

# VEECO INSTRUMENTS INC

## FORM 10-Q (Quarterly Report)

Filed 10/30/96 for the Period Ending 09/30/96

Address	TERMINAL DRIVE PLAINVIEW, NY 11803
Telephone	516 677-0200
CIK	0000103145
Symbol	VECO
SIC Code	3559 - Special Industry Machinery, Not Elsewhere Classified
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/31

# VEECO INSTRUMENTS INC

## FORM 10-Q (Quarterly Report)

Filed 10/30/1996 For Period Ending 9/30/1996

Address	TERMINAL DR PLAINVIEW, New York 11803
Telephone	516-349-8300
CIK	0000103145
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/31

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 1996

*Commission file number 0-16244*

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### VEECO INSTRUMENTS INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-2989601  
(I.R.S. Employer  
Identification Number)

Terminal Drive  
Plainview, New York  
(Address of principal executive offices)

11803  
(Zip Code)

Registrant's telephone number, including area code: (516) 349-8300

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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 ☐

5,826,534 shares of Common Stock \$.01 par value, were outstanding as of October 25, 1996.

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# VEECO INSTRUMENTS INC.

## INDEX

	PAGE
	----
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited):	
Condensed Consolidated Statements of Income - Three Months Ended September 30, 1996 and 1995	3
Condensed Consolidated Statements of Income - Nine Months Ended September 30, 1996 and 1995	4
Condensed Consolidated Balance Sheets - September 30, 1996 and December 31, 1995	5
Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 1996 and 1995	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
PART II. OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	12
SIGNATURES	13

# PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### Veeco Instruments Inc. and Subsidiaries

#### Condensed Consolidated Statements of Income

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,	
	1996	1995
Net sales	\$ 24,071	\$ 18,430
Cost of sales	13,602	10,061
Gross profit	10,469	8,369
Costs and expenses:		
Research and development expense	2,601	1,589
Selling, general and administrative expense	4,745	4,200
Amortization expense	63	51
Other - net	46	108
Operating income	3,014	2,421
Interest income, net	148	152
Income before income taxes	3,162	2,573
Income taxes	1,168	695
Net income	\$ 1,994	\$ 1,878
Net income per common share	\$ 0.34	\$ 0.33
Shares used in computation	5,860,000	5,750,000

SEE ACCOMPANYING NOTES.

**Condensed Consolidated Statements of Income**  
(Dollars in thousands, except per share data)

(Unaudited)

	Nine Months Ended September 30,	
	1996	1995
Net sales	\$ 69,810	\$ 50,061
Cost of sales	39,011	27,430
Gross profit	30,799	22,631
Costs and expenses:		
Research and development expense	7,184	4,950
Selling, general and administrative expense	14,334	11,628
Amortization expense	168	151
Other - net	163	84
Operating income	8,950	5,818
Interest income, net	510	167
Income before income taxes	9,460	5,985
Income taxes	3,550	1,529
Net income	\$ 5,910	\$ 4,456
Net income per common share	\$ 1.00	\$ 0.84
Shares used in computation	5,889,000	5,317,000

**SEE ACCOMPANYING NOTES.**

Veeco Instruments Inc.  
and Subsidiaries

Consolidated Balance Sheet  
(Dollars in thousands)

	September 30, 1996	December 31, 1995
	----- (Unaudited)	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,109	\$ 17,568
Accounts and trade notes receivable	17,878	18,983
Inventories	21,569	15,795
Prepaid expenses and other current assets	925	923
Deferred income taxes	1,261	1,221
	-----	-----
Total current assets	59,742	54,490
Property, plant and equipment at cost, net	8,932	7,381
Excess of cost over net assets acquired	4,481	4,579
Other assets - net	1,053	930
	-----	-----
Total assets	\$ 74,208	\$ 67,380
	-----	-----

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 10,880	\$ 8,729
Accrued expenses	6,661	7,523
Income taxes payable	336	777
	-----	-----
Total current liabilities	17,877	17,029
Deferred income taxes	118	118
Other liabilities	463	482
Shareholders' equity:		
Common stock	58	58
Additional paid-in capital	47,610	47,353
Retained earnings	7,481	1,571
Cumulative translation adjustment	601	769
	-----	-----
Total shareholders' equity	55,750	49,751
	-----	-----
Total liabilities and shareholders' equity	\$ 74,208	\$ 67,380
	-----	-----

