

A collage of financial data, a mobile phone, a laptop, and a magnifying glass. The background is a grid of numbers and percentages, suggesting a stock market or financial report. A mobile phone is positioned vertically in the center, a laptop is open to the right, and a magnifying glass is placed over the laptop screen. The text 'Q&A' is overlaid in the center.

Q&A

AN OPPORTUNITY TO INVEST IN YOUR FUTURE

Questions and Answers about the VSEA Employee Stock Purchase Plan



Questions and Answers

Here are answers to some questions employees have been asking about the Varian Semiconductor Equipment Associates, Inc. Employee Stock Purchase Plan (referred to here as the ESPP or the plan).

Important: As with any investment plan, before you join you should read the Prospectus and other documents about Varian Semiconductor Equipment Associates, Inc. which are filed with the Securities and Exchange Commission (SEC). These documents are available on the Intranet at www.corp.vsea.com (click on *Stock Purchase Plan*), or you may contact Human Resources and request them.

Joining the ESPP

Is every employee eligible to join ESPP?

To join the ESPP, you must be regularly scheduled to work 20 or more hours per week for VSEA or one of our participating subsidiaries. Under IRS rules, employees who own 5% or more of the total voting power of all VSEA stock are not eligible to participate in the ESPP.

How do I join the ESPP?

You join the ESPP by logging on to E*Trade.com. On the website, you will need to indicate how much you want to contribute to the ESPP (from 1% to 10% of your base pay each pay period). Your plan participation will take effect at the start of the next Offering Period. (Usually, you must enroll by the second week of December for the January 1 through June 30 Offering Period and by the second week of June for the July 1 through December 31 Offering Period. If you miss the enrollment deadline, your next opportunity to participate in the ESPP will be for the next Offering Period.)

If I don't join when I am first eligible, may I join later?

You may join the ESPP at any time; however, your participation will take effect on the first day of the next Offering Period following your enrollment (provided you submit your completed forms by the deadline for that Offering Period). You cannot join the plan and have deductions start during an Offering Period.

When can new hires join the plan?

Newly hired employees can begin participating in the plan at the start of the next Offering Period, provided they are scheduled to work 20 or more hours per week and complete on-line enrollment prior to the enrollment deadline.

Once I join, may I make changes during an Offering Period?

You may increase, decrease or stop your contributions to the ESPP during any Offering Period, as follows:

- You may increase, decrease or stop contributions during the Offering Period. These changes will be effective at the next available pay date. If you stop contributing, any money in your account at that point will be used to purchase shares at the end of the Offering Period.
- You also may stop your contributions and withdraw from the plan. Any money in your account contributed during the Offering Period will be returned to you. (There are no partial withdrawals allowed under the plan.)

If you make a change, keep in mind that your contribution percentage as of the end of each Offering Period will automatically roll over to the next Offering Period. If your contribution percentage is zero at the end of an Offering Period, you will not be able to participate in the next Offering Period unless you make a new election on-line.

Do I have to reenroll in the plan for every Offering Period?

Generally no. Your participation percentage will continue from one Offering Period to the next unless you indicate you want to change it on-line. Keep in mind however, if you change your participation percentage to zero during an Offering Period, you will not be able to participate in the next Offering Period unless you increase it to 1% or more before the next Offering Period.

Why should I join?

The ESPP gives you the opportunity to purchase VSEA common stock at a significant discount, enabling you to share ownership in VSEA and to benefit from any future increases in our stock price. It also offers an affordable way to invest. You do not have to commit to buy a specific number of shares of stock each pay period. You just select the dollar amount you are most comfortable with.

There are no guarantees that our stock will go up in price but, with the ESPP, the price you pay will be 85% of the lesser of:

- The closing price of VSEA common stock on the first trading day of the Offering Period, or
- The closing price of VSEA common stock on the last trading day of the Offering Period.

In addition to providing a discounted price, your contributions are made through payroll deduction each pay period, which is a convenient way to invest in Company stock. Also, the ESPP handles the stock purchase at the end of the Offering Period at no cost to you.

Finally, you may use the ESPP to help meet your short and/or long-term investment goals. This means that you may sell some or all of your shares at any time, or you may hold on to the shares that accumulate in your account over the long term.

Are there any drawbacks to participating?

Although the plan has several features that make it an excellent way to save and invest for the future, there is always the element of risk. As with any investment, you hope to make more money than you invest; however, there is a chance that the value of your investment may decrease. Because the ESPP invests in only one stock, it has a higher potential for risk than

other funds that offer diversified investments. Only you can decide how much risk you are willing to accept.

