

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

or

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

For Quarter Ended June 1, 2002 Commission File Number 000-30789  
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ENTEGRIS, INC.  
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(Exact name of registrant as specified in charter)

Minnesota 41-1941551  
-----  
(State or other jurisdiction of incorporation) (IRS Employer ID No.)

3500 Lyman Boulevard, Chaska, Minnesota 55318  
-----  
(Address of Principal Executive Offices)

Registrant's Telephone Number (952) 556-3131  
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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 ☐  
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APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the latest practicable date.

Class	Outstanding at June 30, 2002
-----	-----
Common Stock, \$0.01 Par Value	71,000,825

ENTEGRIS, INC. AND SUBSIDIARIES  
FORM 10-Q  
TABLE OF CONTENTS  
FOR THE QUARTER ENDED JUNE 1, 2002

Description	Page
-----	----

PART I FINANCIAL INFORMATION  
-----

Item 1. Financial Statements

Consolidated Balance Sheets as of June 1, 2002  
and August 25, 2001

Consolidated Statements of Operations for the Three Months and Nine Months Ended June 1, 2002 and May 26, 2001	4
Consolidated Statements of Cash Flows for the Nine Months Ended June 1, 2002 and May 26, 2001	5
Notes to Consolidated Financial Statements	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
--	---

Item 3. Quantitative and Qualitative Disclosures About Market Risk	16
--	----

## PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K	16
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## 2

## PART I

### Item 1. Financial Statements

#### ENTEGRIS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (In thousands, except share data) (Unaudited)

	June 1, 2002	August 25, 2001
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 70,438	\$ 74,451
Short-term investments	37,084	36,628
Trade accounts receivable, net of allowance for doubtful accounts	34,834	36,303
Trade accounts receivable due from affiliates	4,789	7,171
Inventories	39,212	47,202
Deferred tax assets and refundable income taxes	14,145	10,424
Other current assets	5,401	7,858
	-----	-----
Total current assets	205,903	220,037
	-----	-----
Property, plant and equipment, net	103,898	109,131
Other assets		
Investments	15,308	12,295
Intangible assets, net	50,087	51,766
Other	2,857	2,449
	-----	-----
Total assets	\$378,053	\$395,678
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	\$ 1,990	\$ 2,238
Short-term borrowings	9,959	8,813
Accounts payable	11,706	16,572
Accrued liabilities	20,113	33,630
	-----	-----
Total current liabilities	43,768	61,253
	-----	-----
Long-term debt, less current maturities	12,538	13,101
Deferred tax liabilities	5,772	3,950

Minority interest in subsidiaries	63	5,067
Commitments and contingencies	-	-
Shareholders' equity		
Common stock, \$0.01 par value; 200,000,000 authorized; issued and outstanding shares: 70,980,525 and 69,729,821, respectively	710	697
Additional paid-in capital	125,983	121,449
Retained earnings	186,080	188,156
Accumulated other comprehensive income	3,139	2,005
Total shareholders' equity	315,912	312,307
Total liabilities and shareholders' equity	\$378,053	\$395,678

See accompanying notes to consolidated financial statements.

3

ENTEGRIS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 1, 2002	May 26, 2001	June 1, 2002	May 26, 2001
Sales to non-affiliates	\$ 50,470	\$ 55,920	\$ 136,485	\$195,037
Sales to affiliates	9,239	25,426	19,778	94,660
Net sales	59,709	81,346	156,263	289,697
Cost of sales	31,582	43,456	96,003	145,654
Gross profit	28,127	37,890	60,260	144,043
Selling, general and administrative expenses	18,987	18,761	53,538	59,723
Nonrecurring charges (reversals)	(1,640)	4,934	2,361	13,144
Engineering, research and development expenses	4,540	4,697	13,701	12,265
Operating (loss) profit	6,240	9,498	(9,340)	58,911
Interest income, net	(239)	(1,038)	(1,055)	(3,905)
Other expense (income), net	268	(971)	(1,471)	43
Income (loss) before income taxes and other items below	6,211	11,507	(6,814)	62,773
Income tax expense (benefit)	998	2,801	(3,951)	22,284
Equity in net income of affiliates	-	-	-	(1,488)
Minority interest in subsidiaries' net (loss) income	(13)	278	(787)	1,653
Net income (loss)	\$ 5,226	\$ 8,428	\$ (2,076)	\$ 40,324
Earnings (loss) per common share:				
Basic	\$ 0.07	\$ 0.12	\$ (0.03)	\$ 0.59
Diluted	\$ 0.07	\$ 0.12	\$ (0.03)	\$ 0.55
Weighted shares outstanding:				
Basic	70,646	68,735	70,121	68,541
Diluted	75,590	72,788	70,121	72,726

