

ENTEGRIS INC  
Form 10-Q  
July 28, 2010  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**x    QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended July 3, 2010**

**OR**

**..    TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 000-30789**

**Entegris, Inc.**

**(Exact name of registrant as specified in its charter)**

Edgar Filing: ENTEGRIS INC - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>41-1941551</b> (I.R.S. Employer Identification No.)
<b>129 Concord Road, Billerica, Massachusetts</b> (Address of principal executive offices)	<b>01821</b> (Zip Code)
<b>(978) 436-6500</b> (Registrant's telephone number, including area code)	
<b>[None]</b> (Former name, former address and former fiscal year, if changed since last report)	

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

# Edgar Filing: ENTEGRIS INC - Form 10-Q

Large accelerated filer ☐ Accelerated filer ☒  
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 23, 2010
Common Stock, \$0.01 par value per share	131,893,829 shares

**Table of Contents**

ENTEGRIS, INC. AND SUBSIDIARIES

FORM 10-Q

TABLE OF CONTENTS

FOR THE QUARTER ENDED JULY 3, 2010

	<b>Description</b>	<b>Page</b>
<b><u>PART I</u></b>		
Item 1.	<u>Unaudited Condensed Consolidated Financial Statements</u>	
	<u>Consolidated Balance Sheets as of July 3, 2010 and December 31, 2009</u>	3
	<u>Consolidated Statements of Operations for the Three Months and Six Months Ended July 3, 2010 and June 27, 2009</u>	4
	<u>Consolidated Statements of Equity and Comprehensive Income (Loss) for the Three Months and Six Months Ended July 3, 2010 and June 27, 2009</u>	5
	<u>Consolidated Statements of Cash Flows for the Six Months Ended July 3, 2010 and June 27, 2009</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	27
Item 4.	<u>Controls and Procedures</u>	27
<b><u>PART II</u></b>	<b>Other Information</b>	
Item 1.	<u>Legal Proceedings</u>	28
Item 6.	<u>Exhibits</u>	29

**Table of Contents**

## Item 1. Financial Statements

**ENTEGRIS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except share data)	July 3, 2010	December 31, 2009
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 75,313	\$ 68,700
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$1,489 and \$1,694	116,742	91,122
Inventories	90,554	83,233
Deferred tax assets, deferred tax charges and refundable income taxes	12,272	11,085
Assets held for sale	5,998	5,998
Other current assets	7,085	7,320
<b>Total current assets</b>	<b>307,964</b>	<b>267,458</b>
Property, plant and equipment, net of accumulated depreciation of \$209,575 and \$195,605	130,361	135,431
<b>Other assets:</b>		
Investments	7,353	7,002
Other intangible assets, net	70,373	78,470
Deferred tax assets and other noncurrent tax assets	10,120	9,670
Other	5,239	6,641
<b>Total assets</b>	<b>\$ 531,410</b>	<b>\$ 504,672</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 5,886	\$ 11,257
Short-term borrowings		8,039
Accounts payable	29,008	23,553
Accrued liabilities	45,562	29,832
Deferred tax liabilities and income taxes payable	9,896	1,229
<b>Total current liabilities</b>	<b>90,352</b>	<b>73,910</b>
Long-term debt, less current maturities	20,406	52,492
Pension benefit obligations and other liabilities	22,778	22,055
Deferred tax liabilities and other noncurrent tax liabilities	5,725	6,558
Commitments and contingent liabilities		
<b>Equity:</b>		
Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued and outstanding as of July 3, 2010 and December 31, 2009		
Common stock, par value \$.01; 400,000,000 shares authorized; issued and outstanding shares: 131,889,125 and 130,043,483	1,319	1,300
Additional paid-in capital	756,700	751,360

# Edgar Filing: ENTEGRIS INC - Form 10-Q

Retained deficit	(399,033)	(433,968)
Accumulated other comprehensive income	29,376	27,500
<b>Total Entegris, Inc. shareholders' equity</b>	<b>388,362</b>	<b>346,192</b>
Noncontrolling interest	3,787	3,465
<b>Total equity</b>	<b>392,149</b>	<b>349,657</b>
<b>Total liabilities and equity</b>	<b>\$ 531,410</b>	<b>\$ 504,672</b>

See the accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**ENTEGRIS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except per share data)

	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net sales	\$ 167,575	\$ 82,576	\$ 328,086	\$ 141,614
Cost of sales	90,448	58,846	177,808	112,866
Gross profit	77,127	23,730	150,278	28,748
Selling, general and administrative expenses	36,592	25,685	72,374	55,406
Engineering, research and development expenses	10,736	7,843	21,556	16,747
Amortization of intangible assets	3,364	4,931	7,636	9,912
Restructuring charges		5,452		10,086
Operating income (loss)	26,435	(20,181)	48,712	(63,403)
Interest expense, net	1,662	2,577	2,868	4,425
Other expense (income), net	711	1,537	418	(3,686)
Income (loss) before income taxes and equity in affiliates	24,062	(24,295)	45,426	(64,142)
Income tax expense (benefit)	5,393	(2,252)	10,202	(4,850)
Equity in net (earnings) loss of affiliates	(77)	449	(268)	945
Net income (loss)	18,746	(22,492)	35,492	(60,237)
Less net income attributable to noncontrolling interest	361		557	
Net income (loss) attributable to Entegris, Inc.	\$ 18,385	\$ (22,492)	\$ 34,935	\$ (60,237)
Amounts attributable to Entegris, Inc.				
Basic net income (loss) per common share:	\$ 0.14	\$ (0.20)	\$ 0.27	\$ (0.54)
Diluted net income (loss) per common share:	\$ 0.14	\$ (0.20)	\$ 0.26	\$ (0.54)
Weighted shares outstanding:				
Basic	131,568	112,694	131,261	112,521
Diluted	132,870	112,694	132,827	112,521

See the accompanying notes to condensed consolidated financial statements.

**Table of Contents****ENTEGRIS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

<b>(In thousands)</b>	<b>Common shares outstanding</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Retained deficit</b>	<b>Accumulated other comprehensive income</b>	<b>Noncontrolling interest</b>	<b>Total</b>	<b>Comprehensive loss</b>
Balance at December 31, 2008	113,102	\$ 1,131	\$ 684,974	\$ (376,247)	\$ 26,312		\$ 336,170	
Shares issued under stock plans	603	6	564				570	
Share-based compensation expense			4,179				4,179	
Tax benefit associated with stock plans			535				535	
Other, net of tax					105		105	\$ 105
Foreign currency translation					(7,552)		(7,552)	(7,552)
Net loss				(60,237)			(60,237)	(60,237)
Total comprehensive loss								\$ (67,684)
Balance at June 27, 2009	113,705	\$ 1,137	\$ 690,252	\$ (436,484)	\$ 18,865		\$ 273,770	

<b>(In thousands)</b>	<b>Common shares outstanding</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Retained deficit</b>	<b>Accumulated other comprehensive income</b>	<b>Noncontrolling interest</b>	<b>Total</b>	<b>Comprehensive income</b>
Balance at December 31, 2009	130,043	\$ 1,300	\$ 751,360	\$ (433,968)	\$ 27,500	\$ 3,465	\$ 349,657	
Shares issued under stock plans	1,846	19	1,638				1,657	
Share-based compensation expense			3,682				3,682	
Tax benefit associated with stock plans			20				20	
Other, net of tax					24		24	\$ 24
Foreign currency translation					1,852	(235)	1,617	1,617
Net income				34,935		557	35,492	35,492
Total comprehensive income								\$ 37,133
Balance at July 3, 2010	131,889	\$ 1,319	\$ 756,700	\$ (399,033)	\$ 29,376	\$ 3,787	\$ 392,149	

See the accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**ENTEGRIS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

(In thousands)	Six months ended July 3, 2010	June 27, 2009
Operating activities:		
Net income (loss)	\$ 35,492	\$ (60,237)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	13,890	16,173
Amortization	7,636	9,912
Share-based compensation expense	3,682	4,179
Provision for doubtful accounts	(59)	373
Provision for excess and obsolete inventory	(383)	3,406
Provision for deferred income taxes and related valuation allowance	190	(3,432)
Equity in net (earnings) loss of affiliates	(268)	945
Charge for fair value mark-up of acquired inventory sold		4,065
Gain on sale of equity investment	(392)	
Loss on sale and disposal of property and equipment	460	705
Net income attributable to noncontrolling interest	(557)	
Amortization of bond issuance costs	1,392	790
Excess tax benefits associated with stock plans	(20)	
Other	191	
Changes in operating assets and liabilities:		
Trade accounts receivable and notes receivable	(25,974)	9,786
Inventories	(6,594)	11,450
Accounts payable and accrued liabilities	17,644	(4,429)
Other current assets	194	2,050
Income taxes payable	6,448	3,840
Other	2,840	(5,908)
Net cash provided by (used in) operating activities	55,812	(6,332)
Investing activities:		
Acquisition of property and equipment	(7,657)	(10,399)
Proceeds from sale of equity investment	392	
Proceeds from sale of property and equipment	35	236
Other	3,585	
Net cash used in investing activities	(3,645)	(10,163)
Financing activities:		
Principal payments on short-term borrowings and long-term debt	(230,143)	(306,951)
Proceeds from short-term borrowings and long-term debt	184,358	296,510
Issuance of common stock	1,657	570
Excess tax benefits associated with stock plans	20	
Payments for debt issuance costs	(148)	(3,500)
Net cash used in financing activities	(44,256)	(13,371)
Effect of exchange rate changes on cash and cash equivalents	(1,298)	(1,101)

## Edgar Filing: ENTEGRIS INC - Form 10-Q

Increase (decrease) in cash and cash equivalents	6,613	(30,967)
Cash and cash equivalents at beginning of period	68,700	115,033
Cash and cash equivalents at end of period	\$ 75,313	\$ 84,066

See the accompanying notes to condensed consolidated financial statements.