As with any investment, before deciding to participate, you need to consider your short- and long-term financial goals, the time you have to meet those goals, your tolerance for risk, and how diversified you are in your investments. You may want to consult with a financial advisor before joining the ESPP.

How much does it cost to join the ESPP?

There are no fees to join the ESPP or to purchase shares of VSEA stock through the ESPP. There are commissions and fees when you sell your shares. There are also fees to request a stock certificate or for express mail delivery of a stock certificate or a check for the proceeds of a sale.

What if my scheduled hours change during an Offering Period?

If your scheduled hours change to less than 20 hours per week, you would be required to withdraw from the plan. Your contributions would stop and money in your account for that Offering Period would be returned to you. If your scheduled hours go from less than 20 hours to 20 or more hours per week, you may join the ESPP and begin contributions at the start of the next Offering Period.

Administering the ESPP

Who administers the ESPP?

The plan is administered by E*TRADE Securities. Any shares of VSEA common stock that you purchase through the ESPP will be held in a limited access brokerage (OptionsLink) account set up by E*TRADE Securities in your name. (It's called a limited access brokerage account because it is set up only for shares of stock purchased through the ESPP.)

When can I call E*TRADE Financial with questions about my account?

Shares from the ESPP will be put into your E*TRADE OptionsLink account at the end of the Offering Period, when your contributions are used to purchase shares. To access your OptionsLink account information at E*TRADE Financial, you must activate your account and get your User ID and personal identification number (PIN) from E*TRADE Securities. (Be sure to keep your PIN in a secure location.)

How do I sell my shares?

To sell your shares, you simply go to the OptionsLink website (www.optionslink.com) and follow the instructions for executing a trade. You can also call E*TRADE Securities and let them know how many shares you wish to sell and where to mail the check for the proceeds of the sale, or you may have the proceeds wired to your bank account. You may sell some or all of your shares at any time (subject to any applicable security laws).

What are the commissions when I sell my shares?

The commission rates are as follows: \$19.95 flat fee per transaction; \$35.00 broker assist fee.

How do I track the value of my ESPP account?

Once you have activated your OptionsLink account, you may go online to check on your account any time. You will also receive quarterly account statements from E*TRADE Securities.

Your ESPP Account

Are there any limits to the amount of stock I can purchase through the ESPP?

Each year, you can contribute from 1% up to 10% of your eligible pay to the ESPP, up to the government-mandated annual limit – the amount needed to purchase \$25,000 of stock, based on the fair market value of the stock at the beginning of the Offering Period. Also, employees who own shares and/or hold options to purchase shares equal to or greater than 5% of the total voting power of VSEA stock cannot purchase shares under the ESPP.

Does the plan allow partial shares to be purchased?

No, the ESPP only allows full shares of stock to be purchased. If you have an amount in your account after the purchase of shares at the end of the Offering Period that is not enough to purchase another full share, that amount will be returned to you, without interest.

What can I do with my shares once I own them?

You may leave them in your OptionsLink account, request a stock certificate (fees apply) or sell them at any time (commissions apply). Shares purchased at the end of an Offering Period are typically available for sale within a day or two of the end of the Offering Period.

How soon can I sell my shares?

You can sell your shares as soon as they are in your account, generally on the next trading day after the purchase date, keeping in mind that settlement on the stock purchase and your sale must take place before you can receive any proceeds.

Will I receive a stock certificate for my ESPP shares?

You may request a stock certificate or leave your shares in your ESPP account. You will, however, pay a fee for a stock certificate. (Once you receive a stock certificate, those shares will no longer be held in your OptionsLink account.)

How do I track VSEA stock?

You may follow the market price of VSEA stock in most major US daily newspapers or on the Internet at www.vsea.com. VSEA trades on the NASDAQ National Market under the trading symbol VSEA.

Can I take a loan from my ESPP account?

No. Although you may sell stock in your ESPP account at any time, you may not borrow against your account. Can I withdraw my money from the ESPP at any time? Yes, you can withdraw from the plan at any time during an Offering Period. Money you have put into the plan during that Offering Period will be paid to you without interest. To do this, you need to log on to E*Trade.com and withdraw from the plan.

Are my contributions taken on a pre-tax or on a post-tax basis?

Your contributions are deducted from your pay on a post-tax basis.

Can I move money from my retirement plan account to the ESPP?

No. The Varian Semiconductor Equipment Associates, Inc. Retirement Plan and the ESPP are two separate plans.

What Happens If....

I leave the company?

If you leave the company, any accumulated deductions held by VSEA for the current Offering Period will be paid to you, without interest. You may then continue to maintain your account with E*TRADE Securities, sell your shares, or request a stock certificate for any shares in your account. You will be responsible for any fees to maintain your account.

I become disabled?

