MKS INSTRUMENTS INC
Form 10-Q
August 07, 2009

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**
**FORM 10-Q**

*(MARK ONE)*

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

**For the quarterly period ended June 30, 2009**

**or**

o **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 | 04-2277512 |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| 2 Tech Drive, Suite 201, Andover, Massachusetts | 01810 |
| *(Address of principal executive offices)* | *(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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 þ | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |

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

As of July 31, 2009 the registrant had 49,456,134 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 data)
(Unaudited)

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $139,703 | $ 119,261 |
| Short-term investments | 118,838 | 159,608 |
| Trade accounts receivable, net | 55,738 | 85,350 |
| Inventories | 121,641 | 131,519 |
| Income tax receivable | 36,007 | 4,057 |
| Deferred income taxes | 19,576 | 19,058 |
| Other current assets | 10,921 | 9,875 |
| Total current assets | 502,424 | 528,728 |
| Property, plant and equipment, net | 72,733 | 82,017 |
| Goodwill | 144,511 | 337,765 |
| Acquired intangible assets, net | 6,706 | 21,069 |
| Other assets | 16,547 | 15,360 |
| Total assets | $742,921 | $ 984,939 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Short-term borrowings | $ 8,822 | $ 17,808 |
| Current portion of capital lease obligations | 581 | 870 |
| Accounts payable | 21,133 | 19,320 |
| Accrued compensation | 7,597 | 13,768 |
| Other accrued expenses | 22,309 | 24,169 |
| Total current liabilities | 60,442 | 75,935 |
| Long-term portion of capital lease obligations | 177 | 396 |
| Other liabilities | 18,020 | 21,910 |
| Commitments and contingencies (Note 15) | | |
| Stockholders equity: | | |
| Preferred Stock, $0.01 par value, 2,000,000 shares authorized; none issued and outstanding | | |
| Common Stock, no par value, 200,000,000 shares authorized; 49,457,067 and 49,275,975 shares issued and outstanding at June 30, 2009 and December 31, | 113 | 113 |

| | | |
|---|---|---|
| 2008, respectively | | |
| Additional paid-in capital | 640,246 | 637,938 |
| Retained earnings | 17,795 | 241,428 |
| Accumulated other comprehensive income | 6,128 | 7,219 |
| Total stockholders equity | 664,282 | 886,698 |
| Total liabilities and stockholders equity | $742,921 | $ 984,939 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net revenues | | | | |
| Products | $ 62,870 | $ 148,077 | $ 125,346 | $ 319,842 |
| Services | 16,285 | 22,925 | 30,528 | 44,608 |
| Total net revenues | 79,155 | 171,002 | 155,874 | 364,450 |
| Cost of revenues | | | | |
| Cost of products | 43,846 | 85,250 | 99,965 | 182,873 |
| Cost of services | 9,781 | 15,264 | 20,032 | 29,182 |
| Total cost of revenues | 53,627 | 100,514 | 119,997 | 212,055 |
| Gross profit | 25,528 | 70,488 | 35,877 | 152,395 |
| Research and development | 12,285 | 20,694 | 27,748 | 40,035 |
| Selling, general and administrative | 25,909 | 34,905 | 54,131 | 66,522 |
| Amortization of acquired intangible assets | 1,011 | 1,984 | 2,664 | 5,089 |
| Goodwill and asset impairment charges | 208,497 | | 208,497 | |
| Restructuring | 68 | | 5,688 | |
| Income (loss) from operations | (222,242) | 12,905 | (262,851) | 40,749 |
| Interest expense | (53) | (64) | (101) | (522) |
| Interest income | 266 | 1,700 | 1,323 | 4,334 |
| Impairment of investments | | (251) | | (1,412) |
| Income (loss) before income taxes | (222,029) | 14,290 | (261,629) | 43,149 |
| Provision (benefit) for income taxes | (14,895) | 5,056 | (37,996) | 13,533 |
| Net income (loss) | $ (207,134) | $ 9,234 | $ (223,633) | $ 29,616 |
| Net income (loss) per share: | | | | |
| Basic | $ (4.20) | $ 0.19 | $ (4.55) | $ 0.58 |
| Diluted | $ (4.20) | $ 0.18 | $ (4.55) | $ 0.57 |
| Weighted average common shares outstanding: | | | | |
| Basic | 49,307 | 49,691 | 49,151 | 50,712 |
| Diluted | 49,307 | 50,866 | 49,151 | 51,718 |

