

ENTEGRIS INC  
Form 10-Q  
October 26, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 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 September 30, 2017

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 41-1941551  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

129 Concord Road, Billerica, Massachusetts 01821  
(Address of principal executive offices) (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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company

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If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No ý

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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 23, 2017 |
|--|---------------------------------|
| Common Stock, \$0.01 par value per share | 141,396,733 shares              |

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This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” “show,” “will,” “would” or the negative thereof and similar expressions are intended to identify such forward-looking statements. These forward-looking statements include those about our capital allocation strategy, which may be modified at any time for any reason, including share repurchases, dividends, debt repurchases and potential mergers and acquisitions; our liquidity; future capital and other expenditures; the Company's expected tax rate; the impact of accounting pronouncements; and other matters. These forward-looking statements are based on current management expectations and assumptions only as of the date of this Quarterly Report, are not guarantees of future performance and involve substantial risks and uncertainties that are difficult to predict and that could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. These risks and uncertainties include, but are not limited to, weakening of global and/or regional economic conditions, generally or specifically in the semiconductor industry, which could decrease the demand for our products and solutions; our ability to meet rapid demand shifts; our ability to continue technological innovation and introduce new products to meet our customers' rapidly changing requirements; our concentrated customer base; our ability to identify, effect and integrate acquisitions, joint ventures or other transactions; our ability to protect and enforce intellectual property rights; operational, political and legal risks of our international operations; our dependence on sole source and limited source suppliers; the increasing complexity of certain manufacturing processes; raw material shortages and price increases; changes in government regulations of the countries in which we operate; fluctuation of currency exchange rates; fluctuations in the market price of Entegris' stock; the level of, and obligations associated with, our indebtedness; and

other risk factors and additional information described in our filings with the Securities and Exchange Commission, including under the heading "Risks Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed on February 17, 2017, and in our other periodic filings. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission, we undertake no obligation to update publicly any forward-looking statements contained herein.

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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 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$ 435,197            | \$ 406,389           |
| Trade accounts and notes receivable, net of allowance for doubtful accounts of \$2,253 and \$2,474  | 183,417               | 165,675              |
| Inventories   | 193,302               | 183,529              |
| Deferred tax charges and refundable income taxes  | 15,720                | 20,140               |
| Other current assets  | 20,865                | 24,398               |
| Total current assets  | 848,501               | 800,131              |
| Property, plant and equipment, net of accumulated depreciation of \$419,277 and \$387,523   | 346,660               | 321,562              |
| Other assets:   |                       |                      |
| Goodwill  | 355,855               | 345,269              |
| Intangible assets, net of accumulated amortization of \$274,787 and \$237,207   | 190,754               | 217,548              |
| Deferred tax assets and other noncurrent tax assets   | 9,247                 | 8,022                |
| Other   | 6,732                 | 7,000                |
| Total assets  | \$ 1,757,749          | \$ 1,699,532         |
| <b>LIABILITIES AND EQUITY</b>   |                       |                      |
| Current liabilities:  |                       |                      |
| Long-term debt, current maturities  | \$ 100,000            | \$ 100,000           |
| Accounts payable  | 60,328                | 61,617               |
| Accrued payroll and related benefits  | 53,543                | 54,317               |
| Other accrued liabilities   | 41,618                | 29,213               |
| Income taxes payable  | 14,390                | 16,424               |
| Total current liabilities   | 269,879               | 261,571              |
| Long-term debt, excluding current maturities, net of unamortized discount and debt issuance costs of \$7,385 and \$9,173  | 411,465               | 484,677              |
| Pension benefit obligations and other liabilities   | 31,135                | 27,220               |
| Deferred tax liabilities and other noncurrent tax liabilities   | 26,905                | 26,846               |
| Commitments and contingent liabilities  | —                     | —                    |
| Equity:   |                       |                      |
| Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued and outstanding as of September 30, 2017 and December 31, 2016                               | —                     | —                    |
| Common stock, par value \$.01; 400,000,000 shares authorized; issued and outstanding shares as of September 30, 2017 and December 31, 2016: 141,473,733 and 141,319,964 | 1,415                 | 1,413                |
| Additional paid-in capital  | 864,340               | 859,778              |
| Retained earnings   | 193,658               | 92,303               |
| Accumulated other comprehensive loss  | (41,048)              | (54,276)             |
| Total equity  | 1,018,365             | 899,218              |
| Total liabilities and equity  | \$ 1,757,749          | \$ 1,699,532         |
| 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 |                 | Nine months ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | September 2017     | October 1, 2016 | September 2017    | October 1, 2016 |
| Net sales                                      | \$345,591          | \$296,692       | \$991,970         | \$866,768       |
| Cost of sales                                  | 190,184            | 173,712         | 546,664           | 489,877         |
| Gross profit                                   | 155,407            | 122,980         | 445,306           | 376,891         |
| Selling, general and administrative expenses   | 57,699             | 51,614          | 161,176           | 153,167         |
| Engineering, research and development expenses | 26,002             | 25,720          | 80,462            | 79,768          |
| Amortization of intangible assets              | 11,051             | 10,974          | 33,003            | 33,325          |
| Operating income                               | 60,655             | 34,672          | 170,665           | 110,631         |
| Interest expense                               | 7,749              | 9,468           | 24,418            | 27,778          |
| Interest income                                | (150)              | (123)           | (323)             | (233)           |
| Other expense (income), net                    | 2,906              | (565)           | 3,762             | (2,294)         |
| Income before income tax expense               | 50,150             | 25,892          | 142,808           | 85,380          |
| Income tax expense                             | 9,248              | 3,945           | 29,401            | 14,331          |
| Net income                                     | \$40,902           | \$21,947        | \$113,407         | \$71,049        |
| Basic net income per common share              | \$0.29             | \$0.16          | \$0.80            | \$0.50          |
| Diluted net income per common share            | \$0.28             | \$0.15          | \$0.79            | \$0.50          |
| Weighted shares outstanding:                   |                    |                 |                   |                 |
| Basic  | 141,684            | 141,324         | 141,627           | 141,019         |
| Diluted  | 143,594            | 142,473         | 143,472           | 141,856         |

See the accompanying notes to condensed consolidated financial statements.



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

| (In thousands)   | Three months ended |                 | Nine months ended  |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |
| Net income   | \$40,902           | \$ 21,947       | \$113,407          | \$ 71,049       |
| Other comprehensive income (loss), net of tax  |                    |                 |                    |                 |
| Foreign currency translation adjustments   | (279 )             | 10,512          | 11,805             | 17,276          |
| Reclassification of cumulative translation adjustment associated with planned sale of subsidiary | 1,400              | —               | 1,400              | —               |
| Unrealized loss on available-for-sale securities   | —                  | —               | —                  | (611 )          |
| Pension liability adjustments  | 16                 | 16              | 23                 | 47              |
| Other comprehensive income   | 1,137              | 10,528          | 13,228             | 16,712          |
| Comprehensive income   | \$42,039           | \$ 32,475       | \$126,635          | \$ 87,761       |

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<br>September 30, 2017 | October 1, 2016 |
|--|---|-----------------|
| Operating activities:  |   |                 |
| Net income   | \$ 113,407                              | \$ 71,049       |
| Adjustments to<br>reconcile net income<br>to net cash provided by<br>operating activities: |   |                 |
| Depreciation   | 43,173                                  | 41,320          |
| Amortization   | 33,003                                  | 33,325          |
| Share-based<br>compensation expense  | 11,457                                  | 10,063          |
| Provision for deferred<br>income taxes   | 254                                     | (334 )          |
| Other  | 24,028                                  | 19,667          |
| Changes in operating<br>assets and liabilities:  |   |                 |
| Trade accounts and<br>notes receivable   | (15,345 )                               | (22,252 )       |
| Inventories  | (14,884 )                               | (17,296 )       |
| Accounts payable and<br>accrued liabilities  | 7,598                                   | 26,517          |
| Other current assets   | 3,883                                   | 7,387           |
| Income taxes payable<br>and refundable income<br>taxes                                     | 1,664                                   | (11,364 )       |
| Other  | (606 )                                  | (7,606 )        |
| Net cash provided by<br>operating activities   | 207,632                                 | 150,476         |
| Investing activities:  |   |                 |
| Acquisition of<br>property, plant and<br>equipment   | (67,939 )                               | (45,268 )       |
| Acquisition of<br>business, net of cash<br>acquired  | (20,000 )                               | —               |
| Proceeds from sale and<br>maturities of<br>short-term investments                          | —                                       | 1,726           |
| Other  | 1,074                                   | (3,246 )        |
| Net cash used in<br>investing activities   | (86,865 )                               | (46,788 )       |
| Financing activities:  |   |                 |
| Payments of long-term<br>debt  | (75,000 )                               | (50,000 )       |