If you become disabled, your contributions will continue for as long as you continue to be paid by VSEA and will be used to purchase shares at the end of the Offering Period, unless you elect otherwise. VSEA will continue to cover the cost to maintain an account with E*TRADE Securities for you during your disability. If the leave of absence due to disability lasts longer than 90 days, money in your account for that Offering Period will be paid to you, without interest.

I die?

If you die, any stock in your account, as well as any accumulated deductions held by VSEA for the current Offering Period will be allocated to your estate, without interest. If no executor is named, VSEA may, at its discretion, distribute money in your account for that Offering Period to your spouse, dependent or other relative.

Defining Some Terms

What is "base pay" for purposes of the ESPP?

For the ESPP, "base pay" means your base rate of pay and any lead pay, compressed schedule differential or lump sum merit increase you may receive during the Offering Period.

What is an Offering Period?

An Offering Period is the period of time during which payroll deductions are made. There are two each year:

January 1 through June 30 and July 1 through December 31. At the end of an Offering Period, your payroll deductions (contributions) are used to purchase VSEA common stock.

What is a share of common stock?

A share of common stock represents a financial interest in a company. When you purchase stock, you become an owner of the company and make an investment in the future of the company. Generally, when a company's sales increase and profits grow, the price of the stock increases because investors want to own shares of a successful company. (Of course, other variables, such as the economy, contribute to investor confidence and the price of the stock.)

What are dividends? Does VSEA stock pay dividends?

Dividends are a portion of earnings paid by a company to its shareholders. Currently, VSEA common stock does not pay dividends.

Looking at the Tax Implications

If I sell my shares, what are the tax consequences?

Depending on your individual circumstances, federal, state, local, as well as gift, estate and inheritance taxes may apply. Since tax laws are complex, you should consult your tax advisor for detailed information concerning the tax consequences to you of acquiring and disposing of stock under the ESPP.

Your ESPP contributions are made on an after-tax basis. This means that your ESPP contributions are taxed as part of your regular pay and no additional taxes are due on them. You also do not pay any taxes on the stock purchased through the ESPP until you sell the stock, give it away or die. After a sale or transfer, you (or your beneficiary) may have to pay taxes on:

- All or portion of the discount you received when purchasing the stock, and
- Any additional capital gains you have as a result of the sale.

Tax Treatment of the Discount

How much of the discount is taxed will be based on how long you own the shares.

If you sell or otherwise dispose of your shares within 24 months from the first day of the Offering Period:
The discount—the difference between the market price of the stock at purchase minus the amount you paid—you received on purchase of shares is taxed as ordinary income. This amount will be included as taxable income on your pay stub earnings statement and will be reported at the end of year on your W-2 Form for the calendar year in which you sold the shares.

If you sell or otherwise dispose of your shares 24 months or later after the first day of the Offering

Period: The lesser of the following is taxed as ordinary income:

- 15% of the market price of the stock at the beginning of the Offering Period, or
- The market price of the stock at the time of sale, minus the amount you paid.

This amount will be included as taxable income on your pay stub earnings statement and will be reported at the end of year on your W-2 Form for the calendar year in which you sold the shares. The 1099 will come from E*TRADE Securities.

Tax Treatment of Capital Gains

You will also need to pay taxes on any capital gains. Your capital gains will be the price at which you sell your stock minus the tax basis. For stock purchased through the ESPP, the tax basis of your shares will be the price you paid plus the portion of your discount, if any, that was considered ordinary income as described above. The tax treatment of the capital gains will depend on how long you hold the shares.

If you sell your shares within 12 months of the last day of the Offering Period, your total gain will be taxed as ordinary income.

If you sell your shares 12 months or later after the last day of the Offering Period, your capital gain will be a long-term capital gain. In general, long-term capital gains are taxed at a lower rate than ordinary income.

If you sell the stock for less than your tax basis, you will have a loss, which may qualify for different tax treatment.

Please note that 30% of the sale proceeds will be withheld and reported for federal income tax purposes unless you certify that you are not subject to back-up withholding on Form W-9. (When you complete the OptionsLink activation form, you will be submitting a completed Form W-9.)

The entire amount of your sale will be reported to you on Form 1099, which will be issued to you by the following January 31. Please consult your tax advisor for information on payment of applicable taxes.

If I withdraw from the plan during an Offering Period, is money returned to me considered taxable income?

No, because your contributions are made on a post-tax basis, money returned to you upon withdrawal is not considered taxable income.

Additional Questions?

Contact Human Resources

Please refer to your plan documents and other materials for complete details on the ESPP provisions, including any plan limitations. The plan documents govern plan provisions and payment of plan benefits. Also, please note that the price of any stock can down as well as up.