ENTEGRIS INC
Form 10-Q
October 31, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2014

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: 001-32598

Entegris, Inc.
(Exact name of registrant as specified in its charter)

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 ý 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 ý 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. (Check one):

Large accelerated filer ý	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 ý

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 27, 2014
Common Stock, $0.01 par value per share	139,501,173 shares

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Cautionary Statements

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve substantial risks and uncertainties and reflect the Company’s current views with respect to future events and financial performance. The words “believe,” “expect,” “anticipate,” “intends,” “estimat “forecast,” “project,” “should,” “may,” “will” and “would” and similar expressions are intended to identify these “forward-lool statements.” You should read statements that contain these words carefully because they discuss future expectations, contain projections of future results of operations or of financial position or state other “forward-looking” information.

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, 2013 under the headings “Risks Relating to our Business and Industry”, “Manufacturing Risks”, “International Risks”, and “Risks Related to Owning Our Securities”, the risks described in Part II, Item 1A of this report, 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.

Any forward-looking statements in this Quarterly Report on Form 10-Q are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements, possibly materially. We disclaim any duty to update any forward-looking statements.

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements
ENTEGRIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except share and per share data)	September 27, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$390,493	$384,426
Short-term investments	7,930	—
Trade accounts and notes receivable, net of allowance for doubtful accounts of $1,974 and $1,779	175,087	101,873
Inventories	164,601	94,074
Deferred tax assets, deferred tax charges and refundable income taxes	23,450	20,844
Other current assets	21,335	11,088
Total current assets	782,896	612,305
Property, plant and equipment, net of accumulated depreciation of $309,823 and $283,815	316,385	186,440
Other assets:		
Goodwill	336,252	12,274
Intangible assets, net of accumulated amortization of $134,322 and $109,468	322,282	43,509
Deferred tax assets and other noncurrent tax assets	1,964	12,039
Other	35,441	8,727
Total assets	$1,795,220	$875,294
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt, current maturities	$4,600	$—
Accounts payable	67,095	38,396
Accrued payroll and related benefits	45,725	30,116
Interest payable	14,695	—
Other accrued liabilities	33,572	18,700
Deferred tax liabilities and income taxes payable	7,601	10,373
Total current liabilities	173,288	97,585
Long-term debt, excluding current maturities	788,249	—
Pension benefit obligations and other liabilities	25,376	15,411
Deferred tax liabilities and other noncurrent tax liabilities	50,030	5,455
Commitments and contingent liabilities		
Equity:		
Preferred stock, par value $.01; 5,000,000 shares authorized; none issued and outstanding as of September 27, 2014 and December 31, 2013	—	—
Common stock, par value $.01; 400,000,000 shares authorized; issued and outstanding shares as of September 27, 2014 and December 31, 2013: 139,500,865 and 138,734,442	1,395	1,387
Additional paid-in capital	826,394	819,632
Retained deficit	(90,024)	(88,599)
Accumulated other comprehensive income	20,512	24,423
Total equity	758,277	756,843

Total liabilities and equity	$1,795,220	$875,294

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See the accompanying notes to condensed consolidated financial statements.

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ENTEGRIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share data)	Three months ended September 27, 2014	Three months ended September 28, 2013	Nine months ended September 27, 2014	Nine months ended September 28, 2013
Net sales	$273,054	$ 164,585	$690,436	$ 507,199
Cost of sales	174,311	94,453	431,673	292,369
Gross profit	98,743	70,132	258,763	214,830
Selling, general and administrative expenses	55,820	31,746	172,954	99,564
Engineering, research and development expenses	24,427	13,947	61,698	39,547
Amortization of intangible assets	13,128	2,343	24,854	6,989
Contingent consideration fair value adjustment	—	(1,813)	(1,282)	(1,813)
Operating income	5,368	23,909	539	70,543
Interest expense	10,443	56	23,009	100
Interest income	(347)	(75)	(762)	(254)
Other expense (income), net	110	982	1,639	(1,141)
(Loss) income before income taxes and equity in net loss of affiliates	(4,838)	22,946	(23,347)	71,838
Income tax (benefit) expense	(3,810)	5,139	(22,012)	17,853
Equity in net loss of affiliates	40	—	90	—
Net (loss) income	$(1,068)	$ 17,807	$(1,425)	$ 53,985
Basic net (loss) income per common share	$(0.01)	$ 0.13	$(0.01)	$ 0.39
Diluted net (loss) income per common share	$(0.01)	$ 0.13	$(0.01)	$ 0.39
Weighted shares outstanding:				
Basic	139,480	138,904	139,215	139,061
Diluted	139,480	139,482	139,215	139,688

See the accompanying notes to condensed consolidated financial statements.