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|  |            |   |            |   |
|--|------------|---|------------|---|
| Issuance of common stock                                     | 3,582      |   | 2,892      |   |
| Repurchase and retirement of common stock                    | (18,000)   | ) | (3,573)    | ) |
| Taxes paid related to net share settlement of equity awards  | (5,407)    | ) | (3,316)    | ) |
| Other  | (1,270)    | ) | 493        |   |
| Net cash used in financing activities                        | (96,095)   | ) | (53,504)   | ) |
| Effect of exchange rate changes on cash and cash equivalents | 4,136      |   | 11,768     |   |
| Increase in cash and cash equivalents                        | 28,808     |   | 61,952     |   |
| Cash and cash equivalents at beginning of period             | 406,389    |   | 349,825    |   |
| Cash and cash equivalents at end of period                   | \$ 435,197 |   | \$ 411,777 |   |

Supplemental Cash Flow Information      Nine months ended  
(In thousands)      September 30, 2017      October 1, 2016

Non-cash transactions:

Capital lease obligations incurred      \$4,768      \$ —

Schedule of interest and income taxes paid:

Interest paid      \$16,167      \$ 18,995

Income taxes paid, net of refunds received      \$27,826      \$ 24,254

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”, “the Company”, “us”, “we”, or “our”) is a leading global developer, manufacturer and supplier of microcontamination control products, specialty chemicals and advanced materials handling solutions for 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, goodwill, 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 considered necessary, and are of a normal recurring nature, to present fairly the financial position as of September 30, 2017 and December 31, 2016, the results of operations, comprehensive income, and cash flows for the three and nine months ended September 30, 2017 and October 1, 2016, and cash flows for the nine months ended September 30, 2017 and October 1, 2016.

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, 2016. The results of operations for the three and nine months ended September 30, 2017 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, accrued payroll and related benefits, and other accrued liabilities approximates fair value due to the short maturity of those items. The fair value of long-term debt, including current maturities, was \$529.0 million at September 30, 2017, compared to the carrying amount of long-term debt, including current maturities, of \$511.5 million at September 30, 2017.

**Recent Accounting Pronouncements Adopted in 2017** In April 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, Compensation - Stock Compensation (Topic 718), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for tax effects related to share-based payments, forfeitures, and statutory tax withholding requirements, as well as the classification of tax-related cash flows in the statement of cash flows. The update eliminates the accounting for excess tax benefits to be recognized in additional paid-in capital and tax deficiencies recognized either in the income tax provision or in additional paid-in capital. ASU No. 2016-09 became effective for the Company on January 1, 2017. The Company adopted ASU No. 2016-09 using the modified retrospective approach. In connection with the adoption of ASU No. 2016-09, the Company elected as an accounting policy to record forfeitures as they occur and recorded a cumulative-effect adjustment of \$0.4 million to retained earnings as of January 1, 2017. The Company also recorded a cumulative-effect adjustment of \$1.0 million to retained earnings as of January 1, 2017 with respect to previously unrecognized excess tax benefits. Under ASU No. 2016-09, excess tax benefits or deficiencies related to stock option exercises and restricted stock unit vesting are recognized in the condensed statement of operations. Accordingly, for the nine months ended September 30, 2017, the Company recorded a tax benefit of \$3.4 million in the condensed statement of operations. Also related to the adoption of ASU No. 2016-09, the Company elected to present the cash flow statement using the prospective transition method. No prior periods have been adjusted.

Recent Accounting Pronouncements Yet to be Adopted In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 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. As such, revenue for an entity's contracts will generally be recognized as control of the product transfers to the customer, which is consistent with the revenue recognition model currently used for the majority of the

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Company's contracts. ASU No. 2014-09 also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers. ASU No. 2014-09 is effective for the Company beginning January 1, 2018. During 2017, the Company is assessing the impact that the adoption of ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. To assist in this assessment, and to oversee the eventual adoption of ASU No. 2014-09, the Company established a cross-functional steering committee. The analysis of identifying revenue streams and potential effects of the new guidance is substantially complete, and the Company is now analyzing the potential magnitude of impact to the consolidated financial statements and related disclosures. Based on its preliminary evaluation of ASU No. 2014-09, the Company does not currently expect it to have a material impact on its results of operations or cash flows in the periods after adoption. ASU No. 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company will adopt the standard using the modified retrospective method. The Company will complete its assessment of the estimated cumulative effect of adopting ASU No. 2014-09 during the fourth quarter. The evaluation of ASU No. 2014-09 will continue through the date of adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve-month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU No. 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases, and amortization and interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU No. 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU No. 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. ASU No. 2016-02 is effective for the Company beginning January 1, 2019. The Company is currently assessing the impact that the adoption of ASU No. 2016-02 will have on its consolidated financial statements and related disclosures.

## 2. ACQUISITION

On April 24, 2017, the Company acquired the microelectronic water and chemical filtration product line of W.L. Gore & Associates, Inc. (Gore). The acquired assets became part of the Company's Microcontamination Control (MC) segment. The transaction was accounted for under the acquisition method of accounting and the results of operations of the product line are included in the Company's consolidated financial statements as of and since April 24, 2017. The acquisition of the product line's assets and liabilities does not constitute a material business combination.

The purchase price for the product line was cash consideration of \$20.0 million, funded from the Company's existing cash on hand. Costs associated with the acquisition of the product line were not significant and were expensed as incurred.

The purchase price of the product line exceeds the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed by \$8.0 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. This additional investment value resulted in goodwill, which is expected to be deductible for income tax purposes.

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

| (In thousands) | Amount |
|----------------|--------|
|----------------|--------|

|                                |          |
|--------------------------------|----------|
| Other current assets           | \$726    |
| Property, plant and equipment  | 2,447    |
| Identifiable intangible assets | 8,820    |
| Net assets acquired            | 11,993   |
| Goodwill                       | 8,007    |
| Total purchase price           | \$20,000 |

Intangible assets, consisting mostly of technology-related intellectual property, generally will be amortized on a straight-line basis over an estimated useful life of approximately 7 years.

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As part of the accounting for this transaction, the Company allocated the purchase price of the acquired product line based on the fair value of all the assets acquired. The valuation of the assets acquired was 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.

In performing these valuations, the Company used independent appraisals, discounted cash flows and other other factors, as the best evidence of fair value. The key underlying assumptions of the discounted cash flows were projected revenues, gross margin expectations and operating cost estimates. There are inherent uncertainties and management judgment required in these determinations. No assurance can be given that the underlying assumptions will occur as projected. The fair value measurement of the assets acquired and liabilities assumed were based on valuation involving significant unobservable inputs, or Level 3 in the fair value hierarchy.

The final valuation of assets acquired and liabilities assumed was completed in the third quarter of 2017.

**3. INVENTORIES**

Inventories consist of the following:

| (In thousands)    | September 30,<br>2017 | December 31,<br>2016 |
|-------------------|-----------------------|----------------------|
| Raw materials     | \$ 57,336             | \$ 53,109            |
| Work-in process   | 17,996                | 15,976               |
| Finished goods    | 117,970               | 114,444              |
| Total inventories | \$ 193,302            | \$ 183,529           |

**4. GOODWILL AND INTANGIBLE ASSETS**

Goodwill activity for each period was as follows:

| (In thousands)               | Specialty<br>Chemicals<br>and<br>Engineered<br>Materials | Microcontamination<br>Control | Advanced<br>Materials<br>Handling | Total      |
|------------------------------|--|-------------------------------|-----------------------------------|------------|
| December 31, 2016            | \$ 297,858   | \$ —                          | \$ 47,411                         | \$ 345,269 |
| Addition due to acquisition  | —  | 8,007                         | —                                 | 8,007      |
| Foreign currency translation | 2,579  | —                             | —                                 | 2,579      |
| September 30, 2017           | \$ 300,437   | \$ 8,007                      | \$ 47,411                         | \$ 355,855 |

Identifiable intangible assets at September 30, 2017 and December 31, 2016 consist of the following:

September 30, 2017

| (In thousands)             | Gross<br>carrying<br>Amount | Accumulated<br>amortization | Net<br>carrying<br>value |
|----------------------------|-----------------------------|-----------------------------|--------------------------|
| Developed technology       | \$210,352                   | \$ 147,349                  | \$63,003                 |
| Trademarks and trade names | 16,676                      | 13,483                      | 3,193                    |
| Customer relationships     | 219,080                     | 105,581                     | 113,499                  |
| Other                      | 19,433                      | 8,374                       | 11,059                   |
|                            | \$465,541                   | \$ 274,787                  | \$ 190,754               |