4

ENTEGRIS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)  
(Unaudited)

	Nine months ended	
	June 1, 2002	May 26, 2001
OPERATING ACTIVITIES		
Net income (loss)	\$ (2,076)	\$ 40,324
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		

Depreciation and amortization	20,795	17,295
Asset impairment	1,960	3,526
Provision for doubtful accounts	84	600
Provision for deferred income taxes	(137)	(2,369)
Equity in net income of affiliates	-	(1,488)
Loss on sale of property and equipment	601	1,202
Minority interest in subsidiaries' net (loss) income	(787)	1,653
Changes in operating assets and liabilities:		
Trade accounts receivable	1,383	(1,131)
Trade accounts receivable due from affiliates	2,383	3,236
Inventories	7,990	(6,552)
Accounts payable and accrued liabilities	(18,383)	70
Other current assets	2,457	(2,225)
Refundable income taxes and accrued income taxes	(745)	(2,227)
Other	(651)	(618)
Net cash provided by operating activities	15,148	51,926
INVESTING ACTIVITIES		
Acquisition of property and equipment	(17,002)	(19,607)
Acquisition of businesses, net of cash acquired	(6,883)	-
Purchases of intangible assets	(514)	(10,494)
Proceeds from sales of property and equipment	1,427	583
Proceeds from sale of investment in affiliate	(456)	3,941
Purchases of short-term investments	(63,216)	(24,610)
Maturities of short-term investments	62,760	-
Other	(451)	1,437
Net cash used in investing activities	(23,789)	(48,750)
FINANCING ACTIVITIES		
Principal payments on short-term borrowings and long-term debt	(4,719)	(2,545)
Proceeds from issuance of debt	5,055	-
Issuance of common stock	4,546	2,545
Repurchase of common stock	-	(722)
Net cash (used in) provided by financing activities	4,882	(722)
Effect of exchange rate changes on cash and cash equivalents	(164)	(200)
(Decrease) increase in cash and cash equivalents	(4,013)	2,254
Cash and cash equivalents at beginning of period	74,451	102,973
Cash and cash equivalents at end of period	\$ 70,438	\$105,227

See accompanying notes to consolidated financial statements.

ENTEGRIS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands)

1. Summary of Accounting Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 1, 2002 and August 25, 2001, the results of operations for the three months and nine months ended June 1, 2002 and May 26, 2001 and cash flows for the nine months ended June 1, 2002 and May 26, 2001. Certain prior year amounts have been reclassified to conform to the current period presentation.

The 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 financial statements and notes thereto included in the Company's Form 10-K for the year ended August 25, 2001. The results of operations for the three months and nine months ended June 1, 2002 and May 26, 2001 are not necessarily indicative of the results to be expected for the full year.

The Company's fiscal year ends on the last Saturday of August. In fiscal 2002, the Company's interim quarters end on November 24, 2001, March 2, 2002 and June 1, 2002. Fiscal 2002's second quarter ended March 2, 2002 included fourteen weeks with fiscal 2002 containing 53 weeks.

## 2. Earnings (loss) per share

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

	Three Months Ended		Nine Months Ended	
	June 1, 2002	May 26, 2001	June 1, 2002	May 26, 2001
Basic earnings per share-weighted common shares outstanding	70,646,000	68,735,000	70,121,000	68,541,000
Weighted common shares assumed upon exercise of stock options	4,944,000	4,053,000	-	4,185,000
Diluted earnings per share-weighted common shares and common shares equivalent outstanding	75,590,000	72,788,000	70,121,000	72,726,000

Since basic EPS for the nine-month period ended June 1, 2002 represents a loss per share of common stock, the effect of including the incremental shares of common stock from assumed exercise of options in EPS computation is anti-dilutive, and, accordingly, basic and diluted EPS are the same.

