

ENTEGRIS INC
Form 10-Q
April 29, 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 April 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

Delaware
(State or other jurisdiction of
incorporation or organization)

41-1941551
(I.R.S. Employer
Identification No.)

129 Concord Road, Billerica, Massachusetts
(Address of principal executive offices)

01821
(Zip Code)

(978) 436-6500
(Registrant's telephone number, including area code)

[None]
(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.

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 April 27, 2010
Common Stock, \$0.01 par value per share	131,337,053 shares

Table of Contents

ENTEGRIS, INC. AND SUBSIDIARIES

FORM 10-Q

TABLE OF CONTENTS

FOR THE QUARTER ENDED APRIL 3, 2010

	Description	Page
<u>PART I</u>		
Item 1.	<u>Unaudited Condensed Consolidated Financial Statements</u>	3
	<u>Consolidated Balance Sheets as of April 3, 2010 and December 31, 2009</u>	3
	<u>Consolidated Statements of Operations for the Three Months Ended April 3, 2010 and March 28, 2009</u>	4
	<u>Consolidated Statements of Equity and Comprehensive Income (Loss) for the Three Months Ended April 3, 2010 and March 28, 2009</u>	5
	<u>Consolidated Statements of Cash Flows for the Three Months Ended April 3, 2010 and March 28, 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>	13
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
Item 4.	<u>Controls and Procedures</u>	24
<u>PART II</u>		
	Other Information	
Item 1.	<u>Legal Proceedings</u>	25
Item 6.	<u>Exhibits</u>	26

Table of Contents

Item 1. Financial Statements

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

(Unaudited)

<i>(In thousands, except share data)</i>	April 3, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 73,253	\$ 68,700
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$1,585 and \$1,694	103,269	91,122
Inventories	88,689	83,233
Deferred tax assets, deferred tax charges and refundable income taxes	10,992	11,085
Assets held for sale	5,998	5,998
Other current assets	8,093	7,320
Total current assets	290,294	267,458
Property, plant and equipment, net of accumulated depreciation of \$201,191 and \$195,605	131,923	135,431
Other assets:		
Investments	7,208	7,002
Other intangible assets, net	74,018	78,470
Deferred tax assets and other noncurrent tax assets	10,393	9,670
Other	6,120	6,641
Total assets	\$ 519,956	\$ 504,672
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 10,931	\$ 11,257
Short-term borrowings	3,816	8,039
Accounts payable	30,472	23,553
Accrued liabilities	35,422	29,832
Deferred tax liabilities and income taxes payable	5,655	1,229
Total current liabilities	86,296	73,910
Long-term debt, less current maturities	36,406	52,492
Pension benefit obligations and other liabilities	21,607	22,055
Deferred tax liabilities and other noncurrent tax liabilities	6,093	6,558
Commitments and contingent liabilities		
Equity:		
Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued and outstanding as of April 3, 2010 and December 31, 2009		
Common stock, par value \$.01; 400,000,000 shares authorized; issued and outstanding shares: 131,302,447 and 130,043,483		
	1,313	1,300
Additional paid-in capital	753,923	751,360
Retained deficit	(417,418)	(433,968)

Edgar Filing: ENTEGRIS INC - Form 10-Q

Accumulated other comprehensive income	28,143	27,500
Total Entegris, Inc. shareholders equity	365,961	346,192
Noncontrolling interest	3,593	3,465
Total equity	369,554	349,657
Total liabilities and equity	\$ 519,956	\$ 504,672

See the accompanying notes to condensed consolidated financial statements.

