

MKS INSTRUMENTS INC
Form 10-Q
May 06, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from _____ to _____

Commission file number 0-23621

MKS INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

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

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

01810
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 29, 2016, the registrant had 53,373,754 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 357,855	\$ 227,574
Short-term investments	308,768	430,663
Trade accounts receivable, net	113,472	101,883
Inventories, net	151,650	152,631
Other current assets	27,388	26,760
Total current assets	959,133	939,511
Property, plant and equipment, net	67,561	68,856
Goodwill	199,999	199,703
Intangible assets, net	42,575	44,027
Other assets	21,392	21,250
Total assets	\$ 1,290,660	\$ 1,273,347
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 28,076	\$ 23,177
Accrued compensation	20,983	28,424
Income taxes payable	3,510	4,024
Other current liabilities	45,372	35,359
Total current liabilities	97,941	90,984
Other liabilities	21,650	21,482
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred Stock, \$0.01 par value per share, 2,000,000 shares authorized; none issued and outstanding		
Common Stock, no par value, 200,000,000 shares authorized; 53,305,017 and 53,199,720 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	113	113
Additional paid-in capital	745,840	744,725

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Retained earnings	434,803	427,214
Accumulated other comprehensive loss	(9,687)	(11,171)
Total stockholders' equity	1,171,069	1,160,881
Total liabilities and stockholders' equity	\$ 1,290,660	\$ 1,273,347

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

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MKS INSTRUMENTS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 AND COMPREHENSIVE INCOME
 (in thousands, except per share data)
 (Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net revenues:		
Products	\$ 153,621	\$ 186,096
Services	30,060	27,743
Total net revenues	183,681	213,839
Cost of revenues:		
Cost of products	85,352	98,652
Cost of services	20,416	18,141
Total cost of revenues (exclusive of amortization shown separately below)	105,768	116,793
Gross profit	77,913	97,046
Research and development	17,227	16,680
Selling, general and administrative	33,950	30,867
Acquisition costs	2,494	30
Restructuring		788
Amortization of intangible assets	1,683	1,671
Income from operations	22,559	47,010
Interest and other income, net	1,246	504
Income before income taxes	23,805	47,514
Provision for income taxes	6,242	13,728
Net income	\$ 17,563	\$ 33,786
Other comprehensive income:		
Changes in value of financial instruments designated as cash flow hedges, net of tax benefit ⁽¹⁾	\$ (1,546)	\$ (822)
Foreign currency translation adjustments, net of tax of \$0	2,652	(3,206)
Unrealized gain on investments, net of tax expense ⁽²⁾	378	334
Total comprehensive income	\$ 19,047	\$ 30,092

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Net income per share:			
Basic	\$	0.33	\$ 0.63
Diluted	\$	0.33	\$ 0.63
Cash dividends per common share	\$	0.17	\$ 0.165
Weighted average common shares outstanding:			
Basic		53,235	53,214
Diluted		53,563	53,529

- (1) Tax benefit was \$1,041 and \$133 for the three months ended March 31, 2016 and 2015, respectively.
(2) Tax expense was \$254 and \$54 for the three months ended March 31, 2016 and 2015, respectively.

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

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MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash flows provided by operating activities:		
Net income	\$ 17,563	\$ 33,786
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,278	5,532
Stock-based compensation	4,152	3,212
Provision for excess and obsolete inventory	2,948	2,683
Provision for bad debt	17	(172)
Deferred income taxes	347	736
Excess tax benefits from stock-based compensation	(233)	(524)
Other	68	1
Changes in operating assets and liabilities:		
Trade accounts receivable	(10,084)	(19,030)
Inventories	(844)	(12,817)
Income taxes	2,316	2,034
Other current assets	(3,562)	(5,029)
Accrued compensation	(7,086)	(4,930)
Other current and non-current liabilities	7,718	2,735
Accounts payable	4,772	3,587
Other assets	(189)	7,801
Net cash provided by operating activities	23,181	19,605
Cash flows provided by (used in) investing activities:		
Acquisition of businesses, net of cash acquired		(9,867)
Purchases of investments	(82,135)	(164,327)
Maturities of investments	76,972	38,205
Sales of investments	128,250	17,414
Purchases of property, plant and equipment	(2,156)	(2,504)
Other		5
Net cash provided by (used in) investing activities	120,931	(121,074)
Cash flows used in financing activities:		
Repurchase of common stock	(1,545)	
Net payments related to employee stock awards	(2,587)	(2,105)
Dividend payments to common stockholders	(9,056)	(8,784)