6

## 3. Inventories

Inventories consist of the following:

	June 1, 2002	August 25, 2001
Raw materials	\$14,430	\$15,167
Work-in process	1,518	1,451
Finished goods	22,621	29,971
Supplies	643	613
Total inventories	\$39,212	\$47,202

## 4. Comprehensive Income (Loss)

For the three months and nine months ended June 1, 2002 and May 26, 2001, net income (loss), items of other comprehensive income (loss) and comprehensive income (loss) are as follows:

	Three months ended		Nine months ended	
	June 1, 2002	May 26, 2001	June 1, 2002	May 26, 2001
Net income (loss)	\$ 5,226	\$ 8,428	\$ (2,076)	\$40,324
Items of other comprehensive income (loss)				
Foreign currency translation gain (loss)	833	1,408	(628)	516
Unrealized (loss) gain in marketable securities	(27)	1,554	1,762	1,125
Comprehensive income (loss)	\$ 6,032	\$ 11,390	\$ (942)	\$41,965

## 5. Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Under the provisions of SFAS No. 142, goodwill and intangible assets with indefinite lives are not amortized, but tested for impairment annually, or whenever there is an impairment indicator. In addition, upon adoption of SFAS 142, all goodwill must be assigned to reporting units for purposes of impairment testing and is no longer subject to amortization.

The Company adopted SFAS No. 142 as of August 26, 2001. As required by SFAS 142, the Company performed an assessment of whether there was an indication that goodwill was impaired at the date of adoption. In connection therewith, the Company determined that it consisted of a single reporting unit and determined the Company's fair value and compared it to the Company's net book value. As of August 26, 2001, the Company's fair value exceeded its carrying amount, and therefore there was no indication that goodwill was impaired. Accordingly, the Company was not required to perform the second step of the transitional impairment test.

In the second step, the Company would be required to compare the implied fair value of goodwill, determined by allocating the reporting unit's fair value to all of its assets and liabilities to its carrying amount, both of which would be measured as of the date of adoption. The Company did not record any transitional impairment loss.

7

Goodwill amortization expense was \$0.4 million for the third quarter of fiscal 2001 and \$0.8 million for the first nine months of fiscal 2001. The Company estimates that goodwill amortization expense would have been approximately \$0.6 million in the third quarter of fiscal 2002 and \$1.7 million for the first nine months of fiscal 2002. The following table presents a reconciliation of net (loss) income and (loss) earnings per share adjusted for the exclusion of goodwill, net of income taxes (in thousands, except per share figures):

	Three months ended			Nine months ended		
	June 1, 2002	May 26, 2001	May 27, 2000	June 1, 2002	May 26, 2001	May 27, 2001
Net income (loss):						
Reported net income (loss)	\$5,226	\$8,428	\$12,014	\$ (2,076)	\$40,324	\$34,398
Add: Goodwill amortization, net of tax	-	438	162	-	792	507
Adjusted net income (loss)	\$5,226	\$8,866	\$12,176	\$ (2,076)	\$41,116	\$34,905

	Three months ended			Nine months ended		
	June 1, 2002	May 26, 2001	May 27, 2000	June 1, 2002	May 26, 2001	May 27, 2000
Basic earnings (loss) per share:						
Reported basic earnings (loss) per share	\$0.07	\$0.12	\$0.79	\$ (0.03)	\$0.59	\$ (0.38)
Add: Goodwill amortization, net of tax	-	0.01	-	-	0.01	0.01
Adjusted basic earnings (loss) per share	\$0.07	\$0.13	\$0.79	\$ (0.03)	\$0.60	\$ (0.37)

	Three months ended			Nine months ended		
	June 1, 2002	May 26, 2001	May 27, 2000	June 1, 2002	May 26, 2001	May 27, 2000
Diluted earnings (loss) per share:						
Reported diluted earnings (loss) per share	\$0.07	\$0.12	\$0.19	\$ (0.03)	\$0.55	\$ (0.38)
Add: Goodwill amortization, net of tax	-	-	-	-	0.02	0.01
Adjusted diluted earnings (loss) per share	\$0.07	\$0.12	\$0.19	\$ (0.03)	\$0.57	\$ (0.37)

As of June 1, 2002, goodwill amounted to \$21.0 million, which included a \$0.8 million reduction associated with purchase price allocation

adjustments and a \$1.8 million addition in connection with contingent consideration recorded in the third quarter and second quarter, respectively, related to fiscal 2001 acquisitions. Other intangible assets, which include patents and other identifiable intangible assets, net of amortization, of \$29.0 million as of June 1, 2002, are being amortized over useful lives ranging from 3 to 17 years and are as follows (in thousands):

As of June 1, 2002		
	Gross carrying amount	Accumulated amortization
Amortized intangible assets:		
Patents	\$14,797	\$2,973
Unpatented technology	9,844	957
Employment and noncompete agreements	4,611	599
Other	5,003	686
	\$34,255	\$5,215

Aggregate amortization expense for the third quarter and first nine months of fiscal 2002 amounted to \$0.9 million and \$2.8 million, respectively. Estimated amortization expense for the fiscal years 2002 to 2006 is \$3.8 million, \$3.8 million, \$3.8 million, \$3.7 million and \$3.6 million, respectively.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of its fundamental provisions. SFAS No. 144 becomes effective for the Company on September 1, 2002. The Company is evaluating SFAS No. 144 to determine the impact on its financial condition and results of operations.