Table of Contents

ENTEGRIS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

<i>(In thousands, except per share data)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Net sales	\$ 160,511	\$ 59,038
Cost of sales	87,360	54,020
Gross profit	73,151	5,018
Selling, general and administrative expenses	35,782	29,721
Engineering, research and development expenses	10,820	8,904
Amortization of intangible assets	4,272	4,981
Restructuring charges		4,634
Operating income (loss)	22,277	(43,222)
Interest expense, net	(1,206)	(1,847)
Other income, net	293	5,222
Income (loss) before income taxes and equity in affiliates	21,364	(39,847)
Income tax expense (benefit)	4,809	(2,598)
Equity in net (earnings) loss of affiliates	(191)	496
Net income (loss)	16,746	(37,745)
Less net income attributable to noncontrolling interest	196	
Net income (loss) attributable to Entegris, Inc.	\$ 16,550	\$ (37,745)
Amounts attributable to Entegris, Inc.:		
Basic net income (loss) per common share:	\$ 0.13	\$ (0.34)
Diluted net income (loss) per common share:	\$ 0.12	\$ (0.34)
Weighted shares outstanding:		
Basic	130,954	112,348
Diluted	132,783	112,348

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)**

<i>(In thousands)</i>	Common shares outstanding	Common stock	Additional paid-in capital	Retained deficit	Accumulated other comprehensive income	Noncontrolling interest	Total	Comprehensive loss
Balance at December 31, 2008	113,102	\$ 1,131	\$ 684,974	\$ (376,247)	\$ 26,312		\$ 336,170	
Shares issued under stock plans	371	4	566				570	
Share-based compensation expense			1,810				1,810	
Tax benefit associated with stock plans			536				536	
Other, net of tax					100		100	\$ 100
Foreign currency translation					(12,607)		(12,607)	(12,607)
Net loss				(37,745)			(37,745)	(37,745)
Total comprehensive loss								\$(50,252)
Balance at March 28, 2009	113,473	\$ 1,135	\$ 687,886	\$ (413,992)	\$ 13,805		\$ 288,834	
<i>(In thousands)</i>	Common shares outstanding	Common stock	Additional paid-in capital	Retained deficit	Accumulated other comprehensive income	Noncontrolling interest	Total	Comprehensive income
Balance at December 31, 2009	130,043	\$ 1,300	\$ 751,360	\$ (433,968)	\$ 27,500	\$ 3,465	\$ 349,657	
Shares issued under stock plans	1,259	13	769				782	
Share-based compensation expense			1,794				1,794	
Other, net of tax					94		94	\$ 94
Foreign currency translation					549	(68)	481	481
Net income				16,550		196	16,746	16,746
Total comprehensive income								\$17,321
Balance at April 3, 2010	131,302	\$ 1,313	\$ 753,923	\$ (417,418)	\$ 28,143	\$ 3,593	\$ 369,554	

See the accompanying notes to condensed consolidated financial statements.

Table of Contents

ENTEGRIS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Operating activities:		
Net income (loss)	\$ 16,746	\$ (37,745)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	6,724	8,270
Amortization	4,272	4,981
Share-based compensation expense	1,794	1,810
Provision for doubtful accounts	(101)	252
Provision for excess and obsolete inventory	(296)	1,391
Provision for deferred income taxes and related valuation allowance	(2,293)	1,759
Equity in net (earnings) loss of affiliates	(191)	496
Charge for fair value mark-up of acquired inventory sold		4,065
Loss on sale and disposal of property and equipment	257	573
Net income attributable to noncontrolling interest	(196)	
Amortization of bond issuance costs	293	456
Other	191	
Changes in operating assets and liabilities:		
Trade accounts receivable and notes receivable	(12,612)	16,167
Inventories	(5,035)	1,595
Accounts payable and accrued liabilities	13,076	(2,834)
Other current assets	(773)	1,113
Income taxes payable	5,358	(5,852)
Other	809	(6,041)
Net cash provided by (used in) operating activities	28,023	(9,544)
Investing activities:		
Acquisition of property and equipment	(3,603)	(7,940)
Proceeds from sale of property and equipment	26	50
Net cash used in investing activities	(3,577)	(7,890)
Financing activities:		
Principal payments on short-term borrowings and long-term debt	(133,715)	(167,933)
Proceeds from short-term borrowings and long-term debt	113,288	171,510
Issuance of common stock	782	570
Payments for debt issuance costs		(3,464)
Net cash (used in) provided by financing activities	(19,645)	683
Effect of exchange rate changes on cash and cash equivalents	(248)	(2,832)
Increase (decrease) in cash and cash equivalents	4,553	(19,583)
Cash and cash equivalents at beginning of period	68,700	115,033
Cash and cash equivalents at end of period	\$ 73,253	\$ 95,450

