

ENTEGRIS INC  
Form 10-Q  
October 27, 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 October 2, 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 October 25, 2010
Common Stock, \$0.01 par value per share	131,894,579 shares

**Table of Contents**

ENTEGRIS, INC. AND SUBSIDIARIES

FORM 10-Q

TABLE OF CONTENTS

FOR THE QUARTER ENDED OCTOBER 2, 2010

Description	Page
<b><u>PART I</u></b>	
Item 1. Unaudited Condensed Consolidated Financial Statements	
<u>Condensed Consolidated Balance Sheets as of October 2, 2010 and December 31, 2009</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended October 2, 2010 and September 26, 2009</u>	4
<u>Condensed Consolidated Statements of Equity and Comprehensive Income (Loss) for the Three Months and Nine Months Ended October 2, 2010 and September 26, 2009</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 2, 2010 and September 26, 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>	28
Item 4. <u>Controls and Procedures</u>	28
<b><u>PART II</u></b> Other Information	
Item 1. <u>Legal Proceedings</u>	29
Item 6. <u>Exhibits</u>	30

**Table of Contents**

## Item 1. Financial Statements

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

(Unaudited)

(In thousands, except share data)	October 2, 2010	December 31, 2009
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 98,814	\$ 68,700
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$1,398 and \$1,694	123,789	91,122
Inventories	97,625	83,233
Deferred tax assets, deferred tax charges and refundable income taxes	11,917	11,085
Assets held for sale	5,998	5,998
Other current assets	5,984	7,320
<b>Total current assets</b>	<b>344,127</b>	<b>267,458</b>
Property, plant and equipment, net of accumulated depreciation of \$217,756 and \$195,605	131,738	135,431
<b>Other assets:</b>		
Investments	8,204	7,002
Other intangible assets, net	67,863	78,470
Deferred tax assets and other noncurrent tax assets	8,064	9,670
Other	5,296	6,641
<b>Total assets</b>	<b>\$ 565,292</b>	<b>\$ 504,672</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 6,077	\$ 11,257
Short-term borrowings		8,039
Accounts payable	35,914	23,553
Accrued payroll and employee benefits	38,210	16,284
Other accrued liabilities	17,603	13,548
Deferred tax liabilities and income taxes payable	13,323	1,229
<b>Total current liabilities</b>	<b>111,127</b>	<b>73,910</b>
Long-term debt, less current maturities		52,492
Pension benefit obligations and other liabilities	22,977	22,055
Deferred tax liabilities and other noncurrent tax liabilities	3,268	6,558
Commitments and contingent liabilities		
<b>Equity:</b>		

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

Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued and outstanding as of October 2, 2010 and December 31, 2009		
Common stock, par value \$.01; 400,000,000 shares authorized; issued and outstanding shares: 131,893,829 and 130,043,483		
	1,319	1,300
Additional paid-in capital	758,502	751,360
Retained deficit	(376,615)	(433,968)
Accumulated other comprehensive income	40,167	27,500
<b>Total Entegris, Inc. shareholders equity</b>	<b>423,373</b>	<b>346,192</b>
Noncontrolling interest	4,547	3,465
<b>Total equity</b>	<b>427,920</b>	<b>349,657</b>
<b>Total liabilities and equity</b>	<b>\$ 565,292</b>	<b>\$ 504,672</b>

See the accompanying notes to condensed consolidated financial statements.

**Table of Contents**

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

(Unaudited)

(In thousands, except per share data)	Three months ended		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Net sales	\$ 178,230	\$ 110,706	\$ 506,316	\$ 252,320
Cost of sales	98,374	65,929	276,182	178,795
Gross profit	79,856	44,777	230,134	73,525
Selling, general and administrative expenses	36,478	29,175	108,852	84,581
Engineering, research and development expenses	11,381	8,575	32,937	25,322
Amortization of intangible assets	2,823	4,723	10,459	14,635
Restructuring charges		2,368		12,454
Operating income (loss)	29,174	(64)	77,886	(63,467)
Interest expense, net	342	2,681	3,210	7,105
Other expense, net	1,283	4,114	1,701	429
Income (loss) before income taxes and equity in affiliates	27,549	(6,859)	72,975	(71,001)
Income tax expense (benefit)	5,000	623	15,202	(4,226)
Equity in net (earnings) loss of affiliates	(217)	132	(485)	1,076
Net income (loss)	22,766	(7,614)	58,258	(67,851)
Less net income (loss) attributable to noncontrolling interest	348	(6)	905	(6)
Net income (loss) attributable to Entegris, Inc.	\$ 22,418	\$ (7,608)	\$ 57,353	\$ (67,845)
Amounts attributable to Entegris, Inc.				
Basic net income (loss) per common share:	\$ 0.17	\$ (0.07)	\$ 0.44	\$ (0.60)
Diluted net income (loss) per common share:	\$ 0.17	\$ (0.07)	\$ 0.43	\$ (0.60)
Weighted shares outstanding:				
Basic	131,903	115,023	131,475	113,355
Diluted	133,071	115,023	132,908	113,355

See the accompanying notes to condensed consolidated financial statements.