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December 31, 2016

| (In thousands)             | Gross carrying amount | Accumulated amortization | Net carrying value |
|----------------------------|-----------------------|--------------------------|--------------------|
| Developed technology       | \$202,591             | \$ 126,077               | \$76,514           |
| Trademarks and trade names | 16,661                | 12,617                   | 4,044              |
| Customer relationships     | 216,918               | 90,581                   | 126,337            |
| Other                      | 18,585                | 7,932                    | 10,653             |
|                            | \$454,755             | \$ 237,207               | \$217,548          |

Future amortization expense for each of the five succeeding years and thereafter relating to intangible assets currently recorded in the Company's consolidated balance sheets is estimated at September 30, 2017 to be the following:

Fiscal year ending December 31 (In thousands)

|            |            |
|------------|------------|
| 2017       | \$ 10,996  |
| 2018       | 43,659     |
| 2019       | 41,381     |
| 2020       | 26,718     |
| 2021       | 20,086     |
| Thereafter | 47,914     |
|            | \$ 190,754 |

## 5. EARNINGS PER COMMON SHARE

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

| (In thousands)   | Three months ended |                 | Nine months ended  |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |
| Basic—weighted common shares outstanding   | 141,684            | 141,324         | 141,627            | 141,019         |
| Weighted common shares assumed upon exercise of stock options and vesting of restricted common stock | 1,910              | 1,149           | 1,845              | 837             |
| Diluted—weighted common shares and common shares equivalent outstanding                              | 143,594            | 142,473         | 143,472            | 141,856         |

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 30, 2017 and October 1, 2016:

| (In thousands)                                   | Three months ended |                 | Nine months ended  |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |
| Shares excluded from calculations of diluted EPS | 355                | 23              | 293                | 831             |

## 6. FAIR VALUE

Financial Assets Measured at Fair Value on a Recurring Basis

The following table presents the Company's financial assets that are measured at fair value on a recurring basis at September 30, 2017 and December 31, 2016. 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.

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| (In thousands)  | September 30, 2017 |         |         |       | December 31, 2016 |         |         |       |
|---|--------------------|---------|---------|-------|-------------------|---------|---------|-------|
|   | Level 1            | Level 2 | Level 3 | Total | Level 1           | Level 2 | Level 3 | Total |
| Assets:   |                    |         |         |       |                   |         |         |       |
| Other current assets                                  |                    |         |         |       |                   |         |         |       |
| Foreign currency contracts <sup>(a)</sup>             | \$—                | \$—     | \$—     | \$—   | \$—               | \$—     | \$—     | \$—   |
| Total assets measured and recorded at fair value      | \$—                | \$—     | \$—     | \$—   | \$—               | \$—     | \$—     | \$—   |
| Liabilities:  |                    |         |         |       |                   |         |         |       |
| Other accrued liabilities                             |                    |         |         |       |                   |         |         |       |
| Foreign currency contracts <sup>(a)</sup>             | \$—                | \$132   | \$—     | \$132 | \$—               | \$—     | \$—     | \$—   |
| Total liabilities measured and recorded at fair value | \$—                | \$132   | \$—     | \$132 | \$—               | \$—     | \$—     | \$—   |

(a) Based on observable market transactions of spot currency rates and forward currency rates on equivalently-termed instruments.

A reconciliation of the net fair value of foreign currency contract assets and liabilities subject to master netting arrangements that are recorded in the September 30, 2017 and December 31, 2016 condensed consolidated balance sheets to the net fair value that could have been reported in the respective condensed consolidated balance sheets is as follows:

| (In thousands)             | September 30, 2017                                    |   | December 31, 2016                                |  |
|----------------------------|---|---|--|--|
|                            | Gross amounts of recognized liabilities balance sheet | Net amount of liabilities in the condensed consolidated balance sheet | Gross amounts of recognized assets balance sheet | Net amount of assets in the condensed consolidated balance sheet |
| Foreign currency contracts | \$132   | \$—   | \$4,784  | \$—  |

Losses associated with derivatives are recorded in other income, net, in the condensed consolidated statements of operations. Losses associated with derivative instruments not designated as hedging instruments were as follows:

| (In thousands)                       | Three months ended September 30, 2017 |                 | Nine months ended September 30, 2017 |                 |
|--------------------------------------|---------------------------------------|-----------------|--------------------------------------|-----------------|
|                                      | September 30, 2017                    | October 1, 2016 | September 30, 2017                   | October 1, 2016 |
| Losses on foreign currency contracts | \$(132)                               | \$(267)         | \$(2,245)                            | \$(6,432)       |

## 7. SEGMENT REPORTING

The Company reports its financial performance based on three reportable segments, which reflects an organizational alignment intended to leverage its unique portfolio of capabilities to create value for its customers by developing mission-critical solutions to maximize manufacturing yields and enable higher performance of devices. While these segments have unique products, solutions, and technical know-how, they share a single, global sales force, unified core systems and processes, global technology centers, strategic and technology roadmaps, and a focus on a common set of customers. The Company's business is reported in the following segments:

**Specialty Chemicals and Engineered Materials (SCEM):** SCEM provides high-performance and high-purity process chemistries, gases and materials, as well as safe and efficient delivery systems to support semiconductor and other advanced manufacturing processes.

**Microcontamination Control (MC):** MC solutions purify critical liquid chemistries and gases used in semiconductor manufacturing processes and other high-technology industries.

Advanced Materials Handling (AMH): AMH develops solutions to monitor, protect, transport, and deliver critical liquid chemistries and substrates for a broad set of applications in the semiconductor industry and other high-technology industries.

Intersegment 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, corporate, finance and information technology functions as well as interest expense, amortization of intangible assets and income taxes.

Summarized financial information for the Company's reportable segments is shown in the following tables.

| (In thousands)  | Three months ended |                 | Nine months ended  |                 |
|-----------------|--------------------|-----------------|--------------------|-----------------|
|                 | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |
| Net sales       |                    |                 |                    |                 |
| SCEM            | \$124,522          | \$104,494       | \$360,131          | \$317,383       |
| MC              | 116,113            | 94,738          | 320,575            | 263,941         |
| AMH             | 104,956            | 97,460          | 311,264            | 285,444         |
| Total net sales | \$345,591          | \$296,692       | \$991,970          | \$866,768       |

| (In thousands)       | Three months ended |                 | Nine months ended  |                 |
|----------------------|--------------------|-----------------|--------------------|-----------------|
|                      | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |
| Segment profit       |                    |                 |                    |                 |
| SCEM                 | \$34,647           | \$18,811        | \$96,961           | \$70,141        |
| MC                   | 43,984             | 31,617          | 116,049            | 78,323          |
| AMH                  | 16,882             | 15,378          | 54,731             | 56,808          |
| Total segment profit | \$95,513           | \$65,806        | \$267,741          | \$205,272       |

The following table reconciles total segment profit to income before income taxes:

| (In thousands)                                  | Three months ended |                 | Nine months ended  |                 |
|---|--------------------|-----------------|--------------------|-----------------|
|   | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |
| Total segment profit                            | \$95,513           | \$65,806        | \$267,741          | \$205,272       |
| Less:   |                    |                 |                    |                 |
| Amortization of intangible assets               | 11,051             | 10,974          | 33,003             | 33,325          |
| Unallocated general and administrative expenses | 23,807             | 20,160          | 64,073             | 61,316          |
| Operating income                                | 60,655             | 34,672          | 170,665            | 110,631         |
| Interest expense                                | 7,749              | 9,468           | 24,418             | 27,778          |
| Interest income                                 | (150)              | (123)           | (323)              | (233)           |
| Other expense (income), net                     | 2,906              | (565)           | 3,762              | (2,294)         |
| Income before income tax expense                | \$50,150           | \$25,892        | \$142,808          | \$85,380        |

## 8. SUBSEQUENT EVENT

On October 18, 2017, the Company's Board of Directors declared an initial quarterly cash dividend of \$0.07 per share to be paid on November 22, 2017 to shareholders of record on the close of business on November 1, 2017. Future dividend declarations, if any, as well as the record and payment dates for such dividends, are subject to the final determination of the Company's Board of Directors.

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

The following discussion and analysis of the Company's condensed consolidated financial condition and results of operations should be read along with the condensed consolidated financial statements and the accompanying notes to the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. The information, except for historical information, contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q includes forward-looking statements that involve risks and uncertainties. These forward-looking statements could differ materially from actual results. You should review the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. 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.

#### 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 the Company's 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.

The Company is a leading global developer, manufacturer and supplier of microcontamination control products, specialty chemicals and advanced materials handling solutions for manufacturing processes in the semiconductor and other high-technology industries. Entegris seeks to leverage its unique breadth of capabilities to create value for its customers by developing mission-critical solutions to maximize manufacturing yields and enable higher device performance.