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ENTEGRIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

(In thousands)	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net (loss) income	$(1,068)	$ 17,807	$(1,425)	$ 53,985
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	(8,749)	2,105	(2,919)	(14,314)
Available-for-sale investments, unrealized loss, net of tax	(393)	—	(1,037)	—
Reclassification of cumulative translation adjustment associated with liquidated subsidiary	—	739	—	739
Pension liability adjustments	26	(5)	45	52
Other comprehensive (loss) income	(9,116)	2,839	(3,911)	(13,523)
Comprehensive (loss) income	$(10,184)	$ 20,646	$(5,336)	$ 40,462

See the accompanying notes to condensed consolidated financial statements.

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ENTEGRIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(In thousands)	Common shares outstanding	Common stock	Additional paid-in capital	Retained deficit	Foreign currency translation adjustments	Defined benefit pension adjustments	Total
Balance at December 31, 2012	138,458	$1,385	$809,514	$(157,038)	$41,997	$ (1,059)	$694,799
Shares issued under stock plans	1,748	17	6,650	—	—	—	6,667
Share-based compensation expense	—	—	5,859	—	—	—	5,859
Repurchase and retirement of common stock	(1,539)	(15)	(8,998)	(5,813)	—	—	(14,826)
Tax benefit associated with stock plans	—	—	1,125	—	—	—	1,125
Pension liability adjustment, net of tax	—	—	—	—	—	52	52
Reclassification of cumulative translation adjustment associated with liquidated subsidiary	—	—	—		739	—	739
Foreign currency translation	—	—	—	—	(14,314)	—	(14,314)
Net income	—	—	—	53,985	—	—	53,985
Balance at September 28, 2013	138,667	$1,387	$814,150	$(108,866)	$28,422	$ (1,007)	$734,086

(In thousands)	Common shares outstanding	Common stock	Additional paid-in capital	Retained deficit	Foreign currency translation adjustments	Available-for-sale investments, change in net unrealized losses	Defined benefit pension adjustments	Total
Balance at December 31, 2013	138,734	$1,387	$819,632	$(88,599)	$25,280	$ —	$(857)	$756,843
Shares issued under stock plans, net of shares withheld for employee taxes	767	8	(593)	—	—	—	—	(585)
Share-based compensation expense	—	—	6,513	—	—	—	—	6,513

Tax benefit associated with stock plans	—	—	842	—	—	—	—	842
Pension liability adjustment, net of tax	—	—	—	—	—	—	45	45

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Available-for-sale investments, change in net unrealized losses	—	—	—	—	—	(1,037)	—	(1,037)
Foreign currency translation	—	—	—	—	(2,919)	—	—	(2,919)
Net loss	—	—	—	(1,425)		—	—	(1,425)
Balance at September 27, 2014	139,501	$1,395	$826,394	$(90,024)	$22,361	$(1,037)	$(812)	$758,277

See the accompanying notes to condensed consolidated financial statements.

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

(In thousands)	Nine months ended September 27, 2014	September 28, 2013
Operating activities:		
Net (loss) income	$(1,425)	$53,985
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	33,005	21,812
Amortization	24,854	6,989
Share-based compensation expense	6,513	5,859
Charge for fair value write-up of acquired inventory sold	48,586	—
Provision for deferred income taxes	(28,782)	3,282
Other	7,036	866
Changes in operating assets and liabilities:		
Trade accounts and notes receivable	(21,299)	(16,722)
Inventories	(8,078)	(2,555)
Accounts payable and accrued liabilities	27,929	(970)
Other current assets	45	391
Income taxes payable and refundable income taxes	(3,153)	5,239
Other	5,989	(3,483)
Net cash provided by operating activities	91,220	74,693
Investing activities:		
Acquisition of business, net of cash acquired	(809,390)	(13,358)
Acquisition of property, plant and equipment	(44,013)	(49,030)
Proceeds from maturities of short-term investments	8,888	20,000
Proceeds from sale of assets held for sale	—	6,500
Payments for non-compete agreements	(7,517)	—
Other	560	188
Net cash used in investing activities	(851,472)	(35,700)
Financing activities:		
Proceeds from long-term debt	855,200	—
Payments of long-term debt	(62,500)	—
Issuance of common stock	1,705	6,667
Taxes paid related to net share settlement of equity awards	(2,290)	—
Payments for debt issuance costs	(20,747)	—
Repurchase and retirement of common stock	—	(14,826)
Other	763	1,125
Net cash provided by (used in) financing activities	772,131	(7,034)
Effect of exchange rate changes on cash and cash equivalents	(5,812)	(3,596)
Increase in cash and cash equivalents	6,067	28,363
Cash and cash equivalents at beginning of period	384,426	330,419
Cash and cash equivalents at end of period	$390,493	$358,782
Supplemental Cash Flow Information		

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(In thousands)	Nine months Ended September 27, 2014	Nine months Ended September 28, 2013
Non-cash transactions:		
Equipment purchases in accounts payable	$261	1,952

See the accompanying notes to condensed consolidated financial statements.