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

(In thousands)	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	741	7	1,054				1,061	
Shares issued under stock offering	16,100	161	56,526				56,687	
Share-based compensation expense			6,299				6,299	
Tax benefit associated with stock plans			535				535	
Recognition of noncontrolling interest upon acquisition of business						3,248	3,248	
Reclassification of foreign currency translation associated with acquisition of business					756		756	\$ 756
Other, net of tax					65		65	65
Foreign currency translation					1,074		1,074	1,074
Net loss				(67,845)		(6)	(67,851)	(67,851)
Total comprehensive loss								\$ (65,956)
Balance at September 26, 2009	129,943	\$ 1,299	\$ 749,388	\$ (444,092)	\$ 28,207	\$ 3,242	\$ 338,044	

  

(In thousands)	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	1,851	19	1,644				1,663	
Share-based compensation expense			5,434				5,434	
Tax benefit associated with stock plans			64				64	
Other, net of tax					(26)		(26)	\$ (26)
Foreign currency translation					12,693	177	12,870	12,870
Net income				57,353		905	58,258	58,258
Total comprehensive income								\$ 71,102
Balance at October 2, 2010	131,894	\$ 1,319	\$ 758,502	\$ (376,615)	\$ 40,167	\$ 4,547	\$ 427,920	

See the accompanying notes to condensed consolidated financial statements.

**Table of Contents****ENTEGRIS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

<b>(In thousands)</b>	<b>Nine months ended</b>	
	<b>October 2, 2010</b>	<b>September 26, 2009</b>
<b>Operating activities:</b>		
Net income (loss)	\$ 58,258	\$ (67,851)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	20,645	23,628
Amortization	10,459	14,635
Share-based compensation expense	5,434	6,299
Provision for doubtful accounts	(82)	190
Provision for excess and obsolete inventory	231	4,488
Provision for deferred income taxes and related valuation allowance	2,064	(2,709)
Equity in net (earnings) loss of affiliates	(485)	1,076
Charge for fair value mark-up of acquired inventory sold		4,116
Gain on sale of equity investments	(892)	
Loss on sale and disposal of property and equipment	239	407
Net (income) loss attributable to noncontrolling interest	(905)	6
Amortization of bond issuance costs	1,562	1,225
Excess tax benefits associated with stock plans	(64)	
Other	191	201
Changes in operating assets and liabilities:		
Trade accounts and notes receivable	(27,760)	(7,486)
Inventories	(11,229)	10,715
Accounts payable and accrued liabilities	32,351	1,783
Other current assets	1,674	2,370
Income taxes payable	8,430	2,037
Other	793	(2,255)
<b>Net cash provided by (used in) operating activities</b>	<b>100,914</b>	<b>(7,125)</b>
<b>Investing activities:</b>		
Acquisition of property and equipment	(12,159)	(11,521)
Acquisition of businesses, net of cash acquired		493
Proceeds from sale of equity investment	642	
Proceeds from sale of property and equipment	265	236
Proceeds from sales of assets held for sale		2,314
Other	3,585	
<b>Net cash used in investing activities</b>	<b>(7,667)</b>	<b>(8,478)</b>
<b>Financing activities:</b>		
Principal payments on short-term borrowings and long-term debt	(252,954)	(528,116)
Proceeds from short-term borrowings and long-term debt	186,649	452,722
Proceeds from stock offering, net of offering costs		56,687
Proceeds from issuance of common stock	1,663	1,061
Excess tax benefits associated with stock plans	64	



Edgar Filing: ENTEGRIS INC - Form 10-Q

Payments for debt issuance costs	(149)	(3,638)
<b>Net cash used in financing activities</b>	<b>(64,727)</b>	<b>(21,284)</b>
Effect of exchange rate changes on cash and cash equivalents	1,594	230
<b>Increase (decrease) in cash and cash equivalents</b>	<b>30,114</b>	<b>(36,657)</b>
Cash and cash equivalents at beginning of period	68,700	115,033
<b>Cash and cash equivalents at end of period</b>	<b>\$ 98,814</b>	<b>\$ 78,376</b>

**Supplemental Cash Flow Information**

<b>Non-cash transactions</b>		
Acquisition of business through the use of a seller's note		\$ 3,221
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, the financial position as of October 2, 2010 and December 31, 2009, the results of operations for the three months and nine months ended October 2, 2010 and September 26, 2009, and equity and comprehensive income (loss), and cash flows for the nine months ended October 2, 2010 and September 26, 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 nine months ended October 2, 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 remaining term to maturity and variable interest rates of virtually all of those instruments.

**2. INVENTORIES**

Inventories consist of the following:

(In thousands)	October 2, 2010	December 31, 2009
Raw materials	\$ 23,550	\$ 21,016
Work-in process	15,260	11,136
Finished-goods <sup>(a)</sup>	58,110	50,453
Supplies	705	628
<b>Total inventories</b>	<b>\$ 97,625</b>	<b>\$ 83,233</b>

(a) Includes consignment inventories held by customers for \$4,938 and \$4,121 at October 2, 2010 and December 31, 2009, respectively.