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)

| | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ (223,633) | $ 29,616 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 10,004 | 12,216 |
| Stock-based compensation | 4,173 | 7,595 |
| Tax expense from stock-based compensation | (1,193) | (29) |
| Excess tax expense (benefit) from stock-based compensation | 3,794 | (1,330) |
| Deferred income taxes | 2,118 | (859) |
| Provision for excess or obsolete inventory | 14,796 | 3,814 |
| Impairment of goodwill | 193,254 | |
| Impairment of intangibles and other long-lived assets | 15,243 | |
| Impairment of investments | | 1,412 |
| Other | 1,120 | 165 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | 26,536 | (953) |
| Inventories | (1,261) | (4,605) |
| Income taxes receivable | (31,806) | (1,991) |
| Other current assets | (912) | (2,377) |
| Accrued expenses and other current liabilities | (13,369) | 3,883 |
| Accounts payable | (968) | (4,397) |
| Net cash provided by (used in) operating activities | (2,104) | 42,160 |
| Cash flows from investing activities: | | |
| Purchases of short-term and long-term available for sale investments | (125,742) | (118,931) |
| Maturities, sales and settlements of short-term and long-term available for sale investments | 162,054 | 128,116 |
| Purchases of property, plant and equipment | (2,366) | (5,446) |
| Other | 691 | 524 |
| Net cash provided by investing activities | 34,637 | 4,263 |
| Cash flows from financing activities: | | |
| Proceeds from short-term borrowings | 86,014 | 63,882 |
| Payments on short-term borrowings | (94,056) | (66,516) |
| Repurchases of common stock | | (101,938) |
| Principal payments on capital lease obligations | (627) | (783) |
| | (672) | 6,538 |

| | | |
|---|---|---|
| Proceeds from (taxes paid for) exercise of stock options and employee stock purchase plan | | |
| Excess tax benefit (expense) from stock-based compensation | (3,794) | 1,330 |
| Net cash used in financing activities | (13,135) | (97,487) |
| Effect of exchange rate changes on cash and cash equivalents | 1,044 | (1,979) |
| Increase (decrease) in cash and cash equivalents | 20,442 | (53,043) |
| Cash and cash equivalents at beginning of period | 119,261 | 223,968 |
| Cash and cash equivalents at end of period | $ 139,703 | $ 170,925 |

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
(Tables in thousands, except share and per share data)

1) Basis of Presentation

The terms MKS and the Company refer to MKS Instruments, Inc. and its subsidiaries. The interim financial data as of June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 is 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, 2008 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, 2008 filed with the Securities and Exchange Commission on February 27, 2009.

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, in-process research and development expenses, merger 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 April 2009, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) FAS 107-1 and Accounting Pronouncement Board ( APB ) 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends Statement of Financial Accounting Standard ( SFAS ) No. 107, Disclosures About Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009 and the Company adopted them in the second quarter of 2009. See Note 4.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP 115-2 is effective for interim periods ending after June 15, 2009. The Company adopted FSP 115-2 in the second quarter of 2009 and the adoption did not have an impact on the Company s financial position, results of operations, or cash flows.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, ( SFAS 157 ), when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for interim periods ending after June 15, 2009. The Company adopted FSP 157-4 in the second quarter of 2009 and the adoption did not have an impact on the Company s financial position, results of operations, or cash flows.

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MKS INSTRUMENTS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Tables in thousands, except share and per share data)

In April 2009, the FASB issued FSP No. 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, ( FSP 141R-1 ). FSP 141R-1 amends the provisions in SFAS No. 141(R), Business Combinations, ( SFAS 141R ) for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The FSP eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS 141R and instead carries forward most of the provisions in SFAS No. 141, Business Combinations, ( SFAS 141 ) for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted FSP 141R-1 effective as of January 1, 2009 and the adoption did not have an impact on the Company s financial position, results of operations, or cash flows.

