—	—	—	—	684
Net loss	—	—	—	—	(9,919)	—	(9,919)
Reclassification adjustment for realized gain on available-for-sale securities sold (net of tax provision of $129)	—	—	—	—	—	(228)	(228)
Unrealized gain on available-for-sale securities (net of tax provision of $122)	—	—	—	—	—	217	217
Cumulative translation adjustment	—	—	—	—	—	2,408	2,408
Comprehensive loss							(7,522)
Balance at December 31, 2003	310	212,792	—	—	38,249	2,900	254,251
Issuance of 330 shares of common stock pursuant to the exercise of employee stock options	3	6,092	—	—	—	—	6,095
Issuance of 115 shares of common stock pursuant to the employee stock purchase plan	1	2,253	—	—	—	—	2,254
Equity-based compensation	—	216	373	—	—	—	589
Issuance of 60 shares of restricted stock	1	1,415	(1,416)	—	—	—	—
Income tax benefits from stock option exercises	—	926	—	—	—	—	926
Net income	—	—	—	—	31,502	—	31,502
Reclassification adjustment for realized gain on available-for sale securities sold (net of tax provision of $79)	—	—	—	—	—	(129)	(129)
Unrealized loss on available-for-sale securities (net of tax benefit of $606)	—	—	—	—	—	(989)	(989)
Cumulative translation adjustment	—	—	—	—	—	3,077	3,077
Comprehensive income							33,461
Balance at December 31, 2004	315	223,694	(1,043)	—	69,751	4,859	297,576
Issuance of 814 shares of common stock pursuant to the exercise of employee stock options	**8**	**16,022**	**—**	**—**	**—**	**—**	**16,030**
Issuance of 83 shares of common stock pursuant to the employee stock purchase plan	**1**	**1,731**	**—**	**—**	**—**	**—**	**1,732**
Issuance of 20 shares of common stock pursuant to exercise of warrants	**—**	**235**	**—**	**—**	**—**	**—**	**235**
Issuance of 5,183 shares of common stock pursuant to conversion of notes	**52**	**115,980**	**—**	**—**	**—**	**—**	**116,032**
Purchase of 431 treasury shares	**—**	**—**	**—**	**(12,118)**	**—**	**—**	**(12,118)**
Issuance of 299 shares of restricted stock	**3**	**6,686**	**(6,689)**	**—**	**—**	**—**	**—**
Equity-based compensation	**—**	**—**	**2,226**	**—**	**—**	**—**	**2,226**
Income tax benefits from stock option exercises	**—**	**2,523**	**—**	**—**	**—**	**—**	**2,523**
Net income	**—**	**—**	**—**	**—**	**30,722**	**—**	**30,722**
Reclassification adjustment for realized loss on available-for-sale securities sold (net of tax benefit of $66)	**—**	**—**	**—**	**—**	**—**	**113**	**113**
Unrealized gain on available-for-sale securities (net of tax provision of $31)	**—**	**—**	**—**	**—**	**—**	**53**	**53**
Cumulative translation adjustment	**—**	**—**	**—**	**—**	**—**	**(2,926)**	**(2,926)**
Comprehensive income							**27,962**
Balance at December 31, 2005	**$379**	**$366,871**	**$(5,506)**	**$(12,118)**	**$100,473**	**$ 2,099**	**$452,198**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Year Ended December 31,	**2005**	2004	2003
Operating activities			
Net income (loss)	**$ 30,722**	$ 31,502	$ (9,919)
Less: income (loss) from discontinued operations	**—**	11,396	(11,907)
Income from continuing operations	**30,722**	20,106	1,988
Adjustments to reconcile income from continuing operations to cash provided by operating activities from continuing operations:			
Depreciation and amortization	**18,527**	17,250	15,039
Restructuring and other charges	**—**	—	1,731
Provision for bad debt	**—**	25	124
Provision for inventory obsolescence	**405**	1,606	3,054
Deferred income taxes	**4,202**	4,130	(4,727)
Income tax benefits from stock option exercises	**2,523**	926	684
Stock compensation expense	**2,226**	589	42
Realized gain on sale of marketable securities	**—**	(271)	(357)
Realized gain on sale of cost-basis investment	**(220)**	—	—
Realized gain on sale of land	**(319)**	—	—
Realized gain on sale of other assets	**(417)**	—	—
Loss from equity-method investee	**310**	—	—
Impairment of investments	**379**	4,471	5,708
Other	**—**	(139)	317
Changes in operating assets and liabilities:			
Accounts receivable	**(4,294)**	(5,266)	(5,164)
Inventories	**(2,766)**	(16,960)	(8,597)
Other assets	**4,153**	(9,908)	1,722
Accounts payable	**(5,026)**	4,431	570
Accrued expenses	**(4,450)**	11,891	87
Income taxes	**(30)**	(1,379)	7,940
Other liabilities	**(944)**	2,110	(165)
Cash provided by operating activities of continuing operations	**44,981**	33,612	19,996
Cash used by operating activities of discontinued operations	**—**	(8,220)	(12,228)
Net cash provided by operating activities	**44,981**	25,392	7,768
Investing activities			
Capital expenditures	**(28,460)**	(16,785)	(15,306)
Proceeds from the sale of property, plant, and equipment	**428**	—	—
Acquisitions and other equity investments	**(7,695)**	(2,136)	(36,463)
Proceeds from the sale of a cost-basis investment	**3,116**	—	—
Purchases of marketable securities	**(150,440)**	(210,746)	(103,388)
Proceeds from sales or maturities of marketable securities	**127,531**	109,880	143,181
Other	**—**	150	—
Cash used by investing activities of continuing operations	**(55,520)**	(119,637)	(11,976)
Cash provided (used) by investing activities of discontinued operations	**—**	94,776	(399)
Net cash used by investing activities	**(55,520)**	(24,861)	(12,375)
Financing activities			
Payments on loans and notes payable	**(76)**	(763)	(523)
Payments on capital lease obligations	**(136)**	(270)	(142)
Purchases of treasury stock	**(11,276)**	—	—
Proceeds from exercise of stock options, warrants, and employee stock purchase plan shares	**17,997**	8,349	4,657
Cash provided by financing activities of continuing operations	**6,509**	7,316	3,992
Cash used by financing activities of discontinued operations	**—**	—	(106)
Net cash provided by financing activities	**6,509**	7,316	3,886
Effects of exchange rate changes on cash	**(1,414)**	3,077	2,408
Increase (decrease) in cash and cash equivalents from continuing operations	**(5,444)**	(75,632)	14,420
Increase (decrease) in cash and cash equivalents from discontinued operations	**—**	86,556	(12,733)
Net increase (decrease) in cash and cash equivalents	**(5,444)**	10,924	1,687
Cash and cash equivalents, beginning of year	**36,395**	25,471	23,784
Cash and cash equivalents, end of year	**$ 30,951**	$ 36,395	$ 25,471
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Non-cash conversion of subordinated notes to equity	**$ 115,000**	$ —	$ —
Non-cash conversion of unamortized debt issuance costs to equity	**$ (1,333)**	$ —	$ —
Non-cash conversion of unpaid interest accrual to equity relating to subordinated notes	**$ 2,365**	$ —	$ —
Cash interest paid	**$ 34**	$ 6,131	$ 6,057
Cash income taxes paid	**$ 7,852**	$ 7,230	$ 2,157

See accompanying notes.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

ATMI (the "Company," "ATMI," or "we") believes it is a leading supplier of materials, materials delivery systems, and high-purity materials packaging and dispensing products used worldwide in the manufacture of microelectronic devices. ATMI specifically targets semiconductor manufacturers, whose silicon "chips" form the foundation of microelectronics technology proliferating through information technology, automotive, communication, and consumer products industries. ATMI's customers include many of the leading semiconductor and flat-panel display manufacturers in the world, targeting leading-edge technologies in semiconductor manufacturing.