**Table of Contents**

## ENTEGRIS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Entegris is a leading provider of a wide range of products for purifying, protecting and transporting critical materials used in processing and manufacturing in the semiconductor and other high-technology industries. The condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation.

The preparation of condensed 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, particularly receivables, inventories, property, plant and equipment, and intangibles, accrued expenses and income taxes and related accounts, and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position as of July 3, 2010 and December 31, 2009, the results of operations for the three months and six months ended July 3, 2010 and June 27, 2009, and equity and comprehensive income (loss), and cash flows for the six months ended July 3, 2010 and June 27, 2009.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2009. The results of operations for the six months ended July 3, 2010 are not necessarily indicative of the results to be expected for the full year.

**Fair Value of Financial Instruments** The carrying value of cash equivalents, accounts receivable, accounts payable and short-term debt approximates fair value due to the short maturity of those instruments. The carrying value of long-term debt approximates fair value due to the short maturity and variable interest rates of virtually all of those instruments.

**2. INVENTORIES**

Inventories consist of the following:

(In thousands)	July 3, 2010	December 31, 2009
Raw materials	\$ 21,367	\$ 21,016
Work-in process	14,010	11,136
Finished-goods <sup>(a)</sup>	54,523	50,453
Supplies	654	628
<b>Total inventories</b>	<b>\$ 90,554</b>	<b>\$ 83,233</b>

(a) Includes consignment inventories held by customers for \$5,258 and \$4,121 at July 3, 2010 and December 31, 2009, respectively.

**Table of Contents****3. INTANGIBLE ASSETS**

Identifiable intangible assets, net of amortization, of \$70.4 million as of July 3, 2010 are being amortized over useful lives ranging from 3 to 15 years and are as follows:

(In thousands)	As of July 3, 2010		
	Gross carrying amount	Accumulated amortization	Net carrying value
Patents	\$ 18,743	\$ 17,417	\$ 1,326
Developed technology	74,988	51,244	23,744
Trademarks and trade names	17,155	8,531	8,624
Customer relationships	56,788	20,493	36,295
Employment and noncompete agreements	1,707	1,658	49
Other	4,262	3,927	335
	<b>\$ 173,643</b>	<b>\$ 103,270</b>	<b>\$ 70,373</b>

(In thousands)	As of December 31, 2009		
	Gross carrying amount	Accumulated amortization	Net carrying value
Patents	\$ 19,020	\$ 16,839	\$ 2,181
Developed technology	74,988	47,541	27,447
Trademarks and trade names	17,245	7,950	9,295
Customer relationships	56,862	17,839	39,023
Employment and noncompete agreements	1,707	1,607	100
Other	4,278	3,854	424
	<b>\$ 174,100</b>	<b>\$ 95,630</b>	<b>\$ 78,470</b>

Aggregate amortization expense for the three and six months ended July 3, 2010 amounted to \$3.4 million and \$7.6 million, respectively. Estimated amortization expense for calendar years 2010 to 2014 and thereafter is approximately \$13.3 million, \$10.1 million, \$9.4 million, \$8.8 million, \$7.7 million, and \$28.7 million, respectively.

**4. WARRANTY**

The Company accrues for warranty costs based on historical trends and the expected material and labor costs to provide warranty services. The majority of products sold are covered by a warranty for periods ranging from 30 days to one year. The following table summarizes the activity related to the product warranty liability during the three-month and six-month periods ended July 3, 2010 and June 27, 2009:

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Balance at beginning of period	\$ 737	\$ 820	\$ 877	\$ 1,112
Accrual for warranties issued during the period	576	484	744	634
Adjustment of unused previously recorded accruals			(100)	(57)
Settlements during the period	(100)	(109)	(308)	(494)
Balance at end of period	<b>\$ 1,213</b>	<b>\$ 1,195</b>	<b>\$ 1,213</b>	<b>\$ 1,195</b>



**Table of Contents****5. RESTRUCTURING COSTS**

For the three months and six months ended July 3, 2010 and June 27, 2009, the accrued liabilities, provisions and payments associated with the employee severance and retention costs of the Company's restructuring activities were as follows:

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Accrued liabilities at beginning of period	\$ 1,323	\$ 9,427	\$ 2,621	\$ 12,696
Provision	(18)	2,681	17	4,973
Payments	(966)	(4,549)	(2,299)	(10,110)
Accrued liabilities at end of period	\$ 339	\$ 7,559	\$ 339	\$ 7,559

*Global restructuring and cost reduction initiatives*

In the third quarter of 2008, in conjunction with the appointment of a new Chief Operating Officer, the Company initiated a global business restructuring of its sales and marketing functions, manufacturing operations, and realignment of its global supply chain and related ancillary operational functions. The Company has incurred employee termination and other costs in connection with this business restructuring and other actions taken in response to the downturn in the semiconductor industry that began during the second half of 2008.

The Company announced in the fourth quarter of 2008 that it would close the larger of its two manufacturing facilities in Chaska, Minnesota and would transfer the related production to other existing facilities. The closure, which affected approximately 200 positions in the Company's worldwide workforce, was completed in 2009. Associated with this closure, the Company recorded charges related to employee severance and retention costs of approximately zero and \$0.7 million for the three months and six months ended June 27, 2009, respectively, which were classified as restructuring charges.

In the first quarter of 2009, the Company announced workforce reductions in Asia and Japan, which affected approximately 132 positions. In the second quarter of 2009, the Company announced additional global workforce reductions, affecting approximately 96 positions. In connection with the above actions, the Company recorded charges related to employee severance costs of approximately \$2.7 million and \$4.0 million for the three months and six months ended June 27, 2009, respectively, which were classified as restructuring charges.

In addition, \$0.6 million and \$1.4 million in accelerated depreciation expense; \$1.9 million and \$3.3 million in other costs associated with the transfer of production from the Chaska facility; and \$0.3 and \$0.7 million related to other workforce reductions were recorded and classified as restructuring charges for the three months and six months ended June 27, 2009, respectively.

The Company's facility in Chaska became available for sale during the fourth quarter ended December 31, 2009 and was classified in assets held for sale at July 3, 2010 and December 31, 2009 at a carrying value of \$6.0 million.

**6. REVOLVING CREDIT FACILITY**

The Company has a revolving credit facility maturing November 1, 2011. On May 19, 2010, the Company amended the underlying revolving credit facility agreement with its lenders. The amendment reduced the revolving credit commitment from \$121.7 million to \$60.0 million, all of which is available to the Company dependent upon the Company's borrowing base, which is based on the Company's levels of qualifying domestic accounts receivable, inventories and value of its property, plant and equipment.

In addition, the May 19, 2010 amendment to the revolving credit facility agreement provided greater flexibility for certain thresholds related to the Company's capital expenditure and cash management covenants. The amendment did not change the cash flow leverage ratio or fixed charge coverage ratio covenants included in the terms of the revolving credit facility.

**Table of Contents**

As of July 3, 2010, the Company's borrowing base supported \$57.8 million of its available revolving commitment amount of \$60.0 million. The Company had outstanding borrowings under the revolving credit facility of \$20.4 million as of July 3, 2010, with an additional \$1.9 million undrawn on outstanding letters of credit.

Through July 3, 2010, the Company was in compliance with all applicable debt covenants included in the terms of the revolving credit facility. Beginning in the second quarter of 2010, the terms of the revolving credit facility require that the Company maintain a cash flow leverage ratio of no more than 3.0 to 1.0 and a fixed charge coverage ratio no lower than 1.5 to 1.0. At July 3, 2010, the Company's cash flow leverage and fixed charge coverage ratios stood at 0.2 to 1.0 and 5.2 to 1.0, respectively. The cash flow leverage ratio measures the sum of short-term borrowings, long-term debt and capital lease obligations divided by the most recent two fiscal quarters' EBITDA (as defined below) multiplied by two. The fixed charge coverage ratio measures the sum of EBITDA and lease expense less the sum of capital expenditures and income tax payments, which figure in turn is divided by the sum of interest expense, lease expense and scheduled principal payments.

EBITDA is calculated by adding consolidated net income attributable to Entegris, Inc., depreciation, amortization, share-based compensation expense, interest expense, income taxes, non-cash gains and losses, extraordinary gains and losses, non-recurring expenses associated with a permitted acquisition, foreign exchange expense and certain expenses related to the revolving credit facility. Non-cash gains and losses include adjustments to the Company's excess and obsolete inventory reserves and allowances for doubtful accounts, and impairment charges of long-lived assets and investments.

