

MKS INSTRUMENTS INC
Form 10-Q
August 05, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2015

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 0-23621

MKS INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2277512
(I.R.S. Employer
Identification No.)

2 Tech Drive, Suite 201, Andover, Massachusetts
(Address of principal executive offices)

01810
(Zip Code)

Registrant's telephone number, including area code (978) 645-5500

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. (Check one):

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

As of July 29, 2015, the registrant had 53,380,341 shares of common stock outstanding.

Table of Contents

MKS INSTRUMENTS, INC.

FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1.	<u>FINANCIAL STATEMENTS (Unaudited).</u>	
	<u>Consolidated Balance Sheets June 30, 2015 and December 31, 2014</u>	3
	<u>Consolidated Statements of Operations and Comprehensive Income Three and six months ended June 30, 2015 and 2014</u>	4
	<u>Consolidated Statements of Cash Flows Six months ended June 30, 2015 and 2014</u>	5
	<u>Notes to Unaudited Consolidated Financial Statements</u>	6
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.</u>	26
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u>	34
ITEM 4.	<u>CONTROLS AND PROCEDURES.</u>	34
<u>PART II. OTHER INFORMATION</u>		
ITEM 1.	<u>LEGAL PROCEEDINGS.</u>	34
ITEM 1A.	<u>RISK FACTORS.</u>	34
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.</u>	35
ITEM 6.	<u>EXHIBITS.</u>	35
	<u>SIGNATURES</u>	36
	<u>EXHIBIT INDEX</u>	37

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MKS INSTRUMENTS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 178,319	\$ 305,437
Short-term investments	177,433	129,594
Trade accounts receivable, net	124,553	106,362
Inventories, net	165,590	155,169
Deferred income taxes	13,570	14,017
Other current assets	28,203	27,512
Total current assets	687,668	738,091
Property, plant and equipment, net	69,898	72,776
Long-term investments	256,855	157,201
Goodwill	200,212	192,381
Intangible assets, net	47,822	46,389
Other assets	17,878	17,206
Total assets	\$ 1,280,333	\$ 1,224,044
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 34,054	\$ 34,166
Accrued compensation	23,641	26,970
Income taxes payable	8,615	6,702
Other current liabilities	45,668	35,789
Total current liabilities	111,978	103,627
Other liabilities	38,919	38,595
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred Stock, \$0.01 par value per share, 2,000,000 shares authorized; none issued and outstanding		
Common Stock, no par value, 200,000,000 shares authorized; 53,367,109 and 53,154,666 shares issued and outstanding at June 30, 2015 and	113	113

Edgar Filing: MKS INSTRUMENTS INC - Form 10-Q

December 31, 2014, respectively		
Additional paid-in capital	739,567	734,732
Retained earnings	395,455	349,061
Accumulated other comprehensive loss	(5,699)	(2,084)
Total stockholders' equity	1,129,436	1,081,822
Total liabilities and stockholders' equity	\$ 1,280,333	\$ 1,224,044

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MKS INSTRUMENTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net revenues:				
Products	\$ 188,281	\$ 157,466	\$ 374,377	\$ 338,652
Services	29,685	27,231	57,428	52,398
Total net revenues	217,966	184,697	431,805	391,050
Cost of revenues:				
Cost of products	99,849	87,513	198,501	187,724
Cost of services	19,319	17,549	37,460	34,319
Total cost of revenues (exclusive of amortization shown separately below)	119,168	105,062	235,961	222,043
Gross profit	98,798	79,635	195,844	169,007
Research and development	17,567	15,421	34,247	31,039
Selling, general and administrative	33,269	32,239	64,136	66,830
Acquisition costs		271	30	499
Restructuring	219		1,007	747
Amortization of intangible assets	1,709	1,044	3,380	1,454
Income from operations	46,034	30,660	93,044	68,438
Interest income	828	243	1,369	495
Interest expense	38	12	75	29
Income before income taxes	46,824	30,891	94,338	68,904
Provision for income taxes	13,604	9,667	27,332	16,435
Net income	\$ 33,220	\$ 21,224	\$ 67,006	\$ 52,469
Other comprehensive (loss) income:				
Changes in value of financial instruments designated as cash flow hedges, net of tax benefit ⁽¹⁾	\$ (332)	\$ (682)	\$ (1,078)	\$ (845)
Foreign currency translation adjustments, net of tax of \$0	612	1,973	(2,594)	1,994
Unrealized gain on investments, net of tax (benefit) expense ⁽²⁾	(202)	7	57	43