**SEE ACCOMPANYING NOTES.**





**Condensed Consolidated Statements of Cash Flows**  
(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	1996	1995
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 5,910	\$ 4,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,012	965
Deferred income taxes	(40)	495
Changes in operating assets and liabilities:		
Accounts and trade notes receivable	867	(1,627)
Inventories	(5,886)	(3,159)
Accounts payable	2,169	(171)
Accrued expenses and other current liabilities	(1,263)	1,415
Other - net	(11)	266
Net cash provided by operating activities	2,758	2,640
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(2,403)	(703)
Net cash used in investing activities	(2,403)	(703)
<b>FINANCING ACTIVITIES</b>		
Proceeds from stock issuance	257	14,538
Deferred financing costs	(193)	(85)
Other	-	(29)
Net cash provided by financing activities	64	14,424
Effect of exchange rates on cash	122	(172)
Net change in cash and cash equivalents	541	16,189
Cash and cash equivalents at beginning of period	17,568	2,279
Cash and cash equivalents at end of period	\$18,109	\$18,468

**SEE ACCOMPANYING NOTES.**



## VEECO INSTRUMENTS INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. Operating results for the nine months ended September 30, 1996, are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

Earnings per share is computed using the weighted average number of common and common equivalent shares outstanding during the period.

#### Note 2 - Inventories

Interim inventories have been determined by lower of cost (principally first-in, first-out) or market. Inventories consist of:

	September 30, 1996 ----	December 31, 1995 ----
	(Dollars in thousands)	
Raw materials	\$ 8,052	\$ 4,349
Work-in process	6,142	4,222
Finished goods	7,375	7,224
	-----	-----
	\$ 21,569	\$15,795
	-----	-----

### Note 3 - Balance Sheet Information

Selected balance sheet account disclosures follow:

	September 30, 1996 ----	December 31, 1995 ----
	(Dollars in thousands)	
Allowance for doubtful accounts	\$ 654	\$ 517
Accumulated depreciation and amortization		
of property, plant and equipment	\$ 6,138	\$ 5,318
Accumulated amortization of excess of cost		
over net assets acquired	\$ 877	\$ 779

### Note 4 - Credit Facility

In place of its existing financing arrangements, in July 1996, the Company entered into a new credit facility (the "New Credit Facility") with Fleet Bank, N.A. and The Chase Manhattan Bank. The New Credit Facility, which is to be used for working capital, acquisitions and general corporate purposes, provides the Company with up to \$30 million of availability. The New Credit Facility bears interest at the prime rate of the lending banks, but is adjustable to a maximum rate of 3/4% above the prime rate in the event the Company's debt to cash flow exceeds a defined ratio. A LIBOR based interest rate option is also provided. The New Credit Facility expires July 31, 1999, but under certain conditions is convertible into a term loan, which would amortize quarterly through July 31, 2002. The New Credit Facility is secured by substantially all of the Company's personal property, as well as the stock of its Sloan subsidiary.

### Note 5 - Other Information

The principal reason for the variation in the relationship between the statutory income tax rate and the effective tax rate for the three and nine months ended September 30, 1995 is due to the recognition of previously unrecognized deferred tax assets.

Total interest paid for the nine months ended September 30, 1995 was \$106,000. The Company made income tax payments of \$3,967,000 and \$647,000 for the nine months ended September 30, 1996 and 1995, respectively.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **RESULTS OF OPERATIONS**

#### **THREE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 1995**

Net sales for three months ended September 30, 1996 increased by approximately \$5.6 million or 30.6% over the comparable 1995 period. The increase principally reflects continuing growth in Ion Beam System sales. .

Sales of Ion Beam Systems for the third quarter of 1996 increased to approximately \$13.2 million or 62.8% over the comparable period in 1995, driven primarily by increased demand from the mass memory storage market. Sales of Surface Metrology products for the third quarter of 1996 of approximately \$6.1 million remained flat compared to the third quarter of 1995, as a result of a general slow down in semiconductor applications. Sales of Industrial Measurement products for the third quarter of 1996 increased to approximately \$4.8 million or 13.4% over the comparable period in 1995, as the result of increased sales of new leak detection products.