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

Identifiable intangible assets, net of amortization, of \$67.9 million as of October 2, 2010 are being amortized over useful lives ranging from 3 to 15 years and are as follows:

(In thousands)	As of October 2, 2010		
	Gross carrying amount	Accumulated amortization	Net carrying value
Patents	\$ 18,810	\$ 17,508	\$ 1,302
Developed technology	74,988	52,316	22,672
Trademarks and trade names	17,287	8,821	8,466
Customer relationships	56,897	21,819	35,078
Employment and noncompete agreements	1,707	1,670	37
Other	4,271	3,963	308
	\$ 173,960	\$ 106,097	\$ 67,863

(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
	\$ 174,100	\$ 95,630	\$ 78,470

Aggregate amortization expense for the three and nine months ended October 2, 2010 amounted to \$2.8 million and \$10.5 million, respectively. Estimated amortization expense for calendar years 2010 to 2014 and thereafter is approximately \$13.2 million, \$10.1 million, \$9.4 million, \$8.8 million, \$7.7 million, and \$29.1 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 Company's product warranty liability during the three-month and nine-month periods ended October 2, 2010 and September 26, 2009:

(In thousands)	Three months ended		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Balance at beginning of period	\$ 1,213	\$ 1,195	\$ 877	\$ 1,112
Accrual for warranties issued during the period	325	185	1,069	819
Adjustment of unused previously recorded accruals	(9)	(351)	(109)	(408)

Edgar Filing: ENTEGRIS INC - Form 10-Q

Settlements during the period	(452)	(101)	(760)	(595)
Balance at end of period	\$ 1,077	\$ 928	\$ 1,077	\$ 928

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

For the three months and nine months ended October 2, 2010 and September 26, 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		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Accrued liabilities at beginning of period	\$ 339	\$ 7,559	\$ 2,621	\$ 12,696
Provision (reversal)	(12)	580	6	5,553
Payments	(137)	(3,626)	(2,437)	(13,736)
Accrued liabilities at end of period	\$ 190	\$ 4,513	\$ 190	\$ 4,513

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 \$0.9 million and \$1.6 million for the three months and nine months ended September 26, 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 zero and \$4.0 million for the three months and nine months ended September 26, 2009, respectively, which were classified as restructuring charges.

In addition, zero and \$1.4 million in accelerated depreciation expense; \$1.5 million and \$4.8 million in other costs associated with the transfer of production from the Chaska facility; and zero and \$0.7 million related to other workforce reductions were recorded and classified as restructuring charges in connection with the above described actions for the three months and nine months ended September 26, 2009, respectively.

The Company's manufacturing facility in Chaska noted above became available for sale during the fourth quarter ended December 31, 2009 and was classified in assets held for sale at October 2, 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.

As of October 2, 2010, the Company's borrowing base supported \$58.1 million of its available revolving commitment amount of \$60.0 million. The Company had no outstanding borrowings and \$0.9 million undrawn on outstanding letters of credit under the revolving credit facility as of that date.

Through October 2, 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



**Table of Contents**

charge coverage ratio no lower than 1.5 to 1.0. At October 2, 2010, the Company's cash flow leverage and fixed charge coverage ratios stood at 0.04 to 1.0 and 6.2 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 either 2010 or 2011 in excess of \$30.0 million. 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 May 19, 2010 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 second quarter of 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 EXPENSE, NET**

Other expense, net consists of the following:

(In thousands)	Three months ended		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Loss on foreign currency remeasurement	\$ (1,573)	\$ (4,070)	\$ (2,450)	\$ (748)
Gain on sale of equity investments	500		892	
Other (expense) income, net	(210)	(44)	(143)	319
Other expense, net	\$ (1,283)	\$ (4,114)	\$ (1,701)	\$ (429)

The loss on foreign currency remeasurement for the three-month and nine-month periods ended October 2, 2010 and September 26, 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 \$5.0 million and \$15.2 million in the three months and nine months ended October 2, 2010, respectively, compared to income tax expense of \$0.6 million and an income tax benefit of \$4.2 million in the three months and nine months ended September 26, 2009, respectively. The effective tax rate was 20.7% in the 2010 period, compared to 5.9% in the 2009 period.

In 2010, the Company's effective tax rate was lower than U.S. statutory rates mainly due to the \$7.7 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 tax benefit was lower than expected under U.S. statutory rates mainly due to the \$17.3 million increase in the Company's U.S. deferred tax asset valuation allowance. Management concluded that it was 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 in 2009.