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

### Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. At each balance sheet date, management evaluates its estimates, including, but not limited to, those related to accounts receivable, inventories, long-lived assets, warranty and sales return obligations, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The critical accounting policies that are most important in fully understanding and evaluating the Company's financial condition and results of operations are discussed below.

### Allowance for Doubtful Accounts and Other Accounts Receivable-Related Valuation Accounts

The Company maintains an allowance for doubtful accounts as well as reserves for sales returns and allowances, and warranty claims. Significant management judgments and estimates must be made and used in connection with establishing these valuation accounts. Material differences could result in the amount and timing of the Company's results of operations for any period if we made different judgments or utilized different estimates. In addition, actual results could be different from the Company's current estimates, possibly resulting in increased future charges to earnings.

The Company provides an allowance for doubtful accounts for all individual receivables judged to be unlikely for collection. For all other accounts receivable, the Company records an allowance for doubtful accounts based on a combination of factors. Specifically, management analyzes the age of receivable balances, historical bad debts write-off experience, customer concentrations, general customer creditworthiness and current economic trends when determining its allowance for doubtful accounts. At June 1, 2002, the Company's allowance for doubtful accounts was \$1.7 million, up from \$1.3 million at March 2, 2002, reflecting the growth in receivables from the second quarter to the third quarter.

A reserve for sales returns and allowances is established based on historical trends and current trends in product returns. At June 1, 2002, the Company's reserve for sales returns and allowances was \$1.3 million, essentially unchanged from the prior quarter.

The Company records a liability for estimated warranty claims. The amount of the accrual is based on historical claims data by product group and other factors. Claims could be materially different from actual results for a variety of reasons, including a change in the Company's warranty policy in response to industry trends, competition or other external forces, manufacturing changes that could impact product quality, or as yet unrecognized defects in products sold. As of June 1, 2002, the Company's accrual for estimated future warranty costs was \$1.0 million, compared to \$1.3 million at March 2, 2002.

**Inventory Valuation** The Company uses certain estimates and judgments to properly value inventory. In general, the Company's inventories are recorded at the lower of standard manufacturing cost or market value. Each quarter, the Company evaluates its ending inventories for obsolescence and excess quantities. This evaluation includes analyses of inventory levels, historical loss trends, expected product lives, sales levels by product and projections of future sales demand. Inventories that are considered obsolete are written off. In addition, reserves are established for inventory quantities in excess of forecasted demand, generally twelve months or less. Inventory reserves were \$6.3 million at June 1, 2002, down slightly from \$6.5 million at March 2, 2002.

The Company's inventories comprise materials and products subject to technological obsolescence and which are sold in a highly competitive industry. If future demand or market conditions are less favorable than current analyses, additional inventory write-downs or reserves may be required and would be reflected in cost of sales in the period the revision is made.

**Impairment of Long-Lived Assets** The Company routinely considers whether indicators of impairment of its property and equipment assets, particularly its molding equipment, are present. If such indicators are present, it is determined whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, an impairment loss is recognized based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted estimated future cash flows, appraisals or other methods deemed appropriate. If the assets determined to be impaired are to be held and used, the Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset.

The Company's other long-lived assets are principally comprised of identifiable intangible assets and related goodwill. The Company assesses the impairment of these assets at least annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review, and potentially an impairment charge, include the following:

- . significant underperformance relative to historical or projected future operating results;
- . significant changes in the manner of use of the acquired assets or the Company's overall business strategy;
- . significant negative industry or economic trends; and
- . significant decline in the Company's stock price for a sustained period changing the Company's market capitalization relative to its net book



value;

Income Taxes In the preparation of the Company's consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which the Company operates. This process involves estimating actual current tax exposures together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheet.

The Company has significant amounts of deferred tax assets that are reviewed for recoverability and valued accordingly. Management evaluates the realizability of the deferred tax assets on a quarterly basis and assesses the need for valuation allowances. These deferred tax assets are evaluated by considering historical levels of income, estimates of future taxable income streams and the impact of tax planning strategies. A valuation allowance is recorded to reduce deferred tax assets when it is determined that the Company would not be able to realize all or part of its deferred tax assets.