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ENTEGRIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of Operations Entegris, Inc. (Entegris or the Company) is a leading provider of yield-enhancing materials and solutions for advanced manufacturing processes in the semiconductor and other high-technology industries.
Principles of Consolidation 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.
Use of Estimates 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.
Basis of Presentation The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of September 27, 2014 and December 31, 2013, and the results of operations, comprehensive (loss) income, equity and cash flows for the three and nine months ended September 27, 2014 and September 28, 2013.
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, 2013. The results of operations for the three and nine months ended September 27, 2014 are not necessarily indicative of the results to be expected for the full year.
Recent Accounting Pronouncements
In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)(ASU 2014-09). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. ASU 2014-09 is effective beginning January 1, 2017. The Company is currently assessing the impact that adopting this new accounting guidance will have on its consolidated financial statements and disclosures.
Other Accounting Standards Updates issued but not effective for the Company until after September 27, 2014 are not expected to have a material effect on the Company’s condensed consolidated financial statements.

2. ACQUISITIONS

ATMI
On April 30, 2014, the Company acquired ATMI, Inc. (the Merger), a Delaware corporation (ATMI), for approximately $1.1 billion in cash pursuant to an Agreement and Plan of Merger (the Merger Agreement), dated as of February 4, 2014. As a result of the Merger, ATMI became a wholly-owned subsidiary of the Company. The Merger was accounted for under the acquisition method of accounting and the results of operations of ATMI are included in the Company's condensed consolidated financial statements as of and since April 30, 2014. Direct costs of $13.3 million associated with the acquisition of ATMI, consisting mainly of professional and consulting fees, were expensed as incurred in the nine months ended September 27, 2014. These costs are classified as selling, general and

administrative expense in the Company's condensed consolidated statements of operations.

ATMI is a leading supplier of high-performance materials, materials packaging and materials delivery systems used worldwide in the manufacture of microelectronic devices. These products consist of “front-end” semiconductor performance materials,

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sub-atmospheric pressure gas delivery systems for safe handling and delivery of toxic and hazardous gases, and high-purity materials packaging and dispensing systems that allow for the reliable introduction of low volatility liquids and solids to microelectronics processes. The acquisition was executed to expand the Company's product offering base and technological base, and enhance the leverage of its selling and administrative functions. ATMI's sales for the year ended December 31, 2013 were approximately $361 million.

The purchase price of ATMI consisted of the following:

(In thousands):	
Cash paid to ATMI shareholders	$1,099,033
Cash paid in settlement of share-based compensation awards	31,451
Total purchase price	1,130,484
Less cash and cash equivalents acquired	321,094
Total purchase price, net of cash acquired	$809,390

Under the terms of the Merger Agreement, the Company paid $34 per share for all outstanding common shares of ATMI (excluding treasury shares). In addition, the Company settled all outstanding share-based compensation awards held by ATMI employees at the same per share price. The acquisition method of accounting requires the Company to include the amount associated with pre-combination service as consideration in the acquisition, reflected in the table immediately above, while the fair value of the unvested portion of the awards in the amount of $21.3 million is recorded as expense, classified as selling, general and administrative expense, in the Company's condensed consolidated statement of operations.

The Merger was funded with existing cash balances as well as funds raised by the Company through the issuance of debt in the form of a senior secured term loan in an aggregate principal amount of $460 million and senior unsecured notes in an aggregate principal amount of $360 million as described in further detail in note 7 to the condensed consolidated financial statements.

The following table summarizes the allocation of the purchase price to the fair values assigned to the assets acquired and liabilities assumed at the date of the ATMI acquisition:

(In thousands):	
Accounts receivable and other current assets	$106,824
Inventory	115,469
Property, plant and equipment	127,164
Identifiable intangible assets	296,074
Other noncurrent assets	15,748
Current liabilities	(89,162)
Deferred tax liabilities and other noncurrent liabilities	(86,753)
Net assets acquired	485,364
Goodwill	324,026
Total purchase price, net of cash acquired	$809,390

The fair value of acquired inventories of $115.5 million is valued at the estimated selling price less the cost of disposal and reasonable profit for the selling effort, and is provisional pending the Company's final review. The fair value write-up of acquired finished goods inventory was $48.6 million, the amount amortized over the expected turn of the acquired inventory. Accordingly, $24.3 million and $48.6 million incremental cost of sales charges associated with the fair value write-up of inventory acquired in the merger with ATMI was recorded for the three and nine months ended September 27, 2014, respectively.

The fair value of acquired property, plant and equipment of $127.2 million is valued at its value-in-use, unless there was a known plan to dispose of an asset, and is provisional pending the Company's completion of its valuation of certain assets, and its final review of all acquired property, plant and equipment.

The fair value of the acquired intangible assets is $296.1 million. The acquired intangible assets, all of which are finite-lived, have a weighted average useful life of approximately 8.3 years and are being amortized on a straight-line basis. The intangible assets that comprise the amount include customer relationships of $165.1 million (10-year weighted average useful life),

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developed technology and related trade names of $120.8 million (6-year weighted average useful life), and other intangible assets of $10.2 million (7.2-year weighted average useful life).