Consolidation

The accounts of ATMI and all of its subsidiaries are included in the consolidated financial statements. All significant intercompany accounts and transactions are eliminated in consolidation.

Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at December 31, 2005 and 2004, and the reported amounts of revenues and expenses during the years ended December 31, 2005, 2004, and 2003, respectively. Actual amounts could differ from those estimates.

Variable Interest Entity

In July 2005, ATMI purchased 30% of the outstanding common stock of Anji Microelectronics Co., Ltd. ("Anji"), for approximately $7.7 million, including direct acquisition costs. At the time of our investment, Anji was in the development stage of researching and developing advanced semiconductor materials and has its primary operations in Shanghai, China. Management has determined that Anji is a variable interest entity, in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46R"). ATMI is accounting for this investment using the equity method of accounting, and we included our share of Anji's losses in the consolidated statements of operations from the investment date. ATMI records its share of Anji's earnings or losses using the most current financial information available from Anji, which is one month behind ATMI's normal monthly closing date. ATMI's maximum exposure to loss because of its investment in Anji is $7.4 million at December 31, 2005. The value of the investment in Anji is included in the consolidated balance sheets under the caption "other long-term assets." The carrying value of ATMI's investment in Anji exceeds ATMI's share of Anji's net assets by approximately $5.8 million. The carrying value of ATMI's investment in Anji represents the cash paid, less our share of the losses and, per an independent valuation obtained, the excess purchase price over the underlying net assets is deemed to be goodwill.

Revenue Recognition and Accounts Receivable

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"). SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. The Company recognizes revenue upon determination that all criteria for revenue recognition have been met. Revenues from product sales are recognized upon delivery to a common carrier when terms are FOB origin and upon receipt by a customer when terms are FOB destination. In instances where final acceptance of equipment is specified by the purchase agreement, revenue is deferred until all acceptance criteria have been satisfied. The Company accrues for warranty costs, sales returns, and other allowances based on a current evaluation of its experience based on stated terms of the transactions.

Billings to customers for shipping and handling are included within revenues. Costs incurred for shipping and handling of products are charged to cost of revenues. Credit is extended to customers based on an evaluation of each customer's financial condition; generally, collateral is not required. Revenues are presented in the consolidated financial statements net of sales allowances and discounts. Accounts receivable are presented in the consolidated financial statements net of the allowance for doubtful accounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established to represent our best estimate of the net realizable value of the outstanding accounts receivable balances. We estimate our allowance for doubtful accounts based on past due amounts and historical write-off experience, as well as trends and factors surrounding the credit risk of specific customers. In an effort to identify adverse trends, we perform periodic credit evaluations of our customers and ongoing account balance reviews and agings of receivables. Amounts are considered past due when payment has not been received within the time frame of the credit terms extended. Write-offs are charged directly against the allowance for doubtful accounts and occur only after all collection efforts have been exhausted. Actual write-offs and adjustments could differ from the allowance estimates due to unanticipated changes in the business environment as well as factors and risks surrounding specific customers.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, accounts receivable, and currency forward exchange contracts. The Company invests its cash and cash equivalents and marketable securities primarily in auction rate securities, other corporate obligations, and U.S. Government and municipal debt obligations. The Company used one vendor to manufacture and distribute product that accounted for approximately 24%, 26%, and 27% of consolidated revenues in 2005, 2004, and 2003, respectively. The Company had amounts due from two customers that accounted for approximately 38% and 40% of accounts receivable at December 31, 2005 and 2004, respectively.

Research and Development

Costs associated with the development of new products and improvements to existing products are charged to expense as incurred.

Cash and Cash Equivalents, Marketable Securities, and Investments

Highly liquid investments with maturities of three months or less, when purchased, are classified as cash and cash equivalents. Investments in publicly traded securities with maturities greater than three months are classified as marketable securities.

The Company accounts for marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as amended by FASB Staff Position FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," ("FSP 115-1"). FSP 115-1 provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of other-than-temporary impairment losses and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. All of the Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value, based on quoted market prices, with unrealized gains and losses included in stockholders' equity as a component of accumulated other comprehensive income, net of applicable taxes. The cost of securities sold is based on the specific identification method. Interest on these securities is accrued and included in interest income. Marketable securities that are in a temporarily impaired position, where management has the ability and intent to hold until anticipated recovery or maturity, are classified as either current or non-current based on the remaining contractual maturity of the security.

The Company holds minority interests in companies having operations or technology in areas within, or related to, its strategic focus, some of which are in publicly traded companies whose share prices are highly volatile and some of which are in private companies whose value is difficult to determine. Investments in private companies are accounted for at cost and are included in the consolidated balance sheets under the caption "other long-term assets" and were $2.8 million and $5.8 million at December 31, 2005 and 2004, respectively.

The 2005, 2004, and 2003 results include impairment charges of $0.4 million, $4.5 million, and $5.7 million, respectively, related to cost-basis investments, which are presented separately in the Statements of Operations as "impairment of investments."

At December 31, 2005, the Company holds a $3.6 million time deposit in Germany, which is classified as a cash equivalent. Additionally, at December 31, 2005 the Company holds time deposits of $5.9 million and $2.4 million in Korea and Belgium, respectively, which are classified as marketable securities.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. The Company provides inventory allowances for estimated obsolescence and excess quantities on hand and for known adverse conditions and circumstances.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets: buildings, 15 to 35 years; machinery and equipment, 3 to 15 years; furniture and fixtures, 5 years; and leasehold improvements, which are amortized over the lesser of the lease term or estimated useful life. ATMI uses accelerated depreciation methods for tax purposes where appropriate.

Income Taxes

We use the liability method in measuring the provision for income taxes and recognizing deferred income tax assets and liabilities on the balance sheet. Deferred income tax assets and liabilities principally arise from differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. Deferred income tax balances are determined using provisions of currently enacted tax laws; the effects of possible future changes in tax laws or rates are not anticipated. The Company evaluates the realizability of the deferred tax assets on a quarterly basis. If a portion or all of the valuation allowance is unnecessary, then the related tax benefits will reduce the future income tax provision anticipated at that time.