The Company carried no valuation allowance against its net deferred tax assets at June 1, 2002. In the event it was determined that the Company would not be able to realize all or part of the deferred tax assets in the future, an adjustment to record a deferred tax asset valuation allowance would be charged to income in the period such determination would be made.

10

Three Months and Nine Months Ended June 1, 2002 Compared to Three Months and Nine Months Ended May 26, 2001

The following table compares quarterly results with year-ago results, as a percentage of sales, for each caption.

	Three Months Ended		Nine Months Ended	
	June 1, 2002	May 26, 2001	June 1, 2002	May 26, 2001
Net sales	100.0	100.0	100.0	100.0
Cost of sales	52.9	53.4	61.4	50.3
Gross profit	47.1	46.6	38.6	49.7
Selling, general and administrative expenses	31.8	23.1	34.3	20.6
Nonrecurring charges (reversals)	(2.7)	6.1	1.5	4.5
Engineering, research and development expenses	7.6	5.8	8.8	4.2
Operating profit (loss)	10.5	11.7	(6.0)	20.3
Interest income, net	(0.4)	(1.3)	(0.7)	(1.3)
Other expense (income), net	0.4	(1.2)	(0.9)	-
Income (loss) before income taxes and other items below	10.4	14.1	(4.4)	21.7
Income tax expense (benefit)	1.7	3.4	(2.5)	7.7
Equity in net income of affiliated companies	-	-	-	(0.5)
Minority interest in subsidiaries' net (loss) income	-	0.3	(0.5)	0.6
Net income (loss)	8.8	10.4	(1.3)	13.9
Effective tax rate	16.1%	24.3%	(58.0)%	35.5%

Net sales Net sales decreased 27% to \$59.7 million in the third quarter of fiscal 2002, compared to \$81.3 million in the third quarter of fiscal 2001. The sharp decline reflected the severe downturn in the semiconductor industry, which began in the second half of fiscal 2001. However, third quarter sales for fiscal 2002 improved 18% from the \$50.7 million recorded in the second quarter of the fiscal year, the Company's second consecutive quarter of sequential improvement.

Overall sales for the Microelectronics Group were down 20% from the comparable

period a year ago, but increased by 10 percent from the second to the third quarter 2002, and accounted for about 73% of Entegris sales in the third quarter. Fluid Handling sales in the third quarter were down 41% from a year ago, but improved by 51% from the second, making up 27% of total sales during the third quarter.

The Company had continued improvement in unit driven product sales, which increase as more wafers are being produced and devices are manufactured. This category includes sales for chemical containers, wafer shippers and test, assembly and packaging products. The sequential improvement of unit driven sales from second to third quarter was not as strong as from the first to the second quarter of fiscal year 2002. However, the Company did record double-digit percentage sales increases for most of its unit driven products, which the Company estimates made up about 60 percent of its total sales during the third quarter.

Third quarter fiscal 2002 sales by geographic region were 50 percent to North America, 15 percent to Europe, 13 percent to Japan and 21 percent to Asia Pacific. Overall business conditions in Europe and Japan were not as strong as in Asia Pacific and North America. Fluid Handling sales increased by over 25% in all geographic regions, but were particularly strong in North America where many of the global semiconductor equipment companies are located, with a quarter-to-quarter improvement of 59%. The Microelectronics Group experienced the largest sequential sales improvement in Asia Pacific and North America.

11

Net sales for the first nine months of fiscal 2002 were \$156.3 million, down 46% from \$289.7 million in the comparable year-ago period. Revenue declines were recorded in all geographic regions. Overall, third quarter fiscal 2002 sales were 48% to North America, 20% to Asia Pacific, 16% to Europe and 16% to Japan. Fluid Handling and Microelectronics Group sales declined 38% and 64%, respectively, compared to first nine months of fiscal 2001.

Based on current information from incoming order rates, management expects that sales for the fourth quarter of fiscal 2002 will improve - to a range of \$62 million to \$66 million - from the sales levels experienced in the third quarter.

Gross profit Gross profit in the third quarter of fiscal 2002 decreased 26% to \$28.1 million, compared to \$37.9 million reported in the third quarter of fiscal 2001. For the first nine months of fiscal 2002, gross profit was \$60.3 million, down 58% from \$144.0 million recorded in the first nine months of fiscal 2001. As a percentage of net sales, gross margins for the third quarter and first nine months of the fiscal 2002 were 47.1% and 38.6%, respectively, compared to 46.6% and 49.7%, respectively, in the comparable periods a year ago.