The fair value of acquired identifiable intangible assets was determined using the "income approach" on an individual project basis. In performing these valuations, the key underlying probability-adjusted assumptions of the discounted cash flows were projected revenues, gross margin expectations and operating cost estimates. The valuations were based on the information that was available as of the acquisition date and the expectations and assumptions that have been deemed reasonable by the Company's management. There are inherent uncertainties and management judgment required in these determinations. The fair value measurements of the assets acquired and liabilities assumed were based on valuations involving significant unobservable inputs, or Level 3 in the fair value hierarchy.

The purchase price of ATMI exceeded the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed by $324.0 million. Cash flows used to determine the purchase price included strategic and synergistic benefits (investment value) specific to the Company, which resulted in a purchase price in excess of the fair value of identifiable net assets. The purchase price also included the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value in addition to a going-concern element that represents the Company's ability to earn a higher rate of return on the group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill. No amount of goodwill is expected to be deductible for income tax purposes.

The final valuation of assets acquired and liabilities assumed is expected to be completed as soon as possible, but no later than one year from the acquisition date. Given the size and complexity of the acquisition, the valuation of certain assets and liabilities is still being completed, or is subject to final review. In addition to inventory and property, plant and equipment, as noted above, the Company's valuation of ATMI's tax accounts is provisional pending the completion of and the Company's review of ATMI's tax returns to be filed for periods up to the acquisition date. To the extent that the Company's estimates require adjustment, the Company will modify the value.

Subsequent to the Merger, the Company agreed to make severance payments of $7.5 million to ATMI executives. Under the terms of various agreements, the executives are unable to compete with the Company for periods averaging 1.6 years. Based on the Company's analysis, the payments associated with these noncompete clauses were capitalized as finite-lived intangible assets to be amortized over twelve to eighteen months. The fair value of these noncompete clauses was determined using the "income approach" on an individual executive basis, following a methodology similar to the one described above for acquired identifiable intangible assets.

Pro Forma Results

The following unaudited pro forma financial information presents the combined results of operations of the Company as if the acquisition of ATMI had occurred as of the beginning of the years presented. The unaudited pro forma financial information is not necessarily indicative of what the Company's consolidated results of operations actually would have been had the acquisition occurred at the beginning of each year. In addition, the unaudited pro forma financial information does not attempt to project the future results of operations of the combined company.

(In thousands, except per share data) (Unaudited)	Three months ended		Nine months ende	
	September 27, 2014	September 28, 2013	September 27, 2014	Septemb 28, 201
Net sales	$273,054	$251,799	$804,701	$770,68
Net income (loss)	15,937	15,726	58,967	46,089
Per share amounts:				
Net income (loss) per common share - basic	$0.11	$0.11	$0.42	$0.33

Net income (loss) per common share - diluted	0.11	0.11	0.42	0.33

The unaudited pro forma financial information above gives effect to the following:

a. The elimination of transactions between Entegris and ATMI, which upon completion of the merger would be considered intercompany. This reflects the elimination of intercompany sales and associated intercompany accounts.
b. Incremental amortization and depreciation expense related to the estimated fair value of identifiable intangible assets and property, plant and equipment from the purchase price allocation.

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c. The above pro forma results have been reclassified to segregate the operating results of ATMI's discontinued operations.

The unaudited pro forma financial information above for the three and nine months ended September 27, 2014 excludes the purchase accounting impact of the incremental charge reported in cost of sales for the sale of acquired inventory that was written-up to fair value of $24.3 million and $48.6 million, respectively.

The pro forma data does not include data for Jetalon Solutions, Inc. for the period prior to its acquisition due to the immaterial impact on the pro forma financial information for the three and nine months ended September 27, 2014.

Jetalon

On April 1, 2013, the Company acquired substantially all the operating assets and liabilities of Jetalon Solutions, Inc. (Jetalon), a California-based supplier of fluid metrology products. The transaction was accounted for under the acquisition method of accounting and the results of operations of the entity are included in the Company's condensed consolidated financial statements as of and since April 1, 2013. The acquisition of Jetalon's assets and liabilities did not constitute a material business combination.

The purchase price for Jetalon included cash consideration of $13.4 million, funded from the Company's then-existing cash on hand, and earnout-based contingent consideration of up to $14.5 million based on the operating performance of Jetalon in 2013, 2014 and 2015. Costs associated with the acquisition of Jetalon were not significant and were expensed as incurred.

Upon acquisition, the Company recorded a contingent consideration obligation of $3.1 million representing the fair value of the earnout-based contingent consideration. This amount was estimated through a valuation model that incorporates probability-adjusted assumptions relating to the achievement of possible operating results and the likelihood of the Company making payments. This fair value measurement is based upon significant inputs not observable in the market and therefore represents a Level 3 measurement.