Fair Values of Financial Instruments Other than Derivatives

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, accrued liabilities, and debt. Marketable securities are accounted for at fair value using quoted market prices for those securities. All other financial instruments are accounted for on a historical cost basis, which due to the nature of these instruments, approximates fair value at the balance sheet dates.

Derivatives

ATMI enters into derivative financial instruments solely to protect net income against the effect of the translation into U.S. dollars of certain foreign exchange-denominated transactions. These financial instruments are in the form of forward foreign currency exchange contracts, and are not entered into for trading purposes. ATMI uses only commonly traded instruments.

We account for derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133, as amended, requires the Company to recognize these instruments as either assets or liabilities on the balance sheet and measure them at fair value.

We recognize all derivative financial instruments, such as foreign exchange contracts, in the consolidated financial statements, at fair value, regardless of the purpose or intent for holding the instrument. Derivatives that are entered into for risk management purposes, and are not designated as hedges, are recorded at their fair market values, with changes in fair market value being recognized in income. The fair values of forward foreign currency exchange contracts are estimated based on market prices obtained from an independent dealer, or market quotes. Such quotes represent the estimated amount the Company would receive or pay to terminate the agreements, taking into consideration current rates.

Goodwill and Other Intangible Assets

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired companies. We account for goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, goodwill is not amortized, but is tested for impairment annually or when events or circumstances indicate that its value may have declined. The assessment of goodwill involves the assumption about the future condition and operations of the business unit to which the goodwill asset relates. These assumptions are applied to financial models in which we estimate the fair value of the business unit using projected future cash flows, multiples of earnings and sales, and other factors to determine whether an impairment charge is required to reduce goodwill to its estimated fair value.

Other intangible assets, such as acquired patents and trademarks, customer base, manufacturing documentation, and covenants not to compete, are amortized using the straight-line method over their estimated useful lives ranging from 3 to 14 years. These assets are currently reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Impairment of Amortizable Intangible Assets and Long-Lived Assets

We review the carrying values of intangible assets and long-lived assets for impairment when facts or circumstances indicate that the carrying value of intangibles and long-lived assets, or other assets, may be impaired. An impairment review consists of a specific evaluation of the assets, or groups of assets, to determine whether any impairment exists, by comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount. If the review indicates that the asset is impaired, then an impairment loss representing the difference between the asset's fair value and its carrying value is recognized.

Translation of Foreign Currencies

For most international operations, local currencies are considered the functional currency of the entity. Revenue and expense accounts are translated at the average exchange rate for the year, while asset and liability accounts are generally translated at the exchange rate in effect at the balance sheet date. Equity accounts are translated at historical exchange rates. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income.

Stock-Based Compensation

At December 31, 2005, the Company had seven stock-based employee compensation plans, which are described more fully in Note 12. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. All options granted under those plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. All stock-based compensation expense included in the statements of operations is calculated using the intrinsic-value method prescribed by APB No. 25. The following table sets forth the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting For Stock-Based Compensation," to stock-based employee compensation (in thousands, except per share data):

Year Ended December 31,	**2005**	2004	2003
Net income (loss), as reported	**$30,722**	$31,502	$ (9,919)
Add: Total stock-based employee compensation expense included in reported net income (loss), net of tax effect	**1,506**	385	16
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax effect	**(7,580)**	(8,404)	(9,279)
Pro forma net income (loss)	**$24,648**	$23,483	$(19,182)
Income (loss) per share:			
Basic—as reported	**$0.86**	$1.01	$(0.33)
Basic—pro forma	**$0.69**	$0.75	$(0.64)
Diluted—as reported	**$0.85**	$1.00	$(0.32)
Diluted—pro forma	**$0.68**	$0.74	$(0.62)

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (R), "Share-Based Payment" ("SFAS No. 123(R)"), a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB No. 25 and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123(R) is similar to the approach described in SFAS No. 123 except that SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of income, in lieu of pro forma disclosure as provided above. SFAS No. 123(R) is effective for fiscal years beginning after June 15, 2005. The Company adopted the provisions of SFAS No. 123(R) as of January 1, 2006 and will use the modified-prospective method and the Black-Scholes model for estimating the fair value of equity compensation.

As permitted by SFAS No. 123, through fiscal 2005 the Company accounted for share-based payments to employees using the intrinsic value method set forth in APB No. 25 and, as such, generally recognized no compensation cost for employee stock options. Accordingly, the adoption of the fair value method under SFAS No. 123(R) will have a significant effect on the Company's consolidated statements of operations. However, the Company's overall financial position will not be affected by the adoption of SFAS No. 123(R). The actual affect of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future and other factors, including when employees exercise stock options. However, had the Company adopted SFAS No. 123(R) in prior periods, the affect of that standard and, therefore, the disclosure of pro forma net income and earnings per share above would remain the same. SFAS No. 123(R) also requires that tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow. This requirement will reduce net operating cash flow and increase net financing cash

flow in periods after the adoption of SFAS No. 123(R). Estimation of the increase in net financing cash flow and decrease in net operating cash flow depends on the timing and exercise of stock options and is difficult to predict. The amount of operating cash flow recognized in prior periods for such excess tax deductions was $2.5 million, $0.9 million, and $0.7 million in the years ended December 31, 2005, 2004, and 2003, respectively.

In November 2004, the FASB issued SFAS No. 151 (an amendment to ARB No. 43), "Inventory Costs." SFAS No. 151 requires that any abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) be recognized as current period charges. In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The new standard is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company adopted this standard on January 1, 2006 and does not expect the standard will have a material effect on its financial position or results of operations.

Other

Approximately 10% of the Company's employees are covered by collective bargaining agreements. Approximately 4% of the Company's employees are covered by a collective bargaining agreement that will expire at December 31, 2006. All of the employees covered by these agreements are based in Belgium. The net assets of the Company's Belgium subsidiary represent approximately 2% of the Company's consolidated net assets.

Certain 2004 and 2003 amounts in the accompanying consolidated financial statements have been reclassified to conform to the 2005 presentation. These reclassifications had no effect on previously reported net income or stockholders' equity. For 2004, the Company has reclassified $105.8 million of marketable securities from current assets to non-current assets, to better reflect management's ability and intent to hold these securities until their anticipated recovery or maturity. Marketable securities aggregating to $46.3 million are classified as non-current at December 31, 2005.

2. DISCONTINUED OPERATIONS

In 2004, the Company sold non-core product lines: environmental abatement equipment, materials sensing and monitoring equipment, epitaxial services, outsourced parts cleaning and tool maintenance services, the smartcard device venture, and gallium nitride materials. In accordance with SFAS No. 144, the Company accounted for these product lines as discontinued operations for 2004 and 2003. The operating results and gains on sale of these product lines are shown as a discontinued operation in the consolidated statements of operations.

In December 2004, the Company completed the sale of its environmental abatement equipment business for $16.0 million in cash. A gain of $2.7 million, net of tax, was recognized on the sale of this business.

In September 2004, the Company completed the sale of its Emosyn smartcard business for $15.1 million in cash and a 16.4% investment in the entity that acquired the Emosyn smartcard business. A gain of $3.4 million, net of taxes, was recognized on the sale of the Emosyn smartcard business. In April 2005, the 16.4% investment in the Emosyn smartcard business was sold for its approximate carrying cost.