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Excess tax benefits from stock-based compensation	233	524
Net cash used in financing activities	(12,955)	(10,365)
Effect of exchange rate changes on cash and cash equivalents	(876)	(890)
Increase (decrease) in cash and cash equivalents	130,281	(112,724)
Cash and cash equivalents at beginning of period	227,574	305,437
Cash and cash equivalents at end of period	\$ 357,855	\$ 192,713

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

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

1) **Basis of Presentation**

The terms MKS and the Company refer to MKS Instruments, Inc. and its subsidiaries. The interim financial data as of March 31, 2016 and for the three months ended March 31, 2016 and 2015 are unaudited; however, in the opinion of MKS, the interim data includes all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The condensed consolidated balance sheet presented as of December 31, 2015 has been derived from the consolidated audited financial statements as of that date. The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by United States generally accepted accounting principles (U.S. GAAP). The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the MKS Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission on February 26, 2016.

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

2) **Recently Issued Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting. This standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The provisions of this ASU are effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years and early adoption is permitted. The Company is currently evaluating the requirements of this ASU and has not yet determined its impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard requires the recognition of lease assets and liabilities for all leases, with certain exceptions, on the balance sheet. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This ASU is effective for annual periods beginning after December 15, 2018, including

interim periods within those fiscal years. The Company is currently evaluating the requirements of this ASU and has not yet determined its impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments. This standard requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are identified, including the cumulative effect of the change in the provisional amount as if the accounting had been completed at the acquisition date. This ASU is effective for annual periods beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted this ASU in the first quarter of 2016. Adoption of this ASU could have a material impact on the Company's consolidated financial position and results of operations when accounting for future acquisitions.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory. The amendments in this ASU apply to all inventory that is measured using first-in, first-out or average cost. This standard requires that an entity measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. Adoption of this ASU is not expected to have a material impact on the Company's consolidated statements of financial position and results of operations.

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. Under this guidance, management will be required to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The provisions of this ASU are effective for annual periods beginning after December 15, 2016, and for annual and interim periods thereafter. This ASU is not expected to have an impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. This standard requires a company to recognize revenue when it transfers goods and services to customers in an amount that reflects the consideration that the company expects to be entitled to in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and assets recognized from costs incurred to obtain or fulfill a contract. This pronouncement is effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company has not yet selected a transition method. The Company is currently evaluating the requirements of this ASU and has not yet determined its impact on the Company's consolidated financial statements.

3) Investments

The fair value of investments classified as short-term consists of the following:

	March 31, 2016	December 31, 2015
Available-for-sale investments:		
Time deposits and certificates of deposit	\$ 23,005	\$ 11,892
Bankers' acceptance drafts	1,646	728
Asset-backed securities	74,057	124,997
Corporate obligations	90,856	165,109
Municipal bonds	4,611	8,355
U.S. treasury obligations	4,360	
U.S. agency obligations	110,233	119,582
	\$ 308,768	\$ 430,663

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The following tables show the gross unrealized gains and (losses) aggregated by investment category for short-term available-for-sale investments:

As of March 31, 2016:	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Short-term investments:				
Available-for-sale investments:				
Time deposits and certificates of deposit	\$ 23,005	\$	\$	\$ 23,005
Bankers' acceptance drafts	1,646			1,646
Asset-backed securities	74,068	27	(38)	74,057
Corporate obligations	90,944	52	(140)	90,856
Municipal bonds	4,604	9	(2)	4,611
U.S. treasury obligations	4,355	5		4,360