In May 2009, the FASB issued statement No. 165, Subsequent Events, ( SFAS 165 ). SFAS 165 modifies the definition of what qualifies as a subsequent event those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. The Company adopted the provisions of SFAS 165 in the second quarter of 2009, in accordance with the effective date. See Note 16.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162, ( SFAS 168 ). The FASB Accounting Standards Codification (the Codification) will become the source of authoritative U.S. GAAP on July 1, 2009. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. The Codification is not intended to change or alter existing U.S. GAAP. The Company has evaluated this new statement, and has determined that it will not have a significant impact on the determination or reporting of its financial results.

3) Cash and Cash Equivalents and Investments

All highly liquid investments with a maturity date of three months or less at the date of purchase are considered to be cash equivalents. The appropriate classification of investments in securities is determined at the time of purchase. Debt securities that the Company does not have the intent and ability to hold to maturity are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on securities classified as available-for-sale are included in accumulated other comprehensive income in consolidated stockholders equity.

The Company reviews its investment portfolio on a monthly basis to identify and evaluate individual investments that have indications of possible impairment. The factors considered in determining whether a loss is other-than-temporary include: the length of time and extent to which fair market value has been below the cost basis, the financial condition and near-term prospects of the issuer, credit quality, and the Company s ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. At December 31, 2007, the Company determined that declines in the fair value of two of its investments in certain commercial paper were other-than-temporary and as a result, recorded a $1,457,000 impairment charge to earnings. This resulted in a new cost basis for the securities of $4,275,000 at December 31, 2007.

During the Company s review of its investment portfolio as of March 31, 2008, the Company determined that further declines in the value of these two investments were other-than-temporary and as a result, recorded an additional $1,161,000 impairment charge to earnings. This resulted in a new cost basis for the securities of $3,114,000 at March 31, 2008.

During the second quarter of 2008, the Company recorded additional impairment charges of $251,000 on these two investments due to further declines in value. In addition, the Company received a $490,000 principal payment from one of these investments during the second quarter of 2008. During the third quarter of 2008, the Company liquidated its position in these two impaired investments, one by sale and the other by a structured payment, for a combined total of $2,879,000 and as a result, it recorded a gain from the liquidation of $506,000. The Company did not have any other-than-temporary impaired investments at June 30, 2009.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Tables in thousands, except share and per share data)

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

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Federal Government and Government Agency Obligations | $ 106,230 | $ 137,981 |
| Commercial Paper and Corporate Obligations | 12,608 | 21,627 |
| | $ 118,838 | $ 159,608 |

The fair value of long-term available-for-sale investments with maturities or estimated lives of one to five years consists of the following:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Federal Government and Government Agency Obligations | $ 4,094 | $ |

The following table shows the gross unrealized gains and losses aggregated by investment category:

| | Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
|---|---|---|---|---|
| As of June 30, 2009: | | | | |
| Federal Government and Government Agency Obligations | $ 97,231 | $ 137 | $ (9) | $ 97,359 |
| Commercial Paper and Corporate Obligations | 4,507 | 43 | (739) | 3,811 |
| Total | $ 101,738 | $ 180 | $ (748) | $ 101,170 |
| As of December 31, 2008: | | | | |
| Federal Government and Government Agency Obligations | $ 126,106 | $ 373 | $ (2) | $ 126,477 |
| Commercial Paper and Corporate Obligations | 2,993 | 87 | (783) | 2,297 |
| Total | $ 129,099 | $ 460 | $ (785) | $ 128,774 |

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 and realized gains or losses are reflected in income and were not material for the three and six months ended June 30, 2009 and

June 30, 2008, respectively.

4) Fair Value Measurements

The Company follows fair value measurements in accordance with U.S. GAAP. 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 rules 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 rule 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 as of the reporting date. Active markets are those in which transactions for the asset and liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

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

MKS INSTRUMENTS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Tables in thousands, except share and per share data)

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 and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and Agency mortgage-backed debt securities, corporate debt securities, and non-exchange traded derivative contracts.

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.