Edgar Filing: ENTEGRIS INC - Form 10-Q

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 April 3, 2010 and December 31, 2009, the results of operations for the three months ended April 3, 2010 and March 28, 2009, and equity and comprehensive income (loss), and cash flows for the three months ended April 3, 2010 and March 28, 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 three months ended April 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:

<i>(In thousands)</i>	April 3, 2010	December 31, 2009
Raw materials	\$ 21,598	\$ 21,016
Work-in process	13,177	11,136
Finished goods ^(a)	53,315	50,453
Supplies	599	628
Total inventories	\$ 88,689	\$ 83,233

(a) Includes consignment inventories held by customers for \$4,715 and \$4,121 at April 3, 2010 and December 31, 2009, respectively.

Table of Contents**3. INTANGIBLE ASSETS**

Identifiable intangible assets, net of amortization, of \$74.0 million as of April 3, 2010 are being amortized over useful lives ranging from 3 to 15 years and are as follows:

<i>(In thousands)</i>	As of April 3, 2010		
	Gross carrying amount	Accumulated amortization	Net carrying value
Patents	\$ 18,802	\$ 17,294	\$ 1,508
Developed technology	74,988	49,734	25,254
Trademarks and trade names	17,270	8,207	9,063
Customer relationships	56,883	19,134	37,749
Employment and noncompete agreements	1,707	1,641	66
Other	4,270	3,892	378
	\$ 173,920	\$ 99,902	\$ 74,018

<i>(In thousands)</i>	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
	\$ 174,100	\$ 95,630	\$ 78,470

Aggregate amortization expense for the three months ended April 3, 2010 amounted to \$4.3 million. 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 \$29.0 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 periods ended April 3, 2010 and March 28, 2009:

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Balance at beginning of period	\$ 877	\$ 1,112
Accrual for warranties issued during the period	168	150
Settlements during the period	(208)	(385)
Adjustment of previously recorded accruals	(100)	(57)
Balance at end of period	\$ 737	\$ 820

Table of Contents**5. RESTRUCTURING COSTS**

For the three months ended April 3, 2010 and March 28, 2009, the accrued liabilities, provisions and payments associated with the employee severance and retention costs of the Company's restructuring activities were as follows:

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Accrued liabilities at beginning of period	\$ 2,621	\$ 12,696
Provision	35	2,291
Payments	(1,333)	(5,560)
Accrued liabilities at end of period	\$ 1,323	\$ 9,427

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 \$0.7 million for the three months ended March 28, 2009 related to employee severance and retention costs that 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 connection with the above actions, the Company recorded charges related to employee severance costs of \$1.3 million for the three months ended March 28, 2009, which were classified as restructuring charges.

In addition, \$0.8 million in accelerated depreciation expense, \$1.4 million in other costs associated with the transfer of production from the Chaska facility and \$0.4 million related to other workforce reductions were recorded and classified as restructuring charges for the three months ended March 28, 2009. The Company incurred no expenses which were classified as restructuring charges in the quarter ended April 3, 2010.

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 April 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. Under the terms of the revolving credit facility, the revolving commitment amount is \$121.7 million. \$11.0 million of revolving commitment amount can not be borrowed unless a majority of the lenders consent. The revolving commitment is further restricted by 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 April 3, 2010, the Company's borrowing base supported an available revolving commitment amount of \$103.3 million. The Company had outstanding borrowings under the revolving credit facility of \$36.4 million as of April 3, 2010, with an additional \$1.9 million undrawn on outstanding letters of credit.

Through April 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. The cash flow leverage ratio measures the sum of short-term

Table of Contents

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, the Company is restricted from making capital expenditures in excess of \$20.0 million in both 2010 and 2011 plus certain unused amounts from the prior period (\$7.2 million for 2010). The Company must also maintain a minimum of \$25.0 million in domestic cash balances under the terms of the revolving credit facility.