Gross margin and gross profit declines were reported by both domestic and international operations. The drops in fiscal 2002 figures were primarily caused by the lower sales levels noted above, which resulted in lower production levels. In addition, during the second quarter of fiscal 2002, the Company recorded higher than normal inventory reserves associated with the Company's Japanese operations.

The gross margin was 47.1% during the third quarter of fiscal 2002 compared to the second quarter's gross margin of 33.4 %. Most of the quarter-to-quarter improvement related to increased sales and higher production levels. In addition, a portion of the improvement is related to a favorable product mix. The Company also benefited from its actions in reducing costs and increasing manufacturing efficiencies associated with the closure of manufacturing plants, investing in automation, changing process flows and instituting manufacturing centers of excellence.

Selling, general and administrative expenses Selling, general and administrative (SG&A) expenses increased 1% to \$19.0 million in the third quarter of fiscal 2002 from \$18.8 in the third quarter of fiscal 2001. On a year-to-year basis, SG&A expenses fell 10% to \$53.5 million compared to \$59.7 million a year earlier. The declines are primarily due to significantly lower bonus and charitable contribution accruals, which are based on company profitability. On a year-to-date basis, SG&A costs, as a percent of net sales, increased to 34.3% from 20.6% a year ago.

SG&A expenses for the third quarter were up 10% from the \$17.2 million expended in the second quarter of fiscal 2002. As a percent of sales SG&A expenses were

31.8 percent down from 33.9% in the second quarter. The increase from prior quarter is primarily related to increased sales commissions, reinstatement of some incentive compensation as sales increased as the Company regained profitability and an increase to the allowance for doubtful accounts as accounts receivable levels rose. In absolute dollars, SG&A expenses will generally increase as sales improve and profit sharing and charitable donation programs kick in. Accordingly, SG&A expenses are expected to be up marginally in the fourth quarter of fiscal 2002.

**Nonrecurring charges (reversals)** The Company recorded no nonrecurring charges in the third quarter of fiscal 2002, but recorded a \$1.6 million pre-tax benefit associated with the reversal of previous accruals related to the plant closures of some of our facilities within the last four quarters. Approximately \$1.0 million of the reversal was associated with the favorable settlement of future lease commitments which the Company had previously accrued in full.

In the first quarter of 2002, the Company's results included a nonrecurring charge of \$4.0 million in connection with the closures of the Company's Chanhassen, MN and one of its Chaska, MN plants. The charge included \$1.5 million in termination costs related to a workforce reduction of 230 employees and \$2.3 million for estimated losses for asset impairment. During the third quarter of fiscal 2001, the company

12

recorded a \$4.9 million charge in connection with its decision to close its Castle Rock, Colorado and Munmak, Korea facilities. The charge included \$1.8 million for future lease commitments on the Castle Rock facility, the lessor of which is a major shareholder of the Company. During the second quarter of fiscal 2001, the Company recorded a one-time charge of \$8.2 million related to the early termination of a distribution agreement for the Microelectronics Group with its affiliate Metron Technology N.V. (Metron). As of June 1, 2002, future cash outflows of approximately \$0.4 million remained outstanding in connection with the aforementioned nonrecurring charges.

**Engineering, research and development expenses** Engineering, research and development (ER&D) expenses decreased 3% to \$4.5 million, or 7.6 % of net sales, in the third quarter of fiscal 2002 as compared to \$4.7 million, or 5.8% of net sales, for the same period in fiscal 2001. ER&D expenses increased 12 % to \$13.7 million, or 8.8% of net sales, in the first nine months of fiscal 2002 as compared to \$12.3 million, or 4.2% of net sales, a year-ago period, reflecting both higher ER&D expenditures and lower net sales as the Company continued to focus on supporting current product lines, developing new manufacturing technologies and developing next generation products.

**Interest income, net** Net interest income was \$0.2 million in the third quarter of fiscal 2002 compared to \$1.0 million in the year-ago period. Net interest income was \$1.1 million in the first nine months of fiscal 2002 compared to \$3.9 million for the same period in fiscal 2001. The change reflects the significantly lower rates of interest on cash equivalents and short-term investments and a shift in the mix of the Company's investments towards tax-exempt securities.