In addition to the financial metric covenants required under the revolving credit facility, under the amended terms of the revolving credit facility the Company is restricted from making annual capital expenditures in excess of \$30.0 million in both 2010 and 2011. The Company must also maintain a minimum of \$10.0 million in domestic cash balances, while holding no more than \$75.0 million in international cash balances.

The Company's borrowings under the revolving credit facility are guaranteed by all its subsidiaries that are treated as domestic for tax purposes and secured by a first-priority security interest in all assets owned by the borrowers or such domestic guarantors, except that the collateral shall include only 65% of the voting stock owned by the borrowers or a domestic subsidiary of each subsidiary which is treated as foreign for tax purposes.

The Company expended \$0.1 million for debt issuance costs in connection with its amendment of the revolving credit agreement. These costs are included in other assets in the Company's condensed consolidated financial statements and are being amortized over the remaining term of the agreement. Interest expense for the quarter ended July 3, 2010 included a charge of \$0.9 million for the accelerated write-off of previously capitalized debt issuance costs associated with the revolving credit facility due to the reduction in the Company's revolving credit commitment from \$121.7 million to \$60.0 million described above.

**7. OTHER INCOME, NET**

Other income, net consists of the following:

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
(Loss) gain on foreign currency remeasurement	\$ (1,314)	\$ (1,836)	\$ (877)	\$ 3,322
Gain on sale of equity investment	392		392	
Other, net	211	299	67	364
Other (expense) income, net	\$ (711)	\$ (1,537)	\$ (418)	\$ 3,686

The (loss) gain on foreign currency remeasurement for the three-month and six-month periods ended July 3, 2010 and June 27, 2009 mainly reflects foreign currency transaction effects of the remeasurement of yen-denominated assets and liabilities held by the Company's U.S. entity.

**Table of Contents****8. INCOME TAXES**

The Company recorded income tax expense of \$5.4 million and \$10.2 million in the three months and six months ended July 3, 2010, respectively, compared to income tax benefits of \$2.3 million and \$4.9 million in the three months and six months ended June 27, 2009, respectively. The effective tax rate was 22.5% in the 2010 period, compared to 7.6% in the 2009 period.

In 2010, the Company's effective tax rate was lower than U.S. statutory rates mainly due to the \$3.9 million decrease in the Company's U.S. deferred tax asset valuation allowance. Management concluded the Company will realize certain deferred tax assets related to current taxes payable and has thus released the allowance for a portion of U.S. deferred tax assets. The effective tax rate also benefitted from the Company's tax holiday in Malaysia whereby, as a result of employment commitments, research and development expenditures and capital investments made by the Company, income from certain manufacturing activities in Malaysia is exempt from income taxes. The effective tax rate was also affected by lower tax rates in certain of the Company's taxable jurisdictions.

In 2009, the Company's effective tax rate was lower than U.S. statutory rates mainly due to the \$14.8 million increase in the Company's U.S. deferred tax asset valuation allowance. Management concluded that it is not more likely than not that the Company would realize certain deferred tax assets associated with 2009 domestic operating losses to date, and thus provided an allowance for the portion of deferred tax assets that management concluded will not be utilized. The Company also provided a \$0.3 million allowance for a portion of its non-U.S. deferred tax assets.

**9. EARNINGS (LOSS) PER COMMON SHARE**

The following table presents a reconciliation of the denominators used in the computation of basic and diluted earnings (loss) per common share.

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Basic - weighted common shares outstanding	131,568	112,694	131,261	112,521
Weighted common shares assumed upon exercise of stock options and vesting of restricted common stock	1,302		1,566	
Diluted - weighted common shares and common shares equivalent outstanding	132,870	112,694	132,827	112,521

The effect of the inclusion of stock options and unvested restricted common stock for the three-month and six-month periods ended June 27, 2009, respectively, would have been anti-dilutive. Approximately 5.6 million and 5.6 million of the Company's stock options were excluded from the calculation of diluted earnings per share for the three and six months ended July 3, 2010, respectively, and 7.1 million and 8.3 million of the Company's stock options and restricted stock were excluded from the calculation of diluted earnings per share for the three and six months ended June 27, 2009, respectively.

**10. SEGMENT REPORTING**

The Company has three reportable operating segments that provide unique products and services, are separately managed and have separate financial information evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. The Company's financial reporting segments are Contamination Control Solutions (CCS), Microenvironments (ME), and Entegris Specialty Materials (ESM).

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

## Table of Contents

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

*ESM*: provides specialized graphite components used in semiconductor equipment and offers low-temperature, plasma-enhanced chemical vapor deposition coatings of critical components of semiconductor manufacturing equipment used in various stages of the manufacturing process as well as graphite and silicon graphite for certain critical industrial markets.

Inter-segment sales are not significant. Segment profit is defined as net sales less direct segment operating expenses, excluding certain unallocated expenses, consisting mainly of general and administrative costs for the Company's human resources, finance and information technology functions as well as interest expense, amortization of intangible assets, charges for the fair market value write-up of acquired inventory sold and restructuring charges. Beginning in 2010, the Company includes certain marketing expenses in the determination of segment profit that had previously been included in unallocated corporate expenses. Accordingly, the Company has adjusted the corresponding items of segment information for earlier periods.

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

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net sales				
CCS	\$ 103,660	\$ 47,541	\$ 204,403	\$ 81,828
ME	47,388	26,176	89,315	40,858
ESM	16,527	8,859	34,368	18,928
Total net sales	\$ 167,575	\$ 82,576	\$ 328,086	\$ 141,614

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Segment profit (loss)				
CCS	\$ 28,614	\$ 2,830	\$ 56,848	\$ (5,841)
ME	12,165	(273)	21,145	(10,468)
ESM	2,061	(1,047)	4,403	(430)
Total segment profit (loss)	\$ 42,840	\$ 1,510	\$ 82,396	\$ (16,739)

The following table reconciles total segment profit (loss) to operating income (loss):

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Total segment profit (loss)	\$ 42,840	\$ 1,510	\$ 82,396	\$ (16,739)
Amortization of intangibles	(3,364)	(4,931)	(7,636)	(9,912)
Restructuring charges		(5,452)		(10,086)
Charge for fair value mark-up of acquired inventory sold				(4,065)
Unallocated general and administrative expenses	(13,041)	(11,308)	(26,048)	(22,601)
Operating income (loss)	\$ 26,435	\$ (20,181)	\$ 48,712	\$ (63,403)

**Table of Contents**

The following table presents amortization of intangibles, restructuring charges and charges for fair value mark-up of acquired inventory sold for the Company's reportable segments:

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
<b>Amortization of intangibles</b>				
CCS	\$ 1,945	\$ 3,419	\$ 4,759	\$ 6,867
ME	99	159	236	330
ESM	1,320	1,353	2,641	2,715
	\$ 3,364	\$ 4,931	\$ 7,636	\$ 9,912
<b>Restructuring charges</b>				
CCS	\$	\$ 813	\$	\$ 2,203
ME		3,004		5,172
ESM		(35)		177
Corporate		1,670		2,534
	\$	\$ 5,452	\$	\$ 10,086
<b>Charge for fair value mark-up of acquired inventory sold</b>				
ESM	\$	\$	\$	\$ 4,065
	\$	\$	\$	\$ 4,065

**11. RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 167, *Amendments to FASB Interpretation No 46(R)* (Accounting Standards Codification (ASC) Topic 810). This guidance amends certain requirements to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This guidance was effective for the Company in 2010 and did not have a material effect on the Company's condensed consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition* (Accounting Standards Codification (ASC) Topic 605) *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*. This guidance modifies the fair value requirements of ASC subtopic 605-25 *Revenue Recognition-Multiple Element Arrangements* by allowing the use of the best estimate of selling price for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when vendor specific objective evidence or third-party evidence of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted. This guidance is effective for the Company in 2011. The Company is currently evaluating the impact of adopting this update, but does not expect the guidance to have a material effect on the Company's condensed consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events* (ASC Topic 855) *Amendments to Certain Recognition and Disclosure Requirements*, which eliminated the requirement for public companies to disclose the date through which subsequent events have been evaluated. As required, the Company will continue to evaluate subsequent events through the date of the issuance of its condensed consolidated financial statements. However, consistent with the guidance, this date will no longer be disclosed. ASU No. 2010-09 was effective upon issuance for the Company. The adoption of this update did not have a material effect on the Company's condensed consolidated financial statements.

Other Accounting Standards Updates not effective for the Company until after July 3, 2010 are not expected to have a material effect on the Company's condensed consolidated financial statements.



---

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Overview**

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

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

The Company offers a diverse product portfolio which includes more than 15,000 standard and customized products that it believes provide the most comprehensive offering of contamination control solutions and microenvironment products and services to the microelectronics industry. Certain of these products are unit-driven and consumable products that rely on the level of semiconductor manufacturing activity to drive growth, while others rely on expansion of manufacturing capacity to drive growth. The Company's unit-driven and consumable products includes membrane-based liquid filters and housings, metal-based gas filters, resin-based gas purifiers, wafer shippers, disk-shipping containers and test assembly and packaging products and consumable graphite and silicon carbide components used in plasma etch, ion implant and chemical vapor deposition processes in semiconductor manufacturing. The Company's capital expense-driven products include components, systems and subsystems that use electro-mechanical, pressure differential and related technologies to permit semiconductor and other electronics manufacturers to monitor and control the flow and condition of process liquids used in these manufacturing processes, and process carriers that protect the integrity of in-process wafers.