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.

7. OTHER INCOME, NET

Other income, net consists of the following:

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Gain on foreign currency remeasurement	\$ 437	\$ 5,158
Other (loss) gain, net	(144)	64
Other income, net	\$ 293	\$ 5,222

The gain on foreign currency remeasurement for the three-month periods ended April 3, 2010 and March 28, 2009 mainly reflect foreign currency transaction effects of the remeasurement of yen-denominated assets and liabilities held by the Company's U.S. entity.

8. INCOME TAXES

The Company recorded income tax expense of \$4.8 million in the three months ended April 3, 2010 compared to income tax benefit of \$2.6 million in the three months ended March 28, 2009. The effective tax rate was 22.5% in the 2010 period, compared to 6.5% in the 2009 period.

In 2010, the Company's effective tax rate was also lower than U.S. statutory rates mainly due to the \$2.8 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 also lower than U.S. statutory rates, mainly due to the \$8.5 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 \$0.4 million allowance for a portion of its non-U.S. deferred tax assets.

9. EARNINGS (LOSS) PER COMMON SHARE

Edgar Filing: ENTEGRIS INC - Form 10-Q

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

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Basic - weighted common shares outstanding	130,954	112,348
Weighted common shares assumed upon exercise of stock options and vesting of restricted common stock	1,829	
Diluted - weighted common shares and common shares equivalent outstanding	132,783	112,348

The effect of the inclusion of stock options and unvested restricted common stock for the three-month period ended March 28, 2009 would have been anti-dilutive.

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.

Table of Contents

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.

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:

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Net sales		
CCS	\$ 100,742	\$ 34,287
ME	41,927	14,682
ESM	17,842	10,069
Total net sales	\$ 160,511	\$ 59,038

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Segment profit (loss)		
CCS	\$ 28,234	\$ (8,670)
ME	8,980	(10,195)
ESM	2,342	617
Total segment profit (loss)	\$ 39,556	\$ (18,248)

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

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Total segment profit (loss)	\$ 39,556	\$ (18,248)
Amortization of intangibles	(4,272)	(4,981)

Edgar Filing: ENTEGRIS INC - Form 10-Q

Restructuring charges		(4,634)
Charge for fair value mark-up of acquired inventory sold		(4,065)
Unallocated general and administrative expenses	(13,007)	(11,294)
Operating income (loss)	\$ 22,277	\$ (43,222)

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:

<i>(In thousands)</i>	Three months ended	
	April 3, 2010	March 28, 2009
Amortization of intangibles		
CCS	\$ 2,815	\$ 3,448
ME	137	171
ESM	1,320	1,362
	\$ 4,272	\$ 4,981
Restructuring charges		
CCS		\$ 1,391
ME		2,168
ESM		212
Corporate		863
		\$ 4,634
Charge for fair value mark-up of acquired inventory sold		
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 April 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 ended April 3, 2010 and March 28, 2009 and the financial position as of April 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 Ended April 3, 2010

The Company's financial results for the quarter ended April 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.

For the three months ended April 3, 2010, net sales increased by \$101.5 million, or 172%, to \$160.5 million compared to \$59.0 million for the three months ended March 28, 2009. On a sequential basis, revenues rose 10% from \$146.3 million in the fourth quarter of 2009. Net sales for the period were the highest achieved by the Company since the fourth quarter of 2007.

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.

The sales increase included a favorable foreign currency translation effect of \$6.8 million related to the year-over-year strengthening of most international currencies versus the U.S. dollar, most notably the Korean won, Euro and Taiwanese dollar. In addition, the first quarter of 2010 included 13 weeks versus 12 weeks in the first quarter of 2009 and included sales of \$2.0 million from the Company's Pureline subsidiary, which was acquired in July 2009. Excluding these factors, net sales rose approximately 136% in 2010 when compared to 2009.