**Other expense (income), net** Other expense was \$0.3 million in the third quarter of fiscal 2002 as compared to other expense of \$1.0 million a year ago. Other income was \$1.5 million in the first nine months of fiscal 2002 consisted primarily of the foreign currency gains, with about \$0.7 million associated with the realization of translation gains from our liquidated Korean entity, compared to other expense of \$43 thousand in the first nine months of fiscal 2001.

**Income tax expense (benefit)** The Company recorded an income tax expense of \$1.0 million for the third quarter of fiscal 2002 compared to income tax expense of \$2.8 million in the third quarter a year ago. The effective tax rate of 16.1% for the third quarter and (58.0)% for the first nine months of fiscal year 2002 are attributable to a one-time benefit of \$1.4 million related to the repatriation of earnings from certain non-US subsidiaries.

For the first nine months of fiscal 2002, the Company booked an income tax benefit of \$4.0 million compared to income tax expense of \$22.3 million in the first nine months of fiscal 2001. The variances primarily reflect the differences in the Company's pre-tax operating results. The effective tax rate was (58.0)% in the first nine months of fiscal 2002 compared to an effective tax rate of 35.5% for the first nine months of fiscal 2001.

Equity in net income of affiliates No equity in the net income of affiliates was recorded in the third quarter of either fiscal 2002 or fiscal 2001. The Company recorded no equity in the net income of affiliates being recorded in the first nine months of fiscal 2002 compared to \$1.5 million for the same period a year ago. This reflects the change in accounting for the Company's investment in Metron, which was recorded under the equity method of accounting through the second quarter of fiscal 2001 at which time the Company began accounting for its remaining investment as an available-for-sale security, as our percentage ownership was reduced significantly.

Minority interest For the nine months ended June 1, 2002, the minority interest in subsidiaries' net loss was \$0.8 million, reflecting the operating losses of the Company's former 51%-owned Japanese subsidiaries (now 100%-owned), particularly in the second quarter of fiscal 2002, resulting from the sales and the inventory write-down noted above. This compares to minority interest in subsidiaries' net income of \$1.7 million a year ago.

13

Net income (loss) The Company recorded net income of \$5.2 million, or \$0.07 per diluted share, in the third quarter of fiscal 2002, compared to net income of \$8.4 million, or \$0.12 per diluted share, in the year-ago period. For the first nine months of fiscal 2002, Entegris recorded a net loss of \$2.1 million, or \$0.03 per diluted share, compared to net income of \$40.3 million, or \$0.55 per diluted share, in the comparable period a year earlier.

#### Liquidity and Capital Resources

Operating activities Cash flow provided by operating activities totaled \$15.1 million in the first nine months of fiscal 2002. Noncash charges, such as depreciation and amortization of \$20.8 million, as well as decreases in inventory of \$8.0 million and accounts receivable of \$3.8 million were partly offset by the Company's net loss of \$2.1 million and a \$18.4 million reduction in accounts payable and accruals. Working capital at June 1, 2002 stood at \$162.1 million, including \$70.4 million in cash and cash equivalents, and short-term investments of \$37.1 million.

Accounts receivable grew by \$7.6 million during the third quarter in concert with increased sales. Inventories stayed flat with the prior quarter at approximately \$39 million.

Investing activities Cash flow used in investing activities totaled \$23.9 million in the first nine months of fiscal 2002. Acquisition of property and equipment totaled \$17.0 million, primarily related to a facility expansion in California, primary site of the Company's cleaning service activity, and expenditures for manufacturing equipment and information systems. The Company expects capital expenditures for fiscal 2002 to total approximately \$20 to \$25 million. The company had purchases of short-term investments, net of maturities, of \$0.5 million during the first nine months of fiscal 2002. Short-term investments stood at \$37.1 million at June 1, 2002.

Late in the second quarter of fiscal 2002, the Company purchased the 49% minority interests held in its Fluoroware Valqua Japan K.K. and Nippon Fluoroware K.K subsidiaries for total consideration of \$5.1 million. The excess of purchase price over net assets acquired was approximately \$1.3 million.

Financing activities Cash used by financing activities totaled \$4.9 million during the first nine months of fiscal 2002. The company made scheduled payments \$4.7 million on borrowings, while proceeds from borrowings were \$5.1 million. The Company received \$4.5 million in connection with common shares issued under the Company's stock option and stock purchase plans.