The Company's technology portfolio includes approximately 20,000 standard and customized products and solutions to achieve the highest levels of purity and performance that are essential to the manufacture of semiconductors, flat panel displays, light emitting diodes, or LEDs, high-purity chemicals, solar cells, gas lasers, optical and magnetic storage devices, and critical components for aerospace, glass manufacturing and biomedical applications. The majority of our products are consumed at various times throughout the manufacturing process, with demand driven in part by the level of semiconductor and other manufacturing activity. The Company's customers consist primarily of semiconductor manufacturers, semiconductor equipment and materials suppliers as well as thin film transistor-liquid crystal display (TFT-LCD) and hard disk manufacturers. The Company serves its customers through direct sales efforts, as well as sales and distribution relationships, in the United States, Asia, Europe and the Middle East.

The Company's business is organized and operated in three operating segments which align with the key elements of the advanced semiconductor manufacturing ecosystem. The Specialty Chemicals and Engineered Materials (SCEM) segment provides high-performance and high-purity process chemistries, gases and materials, and safe and efficient delivery systems to support semiconductor and other advanced manufacturing processes. The Microcontamination Control (MC) segment offers solutions to purify critical liquid chemistries and gases used in semiconductor manufacturing processes and other high-technology industries. The Advanced Materials Handling (AMH) segment develops solutions to monitor, protect, transport, and deliver critical liquid chemistries and substrates for a broad set of applications in the semiconductor industry and other high-technology industries. While these segments have separate products, solutions, and technical know-how, they each share a single, global sales force, unified core systems and processes, global technology centers, strategic and technology roadmaps, and a focus on a common set of customers. The Company leverages its expertise and technologies from these three segments to create new and increasingly integrated solutions for its customers.

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 2017 end April 1, 2017, July 1, 2017, September 30, 2017 and December 31, 2017. Unaudited information for the three and nine months ended September 30, 2017 and October 1, 2016 and the financial position as of September 30, 2017 and December 31, 2016

are included in this Quarterly Report on Form 10-Q.

**Key operating factors** Key factors, which management believes have the largest impact on the overall results of operations of the Company, 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.

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**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 affected by a number of factors, which include the Company's sales mix, purchase prices of raw material (especially polymers, membranes, stainless steel and purchased components), domestic and international competition, direct labor costs, and the efficiency of the Company's production operations, among others.

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

### Overall Summary of Financial Results

For the three months ended September 30, 2017, net sales increased 16% to \$345.6 million, compared to \$296.7 million for the three months ended October 1, 2016. The sales increase was due to strong across-the-board demand for the Company's products, in particular from semiconductor industry customers, reflecting both high industry fab utilization rates and increased capital spending compared to the year-ago period. Unfavorable foreign currency translation effects were \$2.9 million for the quarter. Sales of the acquired liquid filtration product line described below contributed \$0.7 million of revenue for the quarter. Exclusive of these effects, the Company's sales increased 17%.

Sales were up 5% on a sequential basis over the second quarter of 2017, including a \$1.2 million favorable foreign currency translation effect. The increase in revenue resulted from modest improvements across the Company's product lines.

The Company's gross profit for the three months ended September 30, 2017 rose to \$155.4 million, up from \$123.0 million for the three months ended October 1, 2016, mainly reflecting the increase in sales. The Company experienced a 45.0% gross margin rate for the three months ended September 30, 2017, compared to 41.5% in the comparable year-ago period.

The Company's selling, general and administrative (SG&A) expenses increased by \$6.1 million for the three months ended September 30, 2017 compared to the year-ago quarter, mainly reflecting an increase in higher compensation costs of \$1.9 million and impairment charges related to certain acquired intangible assets of \$3.9 million.

As a result of the aforementioned factors, the Company reported net income of \$40.9 million, or \$0.28 per diluted share, for the quarter ended September 30, 2017, compared to net income of \$21.9 million, or \$0.15 per diluted share, a year ago.

On April 24, 2017, the Company acquired the microelectronic water and chemical filtration product line of W.L. Gore & Associates, Inc. for \$20.0 million in cash as described in Note 2 to the condensed consolidated financial statements. The acquisition of these products complements our portfolio of advanced liquid filtration solutions. It also reflects our strategy to grow our served markets through the deployment of capital for strategic accretive acquisitions that augment our internal development initiatives.

On October 18, 2017, the Company's Board of Directors declared an initial quarterly cash dividend of \$0.07 per share to be paid on November 22, 2017 to shareholders of record on the close of business on November 1, 2017. Future dividend declarations, if any, as well as the record and payment dates for such dividends, are subject to the final determination of the Company's Board of Directors.

During the nine-month period ended September 30, 2017, the Company's operating activities provided cash flow of \$207.6 million, while cash used for capital expenditures was \$67.9 million and cash used for the payment of long-term



debt was \$75.0 million. Cash and cash equivalents were \$435.2 million at September 30, 2017, compared with cash and cash equivalents of \$406.4 million at December 31, 2016. The Company had outstanding long-term debt of \$511.5 million at September 30, 2017, compared to \$584.7 million at December 31, 2016.

#### Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations are based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed 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. Actual results may differ from these estimates under different assumptions or conditions.

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The critical accounting policies affected most significantly by estimates, assumptions and judgments used in the preparation of the Company's condensed consolidated financial statements are described in Item 7 of its Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission. On an ongoing basis, the Company evaluates the critical accounting policies used to prepare its condensed consolidated financial statements, including, but not limited to, those related to inventory valuation, impairment of long-lived assets, goodwill, income taxes and business acquisitions. There have been no material changes in these aforementioned critical accounting policies.

Three and Nine Months Ended September 30, 2017 Compared to Three and Nine Months Ended October 1, 2016 and Three Months Ended July 1, 2017

The following table compares operating results for the three and nine months ended September 30, 2017 with results for the three and nine months ended October 1, 2016 and the three months ended July 1, 2017, both in dollars and as a percentage of net sales, for each caption.

| (Dollars in thousands)                         | Three months ended |         |                 |         |              |         | Nine months ended  |         |                 |         |   |  |
|--|--------------------|---------|-----------------|---------|--------------|---------|--------------------|---------|-----------------|---------|---|--|
|  | September 30, 2017 |         | October 1, 2016 |         | July 1, 2017 |         | September 30, 2017 |         | October 1, 2016 |         |   |  |
| Net sales                                      | \$345,591          | 100.0 % | \$296,692       | 100.0 % | \$329,002    | 100.0 % | \$991,970          | 100.0 % | \$866,768       | 100.0 % |   |  |
| Cost of sales                                  | 190,184            | 55.0    | 173,712         | 58.5    | 178,699      | 54.3    | 546,664            | 55.1    | 489,877         | 56.5    |   |  |
| Gross profit                                   | 155,407            | 45.0    | 122,980         | 41.5    | 150,303      | 45.7    | 445,306            | 44.9    | 376,891         | 43.5    |   |  |
| Selling, general and administrative expenses   | 57,699             | 16.7    | 51,614          | 17.4    | 52,985       | 16.1    | 161,176            | 16.2    | 153,167         | 17.7    |   |  |
| Engineering, research and development expenses | 26,002             | 7.5     | 25,720          | 8.7     | 27,221       | 8.3     | 80,462             | 8.1     | 79,768          | 9.2     |   |  |
| Amortization of intangible assets              | 11,051             | 3.2     | 10,974          | 3.7     | 11,007       | 3.3     | 33,003             | 3.3     | 33,325          | 3.8     |   |  |
| Operating income                               | 60,655             | 17.6    | 34,672          | 11.7    | 59,090       | 18.0    | 170,665            | 17.2    | 110,631         | 12.8    |   |  |
| Interest expense                               | 7,749              | 2.2     | 9,468           | 3.2     | 8,196        | 2.5     | 24,418             | 2.5     | 27,778          | 3.2     |   |  |
| Interest income                                | (150)              | ) —     | (123)           | ) —     | (93)         | ) —     | (323)              | ) —     | (233)           | ) —     |   |  |
| Other expense (income), net                    | 2,906              | 0.8     | (565)           | (0.2)   | (46)         | ) —     | 3,762              | 0.4     | (2,294)         | (0.3)   | ) |  |
| Income before income taxes                     | 50,150             | 14.5    | 25,892          | 8.7     | 51,033       | 15.5    | 142,808            | 14.4    | 85,380          | 9.9     |   |  |
| Income tax expense                             | 9,248              | 2.7     | 3,945           | 1.3     | 11,042       | 3.4     | 29,401             | 3.0     | 14,331          | 1.7     |   |  |
| Net income                                     | \$40,902           | 11.8 %  | \$21,947        | 7.4 %   | \$39,991     | 12.2 %  | \$113,407          | 11.4 %  | \$71,049        | 8.2 %   |   |  |

Net sales For the three months ended September 30, 2017, net sales increased by 16% to \$345.6 million, compared to \$296.7 million for the three months ended October 1, 2016. An analysis of the factors underlying the increase in net sales is presented in the following table:

(In thousands)

|  |           |
|--|-----------|
| Net sales in the quarter ended October 1, 2016 | \$296,692 |
| Growth associated with volume and pricing      | 51,055    |

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|   |           |
|---|-----------|
| Increase associated with liquid filtration product line acquisition | 722       |
| Decrease associated with effect of foreign currency translation     | (2,878 )  |
| Net sales in the quarter ended September 30, 2017                   | \$345,591 |

The sales increase was due to strong across-the-board demand for the Company's products, in particular from semiconductor industry customers, reflecting both high industry fab utilization rates and increased capital spending compared to the year-ago period. As described below, each of the Company's segments experienced improved sales. Sales of the acquired liquid filtration product line, described in note 2 to the Company's condensed consolidated financial statements, contributed revenue of \$0.7 million for the quarter. Unfavorable foreign currency translation effects were \$2.9 million for the quarter, mainly due to the weakening of the Japanese yen relative to the U.S. dollar. Exclusive of these factors, the Company's sales increased 17%.