The Company believes the sales increase was 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 on the recovery of the semiconductor and other high-technology sectors.

The Company reported considerably higher gross profits and a significantly improved gross margin, which mainly reflects the significant year-over-year sales increase and associated improved factory utilization. The Company's gross margin in the first quarter of 2010 was 45.6% versus 8.5% in the year-ago period.

The Company had higher year-over-year selling, general and administrative (SG&A) and engineering, research and development (ER&D) costs for first quarter 2010 when compared to first quarter 2009, mainly reflecting higher employee-related costs.

As a result of the aforementioned factors, the Company reported net earnings of \$16.6 million for the quarter ended April 3, 2010 compared to a net loss of \$37.7 million in the quarter ended March 28, 2009.

During the first quarter of 2010, the Company's operating activities provided cash flow of \$28.0 million, \$20.4 million of which was used to reduce outstanding debt. Cash and cash equivalents were \$73.3 million at April 3, 2010 compared with \$68.7 million at December 31, 2009. Total short-term and long-term debt stood at \$51.2 million at April 3, 2010 compared with \$71.8 million at December 31, 2009.

Table of Contents**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, business combinations 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 \$1.6 million at April 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 April 3, 2010 and December 31, 2009, the Company's reserve for sales returns and allowances was \$1.0 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 \$8.3 million and \$9.1 million at April 3, 2010 and December 31, 2009, respectively.

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 April 3, 2010, the Company had \$131.9 million of net property, plant and equipment and \$74.0 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

Table of Contents

- 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.

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

Income Taxes In the preparation of the Company's 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 April 3, 2010 and December 31, 2009, respectively, which comprises temporary differences and various credit carryforwards.

Table of Contents

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 April 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 \$54.4 million and \$57.2 million as of April 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 April 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 April 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 April 3, 2010 and December 31, 2009, the Company's accrual for estimated future warranty costs was \$0.7 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.

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.

Table of Contents**Three Months Ended April 3, 2010 Compared to Three Months Ended March 28, 2009**

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

	Three Months Ended	
	April 3, 2010	March 28, 2009
Net sales	100.0%	100.0%
Cost of sales	54.4	91.5
Gross profit	45.6	8.5
Selling, general and administrative expenses	22.3	50.3
Engineering, research and development expenses	6.7	15.1
Amortization of intangible assets	2.7	8.4
Restructuring charges		7.8
Operating income (loss)	13.9	(73.2)
Interest expense, net	(0.8)	(3.1)
Other income, net	0.2	8.8
Income (loss) before income taxes and other items below	13.3	(67.5)
Income tax expense (benefit)	3.0	(4.4)
Equity in net (earnings) loss of affiliates	(0.1)	0.8
Net income (loss)	10.4	(63.9)

Net sales For the three months ended April 3, 2010, net sales increased by \$101.5 million, or 172%, to \$160.5 million compared to \$59.0 million for the three months ended March 28, 2009, reflecting the continuation of the recovery from the global economic recession and severe downturn in both the capital and unit-driven segments of the semiconductor industry that began during the second half of 2008. Net sales for the period were the highest achieved by the Company since the fourth quarter of 2007. First-quarter sales growth reflected continued positive trends in the Company's core semiconductor markets. Utilization rates and production levels at semiconductor fab customers remained at high levels, and capital spending in the industry demonstrated solid improvement. Each of the Company's operating segments experienced significant net sales increases.

The sales increase included a favorable foreign currency translation effect of \$6.8 million related to the year-over-year strengthening of most international currencies versus the U.S. dollar, most notably the Korean won, Euro and Taiwanese dollar. In addition, the first quarter of 2010 included an additional week of sales compared to the first quarter of 2009 and included sales of \$2.0 million from its Pureline subsidiary, which was acquired in July 2009. Excluding these factors, net sales rose approximately 136% in 2010 when compared to 2009.

The Company believes the sales increase was 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 predicated on any one particular customer or group of customers, but rather on the recovery of overall semiconductor sector.