The Company booked \$18.3 million of orders in the quarter compared to \$21.2 million of orders in the third quarter of 1995, as the general over capacity in the semiconductor device industry has impacted customers short term purchasing patterns.

Gross profit for the third quarter of 1996 of approximately \$10.5 million represents an increase of approximately \$2.1 million over the comparable 1995 period. Gross profit as a percentage of net sales decreased from 45.4% in 1995 to 43.5% in 1996. This decline was principally due to product and geographic mix changes in Surface Metrology products in the 1996 third quarter.

Research and development expense in the third quarter of 1996 increased by approximately \$1.0 million or 63.7% compared to the third quarter of 1995 as the Company increased its R&D investment in each product line with particular emphasis on ion beam deposition products.

Selling, general and administrative expenses increased by approximately \$545,000 compared to the third quarter of 1995. The increase was primarily due to approximately \$401,000 of additional selling expense comprised of sales commissions related to the higher sales volume, as well as increased compensation and travel expense.

Operating income increased to approximately \$3.0 million or 12.5% of net sales for the third quarter of 1996 compared to approximately \$2.4 million or 13.1% of net sales for the third quarter of 1995, due to the above noted factors.

Income taxes for the third quarter of 1996 amounted to approximately \$1.2 million or 36.9% of income before income taxes in 1996 as compared to \$695,000 or 27.0% of income before taxes for the same period in 1995. The lower effective tax rate in 1995 as compared to the statutory tax rate is a result of the Company recognizing in 1995 previously unrecognized deferred tax assets.

**NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THE NINE MONTHS ENDED  
SEPTEMBER 30, 1995**

Net sales for nine months ended September 30, 1996 increased by approximately \$19.7 million or 39.5% over the comparable 1995 period. The increase reflects growth in all three product lines: Ion Beam Systems, Surface Metrology and Industrial Measurement.

Sales of Ion Beam Systems for the nine months ended September 30, 1996 increased to approximately \$37.2 million or 67.8% over the comparable 1995 period, driven by increased demand from the mass memory storage market. Sales of Surface Metrology products for the nine months ended September 30, 1996 increased to approximately \$17.3 million or 19.4% over the comparable 1995 period, primarily as a result of increased activity in SXM Atomic Force Microscopy for semiconductor applications. Sales of Industrial Measurement products for the nine months ended September 30, 1996 increased to approximately \$15.3 million or 14.4% over the comparable 1995 period, as a result of new leak detection products.

Gross profit for the first nine months of 1996 of approximately \$30.8 million represents an increase of 36.1% or approximately \$8.2 million over the comparable 1995 period. Gross profit as a percentage of net sales decreased from 45.2% in 1995 for the first nine months to 44.1% in 1996 for the same period. This decline was principally due to product mix changes in Surface Metrology and Industrial Measurement.

Research and development expense increased by approximately \$2.2 million or 45.1% in the first nine months of 1996 compared to the comparable period of 1995 as the Company increased its R&D investment in all product lines, with \$1.5 million of the increase directed at Ion Beam Systems.

Selling, general and administrative expenses for the first nine months of 1996 increased by approximately \$2.7 million compared to the first nine months of 1995. The increase was primarily due to approximately \$2.1 million of additional selling expense comprised of sales commissions related to the higher sales volume, as well as increased compensation and travel expense as a result of the hiring of additional sales and service personnel to support the Company's continuing growth. The Company booked \$68.8 million of orders in the first nine months of 1996 compared to \$60.5 million of orders in the first nine months of 1995.

Operating income increased to approximately \$9.0 million or 12.8% of net sales for the nine months ended September 30, 1996 compared to approximately \$5.8 million or 11.6% of net sales for the nine months ended September 30, 1995, due to the above noted factors.

Income taxes for the nine months ended September 30, 1996 amounted to \$3.6 million or 37.5% of income before income taxes as compared to approximately \$1.5 million or 25.5% of income before income taxes for the same period in 1995. The lower effective tax rate in 1995 as compared to the statutory tax rate is a result of the Company recognizing in 1995 previously unrecognized deferred tax assets.