In July 2004, the Company completed the sale of its epitaxial services business for proceeds of $38.0 million. A gain of $0.5 million, net of taxes, was recognized on the sale of the epitaxial services business.

In June 2004, the Company completed the sale of its semiconductor parts cleaning services business, for total proceeds of $6.7 million, including $4.9 million of cash, and a note for the balance, payable in three equal annual installments. A gain of $0.2 million, net of taxes, was recognized on the sale of this business.

In May 2004, the Company completed the sale of its life safety sensors business for total cash proceeds of $11.0 million. A gain of $0.1 million, net of taxes, was recognized on the sale of the life safety sensors business.

In March 2004, the Company completed the sale of its gallium nitride materials business for total cash proceeds of $10.3 million. A gain of $1.2 million, net of taxes, was recognized on the sale of the gallium nitride materials business.

The aggregate gains from the sales of the business units noted above are included in the accompanying statement of operations as a gain on disposal of discontinued operations, net of income taxes.

Revenues and income (losses) from discontinued operations were (in thousands):

Year Ended December 31,	2004	2003
Revenues	$83,868	$ 71,744
Pretax income (loss) from discontinued operations (1)	$17,532	$(17,556)
Income (loss) from operations of discontinued operations, net of income taxes	$ 3,313	$(11,907)
Gain on sale of discontinued operations, net of income taxes	$ 8,083	—

(1) 2004 includes $12.4 million of gain on sale of discontinued operations.

3. MARKETABLE SECURITIES

Marketable securities are comprised of the following at December 31, (in thousands):

	2005			2004		
	Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value	Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value
Common stock	**$ 629**	**$2,419**	**$ 3,048**	$ 629	$1,525	$ 2,154
Corporate debt obligations	**136,466**	**(889)**	**135,577**	123,264	(342)	122,922
Government obligations	**87,330**	**(769)**	**86,561**	78,184	(695)	77,489
Total marketable securities	**$224,425**	**$ 761**	**$225,186**	$202,077	$ 488	$202,565

The amortized cost and estimated fair value of available-for-sale securities, by contractual maturity, as of December 31, 2005 are shown. Expected maturities may differ from contractual maturities because the issuers of the securities may exercise the right to prepay obligations without prepayment penalties (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	$176,715	$175,852
Due between one and two years	47,081	46,286
	223,796	222,138
Common stock	629	3,048
	$224,425	$225,186

The following table shows the Company's marketable securities that are in an unrealized loss position at December 31, 2005, and also shows the duration of time the security has been in an unrealized loss position (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt obligations (1)	$57,810	$(460)	$ 51,530	$ (429)	$109,340	$ (889)
Government obligations (1)	3,975	(25)	52,635	(744)	56,610	(769)
Total	$61,785	$(485)	$104,165	$(1,173)	$165,950	$(1,658)

(1) The unrealized losses on the Company's investments in corporate debt and government obligations were caused by general market interest rate increases. The contractual terms of those investments do not permit the issuers to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider the impairment of those investments to be other-than-temporary at December 31, 2005.

4. INVENTORIES

Inventories are comprised of the following at December 31, (in thousands):

	2005	2004
Raw materials	**$ 9,192**	$ 8,874
Work-in-process	**2,392**	1,731
Finished goods	**30,340**	29,109
	41,924	39,714
Excess and obsolescence reserve	**(2,074)**	(2,796)
Inventory, net	**$39,850**	$36,918

As of December 31, 2005, the Company had commitments for inventory purchases of $1.6 million.

5. DERIVATIVE INSTRUMENTS

ATMI is a party to two Japanese Yen ("JPY") currency exchange forward contracts that mature within one year, to manage its exposure to volatility in this currency against the U.S. dollar. At December 31, 2005, ATMI had $11.9 million notional amount of JPY currency exchange forward contracts outstanding. The forward contracts were initiated to hedge against JPY-denominated receivables on the balance sheet. At December 31, 2005, the gain on all derivative instruments is $0.4 million and has been recorded in the consolidated balance sheet in other current assets and in other income, net on the consolidated statement of operations, because these transactions were not designated as hedges.

6. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is comprised of (in thousands):

December 31,	**2005**	2004
Land	**$ 1,196**	$ 1,297
Buildings	**22,289**	23,052
Machinery and equipment	**107,285**	86,738
Furniture and fixtures	**3,877**	4,193
Leasehold improvements	**17,563**	14,887
Construction in progress	**7,525**	6,388
	159,735	136,555
Accumulated depreciation and amortization	**(76,914)**	(66,797)
	$ 82,821	$ 69,758

Depreciation and amortization expense for property, plant, and equipment for the years ended December 31, 2005, 2004, and 2003 was $14.7 million, $12.9 million, and $12.5 million, respectively.

As of December 31, 2005, the Company had commitments for capital expenditures of $0.8 million.

7. GOODWILL AND OTHER INTANGIBLES

Changes in carrying amounts of goodwill and other intangibles for the year ended December 31, 2005 were (in thousands):

	Goodwill	Debt Issuance Costs	Patents & Trademarks	Other	Total Other Intangibles
Balance at January 1, 2003	$11,959	$2,404	$26,220	$4,926	$33,550
Acquisitions	—	—	16	—	16
Amortization	—	(847)	(2,535)	(978)	(4,360)
Other, including foreign currency translation	138	—	(6)	(21)	(27)
Balance at December 31, 2004	$12,097	$1,557	$23,695	$3,927	$29,179
Acquisitions	**1,568 (1)**	**—**	**—**	**—**	**—**
Amortization	**—**	**(224)**	**(2,513)**	**(988)**	**(3,725)**
Reclassification to equity upon conversion	**—**	**(1,333)**	**—**	**—**	**(1,333)**
Other, including foreign currency translation	**16**	**—**	**(9)**	**(24)**	**(33)**
Balance at December 31, 2005	**$13,681**	**$ —**	**$21,173**	**$2,915**	**$24,088**

(1) Represents additional purchase price due to former shareholders of ESC, Inc. as a result of earn-out targets being met.

Goodwill and other intangibles balances consisted of the following at December 31, 2005 and 2004 (in thousands):

	Goodwill	Debt Issuance Costs	Patents & Trademarks	Other	Total Other Intangibles
Gross amount as of December 31, 2004	$12,097	$4,257	$27,500	$5,948	$37,705
Accumulated amortization	—	(2,700)	(3,805)	(2,021)	(8,526)
Balance as of December 31, 2004	$12,097	$1,557	$23,695	$3,927	$29,179
Gross amount as of December 31, 2005	**$13,681**	**$ —**	**$27,530**	**$6,076**	**$33,606**
Accumulated amortization	**—**	**—**	**(6,357)**	**(3,161)**	**(9,518)**
Balance as of December 31, 2005	**$13,681**	**$ —**	**$21,173**	**$2,915**	**$24,088**

The approximate amortization expense to be recognized related to intangible assets is (in thousands):

Year	Amount
2006	$ 3,466
2007	3,216
2008	2,924
2009	2,924
2010	2,316
Thereafter	9,242
Total	$24,088

8. NOTES PAYABLE

On November 13, 2001, the Company sold $115.0 million of convertible subordinated notes (the "Notes"), due November 15, 2006, in a private offering. The Notes bore interest at 5.25% per annum and were convertible by the holders into 5,183,095 shares of the Company's common stock, at a conversion price of approximately $22.19 per share. The Notes became redeemable at the Company's option beginning on November 15, 2004, in whole or in part, if ATMI's common stock exceeded 120% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days. The redemption premium beginning on November 15, 2004 and ending on November 14, 2005 was 102.10%. Upon notification of redemption by the Company, the note holders had the option of choosing to convert their Notes to common stock prior to the redemption date. Interest was payable to note holders on a semi-annual basis.