Sales of unit-driven products represented 63% of total sales and capital-driven products represented 37% of total sales in the quarter ended April 3, 2010. For the first quarter and fourth quarter of 2009 this split was 75%/25% and 66%/34%, respectively. This shift in relative demand for capital-driven products reflects the recovery of capital spending after the very lower spending by semiconductor customers for capacity-related products in the first quarter of 2009.

On a geographic basis, total sales to North America were 31%, Asia (excluding Japan) 38%, Europe 14% and Japan 17%. All regions experienced significant year-over-year sales increases. Asia sales rose by nearly 300%, with a portion of the increase related to favorable foreign currency translation effects. Sales in North America, Japan and Europe all rose by over 100% in the first quarter compared to a year ago.

Edgar Filing: ENTEGRIS INC - Form 10-Q

On a sequential basis, revenues rose 10% from \$146.3 million in the fourth quarter of 2009. Sales of unit-driven products increased 6%, while sales of capital-driven products rose 17%, reflecting the recovery of capital spending noted above. On a geographic basis, total sales to North America, Asia, Europe, and Japan increased 20%, 6%, 7% and 1%, respectively. Sales were adversely affected by an unfavorable foreign currency translation effect of \$1.1 million, primarily related to the year-over-year weakening of the Euro versus the U.S. dollar.

Table of Contents

Gross profit The Company reported considerably higher gross profits and an improved gross margin. Gross profit in the three months ended April 3, 2010 increased by \$68.1 million to \$73.2 million, up from \$5.0 million for the three months ended March 28, 2009. The gross margin rate for the first quarter of 2010 was 45.6% versus 8.5% for the first quarter of 2009.

The significant year-over-year sales increase accounted for approximately 70% of the gross profit improvement for 2010. The remaining gross profit improvement reflected improved factory utilization (approximately \$9.0 million), 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.

The Company's gross profit and gross margin rate also benefitted from the reduction in cost of sales period expense recorded in connection with manufacturing production falling below normal capacity. During 2009, the 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 \$8.2 million in the first quarter of 2009 in connection with its below-capacity production levels compared to \$0.5 million in the first quarter of 2010.

Selling, general and administrative expenses. Selling, general and administrative (SG&A) expenses increased \$6.1 million, or 20%, to \$35.8 million in the three months ended April 3, 2010, up from \$29.7 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 22.3% from 50.3% a year earlier. The increase in SG&A expense was due to higher employee costs (\$5.4 million), 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 year-over-year increase in SG&A costs includes a foreign currency translation effect of \$1.1 million. The Company expects SG&A expenses to be higher throughout 2010 as the Company has reversed temporary cost cuts that were 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 \$10.8 million in the three months ended April 3, 2010 compared to the \$8.9 million reported in the year-ago period. ER&D expenses as a percent of net sales decreased to 6.7% from 15.1%, indicative of the significant increase in net sales. The increase in ER&D expense was due to higher employee costs (\$1.4 million), mainly reflecting the reversal of salary reductions and the accrual of incentive compensation in 2010.

Amortization of intangible assets Amortization of intangible assets was \$4.3 million in the three months ended April 3, 2010 compared to \$5.0 million in the year-ago period. The decline mainly reflected 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 months ended April 3, 2010. Restructuring charges of \$4.6 million were incurred in the three months ended March 28, 2009 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, net Interest expense was \$1.2 million in the three months ended April 3, 2010 compared to interest expense of \$1.8 million in the year-ago period. The variance was due mainly to a decrease 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.

Other income Other income was \$0.3 million in the three months ended April 3, 2010, mainly reflecting foreign currency transaction gains, primarily related to the remeasurement of yen-denominated assets and liabilities held by the Company's U.S. entity. Other income was \$5.2 million in the year-ago period, mainly reflecting foreign currency transaction gains, also primarily related to the remeasurement of yen-denominated assets and liabilities held by the Company's U.S. entity.