**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		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Basic - weighted common shares outstanding	131,903	115,023	131,475	113,355
Weighted common shares assumed upon exercise of stock options and vesting of restricted common stock	1,168		1,433	
Diluted - weighted common shares and common shares equivalent outstanding	133,071	115,023	132,908	113,355

The effect of the inclusion of stock options and unvested restricted common stock for the three-month and nine-month periods ended September 26, 2009, respectively, would have been anti-dilutive. Approximately 5.3 million and 5.3 million of the Company's stock options were excluded from the calculation of diluted earnings per share for the three and nine months ended October 2, 2010, respectively, and 7.1 million and 6.5 million of the Company's stock options and restricted stock were excluded from the calculation of diluted earnings per share for the three and nine months ended September 26, 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		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Net sales				
CCS	\$ 113,350	\$ 65,649	\$ 317,752	\$ 147,477
ME	47,383	32,445	136,698	73,303
ESM	17,497	12,612	51,866	31,540
Total net sales	\$ 178,230	\$ 110,706	\$ 506,316	\$ 252,320

(In thousands)	Three months ended		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Segment profit (loss)				
CCS	\$ 31,434	\$ 11,832	\$ 88,282	\$ 5,991
ME	11,664	5,054	32,808	(5,414)
ESM	2,349	1,369	6,752	939
Total segment profit	\$ 45,447	\$ 18,255	\$ 127,842	\$ 1,516

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

(In thousands)	Three months ended		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Total segment profit	\$ 45,447	\$ 18,255	\$ 127,842	\$ 1,516
Amortization of intangibles	(2,823)	(4,723)	(10,459)	(14,635)
Restructuring charges		(2,368)		(12,454)
Charge for fair value mark-up of acquired inventory sold		(51)		(4,116)
Unallocated general and administrative expenses	(13,450)	(11,177)	(39,497)	(33,778)
Operating income (loss)	\$ 29,174	\$ (64)	\$ 77,886	\$ (63,467)



**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		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
<b>Amortization of intangibles</b>				
CCS	\$ 1,413	\$ 3,292	\$ 6,172	\$ 10,160
ME	96	159	332	489
ESM	1,314	1,272	3,955	3,986
	\$ 2,823	\$ 4,723	\$ 10,459	\$ 14,635
<b>Restructuring charges</b>				
CCS	\$	\$ 250	\$	\$ 2,454
ME		1,178		6,350
ESM		(37)		140
Corporate		977		3,510
	\$	\$ 2,368	\$	\$ 12,454
<b>Charge for fair value mark-up of acquired inventory sold</b>				
CCS	\$	\$ 51	\$	\$ 51
ESM	\$		\$	\$ 4,065
	\$	\$ 51	\$	\$ 4,116

**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 amended 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 modified 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 ASU did not have a material effect on the Company's condensed consolidated financial statements.

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

Other Accounting Standards Updates not effective for the Company until after October 2, 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 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 include 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 nine months ended October 2, 2010 and September 26, 2009 and the financial position as of October 2, 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 Nine Months Ended October 2, 2010**

The Company's financial results for the quarter ended October 2, 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, \$160.5 million, \$167.6 million and \$178.2 million in the first, second and third quarters of 2010, respectively.

For the three months ended October 2, 2010, net sales increased by \$67.5 million, or 61%, to \$178.2 million compared to \$110.7 million for the three months ended September 26, 2009. Third 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 nine months of 2010 were \$506.3 million, slightly more than double the \$252.3 million recorded in the comparable year-ago period, indicative of the same factors noted above. On a sequential basis, third quarter sales rose 6% from \$167.6 million, reflecting 12% and 4% increases, respectively, in the sale of the Company's capital and unit-driven products from second quarter levels.

The sales increases for the three-month and nine-month periods ended October 2, 2010 included favorable foreign currency translation effects of \$3.4 million and \$14.0 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, offset partly by a weaker Euro. The sales increases for the three-month and nine-month periods also included sales of \$0.7 million and \$6.1 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 57% and 88% for the three-month and nine-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 nine-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 third quarter of 2010 was 44.8% versus 40.4% for the third quarter of 2009 and 46.0% for the three months ended July 3, 2010. Gross margin for the first nine months of the year was 45.5% compared to 29.1% in the comparable period a year ago. The sequential decrease in gross margin from the second quarter to the current quarter primarily reflected a shift in product mix.

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 nine-month periods ended October 2, 2010 when compared to the year-ago periods, mainly reflecting higher employee-related costs.



---

**Table of Contents**

As a result of these factors, net earnings attributable to the Company were \$22.4 million, or \$0.17 per diluted share, for the quarter ended October 2, 2010 compared to a net loss of \$7.6 million, or \$0.07 per diluted share, in the quarter ended September 26, 2009. For the nine-month period ended October 2, 2010, net earnings attributable to the Company were \$57.4 million, or \$0.43 per diluted share, compared to a net loss of \$67.8 million, or \$0.60 per diluted share, in the year-ago period.

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 October 2, 2010, the Company had no outstanding borrowings and \$0.9 million undrawn on outstanding letters of credit under the revolving credit facility, 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 nine months of 2010, the Company's operating activities provided cash flow of \$100.9 million, allowing the Company to reduce its outstanding debt by \$66.3 million. Cash and cash equivalents totaled \$98.8 million at October 2, 2010 compared with \$68.7 million at December 31, 2009. Total short-term debt stood at \$6.1 million at October 2, 2010 compared with short-term and long-term debt of \$26.3 million and \$71.8 million at July 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 \$1.4 million at October 2, 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 October 2, 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

---

**Table of Contents**

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 \$7.3 million and \$9.1 million at October 2, 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 October 2, 2010, the Company had \$131.7 million of net property, plant and equipment and \$67.9 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.