On a geographic basis, in the third quarter of 2017, total sales to Asia (excluding Japan) were 57%, to North America were 22%, to Japan were 13% and to Europe were 8%, compared to prior year third quarter sales to Asia (excluding Japan) of 57%, to North

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America of 20%, to Japan of 14% and to Europe of 9%. Sales increased by 15%, 27%, 8% and 14% in Asia (excluding Japan), North America, Japan, and Europe respectively, in the third quarter of 2017 compared to the prior year's third quarter.

Net sales for the nine months ended September 30, 2017 were \$992.0 million, up 14% from \$866.8 million in the comparable year-ago period. An analysis of the factors underlying the increase in net sales is present in the following table:

(In thousands)

|   |           |
|---|-----------|
| Net sales in the nine months ended October 1, 2016                  | \$866,768 |
| Growth associated with volume and pricing                           | 125,164   |
| Increase associated with liquid filtration product line acquisition | 2,196     |
| Decrease associated with effect of foreign currency translation     | (2,158 )  |
| Net sales in the nine months ended September 30, 2017               | \$991,970 |

The sales increase was due to strong across-the-board demand for the Company's products, in particular from semiconductor industry customers, reflecting both high industry fab utilization rates and increased capital spending compared to the year-ago period. As described below, each of the Company's segments experienced improved sales. Sales of the acquired liquid filtration product line contributed \$2.2 million of revenue for the nine months ended September 30, 2017. Unfavorable foreign currency translation effects were \$2.2 million for the nine months, mainly due to the weakening of the Japanese yen and the Korean Won relative to the U.S. dollar. Exclusive of these factors, the Company's sales increased 14%.

Sales were up 5% on a sequential basis over the second quarter of 2017, including a \$1.2 million favorable foreign currency translation effect. The increase in revenue resulted from modest improvements across the Company's product lines.

Gross profit Due mainly to the sales increase, the Company's gross profit rose 26% for the three months ended September 30, 2017 to \$155.4 million, compared to \$123.0 million for the three months ended October 1, 2016. The Company experienced a 45.0% gross margin rate for the three months ended September 30, 2017, compared to 41.5% in the comparable year-ago period. The gross profit and gross margin improvements reflect the improved factory utilization associated with strong sales levels, a slightly favorable sales mix and the absence of the qualification and start-up costs incurred at the Company's i2M center in the third quarter a year ago. These factors were partly offset by modest price erosion for certain products in response to normal competitive pressures. In addition, the gross profit and gross margin figures for the three months ended September 30, 2017 include impairment charges of \$3.4 million related to certain equipment related impairment charges.

For the nine months ended September 30, 2017, the Company's gross profit rose 18% to \$445.3 million, compared to \$376.9 million for the nine months ended October 1, 2016. The Company experienced a 44.9% gross margin rate for the nine months ended September 30, 2017, compared to 43.5% in the comparable year-ago period. Similar to the quarter-over-quarter comparison, the gross profit and gross margin improvements on a year-to-date basis reflect the improved factory utilization associated with strong sales levels and the absence of the qualification and start-up costs incurred at the Company's i2M center in the first nine months of 2016. These factors were also partly offset by the price erosion noted in the preceding paragraph. In addition, the gross profit and gross margin figures for the nine months ended September 30, 2017 include impairment charges of \$5.3 million related to certain equipment-related impairment charges.

Selling, general and administrative expenses Selling, general and administrative (SG&A) expenses were \$57.7 million for the three months ended September 30, 2017, up \$6.1 million, or 12%, from the comparable three-month period a year earlier. An analysis of the factors underlying the increase in SG&A is presented in the following table:

(In thousands)

|  |       |        |
|--|-------|--------|
| Selling, general and administrative expenses in the quarter ended October 1, 2016    | \$    | 51,614 |
| Employee costs   | 1,878 |        |
| Impairment charge related to acquired intangible assets                              | 3,866 |        |
| Other increases, net   | 341   |        |
| Selling, general and administrative expenses in the quarter ended September 30, 2017 | \$    | 57,699 |

SG&A expenses were \$161.2 million for the first nine months of 2017, up 5%, compared to SG&A expenses of \$153.2 million in the year-ago period. An analysis of the factors underlying changes in SG&A is presented in the following table:

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(In thousands)

|  |           |
|--|-----------|
| Selling, general and administrative expenses in the nine months ended October 1, 2016    | \$153,167 |
| Employee costs   | 4,639     |
| Impairment charge related to acquired intangible assets                                  | 3,866     |
| Other decreases, net   | (496 )    |
| Selling, general and administrative expenses in the nine months ended September 30, 2017 | \$161,176 |

Engineering, research and development expenses The Company's engineering, research and development (ER&D) efforts focus on the support or extension of current product lines and the development of new products and manufacturing technologies. ER&D expenses were \$26.0 million in the three months ended September 30, 2017, compared to \$25.7 million in the year-ago period, a \$0.3 million increase. The increase for the quarter was mainly due to higher employee costs and an equipment impairment charge of \$0.9 million, offset partially by lower project costs.

ER&D expenses increased nominally to \$80.5 million in the first nine months of 2017, compared to \$79.8 million in the year ago period, primarily due to higher employee costs, offset partially by lower project costs.

Interest expense Interest expense includes interest associated with debt outstanding issued to help fund the 2014 acquisition of ATMI, Inc. and the amortization of debt issuance costs associated with such borrowings. Interest expense was \$7.7 million in the three months ended September 30, 2017, compared to \$9.5 million in the three-month period ended October 1, 2016. The decrease reflects lower average outstanding borrowings due to the Company's payments on its senior secured term loan.

Interest expense was \$24.4 million in the nine-month period ended September 30, 2017, compared to \$27.8 million in the nine-month period ended October 1, 2016, also reflecting lower average outstanding borrowings under its senior secured term loan.

Other expense (income), net Other expense, net was \$2.9 million in the three months ended September 30, 2017 and consisted mainly of an impairment charge of \$2.8 million. Other expense, net was \$3.8 million in the nine months ended September 30, 2017 and consisted mainly of foreign currency transaction losses and the aforementioned impairment charge of \$2.8 million.

Other income, net was \$0.6 million and \$2.3 million in the three and nine months ended October 1, 2016, respectively, and consisted mainly of foreign currency transaction gains.

Income tax expense The Company recorded income tax expense of \$9.2 million and \$29.4 million in the three and nine months ended September 30, 2017, compared to income tax expense of \$3.9 million and \$14.3 million in the three and nine months ended October 1, 2016. The Company's year-to-date effective tax rate was 20.6% in 2017, compared to 16.8% in 2016. The tax rate in both years reflect the benefit of foreign source income being taxed at lower rates than the U.S. statutory rate. Year-to-date income tax expense in 2017 includes a discrete benefit of \$3.4 million recorded in connection with share-based compensation. Upon the adoption of ASU No. 2016-09 (see Note 1 to the condensed consolidated financial statements), excess tax benefits are recorded in the statement of operations as they occur. Also included in income tax expense in 2017 is a discrete charge of \$3.6 million to correct an error related to the tax effects of intercompany sales and the related intercompany profit. Year-to-date income tax expense in 2016 included a discrete benefit of \$1.1 million recorded in the second quarter of 2016 related to the consolidation of certain of the Company's Taiwan entities.

Net income Reflecting the factors noted above, the Company recorded net income of \$40.9 million, or \$0.28 per diluted share, in the three-month period ended September 30, 2017, compared to net income of \$21.9 million, or \$0.15 per diluted share, in the three-month period ended October 1, 2016. In the nine-month period ended September 30, 2017, the Company recorded net income of \$113.4 million, or \$0.79 per diluted share, compared to net income of \$71.0 million, or \$0.50 per diluted share, in the nine-month period ended October 1, 2016.