The Company's fiscal year is the calendar period ending each December 31. The Company's fiscal quarters consist of 13-week or 14-week periods that end on Saturday. The Company's fiscal quarters in 2010 end April 3, 2010, July 3, 2010, October 2, 2010 and December 31, 2010. Unaudited information for the three months and six months ended July 3, 2010 and June 27, 2009 and the financial position as of July 3, 2010 and December 31, 2009 are included in this Quarterly Report on Form 10-Q.

#### **Forward-Looking Statements**

The information in this Management's Discussion and Analysis of Financial Condition and Results of Operations, except for the historical information, contains forward-looking statements. These statements are subject to risks and uncertainties and to the cautionary statement set forth below. These forward-looking statements could differ materially from actual results. The Company assumes no obligation to publicly release the results of any revision or updates to these forward-looking statements to reflect future events or unanticipated occurrences. This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and the related notes thereto, which are included elsewhere in this report.

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

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

## Table of Contents

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

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

### Overall Summary of Financial Results for the Three Months and Six Months Ended July 3, 2010

The Company's financial results for the quarter ended July 3, 2010 reflected the continuation of the recovery from the global economic recession and, more specifically, the severe downturn in both the capital and unit-driven segments of the semiconductor industry that began during the second half of the year ended December 31, 2008.

The Company's business downturn reached a trough during the first quarter of 2009. Starting in the second quarter of 2009, the Company began to experience a modest upturn in bookings and sales of certain of its unit-driven, consumable products, while recovery of the Company's capital-driven product lines began in the third quarter. From a low point of \$59.0 million in the first quarter of 2009, sales of the Company's products and services rose steadily to \$82.6 million, \$110.7 million and \$146.3 million in the second, third and fourth quarters of 2009, respectively, and \$160.5 million and \$167.6 million in the first and second quarters of 2010.

For the three months ended July 3, 2010, net sales increased by \$85.0 million, or 103%, to \$167.6 million compared to \$82.6 million for the three months ended June 27, 2009. Second-quarter sales growth reflected continued positive trends in the Company's core semiconductor markets. Each of the Company's operating segments experienced significant net sales increases. Net sales for the first six months of 2010 were \$328.1 million, up 132% from \$141.6 million in the comparable year-ago period, indicative of the same factors noted above. On a sequential basis, second quarter sales rose 4% from \$160.5 million in the first quarter of 2010, reflecting modest improvement in sales of both the Company's capital and unit-driven products from first quarter levels.

The sales increases for the three-month and six-month periods ended July 3, 2010 included favorable foreign currency translation effects of \$3.8 million and \$10.6 million, respectively, related to the year-over-year strengthening of most international currencies versus the U.S. dollar, most notably the Japanese yen, Korean won, Singaporean dollar and Taiwanese dollar. The sales increases for the three-month and six-month periods also included sales of \$3.4 million and \$5.3 million from the Company's Pureline subsidiary, which was acquired in July 2009. In addition, the first quarter of 2010 included 13 weeks versus 12 weeks in the first quarter of 2009. Excluding these factors, net sales rose approximately 94% and 112% for the three-month and six-month periods in 2010 when compared to the year-ago periods.

The Company reported considerably higher gross profits and improved gross margins for both the three-month and six-month periods compared to a year earlier, mainly reflecting the significant year-over-year sales increase and the associated improvement in factory utilization. The gross margin rate for the second quarter of 2010 was 46.0% versus 28.7% for the second quarter of 2009 and 45.6% for the three months ended April 3, 2010. Gross margin for the first six months of the year was 45.8% compared to 20.3% in the comparable period a year ago.

The Company had higher year-over-year selling, general and administrative (SG&A) and engineering, research and development (ER&D) costs for the three-month and six-month periods ended July 3, 2010 when compared to the year-ago periods, mainly reflecting higher employee-related costs.

As a result of the aforementioned factors, net earnings attributable to the Company were \$18.4 million, or \$0.14 per diluted share, for the quarter ended July 3, 2010 compared to a net loss of \$22.5 million, or \$0.20 per diluted share, in the quarter ended June 27, 2009. For the six-month period ended July 3, 2010, net earnings attributable to the Company were \$34.9 million, or \$0.26 per diluted share, compared to a net loss of \$60.2 million, or \$0.54 per diluted share, in the year-ago period.

## **Table of Contents**

On May 19, 2010, the Company amended its revolving credit facility agreement. The amendment reduced the revolving credit commitment from \$121.7 million to \$60.0 million. In addition, the amendment provided greater flexibility for certain thresholds related to the Company's capital expenditure and cash management covenants. The amendment did not change the cash flow leverage ratio or fixed charge coverage ratio covenants included in the terms of the revolving credit facility. As of July 3, 2010, the Company had outstanding borrowings under the revolving credit facility of \$20.4 million with an additional \$1.9 million undrawn on outstanding letters of credit and was in compliance with all applicable debt covenants included in the terms of the revolving credit facility. See note 6 to the Company's condensed consolidated financial statements for additional detail.

During the first six months of 2010, the Company's operating activities provided cash flow of \$55.8 million, allowing the Company to reduce its outstanding debt by \$45.8 million. Cash and cash equivalents totaled \$75.3 million at July 3, 2010 compared with \$68.7 million at December 31, 2009. Total short-term and long-term debt stood at \$26.3 million at July 3, 2010 compared with \$51.2 million and \$71.8 million at April 3, 2010 and December 31, 2009, respectively.

### **Critical Accounting Policies**

Management's discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires the Company to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. At each balance sheet date, management evaluates its estimates, including, but not limited to, those related to accounts receivable, warranty and sales return obligations, inventories, long-lived assets, income taxes and share-based compensation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The critical accounting policies affected most significantly by estimates, assumptions and judgments used in the preparation of the Company's consolidated financial statements are discussed below.

**Accounts Receivable-Related Valuation Accounts** The Company maintains allowances for doubtful accounts and for sales returns and allowances. Significant management judgments and estimates must be made and used in connection with establishing these valuation accounts. If management made different judgments or utilized different estimates, this could result in material differences in the amount and timing of the Company's results of operations for any period. In addition, actual results could be different from the Company's current estimates, possibly resulting in increased future charges to earnings.

The Company provides an allowance for doubtful accounts for all individual receivables judged to be unlikely for collection. For all other accounts receivable, the Company records an allowance for doubtful accounts based on a combination of factors. Specifically, management considers the age of receivable balances, historical bad debt write-off experience and current economic circumstances when determining its allowance for doubtful accounts. The Company's allowance for doubtful accounts was \$1.5 million at July 3, 2010 and \$1.7 million at December 31, 2009, respectively.

An allowance for sales returns and allowances is established based on historical and current trends in product returns. At July 3, 2010 and December 31, 2009, the Company's reserve for sales returns and allowances was \$0.9 million and \$0.9 million, respectively.

**Inventory Valuation** The Company uses certain estimates and judgments to properly value inventory. In general, the Company's inventories are recorded at the lower of cost or market value. The Company evaluates its ending inventories for obsolescence and excess quantities each quarter. This evaluation includes analyses of inventory levels, historical write-off trends, expected product lives, and sales levels by product. Inventories that are considered obsolete are written off or a full allowance is recorded. In addition, allowances are established for inventory quantities in excess of forecasted demand. Inventory allowances were \$7.5 million and \$9.1 million at July 3, 2010 and December 31, 2009, respectively.

## **Table of Contents**

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

**Impairment of Long-Lived Assets** As of July 3, 2010, the Company had \$130.4 million of net property, plant and equipment and \$70.4 million of net intangible assets. The Company routinely considers whether indicators of impairment of the value of its long-lived assets, particularly its manufacturing equipment, and its intangible assets, are present. A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances (triggering events) indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

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

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

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

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

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

## Edgar Filing: ENTEGRIS INC - Form 10-Q

The Company was not required to perform impairment testing for any of its asset groups for the second quarter of 2010. The Company will continue to monitor circumstances and events to determine whether asset impairment testing is warranted. It is possible that in the future the Company may no longer be able to conclude that there is no impairment of its long-lived assets, nor can the Company provide assurance that material impairment charges of long-lived assets will not occur in future periods.

## **Table of Contents**

**Income Taxes** In the preparation of the Company's condensed consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which the Company operates. This process involves estimating actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheet.

The Company has significant amounts of deferred tax assets. Management reviews its deferred tax assets for recoverability on a quarterly basis and assesses the need for valuation allowances. Management considers the positive and negative evidence for the potential utilization of its deferred tax assets. When management concludes that it is not more likely than not that the Company will realize certain deferred tax assets in the future, it records a valuation allowance for the portion of deferred tax assets management concluded will not be utilized.