Edgar Filing: MKS INSTRUMENTS INC - Form 10-Q

Total comprehensive income	\$ 33,298	\$ 22,522	\$ 63,391	\$ 53,661
Net income per share:				
Basic	\$ 0.62	\$ 0.40	\$ 1.26	\$ 0.98
Diluted	\$ 0.62	\$ 0.40	\$ 1.25	\$ 0.98
Cash dividends per common share	\$ 0.17	\$ 0.165	\$ 0.335	\$ 0.325
Weighted average common shares outstanding:				
Basic	53,384	53,361	53,299	53,386
Diluted	53,589	53,537	53,559	53,657

- (1) Tax (benefit) was \$(178) and \$(428) for the three months ended June 30, 2015 and 2014, respectively. Tax (benefit) was \$(387) and \$(536) for the six months ended June 30, 2015 and 2014, respectively.
- (2) Tax (benefit) expense was \$(108) and \$4 for the three months ended June 30, 2015 and 2014, respectively. Tax expense was \$21 and \$28 for the six months ended June 30, 2015 and 2014, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MKS INSTRUMENTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 67,006	\$ 52,469
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,082	8,965
Stock-based compensation	6,778	5,998
Provision for excess and obsolete inventory	6,335	5,532
Provision for bad debt	(105)	329
Deferred income taxes	342	1,396
Excess tax benefits from stock-based compensation	(869)	(348)
Other	203	24
Changes in operating assets and liabilities:		
Trade accounts receivable	(18,787)	15,842
Inventories	(18,471)	(11,804)
Income taxes	6,404	(18,235)
Other current assets	(5,964)	(3,749)
Accrued compensation	(2,439)	(19,662)
Other current and non-current liabilities	6,862	4,518
Accounts payable	(26)	(13,538)
Other assets	(155)	77
Net cash provided by operating activities	58,196	27,814
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(9,910)	(86,950)
Purchases of investments	(264,586)	(231,293)
Maturities of investments	88,857	154,505
Sales of investments	28,229	154,992
Purchases of property, plant and equipment	(5,334)	(7,255)
Other	5	135
Net cash used in investing activities	(162,739)	(15,866)
Cash flows from financing activities:		
Proceeds from short-term borrowings	2,020	
Payments of short-term borrowings	(2,020)	

Edgar Filing: MKS INSTRUMENTS INC - Form 10-Q

Repurchase of common stock	(4,341)	(20,809)
Net payments related to employee stock awards	(1,124)	(11)
Dividend payments to common stockholders	(17,868)	(17,326)
Excess tax benefits from stock-based compensation	869	348
Net cash used in financing activities	(22,464)	(37,798)
Effect of exchange rate changes on cash and cash equivalents	(111)	(263)
Decrease in cash and cash equivalents	(127,118)	(26,113)
Cash and cash equivalents at beginning of period	305,437	288,902
Cash and cash equivalents at end of period	\$ 178,319	\$ 262,789

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

1) **Basis of Presentation**

The terms MKS and the Company refer to MKS Instruments, Inc. and its subsidiaries. The interim financial data as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 are unaudited; however, in the opinion of MKS, the interim data includes all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The consolidated balance sheet presented as of December 31, 2014 has been derived from the audited consolidated financial statements as of that date. The unaudited consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by United States generally accepted accounting principles (U.S. GAAP). The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the MKS Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission on February 25, 2015.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, stock-based compensation, inventory, intangible assets, goodwill and other long-lived assets, acquisition expenses, income taxes and investments. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Reclassifications

Certain prior year amounts have been reclassified to be consistent with current year classifications.

2) **Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods and services to customers in an amount that reflects the consideration that the company expects to be entitled to in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and assets recognized from costs incurred to obtain or fulfill a contract. This pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in March 2015, the FASB proposed a one-year deferral and, in July 2015, the FASB agreed to defer by one year the mandatory effective date of its revenue recognition standard, but will also provide entities the option to adopt it as of the original effective date. The two permitted transition methods under the new

standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company has not yet selected a transition method. The Company is currently evaluating the requirements of ASU No. 2014-09 and has not yet determined its impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. Under this ASU, management will be required to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The provisions of this ASU are effective for annual periods beginning after December 15, 2016, and for annual and interim periods thereafter. This ASU is not expected to have an impact on the Company's financial statements or disclosures.

Table of Contents

MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

3) **Investments**

The fair value of short-term investments with maturities or estimated lives of less than one year consists of the following:

	June 30, 2015	December 31, 2014
Available-for-sale investments:		
Time deposits and certificates of deposit	\$ 23,630	\$ 20,900
Asset-backed securities	155	
Bankers' acceptance drafts	222	82
Commercial paper	3,450	
Corporate obligations	59,719	24,020
Municipal bonds	7,057	2,099
U.S. agency obligations	83,200	82,493
	\$ 177,433	\$ 129,594

The fair value of long-term investments with maturities of more than one year consists of the following:

	June 30, 2015	December 31, 2014
Available-for-sale investments:		
Time deposits and certificates of deposit	\$	\$