The purchase price of Jetalon consisted of the following:

(In thousands):	
Cash paid at closing	$13,358
Contingent consideration obligation	3,094
Total purchase price	$16,452

The following table summarizes the allocation of the purchase price to the fair values assigned to the assets acquired and liabilities assumed at the date of the Jetalon acquisition:

(In thousands):	
Accounts receivable, inventory and other assets	$944
Identifiable intangible assets	5,634
Current liabilities	(216)
Net assets acquired	6,362
Goodwill	10,090
Total purchase price	$16,452

The purchase price of Jetalon, including the Company's valuation of contingent consideration, exceeded the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed by $10.1 million. Cash flows used to determine the purchase price included strategic and synergistic benefits (investment value) specific to the Company, which resulted in a purchase price in excess of the fair value of identifiable net assets. The purchase price also included the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value in addition to a going-concern element that represents the

Company's ability to earn a higher rate of return on the group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is expected to be deductible for income tax purposes. The goodwill has been assigned to the Company's Critical Materials Handling reportable segment.

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The Company completed its fair value determinations for all elements of the Jetalon acquisition in 2013. Intangible assets, consisting mostly of technology-related intellectual property, are being amortized on a straight-line basis over an estimated useful life of approximately 10 years.

Subsequent changes in the fair value of this obligation have been recognized as adjustments to the contingent consideration obligation and reflected in the Company's condensed consolidated statements of operations. During the quarter ended June 28, 2014, the Company assessed the contingent consideration based on the valuation methodology described above and recorded a $1.3 million gain in the Company's condensed consolidated statements of operations, reflecting the removal of any remaining contingent consideration obligation.

3. SHORT-TERM INVESTMENTS

In conjunction with the acquisition of ATMI, the Company acquired South Korea bank time deposits and common shares of one publicly traded security, which are classified as available-for-sale and are reported at fair value, with unrealized gains and losses included in shareholders' equity as a component of accumulated other comprehensive income, net of applicable taxes. Available-for-sale investments as of September 27, 2014 consist of the following:

(In thousands)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Common stock	$7,051	$—	$(1,037)	$6,014
Time deposits	$1,916	$—	$—	$1,916
Total available-for-sale investments	$8,967	$—	$(1,037)	$7,930

Equity investments with continuous unrealized losses for less than 12 months and their related fair values at September 27, 2014 were as follows:

	Less than 12 months	
(In thousands)	Fair value	Gross unrealized losses
Common stock	$6,014	$(1,037)
Total	$6,014	$(1,037)

The Company regularly reviews the fair value of marketable security declines below amortized cost to evaluate whether the decline is other-than-temporary. In making this determination, the Company considers all available evidence including, among other things, considering the duration and extent of the decline and the economic factors influencing the market to determine if the fair value will recover to equal or exceed the amortized cost. If the Company determines that the fair value will not recover, an other-than-temporary impairment is recognized, net of applicable taxes. Management does not believe the unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of September 27, 2014. As part of that evaluation, the Company has concluded that it has the ability and intent to hold the investment until the recovery of fair value.

The amortized cost and fair value of available-for-sale debt investments as of September 27, 2014, by contractual maturity, were as follows:

(In thousands)	Cost basis	Fair value
Due in 1 year or less	$1,916	$1,916
Total	$1,916	$1,916

The net unrealized holding losses on available-for-sale investments that have been included in other comprehensive income as of September 27, 2014 were as follows:

(In thousands)	
Net unrealized holding losses included in other comprehensive income	$(1,037)

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4. INVENTORIES
Inventories consist of the following:

(In thousands)	September 27, 2014	December 31, 2013
Raw materials	$40,323	$26,012
Work-in process	16,531	10,512
Finished goods[(a)]	107,185	56,998
Supplies	562	552
Total inventories	$164,601	$94,074

(a) Includes consignment inventories held by customers of $11.0 million and $5.1 million at September 27, 2014 and December 31, 2013, respectively.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill activity for each period was as follows:

(In thousands)	CMH	EM	Total
December 31, 2012	$2,209	$—	$2,209
Addition due to acquisition	10,090	—	10,090
Other, including foreign currency translation	(25)	—	(25)
December 31, 2013	12,274	—	12,274
Addition due to acquisition	31,440	292,586	324,026
Other, including foreign currency translation	(23)	(25)	(48)
September 27, 2014	$43,691	$292,561	$336,252

As of September 27, 2014, goodwill amounted to approximately $336.3 million, an increase of $324.0 million from the balance at December 31, 2013. The increase in goodwill relates to the acquisition of ATMI completed in April 2014 as described in note 2 and is provisional subject to the Company's final valuation of assets acquired and liabilities assumed. The increase was partially offset by the foreign currency translation adjustments.

Other intangible assets, excluding goodwill, were as follows:
As of September 27, 2014

(In thousands)	Gross carrying amount	Accumulated amortization	Net carrying value	Weighted average life in years
Developed technology	200,864	73,737	127,127	6.6
Trademarks and trade names	17,210	8,376	8,834	9.8
Customer relationships	222,726	49,893	172,833	10.3
Other	15,804	2,316	13,488	6.4
	$456,604	$134,322	$322,282	8.5

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As of December 31, 2013

(In thousands)	Gross carrying amount	Accumulated amortization	Net carrying value	Weighted average life in years
Developed technology	80,055	62,906	17,149	7.5
Trademarks and trade names	13,092	7,306	5,786	12.0
Customer relationships	57,617	39,146	18,471	11.0
Other	2,213	110	2,103	13.3
	$152,977	$109,468	$43,509	9.3

Amortization expense for the three and nine months ended September 27, 2014 amounted to $13.1 million and $24.9 million, respectively. Amortization expense for the three and nine months ended September 28, 2013 amounted to $2.3 million and $7.0 million, respectively.