## **LIQUIDITY AND CAPITAL RESOURCES**

Net cash provided by operations totaled \$2.8 million for the first nine months of 1996 compared to \$2.6 million for the comparable 1995 period. Inventories increased \$5.9 million as a result of purchases required for the increased sales level.

The Company had capital expenditures of \$2.4 million for the nine months ended September 30, 1996, principally for laboratory tools and test equipment. In addition, the Company began an upgrade of its computer systems in the 1996 third quarter and anticipates spending \$1.5 million on this program in the next six to nine months.

In July, 1996 the Company entered into a new credit facility with two banks that provides borrowing capability of \$30 million. (See note 4 to the financial statements). The new credit facility will be used for working capital, acquisitions and other general corporate purposes.

The Company believes that existing cash balances together with cash generated from operations and amounts available under the Company's bank credit facility will be sufficient to meet the Company's projected working capital and other cash flow requirements for the foreseeable future.

## PART II. OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### a) Exhibits:

- |       |  |
|-------|--|
| 10.25 | Credit Agreement dated July 31, 1996 among the Registrant, Fleet Bank N.A. and The Chase Manhattan Bank. (1)                             |
| 10.26 | Security Agreement dated July 31, 1996 among the Registrant, Fleet Bank N.A. and The Chase Manhattan Bank. (1)                           |
| 10.27 | Guarantee Agreement dated July 31, 1996 among the Registrant, Fleet Bank N.A. and The Chase Manhattan Bank. (1)                          |
| 10.28 | Guarantor's Security Agreement dated July 31, 1996 among Sloan Technology Corporation, Fleet Bank N.A. and The Chase Manhattan Bank. (1) |
| 10.29 | The Pledge Agreement dated July 31, 1996 among the Registrant, Fleet Bank N.A. and The Chase Manhattan Bank. (1)                         |
| 10.30 | The Patent and Trademark Security Agreement dated July 31, 1996 among the Registrant, Fleet Bank N.A. and The Chase Manhattan Bank. (1)  |
| 27.   | Financial Data Schedule of Veeco Instruments Inc. for the quarterly period ended September 30, 1996.                                     |

#### b) Reports on Form 8-K:

The Registrant filed a Form 8-K dated July 26, 1996 reporting that shares of common stock, par value \$.01 per share, of the Registrant may no longer be offered for resale or resold pursuant to any of the following prospectuses: (i) the Company's Prospectus dated December 15, 1994 filed as part of the Company's Registration Statement on Form S-8, file no. 33-87394; (ii) the Company's Prospectus dated August 3, 1995 filed as part of the Company's Registration Statement on Form S-8, file no. 33-95424; and (iii) the Company's Prospectus dated August 3, 1995 filed as part of the Company's Registration Statement on Form S-8, file no. 33-95422.

(1) Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996 filed with the Securities and Exchange Commission on August 8, 1996.



## 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.

Date: October 29, 1996

### **Veeco Instruments Inc.**

By: /s/ Edward H. Braun  
Edward H. Braun  
Chairman, CEO and President

By: /s/ John F. Rein, Jr.  
John F. Rein, Jr.  
Vice President, Finance  
and Chief Financial Officer

## EXHIBIT INDEX

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## ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 WHICH ARE CONTAINED IN FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	SEP 30 1996
CASH	18,109
SECURITIES	0
RECEIVABLES	18,532
ALLOWANCES	654
INVENTORY	21,569
CURRENT ASSETS	59,742
PP&E	15,070
DEPRECIATION	6,138
TOTAL ASSETS	74,208
CURRENT LIABILITIES	17,877
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	58
OTHER SE	55,692
TOTAL LIABILITY AND EQUITY	74,208
SALES	69,810
TOTAL REVENUES	69,810
CGS	39,011
TOTAL COSTS	21,686
OTHER EXPENSES	163
LOSS PROVISION	0
INTEREST EXPENSE	(510)
INCOME PRETAX	9,460
INCOME TAX	3,550
INCOME CONTINUING	0
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	5,910
EPS PRIMARY	1.00
EPS DILUTED	0

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