Table of Contents

Income tax expense (benefit) The Company recorded income tax expense of \$4.8 million in the three months ended April 3, 2010 compared to income tax benefit of \$2.6 million in the three months ended March 28, 2009. The effective tax rate was 22.5% in the 2010 period, compared to 6.5% in the 2009 period.

In 2010, the Company's effective tax rate was also lower than U.S. statutory rates mainly due to the \$2.8 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 also lower than U.S. statutory rates, mainly due to the \$8.5 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 \$0.4 million allowance for a portion of its non-U.S. deferred tax assets.

Net income (loss) attributable to Entegris, Inc. The Company recorded net income of \$16.6 million, or \$0.12 per diluted share, in the three-month period ended April 3, 2010 compared to a net loss of \$37.7 million, or \$0.34 per diluted share, in the three-month period ended March 28, 2009. 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 on 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 five quarters ended April 3, 2010:

<i>(In thousands)</i>	Three months ended				
	April 3, 2010	December 31, 2009	September 26, 2009	June 27, 2009	March 28, 2009
Contamination Control Solutions					
Net sales	\$ 100,742	\$ 93,687	\$ 65,649	\$ 47,541	\$ 34,287
Segment profit (loss)	28,234	23,127	11,832	2,830	(8,670)
Microenvironments					
Net sales	\$ 41,927	\$ 38,162	\$ 32,445	\$ 26,176	\$ 14,682
Segment profit (loss)	8,980	8,898	5,054	(273)	(10,195)
Entegris Specialty Materials					
Net sales	\$ 17,842	\$ 14,475	\$ 12,612	\$ 8,859	\$ 10,069
Segment profit (loss)	2,342	1,985	1,369	(1,047)	617

Contamination Control Solutions (CCS)

For the first quarter of 2010, CCS net sales increased 194% to \$100.7 million, from \$34.3 million in the comparable period last year, reflecting the continuation of the recovery in the semiconductor industry that began during the second quarter of 2009. CCS reported a segment profit of \$28.2 million in the first quarter of 2010 compared to an \$8.7 million segment loss in the year-ago period.

Table of Contents

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 21%, mainly due to higher selling and engineering, research and development costs.

Sales were up 8% on a sequential basis from the fourth quarter of 2009, driven by sales of fluid components, dispense pumps and gas purification systems used in semiconductor and microelectronics manufacturing equipment. Demand for filtration products remained strong through the quarter.

Microenvironments (ME)

For the first quarter of 2010, ME net sales increased 186% to \$41.9 million, from \$14.7 million in the comparable period last year, reflecting the continuation of the recovery in the semiconductor industry that began during the second quarter of 2009. ME reported a segment profit of \$9.0 million in the first quarter of 2010 compared to a \$10.2 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 26%, mainly due to higher selling and engineering, research and development costs.

Sales were up 10% on a sequential basis from the fourth quarter of 2009, driven by sales of wafer process products for semiconductor wafers and data storage shippers.

Entegris Specialty Materials (ESM)

For the first quarter of 2010, ESM net sales increased 77%, to \$17.8 million, from \$10.1 million in the comparable period last year. Sales were up 23% on a sequential basis from the fourth quarter of calendar 2009.

The increases were due to the continued rebound in sales of specialty coated and graphite-based components used in semiconductor manufacturing. Sales of Specialty Materials products to markets other than the semiconductor industry improved modestly. ESM reported a segment profit of \$2.3 million in the first quarter of 2010 compared to \$0.6 million in the first quarter of 2009.