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

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.

There were no triggering events in the third quarter of 2010. Accordingly, the Company was not required to perform impairment testing for any of its asset groups for the third quarter of 2010. The Company will continue to monitor circumstances and events to determine whether asset impairment testing is warranted. It is possible

---

**Table of Contents**

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 \$51.2 million and \$57.2 million at October 2, 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 October 2, 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 maintained valuation allowances of \$51.0 million and \$57.2 million as of October 2, 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 October 2, 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 October 2, 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 October 2, 2010 and December 31, 2009, the Company's accrual for estimated future warranty costs was \$1.1 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

**Table of Contents**

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.

**Three and Nine Months Ended October 2, 2010 Compared to Three and Nine Months Ended September 26, 2009**

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

	Three Months Ended		Nine Months Ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	55.2	59.6	54.5	70.9
Gross profit	44.8	40.4	45.5	29.1
Selling, general and administrative expenses	20.5	26.4	21.5	33.5
Engineering, research and development expenses	6.4	7.7	6.5	10.0
Amortization of intangible assets	1.6	4.3	2.1	5.8
Restructuring charges		2.1		4.9
Operating income (loss)	16.4	(0.1)	15.4	(25.2)
Interest expense, net	0.2	2.4	0.6	2.8
Other expense, net	0.7	3.7	0.3	0.2
Income (loss) before income taxes and other items below	15.5	(6.2)	14.4	(28.1)
Income tax expense (benefit)	2.8	0.6	3.0	(1.7)
Equity in net (earnings) loss of affiliates	(0.1)	0.1	(0.1)	0.4
Net income (loss)	12.8	(6.9)	11.5	(26.9)

**Net sales** The Company's financial results for the quarter ended October 2, 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, \$167.6 million and \$178.2 million in the first, second and third quarters of 2010, respectively.

For the three months ended October 2, 2010, net sales increased by \$67.5 million, or 61%, to \$178.2 million compared to \$110.7 million for the three months ended September 26, 2009. Third-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. See the Segment analysis included below in this section for additional detail.

The sales increases for the three-month period ended October 2, 2010 included favorable foreign currency translation effects of \$3.4 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,



**Table of Contents**

offset partly by a weaker Euro. The sales increase for the three-month period also reflected the full-quarter inclusion of incremental sales of \$0.7 million from the Company's Pureline subsidiary, which was acquired in July 2009. Excluding these factors, net sales rose approximately 57% for the third quarter in 2010 when compared to the year-ago period.

For the quarter ended October 2, 2010, sales of unit-driven products represented 61% and sales of capital-driven products represented 39% of total sales, respectively. For the third quarter of 2009 and the three months ended July 3, 2010 this split was 71%/29% and 63%/37%, respectively. The shift in relative demand for capital-driven products reflects the recovery of capital spending after the very low spending by semiconductor customers for capacity-related products in the first half of 2009 and reflects the highest relative proportion of the Company's sales since the fourth quarter of 2007.

On a geographic basis, third quarter sales to North America were 28%, Asia (excluding Japan) 40%, Europe 14% and Japan 18% of total net sales. This compared to third quarter 2009 sales figures of North America 29%, Asia 38%, Europe 14% and Japan 19% and second quarter 2010 sales figures of 28%, 40%, 14% and 18%, respectively.

All regions experienced significant year-over-year sales increases. Sales in North America, Asia and Japan rose by 60%, 67% and 56%, respectively. A portion of the Asia and Japan increases related to favorable foreign currency translation effects. Sales in Europe rose approximately 62% compared to a year ago, even after accounting for unfavorable foreign currency translation effects.

Net sales for the first nine months of 2010 were \$506.3 million, up 101% from \$252.3 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 nine-month period ended October 2, 2010 included favorable foreign currency translation effects of \$14.0 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 nine-month period also included sales of \$6.1 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 88% for the nine-month periods in 2010 when compared to the year-ago period.

On a sequential basis, sales rose 6% from \$167.6 million in the second 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 favorably affected by a foreign currency translation effect of \$3.1 million, primarily related to the strengthening of the Euro, the Japanese yen and Singaporean dollar versus the U.S. dollar. Excluding this factor, net sales rose approximately 5% in the third quarter of 2010 when compared to the second quarter of 2010. When comparing third quarter 2010 results to second quarter 2010 on a geographic basis, total sales to North America, Asia, Europe, and Japan increased 7%, 6%, 5%, and 7%, respectively.

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 October 2, 2010 increased by \$35.1 million to \$79.9 million, up from \$44.8 million for the three months ended September 26, 2009. For the first nine months of 2010, gross profit was \$230.1 million, up from gross profit of \$73.5 million recorded in the first nine months of 2009.