On April 8, 2005, all of the Notes were converted into 5,183,095 shares of common stock pursuant to the provisions of the Indenture dated November 15, 2001. Pursuant to such conversion, deferred financing costs of $1.3 million and accrued but unpaid interest of $2.4 million, at the date of conversion, were recorded as adjustments to additional paid-in capital.

9. LEASES

The Company leases office and manufacturing facilities, and certain manufacturing equipment under several operating leases expiring between 2006 and 2010. Rental expense was $3.8 million, $3.2 million, and $2.7 million for the years ended December 31, 2005, 2004, and 2003, respectively.

The following is a schedule of future minimum lease payments for operating leases as of December 31, 2005 (in thousands):

	Operating Leases
2006	$2,966
2007	2,986
2008	1,101
2009	492
2010	258
Thereafter	—
Total minimum lease payments	$7,803

10. INCOME TAXES

Pretax income (loss) from continuing operations was taxed in the following jurisdictions (in thousands):

Year Ended December 31,	**2005**	2004	2003
Domestic	**$41,127**	$27,497	$(11,532)
Foreign	**4,257**	2,967	8,903
Total pretax income (loss)	**$45,384**	$30,464	$ (2,629)

Significant components of the provision (benefit) for income taxes for the periods presented are (in thousands):

December 31,	**2005**	2004	2003
Current:			
Federal	**$ 7,529**	$ 4,864	$(2,501)
State	**948**	173	209
Foreign	**1,937**	1,231	2,402
Total current	**10,414**	6,268	110
Deferred:			
Federal	**4,600**	3,485	(4,488)
State	**(93)**	541	(280)
Foreign	**(259)**	64	41
Total deferred	**4,248**	4,090	(4,727)
	$14,662	$10,358	$(4,617)

Significant components of the Company's deferred tax assets and liabilities are (in thousands):

December 31,	**2005**	2004
Deferred tax assets:		
Accrued liabilities	**$ 5,320**	$ 7,665
Inventory adjustments	**5,600**	5,877
Net operating loss and tax credit carryforwards	**2,390**	5,238
Other, net	**808**	633
	14,118	19,413
Valuation allowance	**(591)**	(647)
	13,527	18,766
Deferred tax liabilities:		
Depreciation and amortization	**(7,494)**	(8,501)
Unrealized gain on marketable securities	**(279)**	(183)
Other, net	**(10)**	(50)
	(7,783)	(8,734)
Net deferred tax assets	**$ 5,744**	$10,032

The valuation allowance relates to realizability of certain U.S. state and foreign net operating losses and certain U.S. state tax credits.

As of December 31, 2005, the Company has a deferred tax asset related to state net operating loss carryforwards of $0.8 million. Additionally, the Company has federal and state tax credit carryforwards of $0.2 million and $1.2 million, respectively. The federal tax credit carryforwards have no expiration. The state net operating loss and tax credit carryforwards will expire at various dates in 2006 through 2024, if not used.

Income taxes paid in the years ended December 31, 2005, 2004, and 2003 were $7.9 million, $7.2 million, and $2.2 million, respectively. The Company received refunds of $0.2 million, $0.2 million, and $14.7 million in 2005, 2004, and 2003, respectively.

The reconciliation of income tax expense (benefit) from continuing operations computed at the U.S. federal statutory tax rate to the Company's tax expense (benefit) is (in thousands):

For the Year Ended December 31,	**2005**	2004	2003
U.S. statutory rate	**$15,884**	$10,662	$ (920)
State income taxes	**555**	658	(46)
Foreign income taxes	**65**	343	(66)
In-process R&D expenses	**54**	—	228
ETI benefit	**(1,637)**	(904)	(660)
Change in valuation allowance of deferred tax assets	**(56)**	(384)	(650)
Adjustment to prior year's tax liabilities	**—**	—	(3,000)
Other, net	**(203)**	(17)	497
	$14,662	$10,358	$(4,617)

ATMI has not provided for U.S. federal income and foreign withholding taxes on approximately $20.6 million of undistributed earnings from non-U.S. operations as of December 31, 2005, because such earnings are intended to be reinvested indefinitely outside of the United States. These earnings could become subject to additional tax if they are remitted as dividends, loaned to ATMI, or upon sale of subsidiary stock. It is not practicable to estimate the amount or timing of the additional tax, if any, that eventually might be paid on the foreign earnings. ATMI has evaluated its position with respect to the indefinite reinvestment of foreign earnings and has elected not to avail itself of the repatriation provisions contained in the American Jobs Creation Act of 2004.

During the second quarter of 1999, the Company was notified by the Internal Revenue Service of an assessment of $2.1 million, plus interest, for certain tax matters. The issues were litigated in U.S. Tax Court in 2002, and in 2003, the Company received a favorable court decision. Because of the favorable decision, the Company recognized a $3.0 million income tax benefit in 2003.

11. PROFIT SHARING PLAN

The Company maintains a 401(k) profit-sharing plan covering substantially all of its domestic employees that is subject to the provisions of the Employee Retirement Income Security Act of 1974. The Company's matching contributions are discretionary by plan year and were approximately $0.7 million, $0.5 million, and $0.7 million for the years ended December 31, 2005, 2004, and 2003, respectively.

12. STOCKHOLDERS' EQUITY

Stock Plans

The Company has certain stock-based compensation plans, which provide for the granting of up to 9,515,833 nonqualified stock options, incentive stock options ("ISOs"), stock appreciation rights, and restricted stock awards to employees, directors, and consultants of the Company.