Non-GAAP Measures The Company's condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP). The Company also utilizes certain non-GAAP financial measures as a complement to financial measures provided in accordance with GAAP in order to better assess and reflect trends affecting the Company's business and results of operations. See the section "Non-GAAP Information" included below in this section for additional detail, including the definition of non-GAAP financial measures and the reconciliation of GAAP measures to the Company's non-GAAP measures.

The Company's non-GAAP financial measures are Adjusted EBITDA and Adjusted Operating Income, together with related measures thereof, and non-GAAP Earnings Per Share.

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Adjusted Operating Income increased 50% to \$81.1 million in the three-month period ended September 30, 2017, compared to \$53.9 million in the three-month period ended October 1, 2016. Adjusted Operating Income, as a percent of net sales, increased to 23.5% from 18.2% in the year-ago period. Adjusted Operating Income increased 42% to \$216.8 million in the nine-month period ended September 30, 2017, compared to \$152.2 million in the nine-month period ended October 1, 2016. In the nine-month period ended September 30, 2017, Adjusted Operating Income, as a percent of net sales, increased to 21.9% from 17.6% in the year-ago period.

Adjusted EBITDA increased 42% to \$95.9 million in the three-month period ended September 30, 2017, compared to \$67.7 million in the three-month period ended October 1, 2016. Adjusted EBITDA, as a percent of net sales, increased to 27.7% from 22.8% in the year-ago period. Adjusted EBITDA increased 34% to \$259.9 million in the nine-month period ended September 30, 2017, compared to \$193.5 million in the nine-month period ended October 1, 2016. In the nine-month period ended September 30, 2017, Adjusted EBITDA, as a percent of net sales, increased to 26.2% from 22.3% in the year-ago period.

Non-GAAP Earnings Per Share increased 67% to \$0.40 in the three-month period ended September 30, 2017, compared to \$0.24 in the three-month period ended October 1, 2016. Non-GAAP Earnings Per Share increased 48% to \$1.02 in the nine-month period ended September 30, 2017, compared to \$0.69 in the nine-month period ended October 1, 2016.

## Segment Analysis

The Company reports its financial performance based on three reporting segments. The following is a discussion on the results of operations of these three business segments. See Note 7 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 reportable segments for the three months ended September 30, 2017, October 1, 2016 and July 1, 2017 and nine months ended September 30, 2017 and October 1, 2016.

| (In thousands)                                      | Three months ended |                 |              | Nine months ended  |                 |
|---|--------------------|-----------------|--------------|--------------------|-----------------|
|   | September 30, 2017 | October 1, 2016 | July 1, 2017 | September 30, 2017 | October 1, 2016 |
| <b>Specialty Chemicals and Engineered Materials</b> |                    |                 |              |                    |                 |
| Net sales   | \$124,522          | \$104,494       | \$121,174    | \$360,131          | \$317,383       |
| Segment profit                                      | 34,647             | 18,811          | 34,174       | 96,961             | 70,141          |
| <b>Microcontamination Control</b>                   |                    |                 |              |                    |                 |
| Net sales   | 116,113            | 94,738          | 104,407      | 320,575            | 263,941         |
| Segment profit                                      | 43,984             | 31,617          | 36,484       | 116,049            | 78,323          |
| <b>Advanced Materials Handling</b>                  |                    |                 |              |                    |                 |
| Net sales   | 104,956            | 97,460          | 103,421      | 311,264            | 285,444         |
| Segment profit                                      | 16,882             | 15,378          | 19,573       | 54,731             | 56,808          |

## Specialty Chemicals and Engineered Materials (SCEM)

For the third quarter of 2017, SCEM net sales increased to \$124.5 million, compared to \$104.5 million in the comparable period last year. The sales increase was due to improved sales of specialty gases and glass forming materials products. SCEM reported a segment profit of \$34.6 million in the third quarter of 2017, up 84% from \$18.8 million in the year-ago period. The segment profit improvement was primarily due to higher gross profit related to the increased sales, partially offset by a 4% increase in operating expenses.

For the nine months ended September 30, 2017, SCEM net sales increased to \$360.1 million, compared to \$317.4 million in the comparable period last year. Similar to the period described above, this increase also reflects improved



sales of specialty gases and specialty materials products. SCEM reported a segment profit of \$97.0 million in the nine months ended September 30, 2017, up 38% from \$70.1 million in the year-ago period period also due to higher sales levels. Operating expenses were flat compared to the year-ago period.

Microcontamination Control (MC)

For the third quarter of 2017, MC net sales increased to \$116.1 million, compared to \$94.7 million in the comparable period last year. The sales increase was due to strength in liquid chemistry filters for wet, etch and clean and photolithography applications, and gas filtration products. In addition, the liquid filtration product line acquisition described in Note 2 to the condensed consolidated financial statements contributed sales of \$0.7 million. MC reported a segment profit of \$44.0 million in

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the third quarter of 2017, up 39% from \$31.6 million in the year-ago period. The segment profit improvement was primarily due to higher gross profit related to the increased sales, the absence of the qualification and start-up costs incurred at the Company's i2M center in the year-ago period and an 1% decrease in operating expenses compared to the year-ago period.

For the nine months ended September 30, 2017, MC net sales increased to \$320.6 million, compared to \$263.9 million in the comparable period last year. Similar to the period described above, this increase also reflects improved sales of wet, etch and clean, photolithography applications, and gas filtration products. In addition, the liquid filtration product line acquisition contributed sales of \$2.2 million as noted above. MC reported a segment profit of \$116.0 million in the nine months ended September 30, 2017, up 48% from \$78.3 million in the year-ago period. The segment profit improvement was primarily due to higher gross profit related to the increased sales and the absence of the qualification and start-up costs incurred at the Company's i2M center in the year-ago period. Operating expenses were flat compared to the year-ago period.

### Advanced Materials Handling (AMH)

For the third quarter of 2017, AMH net sales increased to \$105.0 million, compared to \$97.5 million in the comparable period last year. The sales increase was due to improved sales of wafer shipping and wafer and reticle handling products. AMH reported a segment profit of \$16.9 million in the third quarter of 2017, up 10% from \$15.4 million in the year-ago period. The segment profit improvement was primarily due to increased sales, partially offset by impairment and severance charges of \$5.2 million, the latter item accounting for most of the 13% increase in operating expenses.

For the nine months ended September 30, 2017, AMH net sales increased to \$311.3 million, compared to \$285.4 million in the comparable period last year. This increase reflects improved sales of fluid handling products, wafer and reticle handling products, and wafer shipping products, offset by a decrease in liquid packaging product sales. AMH reported a segment profit of \$54.7 million in the nine months ended September 30, 2017, down 4% from \$56.8 million in the year-ago period despite higher sales levels, due to an unfavorable sales mix, the effect of modest selling price erosion on legacy products, impairment and severance charges of \$7.5 million, the latter item accounting for most of the 11% increase in operating expenses.

### Unallocated general and administrative expenses

Unallocated general and administrative expenses totaled \$23.8 million in the third quarter of 2017, compared to \$20.2 million in the third quarter of 2016. The \$3.6 million increase includes a \$3.9 million impairment charge related to certain acquired intangible assets.

Unallocated general and administrative expenses for the nine months ended September 30, 2017 totaled \$64.1 million, down from \$61.3 million in the nine months ended October 1, 2016. The \$2.8 million increase includes the \$3.9 million impairment charge noted above.

### Liquidity and Capital Resources

Operating activities Cash flows provided by operating activities totaled \$207.6 million in the nine months ended September 30, 2017. Operating cash flows reflecting net income adjusted for non-cash expenses (such as depreciation, amortization and share-based compensation) was offset by changes in operating assets and liabilities of \$17.7 million, mainly reflecting increases in accounts receivable and inventories, offset by increases in other accrued liabilities. Accounts receivable increased by \$17.7 million during the nine months ended September 30, 2017, or \$15.3 million after accounting for foreign currency translation, mainly reflecting the increase in sales, offset partly by an improvement in the Company's days sales outstanding (DSO). The Company's DSO was 48 days at September 30, 2017, compared to 49 days at the beginning of the year.

Inventories increased by \$9.8 million during the nine months ended September 30, 2017, or \$14.9 million after accounting for foreign currency translation and the provision for excess and obsolete inventory. The increase reflects

higher amounts of all inventory categories due to the increased business activity associated with higher sales and bookings levels.

Accounts payable and accrued liabilities increased \$10.3 million during the nine months ended September 30, 2017, or \$7.6 million after accounting for foreign currency translation. A key component of the increase is higher accrued interest payable than at December 31, 2016.

Working capital at September 30, 2017 was \$578.6 million, compared to \$538.6 million as of December 31, 2016, and included \$435.2 million in cash and cash equivalents, compared to cash and cash equivalents of \$406.4 million as of December 31, 2016.

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Investing activities Cash flows used in investing activities totaled \$86.9 million in the nine-month period ended September 30, 2017.