The Company had a U.S. net deferred tax asset position of \$55.5 million and \$57.2 million at July 3, 2010 and December 31, 2009, respectively, which comprises temporary differences and various credit carryforwards. Management has reviewed its U.S. deferred tax assets and has concluded that it is not more likely than not that the Company will realize certain net deferred tax assets. The negative evidence of a cumulative three-year U.S. operating loss and a finite carryforward period for the Company's U.S. foreign tax credits was sufficiently significant to outweigh all identified positive evidence. However, during the quarter ended July 3, 2010, management concluded the Company will realize certain deferred tax assets related to current taxes payable and has thus released the allowance for a portion of the Company's U.S. deferred tax assets. Accordingly, the Company had maintained valuation allowances of \$54.3 million and \$57.2 million as of July 3, 2010 and December 31, 2009, respectively, with respect to net U.S. deferred tax assets.

The Company had net non-U.S. deferred tax asset positions before valuation allowance of \$14.9 million at both July 3, 2010 and December 31, 2009. At those dates, management determined that based upon the available evidence, a valuation allowance was required against non-U.S. deferred tax assets in certain tax jurisdictions. Accordingly, the Company maintained valuation allowances of \$0.4 million at both July 3, 2010 and December 31, 2009 with respect to certain non-U.S. deferred tax assets. For other non-U.S. jurisdictions, principally Japan, management believes that it is more likely than not that the net deferred tax assets will be realized as management expects sufficient future earnings in those jurisdictions.

In addition, the calculation of tax balances involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results.

**Warranty Claims Accrual** The Company records a liability for estimated warranty claims. The amount of the accrual is based on historical claims data by product group and other factors. Estimated claims could be materially different from actual results for a variety of reasons, including a change in product failure rates and service delivery costs incurred in correcting a product failure, manufacturing changes that could impact product quality, or as yet unrecognized defects in products sold. At July 3, 2010 and December 31, 2009, the Company's accrual for estimated future warranty costs was \$1.2 million and \$0.9 million, respectively.

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

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

**Table of Contents**

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

**Three and Six Months Ended July 3, 2010 Compared to Three and Six Months Ended June 27, 2009**

The following table compares operating results with year-ago results, as a percentage of sales, for each caption.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 3, 2010</b>	<b>June 27, 2009</b>	<b>July 3, 2010</b>	<b>June 27, 2009</b>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	54.0	71.3	54.2	79.7
Gross profit	46.0	28.7	45.8	20.3
Selling, general and administrative expenses	21.8	31.1	22.1	39.1
Engineering, research and development expenses	6.4	9.5	6.6	11.8
Amortization of intangible assets	2.0	6.0	2.3	7.0
Restructuring charges		6.6		7.1
Operating income (loss)	15.8	(24.4)	14.8	(44.8)
Interest expense, net	(1.0)	(3.1)	(0.9)	(3.1)
Other (expense) income, net	(0.4)	(1.9)	(0.1)	2.6
Income (loss) before income taxes and other items below	14.4	(29.4)	13.8	(45.3)
Income tax expense (benefit)	3.2	(2.7)	3.1	(3.4)
Equity in net (earnings) loss of affiliates	(0.0)	0.5	(0.1)	0.7
Net income (loss)	11.2	(27.2)	10.8	(42.5)

**Net sales** The Company's financial results for the quarter ended July 3, 2010 reflected the continuation of the recovery from the global economic recession and, more specifically, the severe downturn in both the capital and unit-driven segments of the semiconductor industry that began during the second half of the year ended December 31, 2008.

The Company's business downturn reached a trough during the first quarter of 2009. Starting in the second quarter of 2009, the Company began to experience a modest upturn in bookings and sales of certain of its unit-driven, consumable products, while recovery of the Company's capital-driven product lines began in the third quarter. From a low point of \$59.0 million in the first quarter of 2009, sales of the Company's products and services rose steadily to \$82.6 million, \$110.7 million and \$146.3 million in the second, third and fourth quarters of 2009, respectively, and \$160.5 million and \$167.6 million in the first and second quarters of 2010.

For the three months ended July 3, 2010, net sales increased by \$85.0 million, or 103%, to \$167.6 million compared to \$82.6 million for the three months ended June 27, 2009. Second-quarter sales growth reflected continued positive trends in the Company's core semiconductor markets. Each of the Company's operating segments experienced significant net sales increases.

The sales increases for the three-month and six-month periods ended July 3, 2010 included a favorable foreign currency translation effects of \$3.8 million related to the year-over-year strengthening of most international currencies versus the U.S. dollar, most notably the Japanese yen, Korean won, Singaporean dollar and Taiwanese dollar, offset partly by a weaker Euro. The sales increase for the three-month period also included sales of \$3.4 million from the Company's Pureline subsidiary, which was acquired in July 2009. Excluding these factors, net sales rose approximately 94% for the second quarter in 2010 when compared to the year-ago period.

For the quarter ended July 3, 2010, sales of unit-driven products represented 63% and sales of capital-driven products represented 37% of total sales, respectively. For the second quarter of 2009 and the three months ended April 3, 2010 this split was 74%/26% and 63%/37%, respectively. The shift in relative demand for capital-driven products from a year ago reflects the recovery of capital spending after the very low spending by semiconductor customers for capacity-related products in the first half of 2009.



## **Table of Contents**

On a geographic basis, second quarter sales to North America were 28%, Asia (excluding Japan) 40%, Europe 14% and Japan 18% of total net sales. This compared to second quarter 2009 sales figures of North America 31%, Asia 35%, Europe 15% and Japan 19% and first quarter 2010 sales figures of 31%, 38%, 14% and 17%, respectively. All regions experienced significant year-over-year sales increases. Asia sales rose by nearly 130%, with a portion of the increase related to favorable foreign currency translation effects. Sales in North America and Japan about doubled, while sales in Europe rose approximately 60% compared to a year ago, even after accounting for unfavorable foreign currency translation effects.

Net sales for the first six months of 2010 were \$328.1 million, up 132% from \$141.6 million in the comparable year-ago period, indicative of the same factors noted above. Each of the Company's operating segments experienced significant net sales increases. The sales increase for the six-month period ended July 3, 2010 included favorable foreign currency translation effects of \$10.6 million related to the year-over-year strengthening of most international currencies versus the U.S. dollar, most notably the Japanese yen, Korean won, Singaporean dollar and Taiwanese dollar. The sales increase for the six-month period also included sales of \$5.3 million from the Company's Pureline subsidiary, which was acquired in July 2009. In addition, the first quarter of 2010 included 13 weeks versus 12 weeks in the first quarter of 2009. Excluding these factors, net sales rose approximately 112% for the six-month periods in 2010 when compared to the year-ago period.

On a sequential basis, sales rose 4% from \$160.5 million in the first quarter of 2010, with sales of both unit-driven and capital-driven products advancing near that growth rate. Sales results for the Company's segments were varied as described below under the heading **Segment Analysis**. Sales were adversely affected by an unfavorable foreign currency translation effect of \$2.1 million, primarily related to the weakening of the Euro versus the U.S. dollar. Excluding this factor, net sales rose approximately 6% in the second quarter of 2010 when compared to the first quarter of 2010. When comparing second quarter 2010 results to first quarter 2010 on a geographic basis, total sales to Asia, Europe, and Japan increased 9%, 6%, and 9%, respectively, while sales to North America fell 4%.

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

**Gross profit.** The Company's gross profit in the three months ended July 3, 2010 increased by \$53.4 million to \$77.1 million, up from \$23.7 million for the three months ended June 27, 2009. For the first six months of 2010, gross profit was \$150.3 million, up from gross profit of \$28.7 million recorded in the first six months of 2009.

As a percentage of net sales, the gross margin rate for the second quarter of 2010 was 46.0% versus 28.7% for the second quarter of 2009 and 45.6% for the three months ended April 3, 2010. The Company's gross margin for the first six months of 2010 was 45.8% compared to 20.3% in the comparable period a year ago.

The Company's considerably higher gross profits and improved gross margins for the three-month and six-month periods compared to a year earlier mainly reflect the significant year-over-year sales increase and the associated increased levels of factory utilization. Sales increases, along with slight improvements in sales mix, accounted for approximately 84% and 76% of the gross profit improvement for the second quarter and year-to-date, respectively.

The remaining gross profit improvements reflected improved factory utilization (approximately \$5.5 million and \$14.5 million, respectively), the reduction in cost of sales period expense recorded in connection with manufacturing production falling below normal capacity (described in further detail below) and the absence of a \$4.1 million incremental charge associated with the fair market value write-up of acquired inventory in the first quarter of 2009.

As noted, the Company's gross profit and gross margin rate benefitted from the reduction in cost of sales period expense recorded in connection with manufacturing production falling below normal capacity. During 2009, the

## **Table of Contents**

Company experienced lower factory utilization, particularly during the first half of the year due to the sales decrease associated with the severe downturn in the semiconductor industry that began during the second half of 2008. Accordingly, the Company included in cost of sales period expense of \$1.9 million and \$10.1 million, respectively, in the three-month and six-month periods ended June 27, 2009 in connection with its below-capacity production levels. The comparable 2010 amounts were \$0.2 million and \$0.7 million.

**Selling, general and administrative expenses** Selling, general and administrative (SG&A) expenses increased \$10.9 million, or 43%, to \$36.6 million in the three months ended July 3, 2010, up from \$25.7 million in the comparable three-month period a year earlier. Reflecting the increase in net sales, SG&A expenses as a percent of net sales declined to 21.8% from 31.1% a year earlier, reflecting the increase in net sales. On a year-to-year basis, SG&A expenses increased by \$17.0 million, or 31% to \$72.4 million compared to \$55.4 million a year earlier. On a year-to-date basis, SG&A costs, as a percent of net sales, fell to 22.1% from 39.1% a year ago, reflecting the increase in net sales.