Liquidity and Capital Resources

Operating activities Cash flow provided by operating activities totaled \$28.0 million in the three months ended April 3, 2010. Cash generated by the Company's operations, net of various non-cash charges, included depreciation and amortization of \$11.0 million and share-based compensation expense of \$1.8 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 \$12.6 million in the first three months of 2010. This increase reflects the continued upturn in sales of the Company's products. The Company's days sales outstanding was 59 days compared to 57 days at the beginning of the year. Inventories at the end of the quarter increased by \$5.0 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 April 3, 2010 stood at \$204.0 million, up from \$193.5 million as of December 31, 2009, and included \$73.3 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 three-month period ended April 3, 2010. Acquisition of property and equipment totaled \$3.6 million, primarily for additions related to manufacturing equipment, tooling and information systems. Under the terms of its revolving credit facility, the Company is restricted from making capital expenditures in excess of \$20.0 million in both 2010 and 2011 plus certain unused amounts from the prior period (\$7.2 million for 2010). 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 \$19.6 million during the three-month period ended April 3, 2010. The Company received proceeds of \$113.3 million from its revolving credit facilities during the first three months of 2010 and made debt payments of \$133.7 million. The Company received proceeds of \$0.8 million in connection with common shares issued under the Company's employee stock

purchase and stock option plans.

Table of Contents

As described in Note 6 to the Company's condensed consolidated financial statements, the Company has a revolving credit facility which expires on November 1, 2011. At April 3, 2010, the revolving commitment stood at \$121.7 million, with \$11.0 million unavailable without consent of a majority of the Company's lenders. The revolving commitment is further restricted by 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 April 3, 2010, the Company's borrowing base supported an available revolving commitment amount of \$103.3 million. The Company had outstanding borrowings under the revolving credit facility of \$36.4 million as of April 3, 2010, with an additional \$1.9 million undrawn on outstanding letters of credit.

Notwithstanding the terms under the revolving credit facility described above, the Company also has a line of credit with three banks that provide for borrowings of currencies for the Company's overseas subsidiaries, principally the Japanese yen equivalent to an aggregate of approximately \$15.4 million. There was \$2.7 million outstanding on these lines of credit at April 3, 2010.

At April 3, 2010, the Company's shareholders' equity stood at \$366.0 million, up 6% from \$346.2 million at the beginning of the year. The increase reflected the Company's net earnings of \$16.6 million, additional paid-in capital of \$1.8 million associated with the Company's share-based compensation expense and \$0.8 million received in connection with common shares issued under the Company's stock option and employee stock purchase plans.

As of April 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 \$25.0 million in cash and cash equivalents in the United States under the terms of the revolving credit facility.

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

Table of Contents

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 April 3, 2010 are not expected to have a material effect on the Company's condensed consolidated financial statements.

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)	April 3, 2010	March 28, 2009
Net sales	\$ 160,511	\$ 59,038
GAAP Operating income (loss)	\$ 22,277	\$ (43,222)
Restructuring costs		4,634
Charge for fair value mark-up of acquired inventory sold		4,065
Amortization of intangible assets	4,272	4,981
Adjusted operating income (loss)	26,549	(29,542)
Depreciation	6,724	8,270
Adjusted EBITDA	\$ 33,273	\$ (21,272)
Adjusted operating margin	16.5%	(50.0)%
Adjusted EBITDA as a % of net sales	20.7%	(36.0)%

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

(In thousands)	April 3, 2010	March 28, 2009
Net income (loss) attributable to the Company	\$ 16,550	\$ (37,745)
Adjustments to net income (loss) attributable to the Company:		
Amortization of intangible assets	4,272	4,981
Charge for fair value mark-up of acquired inventory sold		4,065
Tax effect of adjustments to net income (loss) attributable to the Company	(1,567)	
Non-GAAP net income (loss) attributable to the Company	\$ 19,255	\$ (28,699)
Diluted earnings (loss) per common share:	\$ 0.12	\$ (0.34)

Edgar Filing: ENTEGRIS INC - Form 10-Q

Effect of adjustments to net income (loss) attributable to the Company		0.02		0.08
Diluted non-GAAP earnings (loss) per common share:	\$	0.15	\$	(0.26)

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 April 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 April 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 April 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 have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, 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 April 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; these cases are currently in the discovery stage.

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 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 RSU Unit Award Agreement
- 10.2 Entegris, Inc. 2010 Stock Option Award Agreement
- 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.

Date: April 29, 2010

ENTEGRIS, INC.

/s/ Gregory B. Graves
Gregory B. Graves
Executive Vice President and Chief Financial Officer

(on behalf of the registrant and as principal financial officer)