In 2005, the Company awarded 299,498 shares of restricted common stock to key employees and non-employee directors. The weighted-average grant date fair value of the restricted stock issued was $22.33 per share in 2005. The restrictions on sale of 102,641 of the shares awarded lapse 33.3% on each of the first, second, and third anniversaries of the date of grant. The restrictions on sale of the remaining 196,857 shares awarded lapse 50% on the third anniversary of the date of grant and 25% on each of the fourth and fifth anniversaries of the date of grant. Upon issuance of the restricted shares, unearned compensation equivalent to the market value of ATMI, Inc. common stock at the date of grant of approximately $6.7 million was recorded as deferred compensation in stockholders' equity. The deferred compensation related to the restricted share awards is being charged to expense over the appropriate vesting periods of the awards. In 2004, the Company awarded 59,994 shares of restricted common stock to key employees and non-employee directors. The weighted-average grant date fair value of the restricted common stock issued in 2004 was $23.58 per share. The restrictions on sale of these shares lapse 50% on the third anniversary date of grant and 25% on each of the fourth and fifth anniversary dates of grant. Under the terms of these stock plans, nonqualified options granted may not be at a price of less than 50% of the fair market value of the common stock on the date of grant, and ISOs granted may not be at a price of less than 100% of fair market value of the common stock on the date of grant. All grants of stock options have been made at fair market value under the plans. Options are generally exercisable commencing one year after the date of grant at the rate of either 20% or 25% per annum on a cumulative basis. Nonqualified options expire up to ten years from the date of grant, and ISOs expire five to ten years from the date of grant.

The following table provides a summary of the status of the Company's stock option plans as of December 31, 2005, 2004, and 2003, and changes during the years ending on those dates (in thousands, except per share data):

	2005		2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**4,263**	**$23.68**	4,483	$23.47	4,133	$23.85
Granted	**411**	**$22.24**	802	$22.83	911	$20.41
Exercised	**(814)**	**$19.69**	(330)	$18.19	(197)	$15.45
Terminated or cancelled	**(304)**	**$28.35**	(692)	$24.02	(364)	$24.39
Outstanding at end of year	**3,556**	**$24.02**	4,263	$23.68	4,483	$23.47
Options exercisable at end of year	**2,046**	**$25.50**	2,433	$24.48	2,129	$23.94
Weighted–average grant-date fair value of options granted	**$12.39**		$12.76		$12.63	

The following table summarizes information about the Company's stock options outstanding at December 31, 2005 (in thousands, except contractual life and per share data):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding at December 31, 2005	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options Exercisable at December 31, 2005	Weighted-Average Exercise Price
$ 1.11 to $12.00	23	0.2	$10.50	23	$10.50
$12.01 to $18.00	182	3.7	$16.66	144	$16.68
$18.01 to $24.00	2,133	7.0	$21.28	833	$20.85
$24.01 to $36.00	980	4.2	$27.22	808	$27.33
$36.01 to $48.00	232	4.3	$42.04	232	$42.04
$48.01 to $60.00	6	4.0	$52.23	6	$52.23
	3,556	5.8	$24.02	2,046	$25.50

The fair value of each option grant, for pro forma disclosure purposes (see Note 1), was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2005	2004	2003
Expected dividend yield	**None**	None	None
Risk free interest rate	**3.9%**	3.5%	3.75%
Expected volatility	**.683**	.671	.693
Expected life of options	**5.1 years**	4.5 years	5.4 years

Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because changes in the subjective assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options. The total cost recognized in earnings related to stock-based employee compensation was $2.2 million, $0.6 million, and $0.04 million for the years ended December 31, 2005, 2004, and 2003, respectively.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("ESPP") was amended in May 2003 to authorize a total of 1,000,000 shares for subscription. The ESPP enables all employees to subscribe at six-month intervals to purchase shares of common stock at the lower of 85% of the closing price of the shares on the day previous to the first day or last day of each six-month period. At December 31, 2005, 401,500 shares remain available for issuance under the ESPP.

Earnings Per Share

The following table presents the computation of basic and diluted earnings per share from continuing operations (in thousands, except per share data):

	2005	2004	2003
Numerator:			
Income from continuing operations	**$30,722**	$20,106	$1,988
Denominator:			
Denominator for basic earnings per share—weighted-average shares	**35,707**	31,247	30,149
Dilutive effect of contingent shares related to acquisitions subject to escrow arrangements	**—**	—	700
Dilutive effect of employee stock options	**462**	370	339
Dilutive effect of restricted stock	**99**	23	—
Dilutive effect of warrants	**8**	10	20
Denominator for diluted earnings per share	**36,276**	31,650	31,208
Earnings per share from continuing operations—basic	**$0.86**	$0.64	$0.07
Earnings per share from continuing operations—assuming dilution	**$0.85**	$0.64	$0.06

For the years ended December 31, 2004 and 2003, respectively, 5,183,095 shares issuable upon conversion of the 5.25% Convertible Subordinated Notes Due 2006 were not included in the computation of diluted income (loss) per share, because their inclusion would be antidilutive.

The 20,000 warrants outstanding as of December 31, 2004 and 2003, at an exercise price of $11.75, were exercised during 2005.

At December 31, 2005, there were 3,013,015 shares of common stock reserved for further grants under the Company's various stock plans.

The Company has never declared or paid cash dividends on its capital stock.

In October 2005, the Company's Board of Directors approved a share repurchase program for up to $75.0 million of common stock over the subsequent 12 months in open market transactions at prevailing market prices or in privately negotiated transactions. The program does not require the Company to purchase any specific number or amount of shares and may be suspended or reinstated at any time at the Company's discretion and without notice. Under the share repurchase program, the Company purchased 431,000 shares of its common stock during 2005 at an average price of $28.12 per share, of which $0.8 million was included in accrued liabilities because the settlement date was subsequent to December 31, 2005.

Subsequent to December 31, 2005 through March 3, 2006, the Company purchased 210,379 shares of its common stock at an average price of $30.99 per share pursuant to its share buyback program.

13. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) are (in thousands):

	Currency Translation Adjustments	Unrealized Gain (Loss) on Available-for-Sale Securities	Total
Balance at January 1, 2003	$ (940)	$ 1,443	$ 503
Reclassification adjustment for realized gain on available-for-sale securities sold (net of tax provision of $129) (1)	—	(228)	(228)
Unrealized gain on available-for-sale securities (net of tax provision of $122)	—	217	217
Cumulative translation adjustment	2,408	—	2,408
Balance at December 31, 2003	1,468	1,432	2,900
Reclassification adjustment for realized gain on available-for-sale securities sold (net of tax provision of $79) (1)	—	(129)	(129)
Unrealized loss on available-for-sale securities (net of tax benefit of $606)	—	(989)	(989)
Cumulative translation adjustment	3,077	—	3,077
Balance at December 31, 2004	4,545	314	4,859
Reclassification adjustment for realized loss on available-for-sale securities sold (net of tax benefit of $66) (1)	**—**	**113**	**113**
Unrealized gain on available-for-sale securities (net of tax provision of $31)	**—**	**53**	**53**
Cumulative translation adjustment	**(2,926)**	**—**	**(2,926)**
Balance at December 31, 2005	**$ 1,619**	**$ 480**	**$ 2,099**

(1) Determined based on the specific identification method.

14. RESTRUCTURING AND OTHER CHARGES

During 2003, Dow Corning purchased the operations of Sterling Semiconductor (a sub-lease tenant and former joint development partner of the Company) from Uniroyal Technology Corporation. Prior to its sale, the financial condition of Sterling required that the effect of all commercial transactions with Sterling be fully reserved on our books. As part of the sale, all of Sterling's debts to ATMI were paid, which resulted in the recognition of a gain of $0.7 million consisting of expense reimbursements, included in restructuring and other charges.