As a percentage of net sales, the gross margin rate for the third quarter of 2010 was 44.8% versus 40.4% for the third quarter of 2009 and 46.0% for the three months ended July 3, 2010. The Company's gross margin for the first nine months of 2010 was 45.5% compared to 29.1% in the comparable period a year ago. The sequential decrease in gross margin from the second quarter to the current quarter primarily reflected a shift in product mix.

---

**Table of Contents**

The Company's considerably higher gross profits and improved gross margins for the three-month and nine-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 97% and 81% of the gross profit improvement for the third quarter and year-to-date, respectively.

The remaining gross profit improvements reflected improved factory utilization (approximately \$0.5 million and \$15.0 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 in the preceding paragraph, 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 Company experienced very low levels of factory utilization, particularly during the first half of the year, due to the decreased sales levels 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 \$0.4 million and \$10.5 million, respectively, in the three-month and nine-month periods ended September 26, 2009 in connection with its below-capacity production levels. The comparable 2010 amounts were \$0.1 million and \$0.8 million.

**Selling, general and administrative expenses** Selling, general and administrative (SG&A) expenses increased \$7.3 million, or 25%, to \$36.5 million in the three months ended October 2, 2010, up from \$29.2 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 20.5% from 26.4% a year earlier, reflecting the increase in net sales. On a year-to-year basis, SG&A expenses increased by \$24.3 million, or 29% to \$108.9 million compared to \$84.6 million a year earlier. On a year-to-date basis, SG&A costs, as a percent of net sales, fell to 21.5% from 33.5% a year ago, reflecting the increase in net sales.

The increases in SG&A expenses were due to higher employee costs (\$6.0 million and \$20.2 million for the three-month and nine-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 \$0.8 million and \$1.9 million for the three-month and nine-month periods, respectively. The Company expects SG&A expenses to be higher throughout 2010 due to the reversal of temporary cost cuts in place in 2009 and the higher sales commissions and incentive compensation expense.

**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 \$11.4 million in the three months ended October 2, 2010 compared to the \$8.6 million reported in the year-ago period. ER&D expenses increased 30% to \$32.9 million in the first nine months of 2010 compared to \$25.3 million in the year-ago nine-month period. Year-to-date ER&D expenses, as a percent of net sales, decreased to 6.5% from 10.0%, mainly reflecting the significant increase in net sales. The increases in ER&D expense were due to higher employee costs (\$1.7 million and \$5.5 million for the three-month and nine-month periods, respectively), reflecting the reversal of salary reductions and the accrual of incentive compensation in 2010, as well as increases in overall ER&D expense levels associated with support of the Company's growth strategies.

**Amortization of intangible assets** Amortization of intangible assets was \$2.8 million in the three months ended October 2, 2010 compared to \$4.7 million in the year-ago period. Amortization of intangible assets was \$10.5 million in the first nine months of 2010 compared to \$14.6 million in year-ago period. The declines mainly reflect the absence of amortization expense for certain acquired developed technology and trademark assets which became fully amortized in either 2009 or 2010.

**Restructuring charges** The Company incurred no restructuring charges in the three-month and nine-month periods ended October 2, 2010. Restructuring charges of \$2.4 million and \$12.5 million were incurred in the three-month and nine-month periods ended September 26, 2009, respectively, in connection with employee



**Table of Contents**

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 \$0.3 million and \$3.2 million in the three-month and nine-month periods ended October 2, 2010, respectively. Interest expense was \$2.7 million and \$7.1 million in the three-month and nine-month periods ended September 26, 2009, respectively. The declines were due mainly to decreases in the Company's average debt outstanding compared to a year ago. Interest expense for the Company's second 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 expense** Other expense was \$1.3 million and \$1.7 million in the three-month and nine-month periods ended October 2, 2010, respectively. Other expense in the three months and nine months ended September 26, 2009 was \$4.1 million and \$0.4 million, respectively. 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 (\$1.6 million and \$2.5 million for the three-month and nine-month periods ended October 2, 2010, respectively). See note 7 to the Company's condensed consolidated financial statements for additional detail.

**Income tax expense (benefit)** The Company recorded income tax expense of \$5.0 million in the three months ended October 2, 2010 compared to income tax expense of \$0.6 million in the three months ended September 26, 2009. For the first nine months of 2010, the Company recorded income tax expense of \$15.2 million compared to an income tax benefit of \$4.2 million in the comparable period in fiscal 2009. The Company's year-to-date effective tax rate was 20.7% in 2010, compared to 5.9% in 2009.

In 2010, the Company's effective tax rate was lower than U.S. statutory rates mainly due to the \$7.7 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 \$17.3 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 reduced its foreign valuation allowance by \$0.1 million.

**Net income (loss) attributable to Entegris, Inc.** Net income attributable to the Company was \$22.4 million, or \$0.17 per diluted share, in the three-month period ended October 2, 2010 compared to a net loss of \$7.6 million, or \$0.07 per diluted share, in the three-month period ended September 26, 2009. For the nine months ended October 2, 2010, net income attributable to the Company was \$57.4 million, or \$0.43 per diluted share, compared to a net loss of \$67.8 million, or \$0.60 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.