The increases in SG&A expenses were due to higher employee costs (\$8.9 million and \$14.2 million for the three-month and six-month periods, respectively), mainly reflecting the reversal of salary reductions, the absence of employee furloughs in place in 2009, higher sales commissions expense and the accrual of incentive compensation in 2010. In addition, the increases in SG&A costs include foreign currency translation effects of \$0.6 million and \$1.8 million for the three-month and six-month periods, respectively. The Company expects SG&A expenses to be higher throughout 2010 due to the reversal of temporary cost cuts put in place in 2009.

**Engineering, research and development expenses** Engineering, research and development (ER&D) expenses related to the support of current product lines and the development of new products and manufacturing technologies were \$10.7 million in the three months ended July 3, 2010 compared to the \$7.8 million reported in the year-ago period. ER&D expenses increased 29% to \$21.6 million in the first six months of 2010 compared to \$16.7 million in the year-ago six-month period. Year-to-date ER&D expenses, as a percent of net sales, decreased to 6.6% from 11.8%, mainly reflecting the significant increase in net sales. The increases in ER&D expense were due to higher employee costs (\$2.5 million and \$3.8 million for the three-month and six-month periods, respectively), mainly reflecting the reversal of salary reductions and the accrual of incentive compensation in 2010.

**Amortization of intangible assets** Amortization of intangible assets was \$3.4 million in the three months ended July 3, 2010 compared to \$4.9 million in the year-ago period. Amortization of intangible assets was \$7.6 million in the first six months of 2010 compared to \$9.9 million in year-ago period. The declines mainly reflect the absence of amortization expense for certain acquired developed technology and tradename assets which became fully amortized in 2009.

**Restructuring charges** The Company incurred no restructuring charges in the three- month and six-month periods ended July 3, 2010. Restructuring charges of \$5.5 million and \$10.1 million were incurred in the three-month and six-month periods ended June 27, 2009, respectively, in connection with employee termination and other costs in connection with the business restructuring and actions taken in response to the business downturn. See note 5 to the Company's condensed consolidated financial statements for additional detail.

**Interest expense** Interest expense was \$1.7 million and \$2.9 million in the three-month and six-month periods ended July 3, 2010, respectively. Interest expense was \$2.6 million and \$4.4 million in the three-month and six-month periods ended June 27, 2009, respectively. The variances were due mainly to decreases in the Company's average debt outstanding compared to a year ago, offsetting the higher rates of interest on outstanding debt under the Company's revolving credit facility. Interest expense for the quarter ended July 3, 2010 included a charge of \$0.9 million for the accelerated write-off of previously capitalized debt issuance costs associated with the reduction in the Company's revolving credit commitment from \$121.7 million to \$60.0 million as per an amendment to the Company's revolving credit agreement. See note 6 to the Company's condensed consolidated financial statements for additional detail.

**Other income (expense)** Other expense was \$0.7 million and \$0.4 million in the three-month and six-month periods ended July 3, 2010, respectively. Other expense in the three months ended June 27, 2009 was \$1.5 million and other income in the six-month period ended June 27, 2009 was \$3.7 million. These amounts mainly reflect foreign currency transaction gains and losses related to the remeasurement of yen-denominated assets and liabilities held by the Company's U.S. entity. See note 7 to the Company's condensed consolidated financial statements for additional detail.

## Table of Contents

**Income tax expense (benefit)** The Company recorded income tax expense of \$5.4 million in the three months ended July 3, 2010 compared to income tax benefit of \$2.3 million in the three months ended June 27, 2009. For the first six months of 2010, the Company recorded income tax expense of \$10.2 million compared to an income tax benefit of \$4.9 million in the comparable period in fiscal 2009. The Company's year-to-date effective tax rate was 22.5% in 2010, compared to 7.6% in 2009.

In 2010, the Company's effective tax rate was lower than U.S. statutory rates mainly due to the \$3.9 million decrease in the Company's U.S. deferred tax asset valuation allowance. Management concluded the Company will realize certain deferred tax assets related to current taxes payable and has thus released the allowance for a portion of U.S. deferred tax assets. The effective tax rate also benefitted from the Company's tax holiday in Malaysia whereby, as a result of employment commitments, research and development expenditures and capital investments made by the Company, income from certain manufacturing activities in Malaysia is exempt from income taxes. The effective tax rate is also affected by lower tax rates in certain of the Company's taxable jurisdictions.

In 2009, the Company's effective tax rate was lower than U.S. statutory rates, mainly due to the \$14.8 million increase in the Company's U.S. deferred tax asset valuation allowance. Management concluded that it is not more likely than not that the Company will realize certain deferred tax assets associated with 2009 domestic operating losses to date, and thus provided an allowance for the portion of deferred tax assets that management concluded will not be utilized. The Company also provided a \$0.3 million allowance for a portion of its non-U.S. deferred tax assets.

**Net income (loss) attributable to Entegris, Inc.** Net income attributable to the Company was \$18.4 million, or \$0.14 per diluted share, in the three-month period ended July 3, 2010 compared to a net loss of \$22.5 million, or \$0.20 per diluted share, in the three-month period ended June 27, 2009. For the six months ended July 3, 2010, net income attributable to the Company was \$34.9 million, or \$0.26 per diluted share, compared to a net loss of \$60.2 million, or \$0.54 per diluted share, in the comparable period a year ago. The significant improvement mainly reflects the Company's higher net sales and corresponding increase in gross profit.

## Segment Analysis

The Company reports its financial performance based on three reporting segments. The following is a discussion of the results of operations of these three business segments. See Note 10 Segment Reporting to the condensed consolidated financial statements for additional information on the Company's three segments.

The following table presents selected net sales and segment profit (loss) data for the Company's three segments for the three months and six months ended July 3, 2010 and June 27, 2009:

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
<b>Contamination Control Solutions</b>				
Net sales	\$ 103,660	\$ 47,541	\$ 204,403	\$ 81,828
Segment profit (loss)	28,614	2,830	56,848	(5,841)
<b>Micro Environments</b>				
Net sales	\$ 47,388	\$ 26,176	\$ 89,315	\$ 40,858
Segment profit (loss)	12,165	(273)	21,145	(10,468)
<b>Entegris Specialty Materials</b>				
Net sales	\$ 16,527	\$ 8,859	\$ 34,368	\$ 18,928
Segment profit (loss)	2,061	(1,047)	4,403	(430)

### Contamination Control Solutions (CCS)

For the second quarter of 2010, CCS net sales increased 118% to \$103.7 million, from \$47.5 million in the comparable period last year. There was strong growth for all product lines, reflecting the recovery in the semiconductor industry that began during the second quarter of 2009. CCS reported a segment profit of \$28.6

## **Table of Contents**

million in the second quarter of 2010 compared to a \$2.8 million segment profit in the year-ago period. The sharp increase in sales volume and the resulting improvement in gross profit primarily account for the year-to-year change in the segment's operating results. Slightly offsetting the increase in gross profit, CCS operating expenses increased 57%, mainly due to higher selling and engineering, research and development costs.

Sales for the second quarter of 2010 were up 3% on a sequential basis from the first quarter of 2010, reflecting increased sales of liquid filtration products. A slight improvement in gross profit combined with flat operating expenses to produce a nominally higher segment profit in the second quarter of 2010 compared to the first quarter of 2010.

For the six months ended July 3, 2010, CCS net sales increased 150% to \$204.4 million from \$81.8 million in the comparable period last year. The change in net sales reflects the underlying economic and semiconductor industry conditions noted above. For the six months ended July 3, 2010, CCS reported a segment profit of \$56.8 million compared to segment loss of \$5.8 million in the year-ago period, as the increase in gross profit associated with higher sales levels was partly offset by increased operating expenses, mainly reflecting higher selling and engineering, research and development costs.

### **Microenvironments (ME)**

For the second quarter of 2010, ME net sales increased 81% to \$47.4 million, from \$26.2 million in the comparable period last year. There was strong growth for all product lines, particularly for wafer process products for semiconductor wafers, reflecting the recovery in the semiconductor industry that began during the second quarter of 2009. ME reported a segment profit of \$12.2 million in the second quarter of 2010 compared to a \$0.3 million segment loss in the year-ago period. The sharp increase in sales volume and the resulting improvement in gross profit primarily account for the year-to-year change in the segment's operating results. Slightly offsetting the increase in gross profit, ME operating expenses increased 54%, mainly due to higher selling and engineering, research and development costs.

Sales for the second quarter of 2010 were up 13% on a sequential basis from the first quarter of 2010, driven by increased demand for wafer process and shipper products for semiconductor wafers. Higher gross profit associated with the improved sales and a slightly favorable sales mix combined with 6% higher operating expenses to produce a 35% improvement in segment profit in the second quarter of 2010 compared to the first quarter of 2010.