Acquisition of property and equipment totaled \$67.9 million, which primarily reflected investments in equipment and tooling.

As of September 30, 2017, the Company expects its full-year capital expenditures in 2017 to be approximately \$90 million to \$100 million. As of September 30, 2017, the Company had outstanding capital purchase obligations of \$17.8 million for the construction or purchase of plant and equipment not yet recorded in the Company's condensed consolidated financial statements as the Company had not yet received the related goods or property.

On April 24, 2017, the Company acquired the microelectronic water and chemical filtration product line of W.L. Gore & Associates, Inc. The purchase price for the product line included cash consideration of \$20.0 million, funded from the Company's existing cash on hand. The transaction is described in further detail in note 2 to the Company's condensed consolidated financial statements.

Financing activities Cash flows used in financing activities totaled \$96.1 million during the nine-month period ended September 30, 2017. This primarily reflects the Company's payments of \$75.0 million on its senior secured term loan described below. In addition, the Company repurchased shares of the Company's common stock during the first nine months of 2017 at a total cost of \$18.0 million under the stock repurchase program authorized by the Company's Board of Directors. The Company received proceeds of \$3.6 million in connection with common shares issued under the Company's stock plans, while expending \$5.4 million for taxes related to the net share settlement of equity awards under those plans.

As of September 30, 2017, the Company had outstanding long-term debt, including the current portion thereof, of \$511.5 million, related to debt issued by the Company, as discussed in more detail below.

At September 30, 2017, the Company had an outstanding \$360 million aggregate principal amount of 6% senior unsecured notes due April 1, 2022.

On April 30, 2014, the Company entered into a term loan facility that provided senior secured financing of \$460 million. 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 may voluntarily prepay outstanding loans under the term loan facility at any time. During the first quarter of 2017, the Company and its lenders agreed to an amendment of the term loan agreement that decreases the applicable margin for the Company's term loan from 2.75% to 2.25% per annum for LIBOR borrowings, with a LIBOR floor of 0.0%, and from 1.75% to 1.25% per annum for base rate borrowings, with a base rate floor of 1.00%. The principal amount outstanding under the term loan facility at September 30, 2017 was \$158.9 million. Based on management's plans and intent, the Company reflects \$100 million of the term loan as current maturities of long-term debt in its condensed consolidated balance sheet as of September 30, 2017.

The Company also has a senior secured asset-based revolving credit facility maturing April 30, 2019 that provides financing of \$75 million, subject to a borrowing base. The senior secured asset-based revolving credit facility bears interest at a rate per annum equal to at the Company's option, a base rate (prime rate or LIBOR), plus an applicable margin. As of September 30, 2017, the Company had no outstanding borrowings and \$0.2 million undrawn on outstanding letters of credit under the senior secured asset-based revolving credit facility.

Through September 30, 2017, the Company was in compliance with all applicable financial covenants included in the terms of its senior unsecured notes, senior secured term loan facility and senior secured asset-based revolving credit facility.

The Company also has lines of credit with two banks that provide for borrowings of Japanese yen for the Company's Japanese subsidiary, equivalent to an aggregate of approximately \$10.7 million. There were no outstanding borrowings under these lines of credit at September 30, 2017.

On October 18, 2017, the Company's Board of Directors declared an initial quarterly cash dividend of \$0.07 per share to be paid on November 22, 2017 to shareholders of record on the close of business on November 1, 2017. Future dividend declarations, if any, as well as the record and payment dates for such dividends, are subject to the final determination of the Company's Board of Directors.

The Company believes that its cash and cash equivalents, funds available under its senior secured asset-based 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 at least 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 would need to pursue alternative arrangements through

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additional equity or debt financing in order to meet the Company's cash requirements. There can be no assurance that any such financing would be available on commercially acceptable terms.

At September 30, 2017, the Company's shareholders' equity was \$1,018.4 million, up from \$899.2 million at the beginning of the year. The increase mainly reflected net income of \$113.4 million, an increase to additional paid-in capital of \$11.5 million associated with the Company's share-based compensation expense, proceeds of \$3.6 million in connection with common shares issued under the Company's stock plans, and favorable foreign currency translation effects of \$11.8 million, mainly associated with the weakening of the U.S. dollar versus the Korean won and Japanese yen. These increases were offset partly by the repurchase of the Company's common stock at a total cost of \$18.0 million and the payment of \$5.4 million for taxes related to the net share settlement of equity awards under the Company's stock plans.

As of September 30, 2017, the Company's resources included cash and cash equivalents of \$435.2 million, funds available under its senior secured asset-based revolving credit facility and international credit facilities, and cash flow generated from operations. As of September 30, 2017, the amount of cash and cash equivalents held by foreign subsidiaries was \$323.0 million. These amounts held by foreign subsidiaries, certain of which are associated with indefinitely reinvested foreign earnings, may be subject to U.S. income taxation on repatriation to the United States. The Company does not anticipate the need to repatriate funds associated with indefinitely reinvested foreign earnings to the United States to satisfy domestic liquidity needs arising in the ordinary course of business. The Company believes its existing balances of domestic cash and cash equivalents, available cash and cash equivalents held by foreign subsidiaries not associated with indefinitely reinvested foreign earnings and operating cash flows will be sufficient to meet the Company's domestic cash needs arising in the ordinary course of business for the next twelve months.

Recently adopted accounting pronouncements Refer to Note 1 to the Company's condensed consolidated financial statements for a discussion of accounting pronouncements recently adopted.

Recently issued accounting pronouncements Refer to Note 1 to the Company's condensed consolidated financial statements for a discussion of accounting pronouncements recently issued by not yet adopted.

Non-GAAP Information The Company's condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP).

The Company also provides certain non-GAAP financial measures as a complement to financial measures provided in accordance with GAAP in order to better assess and reflect trends affecting the Company's business and results of operations. Regulation G, "Conditions for Use of Non-GAAP Financial Measures," and other regulations under the Securities Exchange Act of 1934, as amended, define and prescribe the conditions for use of certain non-GAAP financial information. The Company provides non-GAAP financial measures of Adjusted EBITDA and Adjusted Operating Income together with related measures thereof, and non-GAAP Earnings Per Share (EPS).

Adjusted EBITDA, a non-GAAP term, is defined by the Company as net income before (1) income tax expense, (2) interest expense, (3) interest income, (4) other expense (income), net, (5) severance, (6) impairment of equipment and intangibles, (7) amortization of intangible assets and (8) depreciation. Adjusted Operating Income, another non-GAAP term, is defined by the Company as Adjusted EBITDA exclusive of the depreciation addback noted above. The Company also utilizes non-GAAP measures whereby Adjusted EBITDA and Adjusted Operating Income are each divided by the Company's net sales to derive Adjusted EBITDA Margin and Adjusted Operating Margin, respectively.

Non-GAAP EPS, a non-GAAP term, is defined by the Company as net income before (1) severance, (2) impairment of equipment and intangibles, (3) gain on sale of equity investment, (4) amortization of intangible assets and (5) the tax effect of those adjustments to net income and discrete items, stated on a per share basis.

The Company provides supplemental non-GAAP financial measures to better understand its business and believes these measures provide investors and analysts additional and meaningful information for the assessment of the Company's ongoing results. As described below, management also uses these non-GAAP measures to assist in the

evaluation of the performance of its business segments and to make operating decisions.

Management believes the Company's 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 and offer a useful view of business performance in that the measures provide a more consistent means of comparing performance. The Company believes the non-GAAP measures aid investors' overall understanding of the Company's results by providing a higher degree of transparency for such items and providing a level of disclosure that will help investors understand how management plans, measures and evaluates the Company's business performance. Management believes that the inclusion of non-GAAP measures

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provides consistency in its financial reporting and facilitates investors' understanding of the Company's historical operating trends by providing an additional basis for comparisons to prior periods.

Management uses Adjusted EBITDA and Adjusted Operating Income to assist it in evaluations of the Company's operating performance by excluding items that management does not consider as relevant in the results of its ongoing operations. Internally, these non-GAAP measures are used by management for planning and forecasting purposes, including the preparation of internal budgets; for allocating resources to enhance financial performance; for evaluating the effectiveness of operational strategies; and for evaluating the Company's capacity to fund capital expenditures, secure financing and expand its business.

In addition, and as a consequence of the importance of these non-GAAP financial measures in managing its business, the Company's Board of Directors uses non-GAAP financial measures in the evaluation process to determine management compensation.

The Company believes that certain analysts and investors use Adjusted EBITDA, Adjusted Operating Income and non-GAAP EPS as supplemental measures to evaluate the overall operating performance of firms in the Company's industry. Additionally, lenders or potential lenders use Adjusted EBITDA measures to evaluate the Company's creditworthiness.

The presentation of non-GAAP financial 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. Management strongly encourages investors to review the Company's consolidated financial statements in their entirety and to not rely on any single financial measure.