**Table of Contents****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 data for the Company's three segments for the three months and nine months ended October 2, 2010 and September 26, 2009:

(In thousands)	Three months ended		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
<b>Contamination Control Solutions</b>				
Net sales	\$ 113,350	\$ 65,649	\$ 317,752	\$ 147,477
Segment profit	31,434	11,832	88,282	5,991
<b>Micro Environments</b>				
Net sales	\$ 47,383	\$ 32,445	\$ 136,698	\$ 73,303
Segment profit (loss)	11,664	5,054	32,808	(5,414)
<b>Entegris Specialty Materials</b>				
Net sales	\$ 17,497	\$ 12,612	\$ 51,866	\$ 31,540
Segment profit	2,349	1,369	6,752	939

**Contamination Control Solutions (CCS)**

For the third quarter of 2010, CCS net sales increased 73% to \$113.4 million, from \$65.6 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. The sales increase for the three-month period also reflected the full-quarter inclusion of incremental sales of \$0.7 million from the Company's Pureline subsidiary, which was acquired in July 2009. CCS reported a segment profit of \$31.4 million in the third quarter of 2010 compared to a \$11.8 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 37%, mainly due to higher selling and engineering, research and development costs.

Sales for the third quarter of 2010 were up 9% on a sequential basis from the second quarter of 2010, reflecting increased sales of gas filtration products, and components and systems products. Reflecting the increase in sales, CCS recorded a slight improvement in gross profit. Combined with flat operating expenses, segment profit rose 10% in the third quarter of 2010 when compared to the previous quarter.

For the nine months ended October 2, 2010, CCS net sales increased 115% to \$317.8 million from \$147.5 million in the comparable period last year. The change in net sales reflects the underlying economic and semiconductor industry conditions noted above. The sales increase for the nine-month period also included sales of \$6.1 million from the Company's Pureline subsidiary. For the nine months ended October 2, 2010, CCS reported a segment profit of \$88.3 million compared to a segment profit of \$6.0 million in the year-ago period, as the dollar increase in gross profit associated with higher sales levels was partly offset by a 37% increase in operating expenses, mainly reflecting higher selling and engineering, research and development costs.

**Microenvironments (ME)**

For the third quarter of 2010, ME net sales increased 46% to \$47.4 million, from \$32.4 million in the comparable period last year. There was strong growth for all product lines, particularly for wafer process and wafer shipper products, reflecting the recovery in the semiconductor industry that began during the second quarter of 2009. ME reported a segment profit of \$11.7 million in the third quarter of 2010 compared to a \$5.1 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, ME operating expenses increased 28%, mainly due to higher selling and engineering, research and development costs.



---

## Table of Contents

On a sequential basis, sales for the third quarter of 2010 were essentially flat with those in the second quarter of 2010, with increased demand for 300mm process products for semiconductor wafers offset by lower sales of data storage and 200mm process products. A slightly lower gross profit associated with an unfavorable sales mix, partly offset by 2% lower operating expenses, produced a 4% decrease in segment profit in the third quarter of 2010 compared to the second quarter of 2010.

For the nine months ended October 2, 2010, ME net sales increased 86% to \$136.7 million from \$73.3 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 \$32.8 million in the first nine months of 2010 compared to a segment loss of \$5.4 million in the comparable year-ago period, as the increase in gross profit associated with higher sales levels was partly offset by a 35% increase in operating expenses, mainly reflecting higher selling and engineering, research and development costs.

### Entegris Specialty Materials (ESM)

For the third quarter of 2010, ESM net sales increased 39%, to \$17.5 million, from \$12.6 million in the comparable period last year. The increase was due to the higher sales of both ESM's specialty coated and graphite-based products components used both in semiconductor manufacturing and in other industrial markets. ESM reported a segment profit of \$2.3 million in the third quarter of 2010 compared to a segment profit of \$1.4 million in the third quarter of 2009. The resulting improvement in gross profit associated with the sharp increase in sales was accompanied by a 2% increase in operating expenses, mainly reflecting higher selling and engineering, research and development costs.

Sales for the third quarter of 2010 were up 6% on a sequential basis from the second quarter of 2010. The increase mainly reflected improved sales of the segment's specialty coated products. The ESM segment profit rose 14%, reflecting lower operating expense levels.

For the nine months ended October 2, 2010, ESM net sales increased 64% to \$51.9 million from \$31.5 million in the comparable period last year. For the nine months ended October 2, 2010, ESM reported a segment profit of \$6.8 million compared to a segment profit of \$0.9 million, as the increase in gross profit associated with higher sales levels was partly offset by a 23% increase in operating expenses, mainly reflecting higher selling and engineering, research and development costs.