The amortization expense for each of the five succeeding years and thereafter relating to intangible assets currently recorded in the Company's condensed consolidated balance sheets is estimated to be the following at September 27, 2014.

Fiscal year ending December 31	(In thousands)
2014	$12,917
2015	48,586
2016	45,602
2017	44,178
2018	42,899
Thereafter	128,100
	$322,282

6. ASSET RETIREMENT OBLIGATIONS

In connection with the acquisition of ATMI described in note 2, the Company assumed asset retirement obligations (AROs) related to environmental disposal obligations associated with cylinders used to supply customers with ATMI's products, and certain restoration obligations associated with its leased facilities.

Changes in the carrying amounts of the Company’s AROs at September 27, 2014 are shown below:

(In thousands)	
Balance at December 31, 2013	$2,167
Liabilities assumed in ATMI acquisition	8,032
Liabilities settled	(63)
Liabilities incurred	147
Accretion expense	125
Revision of estimate	(53)
Balance at September 27, 2014	$10,355

The ARO liability is included in the condensed consolidated balance sheets under the caption pension benefit obligations and other liabilities.

7. DEBT

Long-term debt at September 27, 2014 consists of the following:

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(In thousands)	September 27, 2014
Senior secured term loan facility due 2021	$432,849
Senior unsecured notes due 2022	360,000
Total long-term debt	792,849
Less current maturities of long-term debt	4,600
Long-term debt less current maturities	$788,249

Annual maturities of long-term debt as of September 27, 2014 are as follows:

Fiscal year ending	(In thousands)
2014	$2,300
2015	54,600
2016	4,600
2017	4,600
2018	4,600
Thereafter	722,149
	$792,849

As described in note 2 to the condensed consolidated financial statements, the Company issued debt with a principal amount of $820 million to supply the funding required to complete its acquisition of ATMI. Debt issuance costs of $2.3 million paid directly to lending institutions are recorded as a debt discount, while debt issuance costs of $20.7 million paid to third parties are capitalized as debt issuance costs, and reflected within other current and other noncurrent assets. These debt issuance costs are being amortized as interest expense over the term of the debt instrument using the effective-interest method for the senior secured term loan facility and senior unsecured notes, and the straight-line method for the senior secured asset-based revolving credit facility.

The Company recorded $0.8 million and $5.1 million, respectively, of amortized debt issuance costs in the three and nine months ended September 27, 2014, including $4.0 million for bridge financing fees paid for the availability of funding for the acquisition of ATMI. These amounts are included in interest expense in the Company's condensed consolidated statements of operations.

Senior Secured Term Loan Facility and Security Agreement

On April 30, 2014, the Company entered into a term loan credit and guaranty agreement with Goldman Sachs Bank USA, as administrative agent, collateral agent, sole lead arranger, sole bookrunner and sole syndication agent (the Term Loan Facility), that provides senior secured financing of $460 million (which may be increased by up to $225 million in certain circumstances). Borrowings under the Term Loan Facility bear interest at a rate per annum equal to, at the Company’s option, a base rate (such as prime rate or LIBOR) plus, an applicable margin. The Company's interest rate is 3.5% at September 27, 2014. In addition to paying interest on outstanding principal under the Term Loan Facility, the Company is required to pay customary agency fees.

During the three months ended September 27, 2014, the Company made a discretionary prepayment of $25 million on the Term Loan Facility.

The credit agreement governing the Term Loan Facility requires the Company to prepay outstanding term loans, subject to certain exceptions, with (a) up to 50% of the Company’s annual Excess Cash Flow (as defined in the credit agreement governing the Term Loan Facility) and (b) 100% of the net cash proceeds of (i) certain asset sales and casualty and condemnation events, subject to reinvestment rights and certain other exceptions; and (ii) any incurrence or issuance of certain debt, other than debt permitted under the Term Loan Facility.

The Company may voluntarily prepay outstanding loans under the Term Loan Facility at any time without premium or penalty other than customary “breakage” costs with respect to LIBOR loans.

The Company is required to remit scheduled quarterly payments each equal to 0.25% of the original principal amount of the term loans made on the closing date, with the balance due on the seventh anniversary of the closing date.

All obligations under the Term Loan Facility are unconditionally guaranteed by certain of the Company’s existing wholly owned domestic subsidiaries, and are secured, subject to certain exceptions, by substantially all of the

Company’s assets and the assets of the Company's subsidiary guarantors.