As of June 1, 2002, our sources of available funds comprised \$70.4 million of cash and cash equivalents, \$37.1 million of short-term investments plus various credit facilities. We have unsecured revolving commitments with two commercial banks with aggregate borrowing capacity of \$20 million, with no borrowings outstanding at June 1, 2002. We also have lines of credit, equivalent to an aggregate of approximately \$10 million with nine international banks, which provide for borrowings of the European Euro, Malaysian ringgits and Japanese yen for our overseas subsidiaries. Borrowings outstanding on these lines of credit were \$10.0 million at June 1, 2002.

At June 1, 2002, the Company's shareholders' equity stood at \$315.9 million. Book value per share was \$4.45, down from \$4.48 per share at the end of fiscal 2001. The nine months' net loss accounted for the decrease.

The Company believes that its cash and cash equivalents, cash flow from operations and available credit facilities will be sufficient to meet its working capital and investment requirements for the next twelve months. However, future growth, including potential acquisitions, may require additional funding, and from time to time the Company may need to raise capital through additional equity or debt financing.

#### Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Under the provisions of SFAS No. 142, goodwill and intangible assets with indefinite lives are not amortized, but tested for impairment annually, or whenever there is an impairment indicator. In addition, upon adoption of SFAS 142, all goodwill must be assigned to reporting units for purposes of impairment testing and is no longer subject to amortization.

The Company adopted SFAS No. 142 as of August 26, 2001. As required by SFAS 142, the Company performed an assessment of whether there was an indication that goodwill was impaired at the date of adoption. In connection therewith, the Company determined that it consisted of a single reporting unit and determined the Company's fair value and compared it to the reporting unit's carrying amount. As of August 26, 2001, the Company's fair value exceeded its carrying amount, and therefore there was no indication that goodwill was impaired. Accordingly, the Company was not required to perform the second step of the transitional impairment test.

In the second step, the Company would be required to compare the implied fair value of goodwill, determined by allocating the reporting unit's fair value to all of its assets and liabilities to its carrying amount, both of which would be measured as of the date of adoption. The Company did not record any transitional impairment loss.

Goodwill amortization expense was \$0.4 million for the third quarter of fiscal 2001 and \$0.8 million for the first nine months of fiscal 2001. The Company estimates that goodwill amortization expense would have been approximately \$0.6 million in the third quarter of fiscal 2002 and \$1.7 million for fiscal year-to-date 2002.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that Statement. SFAS No. 144 becomes effective for fiscal years beginning after December 15, 2001. The Company is evaluating SFAS No. 144 to determine the impact on its financial condition and results of operations.

**Cautionary Statements** This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may include forward-looking statements which reflect the Company's current views with respect to future events and financial performance. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "should" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forecasts and projections in this document are "forward-looking statements," and are based on management's current expectations of the Company's near-term results, based on current information available pertaining to the Company, including the risk factors identified in the Company's Annual Report on Form 10-K for the fiscal year ended August 25, 2001. Among these risks and uncertainties are general economic conditions, the cyclical nature of the semiconductor industry, the risks associated with the acceptance of new products and services, the successful integration of acquisitions and the ability to expand into new markets. Other factors could also cause the Company's results to differ materially from those contained in its forward-looking statements.

## Item 3: Quantitative and Qualitative Disclosures About Market Risk

Entegris's principal market risks are sensitivities to interest rates and foreign currency exchange rates. The Company's current exposure to interest rate fluctuations is not significant. Most of its outstanding debt at June 1, 2002 carried fixed rates of interest. All of the Company's cash equivalents and short-term investments are debt instruments with remaining maturities of 12 months or less.

The Company uses derivative financial instruments to manage foreign currency exchange rate risk associated with the sale of products from the United States when such sales are denominated in currencies other than the U.S. dollar. The cash flows and earnings of foreign-based operations are also subject to fluctuations in foreign exchange rates. A hypothetical 10% change in the foreign currency exchange rates would potentially increase or decrease net income by approximately \$1 million.

Our investment in Metron is accounted for as an "available-for-sale security" under the provisions of Statement of Financial Accounting Standards (SFAS) No. 115. The fair value of Metron is subject to stock market fluctuations. Based on the closing stock price of Metron at June 1, 2002, the fair value of our investment in Metron was approximately \$13.9 million.

## PART II

## Item 6. Exhibits and Reports on Form 8-K

## (a) Exhibits:

None

## (b) Reports on Form 8-K

None

## 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: July 16, 2002                    /s/ James E. Dauwalter  
James E. Dauwalter  
President and Chief Executive Officer

Date: July 16, 2002                    /s/ John D. Villas  
John D. Villas  
Executive Vice President and  
Chief Financial Officer