Effective January 1, 2003, the Company adopted the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than on the date of commitment to an exit plan. The loss from discontinued operations for the year ended December 31, 2003 includes a $1.2 million pretax charge for costs associated with a restructuring initiative to close a service facility in Colorado Springs, Colorado due to significantly reduced demand subsequent to the shutdown of a large customer facility in the area. The charge relates primarily to asset write-offs and lease exit costs.

Also during 2003, the Company recognized a $2.4 million impairment charge related to abandoned assets in the Company's former materials and liquid delivery systems manufacturing facility in Burnet, Texas. This charge is included on the statement of operations in restructuring and other charges.

During the first quarter of 2003, the assets associated with the former gallium arsenide epitaxial services business were sold pursuant to an asset purchase agreement and the facility lease associated with this business was assumed by the buyer pursuant to a lease assignment agreement. As a result of the sale of these assets and the buyer's assumption of the related facility lease, the Company recognized a $1.5 million pretax gain in 2003, which is included in the 2003 loss from operations of discontinued operations.

15. COMMITMENTS AND CONTINGENCIES

In connection with the Company's acquisition in July 2003 of the outstanding capital stock of ESC, Inc. ("ESC"), the Company has accrued an earnout payment of $1.6 million, which was contingent on attainment of certain product revenues through the end of 2005. Of the initial purchase price, $3.6 million remains in escrow in accordance with the purchase agreement to secure certain indemnity obligations of the sellers.

On July 11, 2003, ATMI's subsidiary, Advanced Technology Materials, Inc., filed suit against Praxair, Inc., the parent company of Praxair Electronics, in the United States District Court for the Southern District of New York, charging it with infringing two patents ATMI holds for certain gas storage and delivery systems. ATMI is seeking damages and an injunction against Praxair marketing its UpTime system. On December 22, 2003, Praxair, Inc. and Praxair Technology, Inc. filed suit against ATMI, Inc. and Advanced Technology Materials, Inc. in the United States District Court for the District of Delaware alleging infringement of three patents owned by Praxair Technology, Inc. related to certain gas storage and delivery systems. Praxair is seeking damages and an injunction against ATMI marketing its VAC system.

The Delaware District Court invalidated all asserted claims of one of Praxair's patents on summary judgment. At trial, a jury found the remaining claims asserted by Praxair valid and infringed by ATMI VAC products. ATMI seeks to have those remaining claims held unenforceable by the Court. ATMI has also filed motions to have the jury's verdict overturned and a new trial granted. The determination of any damages amount has been deferred to a later proceeding.

Advanced Technology Materials, Inc. has filed suit against Praxair, Inc. and Praxair GmbH in Dusseldorf, Germany, charging infringement of a patent ATMI holds for certain gas storage and delivery systems. ATMI is

seeking a preliminary injunction and damages against Praxair marketing its UpTime system in Germany.

ATMI is, from time to time, subject to various legal actions, governmental audits, and proceedings relating to various matters incidental to its business including product liability and environmental claims. While the outcome of such matters cannot be predicted with certainty, in the opinion of management, after reviewing such matters and consulting with ATMI's counsel and considering any applicable insurance or indemnifications, any liability which may ultimately be incurred, including the Praxair litigation, is not expected to materially affect ATMI's consolidated financial position, cash flows, or results of operations.

At December 31, 2005, the Company had $0.3 million of outstanding standby letters of credit, which are related to two leased facilities. The standby letter of credit of $0.2 million renews automatically each year until the end of the lease term of the related facility, which is 2010. The second standby letter of credit is for $0.1 million and is related to a facility lease that was assigned to the purchaser of our former parts cleaning business, which will expire in 2006.

These standby letters of credit will remain unused unless the Company is found to be in default of certain terms of the related leases.

ATMI currently has self-insurance limits for U.S. employee medical claims. The medical plan for U.S. employees has a stop-loss of $0.1 million per individual.

16. GEOGRAPHIC DATA

The Company's geographic data for the years ended December 31, 2005, 2004, and 2003 are (in thousands):

	United States	Taiwan	Japan	Other Pacific Rim	Europe and Other	Total
December 31, 2005						
Revenues	**$ 92,744**	**$64,714**	**$43,077**	**$52,242**	**$28,977**	**$281,754**
Long-lived assets	**127,616**	**376**	**882**	**2,632**	**3,543**	**135,049**
December 31, 2004						
Revenues	$ 86,365	$54,781	$40,122	$39,643	$25,380	$246,291
Long-lived assets	111,349	467	917	2,641	3,828	119,202
December 31, 2003						
Revenues	$ 71,475	$26,238	$27,132	$24,805	$21,984	$171,634
Long-lived assets	107,223	586	491	2,514	3,567	114,381

Revenues are attributed to countries based on the location of the customer. Long-lived assets are located in the respective geographic regions, as shown above. Other than Taiwan and Japan, no one specific country within the Pacific Rim or within Europe accounted for greater than 10% of consolidated revenues and long-lived assets in 2005, 2004, and 2003.

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Summarized quarterly results of operations data is (in thousands, except per share amounts):

	Quarter			
2005	**First**	**Second**	**Third**	**Fourth**
Revenues	**$66,097**	**$69,269**	**$69,736**	**$76,652**
Gross profit	**34,184**	**34,812**	**35,141**	**37,366**
Operating income	**9,466**	**10,595**	**10,244**	**10,104**
Net income	**$ 6,051**	**$ 7,967**	**$ 8,253**	**$ 8,451**
Basic income (loss) per common share:				
Net income per common share	**$0.19**	**$0.22**	**$0.22**	**$0.23**
Diluted income per common share:				
Net income per common share	**$0.19**	**$0.22**	**$0.22**	**$0.22**

	Quarter			
2004	First	Second	Third	Fourth
Revenues	$56,019	$60,978	$64,423	$64,871
Gross profit	27,227	30,679	32,580	33,390
Operating income (loss)	6,802	9,697	10,669	10,211
Income (loss) from continuing operations, net of taxes	3,968	5,815	6,395	3,928 (a)
Loss from operations of discontinued operations, net of taxes	1,120	1,714	755	(276)
Gain on sale of discontinued operations, net of taxes	1,024	333	3,468	3,258
Net income	$ 6,112	$ 7,862	$10,618	$ 6,910
Basic income (loss) per common share:				
Continuing operations	$0.13	$0.19	$0.20	$0.13
Operations of discontinued operations	0.04	0.05	0.03	(0.01)
Gain on sale of discontinued operations	0.03	0.01	0.11	0.10
Net income per common share	$0.20	$0.25	$0.34	$0.22
Diluted income per common share:				
Continuing operations	$0.12	$0.18	$0.20	$0.13
Operations of discontinued operations	0.04	0.06	0.02	(0.01)
Gain on sale of discontinued operations	0.03	0.01	0.10	0.10
Net income per common share	$0.19	$0.25	$0.32	$0.22

(a) Includes a $4.5 million asset impairment charge related to the Company's strategic investment portfolio.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of ATMI, Inc.