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The Term Loan Facility contains a number of negative covenants that, subject to certain exceptions, restrict the Company’s ability and each of the Company’s subsidiaries ability to incur additional indebtedness; pay dividends on its capital stock or redeem, repurchase or retire its capital stock or its other indebtedness; make investments, loans and acquisitions; create restrictions on the payment of dividends or other amounts to the Company from the Company’s restricted subsidiaries; engage in transactions with its affiliates; sell assets, including capital stock of its subsidiaries; materially alter the business it conducts; consolidate or merge; incur liens; and engage in sale-leaseback transactions. The Company is in compliance with all of the above covenants at September 27, 2014.

The credit agreement governing the Term Loan Facility additionally contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default.

2022 Senior Unsecured Notes

On April 1, 2014, the Company issued $360 million aggregate principal amount of 6% senior unsecured notes due April 1, 2022 (the 2022 Senior Unsecured Notes). The 2022 Senior Unsecured Notes were issued under an indenture dated as of April 1, 2014 (the 2022 Senior Unsecured Notes Indenture) by and among the Company and Wells Fargo Bank, National Association, as trustee (the 2022 Senior Unsecured Notes Trustee). Interest on the 2022 Senior Unsecured Notes is payable semi-annually in arrears on April 1 and October 1, commencing October 1, 2014.

The 2022 Senior Unsecured Notes are guaranteed, jointly and severally, fully and unconditionally, on an unsecured senior basis, by each of the Company’s domestic subsidiaries (the Guarantors) that guarantee indebtedness under the Company’s senior secured term loan facility and senior secured asset-based revolving credit facility (Senior Secured Credit Facilities).

As provided in the Senior Unsecured Notes Indenture, the Company may at its option on one or more occasions redeem all or a part of the 2022 Senior Unsecured Notes at a redemption price equal to (a) 100% of the principal amount of the 2022 Senior Unsecured Notes redeemed plus a make-whole premium if redeemed prior to April 1, 2017, or (b) a percentage of principal amount between a percentage from 100% and 104.5% of the aggregate principal amount of notes to be redeemed depending on the period of redemption, if redeemed on or after April 1, 2017, plus, in each case, accrued and unpaid interest thereto.

Upon a change in control, the Company is required to offer to purchase all of the 2022 Senior Unsecured Notes at a price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the date of purchase.

If the Company or its subsidiaries engage in asset sales, the Company generally must either invest the net cash proceeds from such sales in its business within a period of time, prepay debt under the Senior Secured Credit Facilities or make an offer to purchase a principal amount of the 2022 Senior Unsecured Notes equal to the excess net cash proceeds, subject to certain exceptions.

The 2022 Senior Unsecured Notes Indenture contains covenants that, among other things, limit the Company’s ability and the ability of the Company’s restricted subsidiaries to pay dividends or distributions or redeem or repurchase equity; prepay subordinated debt or make certain investments, loans, advances and acquisitions; incur or guarantee additional debt, or issue certain disqualified stock and preferred stock; create liens; engage in a consolidation or merger, or sell, transfer or otherwise dispose of all or substantially all of their assets; enter into transactions with affiliates; and create restrictions on the payment of dividends or other amounts to the Company from its restricted subsidiaries. The Company is in compliance with all of the above covenants at September 27, 2014.

The 2022 Senior Unsecured Notes Indenture also provides for events of default which, if certain of them occur, would permit the 2022 Senior Unsecured Notes Trustee or the holders of at least 25% in aggregate principal amount of the then total outstanding 2022 Senior Unsecured Notes to declare the principal, premium, if any, interest and any other monetary obligations on all the then-outstanding 2022 Senior Unsecured Notes to be due and payable immediately.

Senior Secured Asset-Based Revolving Credit Facility and Security Agreement

On April 30, 2014, the Company entered into an asset-based credit agreement with Goldman Sachs Bank USA, as administrative agent, collateral agent, sole lead arranger, sole bookrunner and sole syndication agent (the ABL Facility), that provides senior secured financing of $75 million (which may be increased by up to $35 million in certain circumstances), subject to a borrowing base limitation. The borrowing base for the ABL Facility at any time equals the sum of certain percentages of various accounts and inventories. The ABL Facility includes borrowing capacity in the form of letters of credit up to $35 million of the facility, and up to $20 million in U.S. dollars for borrowings on same-day notice, referred to as swingline loans. There is no outstanding balance under the ABL Facility at September 27, 2014.

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Borrowings under the ABL Facility bear interest at a rate per annum equal to, at the Company’s option, a base rate (prime rate or LIBOR), plus an applicable margin. The Company's interest rate is 4.25% at September 27, 2014. Swingline loans shall bear interest at a rate per annum equal to the base rate plus the applicable margin.
In addition to paying interest on outstanding principal under the ABL Facility, the Company is required to pay a commitment fee of 0.33% per annum in respect of the unutilized commitments thereunder. The Company must also pay customary letter of credit fees and agency fees.
The Company may voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans at any time. Prepayments of the loans may be made without premium or penalty other than customary “breakage” costs with respect to LIBOR loans.
There is no scheduled amortization under the Company’s ABL Facility. The principal amount outstanding under the ABL Facility is due and payable in full on April 30, 2019.