For the six months ended July 3, 2010, ME net sales increased 119% to \$89.3 million from \$40.9 million in the comparable period last year. The change in net sales reflects the improving economic and semiconductor industry conditions noted above. ME reported a segment profit of \$21.1 million in the first half of 2010 compared to a segment loss of \$10.5 million in the year-ago period, as the increase in gross profit associated with higher sales levels was partly offset by increased operating expenses, mainly reflecting higher selling and engineering, research and development costs.

### **Entegris Specialty Materials (ESM)**

For the second quarter of 2010, ESM net sales increased 87%, to \$16.5 million, from \$8.9 million in the comparable period last year. The increase was due to the higher sales of ESM's specialty coated products and graphite-based components used both in semiconductor manufacturing and in markets other than the semiconductor industry. ESM reported a segment profit of \$2.1 million in the second quarter of 2010 compared to a segment loss of \$1.0 million in the second quarter of 2009. The resulting improvement in gross profit associated with the sharp increase in sales was partly offset by an increase in operating expenses, mainly reflecting higher selling and engineering, research and development costs.

Sales for the second quarter of 2010 were down 7% on a sequential basis from the first quarter of 2010. The decline related to lower sales of the segment's graphite-based components. The resulting decrease in gross profit led to a 12% decline in segment profit as operating expense levels were flat.

For the six months ended July 3, 2010, ESM net sales increased 82% to \$34.4 million from \$18.9 million in the comparable period last year. For the six months ended July 3, 2010, ESM reported a segment profit of \$4.4 compared to a segment loss of \$0.4 million, as the increase in gross profit associated with higher sales levels was partly offset by increased operating expenses, mainly reflecting higher selling and engineering, research and development costs.

## **Table of Contents**

### **Liquidity and Capital Resources**

**Operating activities** Cash flow provided by operating activities totaled \$55.8 million in the six months ended July 3, 2010. Cash generated by the Company's operations, net of various non-cash charges, included depreciation and amortization of \$21.5 million and share-based compensation expense of \$3.7 million. The net impact of changes in operating assets and liabilities, mainly reflecting increases in accounts receivable and inventory, offset by increases in accounts payables and accrued expenses, was negligible.

Accounts receivable, net of foreign currency translation adjustments, increased by \$26.0 million in the first six months of 2010. This increase reflects the continued upturn in sales of the Company's products. The Company's days sales outstanding was 64 days compared to 57 days at the beginning of the year. Inventories at the end of the quarter increased by \$6.6 million from December 31, 2009, after taking into account the impact of foreign currency translation adjustments and the provision for excess and obsolete inventory. The decrease was mainly due to the effect of the Company's higher sales and bookings and the corresponding increase in production.

Working capital at July 3, 2010 stood at \$217.6 million, up from \$193.5 million as of December 31, 2009, and included \$75.3 million in cash and cash equivalents compared to cash and cash equivalents of \$68.7 million as of December 31, 2009.

**Investing activities** Cash flow used in investing activities totaled \$3.6 million in the six-month period ended July 3, 2010. Acquisition of property and equipment totaled \$7.7 million, primarily for additions related to manufacturing equipment and tooling. During the second quarter, the Company received proceeds of \$3.6 million from the South Korean government in connection with eminent domain proceedings whereby the Company will relinquish its existing land and building to the government upon completion of a new facility in South Korea, expected to be completed in 2010. The Company received proceeds of \$0.4 million from the sale of the Company's interest in a privately-held equity investment. Under the terms of its revolving credit facility, the Company is restricted from making capital expenditures in excess of \$30.0 million in both 2010 and 2011. The Company does not anticipate that this limit on capital expenditures will have an adverse effect on the Company's operations.

**Financing activities** Cash used in financing activities totaled \$44.3 million during the six-month period ended July 3, 2010. The Company received proceeds of \$230.1 million from its revolving credit facilities during the first six months of 2010 and made debt payments of \$184.4 million. The Company received proceeds of \$1.7 million in connection with common shares issued under the Company's employee stock purchase and stock option plans.

The Company expended \$0.1 million for debt issuance costs in connection with its amendment of its revolving credit agreement. These costs are included in other assets in the Company's condensed consolidated financial statements and are being amortized over the remaining term of the agreement.

The Company has a revolving credit facility maturing November 1, 2011. On May 19, 2010, the Company amended the underlying revolving credit facility agreement with its lenders. The amendment reduced the revolving credit commitment from \$121.7 million to \$60.0 million, all of which is available to the Company dependent upon the Company's borrowing base, which is determined based on the Company's levels of qualifying domestic accounts receivable, inventories and value of its property, plant and equipment.

As of July 3, 2010, the Company's borrowing base supported \$57.8 million of its available revolving commitment amount of \$60.0 million. As of that date, the Company had outstanding borrowings under the revolving credit facility of \$20.4 million with an additional \$1.9 million undrawn on outstanding letters of credit. As of the date of this filing, the Company had repaid all outstanding borrowings under the revolving credit facility.

In addition, the May 19, 2010 amendment to the revolving credit facility agreement provided greater flexibility for certain thresholds related to the Company's capital expenditure and cash management covenants. The amendment did not change the cash flow leverage ratio or fixed charge coverage ratio covenants included in the terms of the revolving credit facility. Through July 3, 2010, the Company was in compliance with all applicable debt covenants included in the terms of the revolving credit facility. Beginning in the second quarter of 2010, the terms of the revolving credit facility require that the Company maintain a cash flow leverage ratio of no

## **Table of Contents**

more than 3.0 to 1.0 and a fixed charge coverage ratio no lower than 1.5 to 1.0. At July 3, 2010, the Company's cash flow leverage and fixed charge coverage ratios stood at 0.2 to 1.0 and 5.2 to 1.0, respectively. See note 6 to the Company's condensed consolidated financial statements for additional detail.

Notwithstanding the terms under the revolving credit facility described above, the Company also has a line of credit with two banks that provide for borrowings of currencies for the Company's overseas subsidiaries, principally the Japanese yen equivalent to an aggregate of approximately \$13.7 million. There was none outstanding on these lines of credit at July 3, 2010.

At July 3, 2010, the Company's shareholders' equity stood at \$388.4 million, up 12% from \$346.2 million at the beginning of the year. The increase reflected the Company's net earnings of \$34.9 million, additional paid-in capital of \$3.7 million associated with the Company's share-based compensation expense and \$1.7 million received in connection with common shares issued under the Company's stock option and employee stock purchase plans.

As of July 3, 2010, the Company's sources of available funds were its cash and cash equivalents, funds available under its revolving credit facility and international credit facilities and cash flow generated from operations. The Company must maintain a minimum of \$10.0 million in cash and cash equivalents in the United States under the terms of the revolving credit facility, while holding no more than \$75.0 million in international cash balances.

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

## **New Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 167, *Amendments to FASB Interpretation No 46(R)* (Accounting Standards Codification (ASC) Topic 810). This guidance amends certain requirements to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This guidance was effective for the Company in 2010 and did not have a material effect on the Company's condensed consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition* (Accounting Standards Codification (ASC) Topic 605) *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*. This guidance modifies the fair value requirements of ASC subtopic 605-25 *Revenue Recognition-Multiple Element Arrangements* by allowing the use of the best estimate of selling price for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when vendor specific objective evidence or third-party evidence of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted. This guidance is effective for the Company in 2011. The Company is currently evaluating the impact of adopting this update, but does not expect the guidance to have a material effect on the Company's condensed consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (ASC Topic 855) Amendments to Certain Recognition and Disclosure Requirements*, which eliminated the requirement for public companies to disclose the date through which subsequent events have been evaluated. As required, the Company will continue to evaluate subsequent events through the date of the issuance of its condensed consolidated financial statements. However, consistent with the guidance, this date will no longer be disclosed. ASU No. 2010-09 was effective upon issuance for the Company. The adoption of this update did not have a material effect on the Company's condensed consolidated financial statements.

Other Accounting Standards Updates not effective for the Company until after July 3, 2010 are not expected to have a material effect on the Company's condensed consolidated financial statements.

**Table of Contents**

**Non-GAAP Information** The Company's condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP). Adjusted EBITDA and Adjusted Operating Income together with related measures thereof, and non-GAAP EPS, are considered Non-GAAP financial measures under the rules and regulations of the SEC. These financial measures are provided as a complement to financial measures provided in accordance with GAAP. The Company provides non-GAAP financial measures in order to better assess and reflect operating performance. Management believes the non-GAAP measures help indicate the Company's baseline performance before certain gains, losses or other charges that may not be indicative of the Company's business or future outlook. The Company believes these non-GAAP measures will aid investors' overall understanding of the Company's results by providing a higher degree of transparency for certain expenses and providing a level of disclosure that will help investors understand how we plan and measure its business. The presentation of non-GAAP measures is not meant to be considered in isolation, as a substitute for, or superior to, financial measures or information provided in accordance with GAAP. The calculations of Adjusted EBITDA margin, Adjusted Operating Income, and non-GAAP EPS are presented below.