Management notes that the use of non-GAAP measures has limitations:

First, non-GAAP financial measures are not standardized. Accordingly, the methodology used to produce the Company's non-GAAP financial measures is not computed under GAAP and may differ notably from the methodology used by other companies. For example, the Company's non-GAAP measure of Adjusted EBITDA may not be directly comparable to EBITDA or an adjusted EBITDA measure reported by other companies.

Second, the Company's non-GAAP financial measures exclude items such as amortization and depreciation that are recurring. Amortization of intangibles and depreciation have been, and will continue to be for the foreseeable future, a significant recurring expense with an impact upon the Company's results of operations, notwithstanding the lack of immediate impact upon cash flows.

Third, there is no assurance the Company will not have future restructuring activities, translation-related costs, gains or losses on sale of equity investments, or similar items and, therefore, may need to record additional charges (or credits) associated with such items, including the tax effects thereon. The exclusion of these items from the Company's non-GAAP measures should not be construed as an implication that these costs are unusual, infrequent or non-recurring.



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Management considers these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP financial measures and evaluating these non-GAAP financial measures together with their most directly comparable financial measures calculated in accordance with GAAP. The calculations of Adjusted EBITDA, Adjusted Operating Income, and non-GAAP EPS, and reconciliations between these financial measures and their most directly comparable GAAP equivalents, are presented below in the accompanying tables.

## Reconciliation of GAAP Net Income to Adjusted Operating Income and Adjusted EBITDA

| (In thousands)                                       | Three months ended |                 | Nine months ended  |                 |   |
|--|--------------------|-----------------|--------------------|-----------------|---|
|  | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |   |
| Net sales  | \$345,591          | \$296,692       | \$991,970          | \$866,768       |   |
| Net income   | \$40,902           | \$21,947        | \$113,407          | \$71,049        |   |
| Adjustments to net income                            |                    |                 |                    |                 |   |
| Income tax expense                                   | 9,248              | 3,945           | 29,401             | 14,331          |   |
| Interest expense                                     | 7,749              | 9,468           | 24,418             | 27,778          |   |
| Interest income                                      | (150)              | (123)           | (323)              | (233)           |   |
| Other expense income), net                           | 2,906              | (565)           | 3,762              | (2,294)         |   |
| GAAP – Operating income                              | 60,655             | 34,672          | 170,665            | 110,631         |   |
| Severance  | 2,141              | 2,405           | 2,700              | 2,405           |   |
| Impairment of equipment and intangibles <sup>1</sup> | 7,230              | 5,826           | 10,400             | 5,826           |   |
| Amortization of intangible assets                    | 11,051             | 10,974          | 33,003             | 33,325          |   |
| Adjusted operating income                            | 81,077             | 53,877          | 216,768            | 152,187         |   |
| Depreciation   | 14,785             | 13,795          | 43,173             | 41,320          |   |
| Adjusted EBITDA                                      | \$95,862           | \$67,672        | \$259,941          | \$193,507       |   |
| Adjusted operating income – as a % of net sales      | 23.5               | % 18.2          | % 21.9             | % 17.6          | % |
| Adjusted EBITDA – as a % of net sales                | 27.7               | % 22.8          | % 26.2             | % 22.3          | % |

<sup>1</sup>Includes product line impairment charges of \$3,364 and \$5,826 classified as cost of sales for the three months ended September 30, 2017 and October 1, 2016, respectively. Includes product line impairment charges of \$5,330 and \$5,826 classified as cost of sales for the nine months ended September 30, 2017 and October 1, 2016, respectively.

Includes intangible impairment charge of \$3,866 classified as selling general and administrative expense for both the three and nine months ended September 30, 2017.

Includes product line impairment charge of \$320 classified as selling general and administrative expense for both the three and nine months ended September 30, 2017.

Includes product line impairment charge of \$884 classified as engineering, research and development expense for the nine months ended September 30, 2017.

Reconciliation of GAAP Earnings per Share to Non-GAAP Earnings per Share

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| (In thousands, except per share data)                          | Three months ended |                 | Nine months ended  |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |
| Net income   | \$40,902           | \$21,947        | \$113,407          | \$71,049        |
| Adjustments to net income                                      |                    |                 |                    |                 |
| Severance  | 2,141              | 2,405           | 2,700              | 2,405           |
| Impairment of equipment and intangibles <sup>1</sup>           | 10,030             | 5,826           | 13,200             | 5,826           |
| Gain on sale of equity investment                              | —                  | —               | —                  | (156 )          |
| Amortization of intangible assets                              | 11,051             | 10,974          | 33,003             | 33,325          |
| Tax effect of adjustments to net income and discrete tax items | (7,135 )           | (6,505 )        | (15,661 )          | (13,895 )       |
| Non-GAAP net income  | \$56,989           | \$34,647        | \$146,649          | \$98,554        |
| Diluted earnings per common share                              | \$0.28             | \$0.15          | \$0.79             | \$0.50          |
| Effect of adjustments to net income                            | 0.11               | 0.09            | 0.23               | 0.19            |
| Diluted non-GAAP earnings per common share                     | \$0.40             | \$0.24          | \$1.02             | \$0.69          |

<sup>1</sup>Includes product line impairment charges of \$3,364 and \$5,826 classified as cost of sales for the three months ended September 30, 2017 and October 1, 2016, respectively. Includes product line impairment charges of \$5,330 and \$5,826 classified as cost of sales for the nine months ended September 30, 2017 and October 1, 2016, respectively.

Includes intangible impairment charge of \$3,866 classified as selling general and administrative expense for both the three and nine months ended September 30, 2017.

Includes product line impairment charge of \$320 classified as selling general and administrative expense for the nine months ended September 30, 2017.

Includes product line impairment charge of \$884 classified as engineering, research and development expense for the nine months ended September 30, 2017.

Includes product line impairment charge of \$2,800 classified as other expense for both the three and nine months ended September 30, 2017.

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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 and senior secured financing obligation are subject to interest rate fluctuations. 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 \$1.8 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 September 30, 2017, the Company had no net exposure to any foreign currency forward contracts.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), 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 September 30, 2017. The term "disclosure controls and procedures" means controls and other procedures of a company that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the 1934 Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on management's evaluation (with the participation of our CEO and CFO), as of September 30, 2017, the Company's CEO and CFO have concluded that the disclosure controls and procedures used by the Company were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the 1934 Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II

## OTHER INFORMATION

## Item 1. Legal Proceedings

As of September 30, 2017, the Company is subject to various claims, legal actions, and complaints arising in the ordinary course of business. The Company believes the final outcome of these matters will not have a material adverse effect on its condensed consolidated financial statements. The Company expenses legal costs as incurred.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## Issuer Purchases of Equity Securities

The following table provides information concerning shares of the Company's Common Stock \$0.01 par value purchased during the three months ended September 30, 2017.

| Period                                 | (a)<br>Total Number of<br>Shares<br>Purchased <sup>(1)</sup> | (b)<br>Average<br>Price Paid<br>per Share | (c)<br>Total Number of Shares<br>Purchased as Part of Publicly<br>Announced Plans or<br>Programs | (d)<br>Maximum Number (or Approximate<br>Dollar Value) of Shares that May Yet<br>Be Purchased Under the Plans or<br>Programs |
|--|--|---|--|--|
| July 2 - August<br>5, 2017             | 94,500   | \$24.89                                   | 94,500   | \$82,075,293   |
| August 6 -<br>September 2,<br>2017     | 150,000  | \$24.57                                   | 150,000  | \$78,390,572   |
| September 3 -<br>September 30,<br>2017 | 145,210  | \$27.29                                   | 145,210  | \$74,427,330   |
| Total                                  | 389,710  | \$25.66                                   | 389,710  | \$74,427,330   |

<sup>(1)</sup> On February 15, 2017, the Company's Board of Directors authorized a repurchase program covering up to an aggregate of \$100 million of the Company's common stock in open market transactions and in accordance with one or more pre-arranged stock trading plans to be established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. This authorization expires on February 15, 2018. This repurchase program represents a renewal and replacement of the \$100 million repurchase program originally authorized by the Board of Directors on February 5, 2016, which expired February 15, 2017.

## Item 6. Exhibits

|         |   |
|---------|---|
| 31.1    | <u>Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a).</u>  |
| 31.2    | <u>Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a).</u>  |
| 32.1    | <u>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.</u> |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |



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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 26, 2017 /s/ Gregory B. Graves  
Gregory B. Graves  
Executive Vice President and Chief Financial  
Officer (on behalf of the registrant and as  
principal financial officer)

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EXHIBIT INDEX

|         |   |
|---------|---|
| 31.1    | <u>Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a).</u>  |
| 31.2    | <u>Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a).</u>  |
| 32.1    | <u>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.</u> |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |