

MKS INSTRUMENTS INC
Form 10-Q
May 06, 2015
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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, 2015

or

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

For the transition period from _____ to _____

Commission file number 0-23621

MKS INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

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

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

01810
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of April 29, 2015, the registrant had 53,371,635 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MKS INSTRUMENTS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 192,713	\$ 305,437
Short-term investments	158,631	129,594
Trade accounts receivable, net	124,445	106,362
Inventories, net	164,412	155,169
Deferred income taxes	13,560	14,017
Other current assets	21,580	27,512
Total current assets	675,341	738,091
Property, plant and equipment, net	70,908	72,776
Long-term investments	237,313	157,201
Goodwill	199,330	192,381
Intangible assets, net	49,553	46,389
Other assets	17,165	17,206
Total assets	\$ 1,249,610	\$ 1,224,044
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 37,549	\$ 34,166
Accrued compensation	21,349	26,970
Income taxes payable	6,455	6,702
Other current liabilities	38,513	35,789
Total current liabilities	103,866	103,627
Other liabilities	41,055	38,595
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred Stock, \$0.01 par value per share, 2,000,000 shares authorized; none issued and outstanding		

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Common Stock, no par value, 200,000,000 shares authorized; 53,289,953 and 53,154,666 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	113	113
Additional paid-in capital	736,290	734,732
Retained earnings	374,063	349,061
Accumulated other comprehensive loss	(5,777)	(2,084)
Total stockholders' equity	1,104,689	1,081,822
Total liabilities and stockholders' equity	\$ 1,249,610	\$ 1,224,044

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

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MKS INSTRUMENTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net revenues:		
Products	\$ 186,096	\$ 181,186
Services	27,743	25,167
Total net revenues	213,839	206,353
Cost of revenues:		
Cost of products	98,652	100,211
Cost of services	18,141	16,770
Total cost of revenues (exclusive of amortization shown separately below)	116,793	116,981
Gross profit	97,046	89,372
Research and development	16,680	15,618
Selling, general and administrative	30,867	34,591
Acquisition costs	30	228
Restructuring	788	747
Amortization of intangible assets	1,671	410
Income from operations	47,010	37,778
Interest income	541	252
Interest expense	37	17
Income before income taxes	47,514	38,013
Provision for income taxes	13,728	6,768
Net income	\$ 33,786	\$ 31,245
Other comprehensive income:		
Changes in value of financial instruments designated as cash flow hedges, net of tax benefit ⁽¹⁾	\$ (822)	\$ (163)
Foreign currency translation adjustments, net of tax of \$0	(3,206)	21
Unrealized gain on investments, net of tax expense ⁽²⁾	334	36
Total comprehensive income	\$ 30,092	\$ 31,139

Net income per share:

Basic	\$	0.63	\$	0.58
Diluted	\$	0.63	\$	0.58
Cash dividends per common share	\$	0.165	\$	0.16
Weighted average common shares outstanding:				
Basic		53,214		53,411
Diluted		53,529		53,776

- (1) Tax benefit was \$133 and \$108 for the three months ended March 31, 2015 and 2014, respectively.
 (2) Tax expense was \$54 and \$24 for the three months ended March 31, 2015 and 2014, respectively.

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

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MKS INSTRUMENTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 33,786	\$ 31,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,532	4,150
Stock-based compensation	3,212	3,198
Provision for excess and obsolete inventory	2,683	2,613
Provision for bad debt	(172)	94
Deferred income taxes	736	(3,974)
Excess tax benefits from stock-based compensation	(524)	(189)
Other	1	(141)
Changes in operating assets and liabilities:		
Trade accounts receivable	(19,030)	(2,784)
Inventories	(12,817)	(7,402)
Income taxes	2,034	(5,462)
Other current assets	(5,029)	(1,286)
Accrued compensation	(4,930)	(6,872)
Other current and non-current liabilities	2,735	2,512
Accounts payable	3,587	(4,656)
Other assets	7,801	(1,143)
Net cash provided by operating activities	19,605	9,903
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(9,867)	
Purchases of investments	(164,327)	(128,524)
Maturities of investments	38,205	104,623
Sales of investments	17,414	24,948
Purchases of property, plant and equipment	(2,504)	(3,098)
Other	5	79
Net cash used in investing activities	(121,074)	(1,972)
Cash flows from financing activities:		
Repurchase of common stock		(945)
Net payments related to employee stock awards	(2,105)	(762)
Dividend payments to common stockholders	(8,784)	(8,553)

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Excess tax benefits from stock-based compensation	524	189
Net cash used in financing activities	(10,365)	(10,071)
Effect of exchange rate changes on cash and cash equivalents	(890)	328
Decrease in cash and cash equivalents	(112,724)	(1,812)
Cash and cash equivalents at beginning of period	305,437	288,902
Cash and cash equivalents at end of period	\$ 192,713	\$ 287,090

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

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

1) **Basis of Presentation**

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

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

2) **Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods and services to customers in an amount that reflects the consideration that the company expects to be entitled to in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and assets recognized from costs incurred to obtain or fulfill a contract. This pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in March 2015, the FASB proposed a one-year deferral. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company has not yet selected a transition method. The Company is currently evaluating the requirements of ASU No. 2014-09 and has not yet determined its impact on the Company's consolidated financial statements.

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

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

3) **Investments**

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

	March 31, 2015	December 31, 2014
Available-for-sale investments:		
Time deposits and certificates of deposit	\$ 5,400	\$ 20,900
Bankers acceptance drafts	327	82
Commercial paper	1,447	
Corporate obligations	58,331	24,020
Municipal bonds	5,798	2,099
U.S. agency obligations	87,328	82,493
	\$ 158,631	\$ 129,594

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

	March 31, 2015	December 31, 2014
Available-for-sale investments:		
Time deposits and certificates of deposit	\$	\$ 48
Asset-backed securities	129,242	75,674
Corporate obligations	90,114	64,669
Municipal bonds	1,880	1,254
U.S. agency obligations	16,077	15,556
	\$ 237,313	\$ 157,201

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

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

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
As of March 31, 2015:				
Short-term investments:				
Time deposits and certificates of deposit	\$ 5,400	\$	\$	\$ 5,400
Bankers' acceptance drafts	327			327
Commercial paper	1,447			1,447
Corporate obligations	58,336	10	(15)	58,331
Municipal bonds	5,800	1	(3)	5,798
U.S. agency obligations	87,311	23	(6)	87,328
	\$ 158,621	\$ 34	\$ (24)	\$ 158,631
Long-term investments:				
Asset-backed securities	\$ 129,209	\$ 66	\$ (33)	\$ 129,242
Corporate obligations	90,128	44	(58)	90,114
Municipal bonds	1,878	3	(1)	1,880
U.S. agency obligations	16,070	8	(1)	16,077
	\$ 237,285	\$ 121	\$ (93)	\$ 237,313
As of December 31, 2014:				
Short-term investments:				
Time deposits and certificates of deposit	\$ 20,901	\$	\$ (1)	\$ 20,900
Bankers' acceptance drafts	82			82
Corporate obligations	24,029	2	(11)	24,020
Municipal bonds	2,100		(1)	2,099
U.S. agency obligations	82,488	14	(9)	82,493
	\$ 129,600	\$ 16	\$ (22)	\$ 129,594
Long-term investments:				

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Time deposits and certificates of deposit	\$ 48	\$	\$	\$ 48
Asset-backed securities	75,778	5	(109)	75,674
Corporate obligations	64,842	1	(174)	64,669
Municipal bonds	1,258		(4)	1,254
U.S. agency obligations	15,563	2	(9)	15,556
	\$ 157,489	\$ 8	\$ (296)	\$ 157,201

Interest income is accrued as earned. Dividend income is recognized as income on the date the stock trades ex-dividend. The cost of marketable securities sold is determined by the specific identification method. Realized gains or (losses) are reflected in income and were immaterial for the three months ended March 31, 2015 and 2014.

In accordance with the Company's investment policy, no security shall have a maturity or average life longer than three years. The average duration of the portfolio shall be no more than one year. Corporate securities must have ratings of A3/A- or better. Asset-backed securities must be rated AAA. Short-term ratings of A-2/P2/F2 or higher are also permitted. With respect to compliance with these investment guidelines, the rating agencies include Moody's Investor Service, Standard & Poor's and Fitch Investor Service. The middle of Moody's, Standard & Poor's and Fitch rating shall be used to determine compliance with credit quality guidelines. If a security is rated by two rating agencies, the lower rating will apply. If only one rating exists, that rating shall be used.

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

4) **Fair Value Measurements**

In accordance with the provisions of fair value accounting, a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability and defines fair value based upon an exit price model.

The fair value measurement guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities assessed as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or securities or derivative contracts that are valued using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the Company categorizes such assets and liabilities based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

Assets and liabilities of the Company are measured at fair value on a recurring basis as of March 31, 2015 and are summarized as follows:

Description	March 31, 2015	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	\$ 87,790	\$ 87,790	\$	\$
Bankers acceptance drafts	99		99	
Available-for-sale securities:				
Bankers acceptance drafts	327		327	
Time deposits and certificates of deposit	5,400		5,400	
Commercial paper	1,447		1,447	
Asset-backed securities	129,242		129,242	
Corporate obligations	148,445		148,445	
Municipal bonds	7,678		7,678	
U.S. agency obligations	103,405		103,405	
Derivatives currency forward contracts	1,240		1,240	
Total assets	\$ 485,073	\$ 87,790	\$ 397,283	\$
Liabilities:				
Derivatives currency forward contracts	\$ 318	\$	\$ 318	\$
Reported as follows:				
Assets:				
Cash and cash equivalents ⁽¹⁾	\$ 87,889	\$ 87,790	\$ 99	\$
Short-term investments	158,631		158,631	
Other current assets	1,240		1,240	
Total current assets	\$ 247,760	\$ 87,790	\$ 159,970	\$
Long-term investments	\$ 237,313	\$	\$ 237,313	\$

Liabilities:

Other current liabilities	\$	318	\$	\$	318	\$
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- (1) The cash and cash equivalent amounts presented in the table above do not include cash of \$95,212 and non-negotiable time deposits of \$9,612 as of March 31, 2015.

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

Assets and liabilities of the Company measured at fair value on a recurring basis as of December 31, 2014, are summarized as follows:

Description	December 31, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	\$ 129,092	\$ 129,092	\$	\$
Bankers acceptance drafts	131		131	
Corporate obligations	700		700	
Available-for-sale investments:				
Time deposits and certificates of deposit	20,948		20,948	
Asset-backed securities	75,674		75,674	
Bankers acceptance drafts	82		82	
Corporate obligations	88,689		88,689	
Municipal bonds	3,353		3,353	
U.S. agency obligations	98,049		98,049	
Derivatives currency forward contracts	2,110		2,110	
Total assets	\$ 418,828	\$ 129,092	\$ 289,736	\$
Liabilities:				
Derivatives currency forward contracts	\$	\$	\$	\$
Reported as follows:				
Assets:				
Cash and cash equivalents ⁽¹⁾	\$ 129,923	\$ 129,092	\$ 831	\$
Short-term investments	129,594		129,594	
Other current assets	2,110		2,110	
Total current assets	\$ 261,627	\$ 129,092	\$ 132,535	\$
Long-term investments	\$ 157,201	\$	\$ 157,201	\$

Liabilities:

Other current liabilities	\$	\$	\$	\$
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(1) The cash and cash equivalent amounts presented in the table above do not include cash of \$167,517 and non-negotiable time deposits of \$7,997 as of December 31, 2014.

Money Market Funds

Money market funds are cash and cash equivalents and are classified within Level 1 of the fair value hierarchy.

Bankers Acceptance Drafts

Bankers acceptance drafts are short-term credit investments created by a non-financial firm and guaranteed by a bank. These drafts are often traded at a discount from face value and may be traded on a secondary market.

Available-For-Sale Investments

As of March 31, 2015 and December 31, 2014, available-for-sale investments consisted of time deposits and drafts denominated in the Euro currency, certificates of deposit, commercial paper, asset-backed securities (which include auto loans, credit card receivables and equipment trust receivables), corporate obligations, municipal bonds and U.S. agency obligations. The Company measures its debt and equity investments at fair value.

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

Derivatives

As a result of the Company's global operating activities, the Company is exposed to market risks from changes in foreign currency exchange rates, which may adversely affect its operating results and financial position. When deemed appropriate, the Company minimizes its risks from foreign currency exchange rate fluctuations through the use of derivative financial instruments. The principal market in which the Company executes its foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants usually are large commercial banks. The forward foreign currency exchange contracts are valued using broker quotations, or market transactions and are classified within Level 2 of the fair value hierarchy.

5) **Derivatives**

The Company enters into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments and those utilized as economic hedges. The Company operates internationally and, in the normal course of business, is exposed to fluctuations in interest rates and foreign exchange rates. These fluctuations can increase the costs of financing, investing and operating the business. The Company has used derivative instruments, such as forward contracts, to manage certain foreign currency exposure.

By nature, all financial instruments involve market and credit risks. The Company enters into derivative instruments with major investment grade financial institutions and no collateral is required. The Company has policies to monitor the credit risk of these counterparties. While there can be no assurance, the Company does not anticipate any material non-performance by any of these counterparties.

The Company hedges a portion of its forecasted foreign currency denominated intercompany sales of inventory, over a maximum period of eighteen months, using forward foreign exchange contracts accounted for as cash-flow hedges related to Japanese, South Korean, British, Euro and Taiwanese currencies. To the extent these derivatives are effective in off-setting the variability of the hedged cash flows, and otherwise meet the hedge accounting criteria, changes in the derivatives' fair value are not included in current earnings but are included in other comprehensive income (loss) (OCI) in stockholders' equity. These changes in fair value will subsequently be reclassified into earnings, as applicable, when the forecasted transaction occurs. To the extent that a previously designated hedging transaction is no longer an effective hedge, any ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period it occurs. The cash flows resulting from forward exchange contracts are classified in the consolidated statements of cash flows as part of cash flows from operating activities. The Company does not enter into derivative instruments for trading or speculative purposes.

To the extent the hedge accounting criteria is not met, the related foreign currency forward contracts are considered as economic hedges and changes in the fair value of these contracts are recorded immediately in earnings in the period in which they occur. These include hedges that are used to reduce exchange rate risks arising from the change in fair

value of certain foreign currency denominated assets and liabilities (i.e., payables, receivables) and other economic hedges where the hedge accounting criteria were not met.

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

As of March 31, 2015 and December 31, 2014, the Company had outstanding forward foreign exchange contracts with gross notional values of \$84,063 and \$28,650, respectively. The following tables provide a summary of the primary net hedging positions and corresponding fair values held as of March 31, 2015 and December 31, 2014:

	March 31, 2015	
	Gross Notional Value	Fair Value ⁽¹⁾ Asset/(Liability)
Currency Hedged (Buy/Sell)		
U.S. Dollar/Japanese Yen	\$ 29,708	\$ 478
U.S. Dollar/South Korean Won	32,692	133
U.S. Dollar/Euro	5,009	286
U.S. Dollar/U.K. Pound Sterling	3,794	74
U.S. Dollar/Taiwan Dollar	12,860	(49)
Total	\$ 84,063	\$ 922

(1) Represents the fair value of the net asset / (liability) amount included in the consolidated balance sheets.

	December 31, 2014	
	Gross Notional Value	Fair Value ⁽¹⁾ Asset/(Liability)
Currency Hedged (Buy/Sell)		
U.S. Dollar/Japanese Yen	\$ 8,035	\$ 1,107
U.S. Dollar/South Korean Won	12,512	372
U.S. Dollar/Euro	2,060	185
U.S. Dollar/U.K. Pound Sterling	1,308	70
U.S. Dollar/Taiwan Dollar	4,735	232
Total	\$ 28,650	\$ 1,966

(1) Represents the fair value of the net asset / (liability) amount included in the consolidated balance sheets. The following table provides a summary of the fair value amounts of the Company's derivative instruments:

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	March 31, 2015	December 31, 2014
Derivative assets:		
Forward exchange contracts	\$ 1,240	\$ 1,966
Derivative liabilities:		
Forward exchange contracts	(318)	
Total net derivative asset designated as hedging instruments⁽¹⁾	\$ 922	\$ 1,966

(1) The derivative asset of \$1,240 and derivative liability of \$318 are classified in other current assets and other current liabilities in the consolidated balance sheet as of March 31, 2015. The derivative asset of \$1,966 is classified in other current assets in the consolidated balance sheet as of December 31, 2014. These foreign exchange contracts are subject to a master netting agreement with one financial institution. However, the Company has elected to record these contracts on a gross basis in the balance sheet.

The net amount of existing gains or losses as of March 31, 2015 that is expected to be reclassified from accumulated OCI into earnings within the next twelve months is immaterial.

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

The following table provides a summary of the gains (losses) on derivatives designated as hedging instruments:

Derivatives Designated as Cash Flow Hedging Relationships	Three Months Ended March 31,	
	2015	2014
Forward exchange contracts:		
Net (loss) recognized in OCI ⁽¹⁾	\$ (2,090)	\$ (334)
Net gain (loss) reclassified from accumulated OCI into income ⁽²⁾	\$ 1,193	\$ (94)

(1) Net change in the fair value of the effective portion classified in OCI.

(2) Effective portion classified in cost of products for the three months ended March 31, 2015 and 2014. The tax effect of the gains or losses reclassified from accumulated OCI into income is immaterial.

The following table provides a summary of gains on derivatives not designated as hedging instruments:

Derivatives Not Designated as Hedging Instruments	Three Months Ended March 31,	
	2015	2014
Forward exchange contracts:		
Net gain recognized in income ⁽¹⁾	\$ 98	\$ 106

(1) The Company enters into foreign exchange contracts to hedge against changes in the balance sheet for certain subsidiaries. These derivatives are not designated as hedging instruments and are recorded immediately in selling, general and administrative expenses.

6) **Inventories**

Inventories consist of the following:

	March 31, 2015	December 31, 2014
Raw materials	\$ 85,622	\$ 81,121
Work-in-process	27,374	26,604
Finished goods	51,416	47,444
	\$ 164,412	\$ 155,169

7) AcquisitionsPrecise, LLC

On March 17, 2015, the Company acquired 100% of Precise, LLC (Precise), for \$12,155, net of cash acquired of \$435, subject to final working capital adjustments. The purchase price includes a deferred payment amount of \$2,600 to cover any potential indemnification claims, which amount will be paid to the sellers after 15 months assuming there are no indemnification claims. Precise is an innovative developer of optical analyzers based on Tunable Filter Spectroscopy (TFS), which provide real-time gas analysis in the natural gas and hydrocarbon processing industries, including refineries, hydrocarbon processing plants, gas-to-power machines, biogas processes and fuel gas transportation and metering, while delivering customers a lower total cost of ownership.

The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	\$ 285
Non-current assets	18
Intangible assets	5,110
Goodwill	7,085
Total assets acquired	12,498
Total current liabilities assumed	343
Total purchase price, net of cash acquired of \$435	\$ 12,155

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MKS INSTRUMENTS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except share and per share data)

The entire purchase price is expected to be deductible for tax purposes. The following table reflects the allocation of the acquired intangible assets and related estimates of useful lives. These acquired intangibles will be amortized on a straight-line basis, which approximates the pattern of use.

Order backlog	\$ 50	18 months
Customer relationships	1,430	12 years