Assets and liabilities of the Company measured at fair value on a recurring basis as of June 30, 2009, are summarized as follows:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| Description | June 30, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets | | | | |
| Cash equivalents | $ 10,212 | $ 10,212 | $ | $ |
| Available-for-sale-securities | 122,932 | 122,932 | | |
| Derivatives currency forward contracts | 631 | | 631 | |
| Total assets | $133,775 | $ 133,144 | $ 631 | $ |

Assets and liabilities of the Company measured at fair value on a recurring basis as of December 31, 2008, are summarized as follows:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| Description | December 31, 2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |

| | | | | |
|---|---|---|---|---|
| Assets | | | | |
| Cash equivalents | $ 13,550 | $ 13,550 | $ | $ |
| Available-for-sale-securities | 159,608 | 159,608 | | |
| Derivatives currency forward contracts | 508 | | 508 | |
| Total assets | $173,666 | $ 173,158 | $ 508 | $ |

Cash Equivalents

As of June 30, 2009 and December 31, 2008, cash equivalents consisted of Federal Government and Government Agency Obligations, Commercial Paper, and Other Corporate Obligations, classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets.

Available-For-Sale Securities

As of June 30, 2009 and December 31, 2008, available-for-sale securities consisted of Federal Government and Government Agency Obligations, Commercial Paper, and Other Corporate Obligations, classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets.

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 forward

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Tables in thousands, except share and per share data)

foreign currency exchange contracts are valued using broker quotations, or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within Level 2.

Assets and liabilities of the Company measured at fair value on a non-recurring basis as of June 30, 2009 are summarized as follows:

| | | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|---|
| Description | June 30, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Losses |
| Assets | | | | | |
| Goodwill | $144,511 | $ | $ | $ 144,511 | $ 193,254 |
| Definite lived intangible assets | 6,706 | | 6,706 | | 11,699 |
| Long-lived assets held and used | 1,297 | 1,297 | | | 3,544 |
| Total assets | $152,514 | $1,297 | $ 6,706 | $ 144,511 | $ 208,497 |

In accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, ( SFAS 142 ), goodwill with a carrying amount of $337,765,000 was written down to its implied fair value of $144,511,000, resulting in an impairment charge of $193,254,000, which was included in earnings in the second quarter of 2009. In accordance with the provisions of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, ( SFAS 144 ), definite-lived intangible assets with a carrying amount as of April 30, 2009 of $18,866,000, were written down to its fair value of $7,167,000, resulting in an impairment charge of $11,699,000, which was included in earnings in the second quarter of 2009. Refer to Note 7 for the information and description used to develop the inputs and the fair value determination of the goodwill and other intangible assets.

In accordance with the provisions of SFAS 144, the long-lived asset held and used with a carrying amount of $4,841,000 was written down to its fair value of $1,297,000, resulting in a loss of $3,544,000, which was included in earnings in the second quarter of 2009.

5) <u>Derivatives</u>

In March of 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, (SFAS 161). SFAS 161 requires entities to provide enhanced disclosure about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS 133) and how the instruments and related hedged items affect the financial position, results of operations, and cash flows of the entity. The Company adopted this new standard effective January 1, 2009.

The Company enters into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under SFAS 133 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 and other financial 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, Korean, British and European currencies. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the hedge accounting criteria of SFAS 133, changes in the derivatives fair value are not included in current earnings but are included in Accumulated Other Comprehensive Income in Equity. These changes in fair value will

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MKS INSTRUMENTS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Tables in thousands, except share and per share data)

subsequently be reclassified into earnings as a component of product cost, 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 of SFAS 133 are not met, the foreign currency forward contracts are utilized as economic hedges and changes in the fair value of these contracts are recorded currently 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 of SFAS 133 were not met.

As of June 30, 2009, the Company had outstanding forward foreign exchange contracts with gross notional values of $32,503,000, which is reflective of the amounts that are normally outstanding at any point during the year. The following table provides a summary of the primary hedging positions and corresponding fair values held as of June 30, 2009:

| Currency Hedged (Buy/Sell) | Gross Notional Value | Fair Value Asset(1) |
|---|---|---|
| U.S. Dollar/Japanese Yen | $ 25,186 | $ 939 |
| U.S. Dollar/South Korean Won | &nbs | |