All obligations under the ABL Facility are unconditionally guaranteed by certain of the Company’s existing wholly owned domestic subsidiaries and are secured, subject to certain exceptions, by substantially all of the Company’s assets and the assets of the Company's subsidiaries that have guaranteed the ABL Facility.

The ABL Facility contains a number of negative covenants that, among other things, subject to certain exceptions, restrict the Company’s ability and the ability of each of the Company’s subsidiaries to incur additional indebtedness; pay dividends on its capital stock or redeem, repurchase or retire its capital stock or its other indebtedness; make investments, loans and acquisitions; create restrictions on the payment of dividends or other amounts to the Company from the Company’s restricted subsidiaries; engage in transactions with its affiliates; sell assets, including capital stock of its subsidiaries; materially alter the business it conducts; consolidate or merge; incur liens; and engage in sale-leaseback transactions. The Company is in compliance with all of the above covenants at September 27, 2014.

The credit agreement governing the ABL Facility additionally contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default.

Intercreditor Agreement
In connection with the closing of the ABL Facility and Term Loan Facility, on April 30, 2014, Goldman Sachs Bank USA, as collateral agent for the ABL Facility and as collateral agent for the Term Loan Facility, entered into an intercreditor agreement (the Intercreditor Agreement), acknowledged by the Company, which governs the relative priorities (and certain other rights) of the ABL Facility lenders and Term Loan Facility lenders pursuant the respective security agreements that each entered into with the Company and the guarantors.

8. LEASE COMMITMENTS

As of September 27, 2014, the Company was obligated under noncancellable operating lease agreements for certain sales offices and manufacturing facilities, manufacturing equipment, vehicles, information technology equipment and warehouse space. Future minimum lease payments for noncancellable operating leases with initial or remaining terms in excess of one year are as follows:

(In thousands)	
2014	$3,155
2015	9,620
2016	6,869
2017	4,300
2018	3,652
Thereafter	1,163
Total minimum lease payments	$28,759

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Total rental expense for all equipment and building operating leases for the three and nine months ended September 27, 2014 were $3.3 million and $8.7 million, respectively and for the three and nine months ended September 28, 2013 were $2.3 million and $7.1 million, respectively.

9. INCOME TAXES

Income tax expense differs from the expected amounts based on the statutory federal tax rates for the three and nine months ended September 27, 2014 and September 28, 2013 as follows:

	Three months ended		Nine months ended	
(In thousands)	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Expected federal income tax (benefit) expense at statutory rate	$ (1,693)	$ 8,031	$ (8,171)	$ 25,143
Effect of foreign source income	(3,460)	(3,059)	(12,958)	(6,742)
Effect of foreign dividend	1,800	—	(2,936)	—
Nondeductible acquisition costs	(353)	—	1,503	—
Other items, net	(104)	167	550	(548)
Income tax (benefit) expense	$ (3,810)	$ 5,139	$ (22,012)	$ 17,853

The Company’s year-to-date effective tax rate associated with the income tax benefit was 94.3% in 2014, compared to an effective tax rate of 24.9% in connection with income tax expense in 2013. This variance reflects changes in the Company's geographic composition of income toward jurisdictions with lower tax rates, nondeductibility of certain acquisition-related expenditures incurred in connection with the ATMI acquisition and the benefit of a foreign dividend. The effective tax rate in 2013 included a $1.3 million benefit associated with the reinstatement of the U.S. federal credit for increasing research expenditures, as retroactively signed into law and recorded by the Company in the first quarter of 2013, included in other items, net, in the above table.

10. (LOSS) EARNINGS PER COMMON SHARE

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

	Three months ended		Nine months ended	
(In thousands)	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Basic—weighted common shares outstanding	139,480	138,904	139,215	139,061
Weighted common shares assumed upon exercise of stock options and vesting of restricted common stock	—	578	—	627
Diluted—weighted common shares and common shares equivalent outstanding	139,480	139,482	139,215	139,688

The Company excluded the following shares underlying stock-based awards from the calculations of diluted EPS because their inclusion would have been anti-dilutive for the three and nine months ended September 27, 2014 and September 28, 2013:

	Three months ended	Nine months ended

(In thousands)	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Shares excluded from calculations of diluted EPS	1,389	1,550	1,896	1,550

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11. FAIR VALUE
Financial Assets Measured at Fair Value on a Recurring Basis

The carrying value of accounts receivable and accounts payable approximates fair value due to the short maturity of those instruments.
The following table presents the Company's financial assets that are measured at fair value on a recurring basis at September 27, 2014 and December 31, 2013. Level 1 inputs are based on quoted prices in active markets accessible at the reporting date for identical assets and liabilities. Level 2 inputs are based on quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques for which all significant assumptions are observable in a market. Level 3 inputs are based on prices or valuations that require inputs that are significant to the valuation and are unobservable.

	September 27, 2014				December 31, 2013			
(In thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								