We have audited the accompanying consolidated balance sheets of ATMI, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ATMI, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ATMI, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Stamford, Connecticut
March 7, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of ATMI, Inc.

We have audited management's assessment, included in the accompanying, "Management's Report on Internal Control Over Financial Reporting," that ATMI, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ATMI, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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, management's assessment that ATMI, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, ATMI, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ATMI, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2005 of ATMI, Inc., and our report dated March 7, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Stamford, Connecticut
March 7, 2006

COMPANY INFORMATION

DIRECTORS

Gene G. Banucci,
Chairman, ATMI, Inc.

Mark A. Adley, [2, 3*]
Managing Director, Banc of America Securities, LLC

Frederick C. Flynn, Jr., [1]
Formerly Senior Vice President–Finance & Administration,
Chief Financial Officer, CUNO Incorporated

Robert S. Hillas, [1, 3]
Senior Advisor, Warburg Pincus, LLC

Stephen H. Mahle, [1*]
Executive Vice-President and President,
Cardiac Rhythm Management, Medtronic, Inc.

C. Douglas Marsh, [2*, 3]
Formerly President ASML US and Vice-President,
ASM Lithography Holding, NV

Douglas A. Neugold,
Chief Executive Officer, ATMI, Inc.

Cheryl L. Shavers, Ph.D.,
Chairman and Chief Executive Officer, Global Smarts, Inc.

1 = Audit Committee
2 = Compensation Committee
3 = Governance Committee
* = Committee Chairman

EXECUTIVE OFFICERS

Douglas A. Neugold
Chief Executive Officer

Daniel P. Sharkey
Executive Vice-President, Treasurer, and Chief Financial Officer

Cynthia L. Shereda
Executive Vice-President, Secretary, and Chief Legal Officer

CORPORATE HEADQUARTERS

ATMI, Inc.
7 Commerce Drive
Danbury, Connecticut 06810
203.794.1100
203.792.8040 facsimile
info@atmi.com
http://www.atmi.com

COMMON STOCK LISTING

ATMI's Common Stock trades as "ATMI" on
The NASDAQ Stock Market®.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.
P.O. Box 43023
Providence, Rhode Island 02940-3023
781.575.2879
www.computershare.com

AUDITORS

Ernst & Young LLP
Stamford, Connecticut

FORM 10-K

Free copies of ATMI's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission, are available

- from the SEC's web site—
  http://www.sec.gov/cgi-bin/srch-edgar?text=atmi&first=2005&last=2005
- on the investor pages at ATMI's web site—atmi.com
- by e-mail request—ir@atmi.com
- by mail—Attn: Investor Relations, at ATMI Corporate Headquarters

PRICE RANGE OF COMMON STOCK

Fiscal Year Ended December 31, 2005

	High	Low
1Q–January-March	**$28.24**	**$20.53**
2Q–April-June	**$30.75**	**$21.95**
3Q–July-September	**$33.62**	**$28.58**
4Q–October-December	**$32.06**	**$24.06**

Fiscal Year Ended December 31, 2004

1Q–January-March	$30.00	$23.22
2Q–April-June	$27.50	$21.80
3Q–July-September	$27.13	$17.18
4Q–October-December	$25.65	$19.16

ATMI had approximately 12,400 shareholders as of March 17, 2006.

Back cover adapted from Douglas Clark, 1931 in Edward G. Mazurs' Graphic Representations of the Periodic System During One Hundred Years ©1974, The University of Alabama Press.

Facilities

NORTH AMERICA

Arizona
Customer Sales and Service
2151 East Broadway Road
Tempe, Arizona 85282
480.736.7600

California
Customer Sales and Service
617 River Oaks Parkway
San Jose, California 95134
800.229.1966
408.526.9400

Connecticut
Corporate Headquarters
SDS Manufacturing
Research & Development
7 Commerce Drive
Danbury, Connecticut 06810
800.766.2681
203.794.1100

Minnesota
High-Purity Materials Packaging
10851 Louisiana Avenue South
Bloomington, Minnesota 55438
800.966.6698
952.942.0855

Pennsylvania
Surface Preparation Products
2125 28th Street Southwest
Allentown, Pennsylvania 18103
610.861.6931

Texas
Customer Sales and Service
13809 Research Boulevard
Austin, Texas 78750
512.418.8200

Materials Manufacturing
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Burnet, Texas 78611
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512.756.7314

EUROPE

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Life Sciences
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32.16.76.6159

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Germany
49.89.622995.0

ASIA

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ATMI China
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China
86.21.6876.7670

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The Itoyama Tower 3F
3-7-18 Mita
Minato-ku, Tokyo 108-0073
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81.3.5765.2488

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25 International Business Park,
04-75 German Centre
Singapore 609916
65.6562.8200

South Korea
ATMI Korea
717-1, Youngdoo-Ri, Gongdo-Eup
Anseong City, Kyonggi Do, 456-821
South Korea
82.31.650.5541

Taiwan
ATMI Taiwan
4F-7, No. 81, Shui-lee Road
Hsinchu 300
Taiwan, ROC
886.3.516.9248

Operating Committee

Doug Neugold—*Chief Executive Officer*
Doug joined ATMI in 1998 and was appointed President in 2000, Chief Operating Officer and a Director in 2003, and Chief Executive Officer in 2005. Before joining ATMI, Doug was President of Johnson-Matthey's Semiconductor Packages Group.

Dan Sharkey—*Finance*
Dan joined ATMI in 1990 as its Chief Financial Officer. Before joining ATMI, Dan was Vice-President, Finance for Adage, Inc.

Cynthia Shereda—*Legal*
Cynthia joined ATMI in 2004 as Chief Legal Officer. Before joining ATMI, Cynthia was Transactions and Finance Counsel for GE. Previously, she was an associate with Davis Polk & Wardwell and Cravath, Swaine & Moore.

Tod Higinbotham—*Materials*
Tod joined ATMI in 1999 and became Vice-President, Sales and Service of the Material Lifecycle Solutions Division in 2001. He was appointed Senior Vice-President of ATMI, and General Manager of the Materials division, in 2004. Before joining ATMI, Tod was Director of Sales and Marketing for Komatsu.

Dan Nelson—*Packaging*
Dan joined ATMI in 2004 as Vice-President, Marketing of the materials packaging and dispensing business. He became Vice-President, and General Manager of the business in 2005. Before joining ATMI, Dan was President of Nano Vance, a nanotechnology start-up.

Tim Carlson—*Business Development*
Tim joined ATMI in 2000 as Corporate Controller, moving into the business development role in 2005 as Senior Vice-President. Before joining ATMI, Tim was a Finance Director with Campbell Soup Company.

Kevin Laing—*Information Technology*
Kevin joined ATMI in 2003 as Chief Information Officer. Before joining ATMI, Kevin was Chief Information Officer for XESystems, a Xerox subsidiary.

Tom McGowan—*Human Resources*
Tom joined ATMI in 2000 as Vice-President for Organizational Development and Human Resources. Before joining ATMI, Tom was Vice-President of Human Resources with Anthem Blue Cross.


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