**Reconciliation of GAAP to Adjusted Operating Income (Loss) and Adjusted EBITDA**

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net sales	\$ 167,575	\$ 82,576	\$ 328,086	\$ 141,614
GAAP - Operating income (loss)	\$ 26,435	(20,181)	\$ 48,712	\$ (63,403)
Restructuring costs		5,452		10,086
Charge for fair value mark-up of acquired inventory sold				4,065
Amortization of intangible assets	3,364	4,931	7,636	9,912
Adjusted operating income (loss)	29,799	(9,798)	56,348	(39,340)
Depreciation	7,166	7,903	13,890	16,173
Adjusted EBITDA	\$ 36,965	\$ (1,895)	\$ 70,238	\$ (23,167)
Adjusted operating margin	17.8%	(11.9)%	17.2%	(27.8)%
Adjusted EBITDA - as a % of net sales	22.1%	(2.3)%	21.4%	(16.4)%

**Reconciliation of GAAP Earnings (Loss) per Share to Non-GAAP Earnings (Loss) per Share**

(In thousands)	Three months ended		Six months ended	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Net income (loss) attributable to the Company	\$ 18,385	\$ (22,492)	\$ 34,935	\$ (60,237)
Adjustments to net income (loss) attributable to the Company:				
Amortization of intangible assets	3,364	4,931	7,636	9,912
Charge for fair value mark-up of acquired inventory sold				4,065
Accelerated write-off of debt-issuance costs	890		890	343
Gain on sale of equity investment	(392)		(392)	
Tax effect of adjustments to net income (loss) attributable to the Company	(1,428)		(2,995)	
Non-GAAP net income (loss) attributable to the Company	20,819	(17,561)	\$ 40,074	\$ (45,917)
Diluted earnings (loss) per common share:	\$ 0.14	\$ (0.20)	\$ 0.26	\$ (0.54)
Effect of adjustments to net income (loss) attributable to the Company	0.02	0.04	0.04	0.13

## Edgar Filing: ENTEGRIS INC - Form 10-Q

Diluted non-GAAP earnings (loss) per common share:	\$ 0.16	\$ (0.16)	\$ 0.30	\$ (0.41)
--	---------	-----------	---------	-----------

## **Table of Contents**

**Cautionary Statements** This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the Company's current views with respect to future events and financial performance. The words believe, expect, anticipate, intends, estimate, forecast, project, should and similar expressions are intended to identify these forward-looking statements. All forecasts and projections in this report are forward-looking statements, and are based on management's current expectations of the Company's near-term results, based on current information available pertaining to the Company. The risks which could cause actual results to differ from those contained in such forward looking statements include, without limit, the risks described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 under the headings Risks Relating to our Business and Industry, Risks Related to Our Borrowings, Manufacturing Risks, International Risks, and Risks Related to Owning Our Securities as well as in the Company's quarterly reports on Form 10-Q and current reports on Form 8-K as filed with the Securities and Exchange Commission.

### **Item 3: Quantitative and Qualitative Disclosures About Market Risk**

Entegris' principal financial market risks are sensitivities to interest rates and foreign currency exchange rates. The Company's interest-bearing cash equivalents, long-term debt and short-term borrowings are subject to interest rate fluctuations. Most of the Company's long-term debt at July 3, 2010 carries floating rates of interest. The Company's cash equivalents are instruments with maturities of three months or less. A 100 basis point change in interest rates would potentially increase or decrease annual net income by approximately \$0.5 million annually.

The cash flows and results of operations of the Company's foreign-based operations are subject to fluctuations in foreign exchange rates. The Company occasionally uses derivative financial instruments to manage the foreign currency exchange rate risks associated with its foreign-based operations. At July 3, 2010, the Company had no outstanding forward contracts.

### **Item 4: Controls and Procedures**

#### **(a) Evaluation of disclosure controls and procedures.**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the 1934 Act)) as of July 3, 2010. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of that evaluation date, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the 1934 Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms of the Securities and Exchange Commission, and (ii) accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### **(b) Changes in internal control over financial reporting.**

There were no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Table of Contents**

### **PART II**

#### **OTHER INFORMATION**

##### **Item 1. Legal Proceedings**

The Company expenses legal costs as incurred. The following discussion provides information regarding certain litigation to which the Company was a party that were pending as of July 3, 2010.

As previously disclosed, on March 3, 2003 the Company's predecessor, Mykrolis Corporation, filed a lawsuit against Pall Corporation in the United States District Court for the District of Massachusetts alleging infringement of two of the Company's U.S. patents by certain fluid separation systems and related assemblies used in photolithography applications manufactured and sold by the defendant. The Company's lawsuit sought a preliminary injunction preventing the defendant from the manufacture, use, sale, offer for sale or importation into the U.S. of any infringing product as well as damages. On April 30, 2004, the Court issued a preliminary injunction against Pall Corporation and ordered Pall to immediately stop making, using, selling, or offering to sell within the U.S., or importing into the U.S., its PhotoKleen EZD-2 Filter Assembly products or any colorable imitation of those products. On January 18, 2005, the Court issued an order holding Pall Corporation in contempt of court for the violation of the preliminary injunction and ordering Pall to disgorge all profits earned from the sale of its PhotoKleen EZD-2 Filter Assembly products and colorable imitations thereof from the date the preliminary injunction was issued through January 12, 2005. In addition, Pall was also ordered to reimburse Mykrolis for certain of its attorney's fees associated with the contempt and related proceedings. The Court's order also dissolved the preliminary injunction, effective January 12, 2005, based on certain prior art cited by Pall which it alleged raised questions as to the validity of the patents in suit. On February 17, 2005, the Company filed notice of appeal to the U.S. Circuit Court of Appeals for the Federal Circuit appealing the portion of the Court's order that dissolved the preliminary injunction and Pall filed a notice of appeal to that court with respect to the finding of contempt and the award of attorneys' fees. On June 13, 2007 the Court of Appeals issued an opinion dismissing Pall's appeal for lack of jurisdiction and affirming the District Court's order dissolving the preliminary injunction.

On April 6, 2006 the Company filed a lawsuit against Pall Corporation in the United States District Court for the District of Massachusetts alleging infringement of the Company's newly issued U.S. patent No. 7,021,667 by certain filter assembly products used in photolithography applications that are manufactured and sold by the defendant. The Company's lawsuit seeks a preliminary injunction preventing the defendant from the manufacture, use, sale, offer for sale or importation into the U.S. of the infringing products as well as damages. On October 23, 2006 the Company's motion for preliminary injunction was argued before the court. On March 31, 2008 the court issued an order denying the Company's motion for a preliminary injunction.

On August 23, 2006 the Company filed a lawsuit against Pall Corporation in the United States District Court for the District of Massachusetts alleging infringement of the Company's newly issued U.S. patent No. 7,037,424 by certain fluid separation modules and related separation apparatus, including the product known as the EZD-3 Filter Assembly, used in photolithography applications that are manufactured and sold by the defendant. The Company's lawsuit seeks a preliminary injunction preventing the defendant from the manufacture, use, sale, offer for sale or importation into the U.S. of the infringing products as well as damages. It is believed that the EZD-3 Filter Assembly was introduced into the market by the defendant in response to the action brought by the Company in March of 2003 as described above. On May 5, 2008, the court issued an order consolidating this case with the two cases described in the preceding paragraphs for purposes of discovery; the discovery stage for these cases closed May 28, 2010. The parties are currently preparing briefs for a hearing related to the issue of a Markman Order. In a Markman Order a U.S. district court hearing a patent infringement case interprets and rules on the scope and meaning of disputed patent claim language with respect to the patents in suit.

As previously disclosed, on December 16, 2005 Pall Corporation filed suit against the Company in U.S. District Court for the Eastern District of New York alleging patent infringement. Specifically, the suit alleges infringement of two of plaintiff's patents by one of the Company's gas filtration products and by the packaging for certain of the Company's liquid filtration products. This lawsuit seeks damages for the alleged infringements. Both products and their predecessor products have been on the market for a number of years. The Company intends to vigorously defend this suit and believes that it will ultimately prevail. This case is currently awaiting a hearing before the court in connection with a Markman Order for claim construction of the patents in suit.

---

**Table of Contents**

On May, 4, 2007 Pall Corporation filed a lawsuit against the Company in the U.S. District Court for the Eastern District of New York alleging patent infringement. Specifically, the suit alleges that certain of the Company's point-of-use filtration products infringe a newly issued Pall patent, as well as three older Pall patents. Pall's action, which relates only to the U.S., asserts that on information and belief the Company's Impact 2 and Impact Plus point-of-use photoresist filters infringe a patent issued to Pall on March 27, 2007, as well as three older patents. In the course of discovery, Pall has alleged that additional products infringe its patents. This lawsuit seeks damages for the alleged infringements. The Company intends to vigorously defend this suit and believes that it will ultimately prevail. This case is currently in the discovery stage.

**Item 6. Exhibits**

- 10.1 Entegris, Inc. 2010 Stock Plan, as amended
- 10.2 Third Amendment to the Amended and Restated Credit Agreement, dated as of May 19, 2010, by and among Entegris, Inc. and Poco Graphite, Inc. as Borrowers and Wells Fargo Bank National Association, in its separate capacity as administrative agent for itself and other Banks. [Incorporated by reference to Exhibit 99.1 to Entegris, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2010]
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

CONFORMED COPY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENTEGRIS, INC.

Date: July 28, 2010

/s/ Gregory B. Graves  
Gregory B. Graves  
Executive Vice President and Chief Financial Officer (on behalf of  
the registrant and as principal financial officer)