### Liquidity and Capital Resources

**Operating activities** Cash flow provided by operating activities totaled \$100.9 million in the nine months ended October 2, 2010. Cash generated by the Company's operations, net of various non-cash charges, included depreciation and amortization of \$31.1 million and share-based compensation expense of \$5.4 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, accrued expenses and income taxes payable, was not significant.

Accounts receivable, net of foreign currency translation adjustments, increased by \$27.8 million in the first nine months of 2010. This increase reflects the continued upturn in sales of the Company's products. The Company's days sales outstanding was 63 days compared to 57 days at the beginning of the year. Inventories at the end of the quarter increased by \$11.2 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 October 2, 2010 stood at \$233.0 million, up from \$193.5 million at December 31, 2009, and included \$98.8 million in cash and cash equivalents compared to cash and cash equivalents of \$68.7 million at December 31, 2009.

**Investing activities** Cash flow used in investing activities totaled \$7.7 million in the nine-month period ended October 2, 2010. Acquisition of property and equipment totaled \$12.2 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 \$0.6 million from the sale

---

**Table of Contents**

of the Company's equity interests in two privately held companies. Under the terms of its revolving credit facility, the Company is restricted from making capital expenditures in either 2010 or 2011 in excess of \$30.0 million. 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 \$64.7 million during the nine-month period ended October 2, 2010. The Company received proceeds of \$186.6 million from its revolving credit facilities during the first nine months of 2010 and made debt payments of \$253.0 million. The Company received proceeds of \$1.7 million in connection with common shares issued under the Company's employee stock 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 October 2, 2010, the Company's borrowing base supported \$58.1 million of its available revolving commitment amount of \$60.0 million. As of that date, the Company had no outstanding borrowings and \$0.9 million undrawn on outstanding letters of credit 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 October 2, 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 October 2, 2010, the Company's cash flow leverage and fixed charge coverage ratios stood at 0.04 to 1.0 and 6.2 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 \$14.4 million. There were no outstanding borrowings under these lines of credit at October 2, 2010.

At October 2, 2010, the Company's shareholders' equity stood at \$423.4 million, up 22% from \$346.2 million at the beginning of the year. The increase reflected net earnings attributable to the Company of \$57.4 million, additional paid-in capital of \$5.4 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 October 2, 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.

## Table of Contents

### **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 amended 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 modified 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 ASU 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 October 2, 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 (Loss), and non-GAAP EPS are presented below.

**Table of Contents**

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

(In thousands)	Three months ended		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Net sales	\$ 178,230	\$ 110,706	\$ 506,316	\$ 252,320
GAAP Operating income (loss)	\$ 29,174	\$ (64)	\$ 77,886	\$ (63,467)
Restructuring costs		2,368		12,454
Charge for fair value mark-up of acquired inventory sold		51		4,116
Amortization of intangible assets	2,823	4,723	10,459	14,635
Adjusted operating income (loss)	31,997	7,078	88,345	(32,262)
Depreciation	6,755	7,455	20,645	23,628
Adjusted EBITDA	\$ 38,752	\$ 14,533	\$ 108,990	\$ (8,634)
Adjusted operating margin	18.0%	6.4%	17.4%	(12.8)%
Adjusted EBITDA margin	21.7%	13.1%	21.5%	(3.4)%
Reconciliation of GAAP Earnings (Loss) per Share to Non-GAAP Earnings (Loss) per Share				

(In thousands)	Three months ended		Nine months ended	
	October 2, 2010	September 26, 2009	October 2, 2010	September 26, 2009
Net income (loss) attributable to Entegris, Inc.	\$ 22,418	\$ (7,608)	\$ 57,353	\$ (67,845)
Adjustments to net income (loss) attributable to the Company:				
Amortization of intangible assets	2,823	4,723	10,459	14,635
Charge for fair value mark-up of acquired inventory sold		51		4,116
Accelerated write-off of debt-issuance costs			890	343
Gain on sale of equity investments	(500)		(892)	
Tax effect of adjustments to net income (loss) attributable to Entegris, Inc.	(854)		(3,849)	
Non-GAAP net income (loss) attributable to Entegris, Inc.	\$ 23,887	\$ (2,834)	\$ 63,961	\$ (48,751)
Diluted earnings (loss) per common share attributable to Entegris, Inc.	\$ 0.17	\$ (0.07)	\$ 0.43	\$ (0.60)
Effect of adjustments to net income (loss) attributable to Entegris, Inc.	0.01	0.04	0.05	0.17
Diluted non-GAAP earnings (loss) per common share attributable to Entegris, Inc.	\$ 0.18	\$ (0.02)	\$ 0.48	\$ (0.43)

---

**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 October 2, 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 \$0.6 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 October 2, 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 October 2, 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 October 2, 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. During September 2010 the parties filed final briefs in preparation 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. These cases are currently awaiting the scheduling of a hearing on the Markman Order.

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.

**Table of Contents**

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. Since December 23, 2008 this case has been awaiting the scheduling of a hearing by the court in connection with a Markman Order for claim construction of the patents in suit.

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. The discovery stage in this case is currently being completed.

**Item 6. Exhibits**

- 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: October 27, 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)