VEECO INSTRUMENTS INC
Form 10-Q/A
November 25, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTER ENDED JUNE 30, 2002

Commission file number 0-16244

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)
100 Sunnyside Blvd. **Woodbury, NY** (Address of principal executive offices)	**11797** (zip code)

Registrant's telephone number, including area code: **(516) 677-0200**

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 /x/ No / /

29,134,679 shares of common stock, $0.01 par value per share, were outstanding as of the close of business on July 30, 2002.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the "Report") contains certain forward-looking statements about Veeco within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties. Forward-looking statements include expectations about market conditions or about market acceptance, expectations of future sales or gross profits, possible or assumed future results of operations of Veeco and the statements included in Items 2 and 3 hereof, as well as within this Report generally. Forward-looking statements relate to expectations concerning matters that are not historical facts. Words or phrases such as "will likely result," "expect," "will continue," "anticipate," "believe," "estimate," "intend," "plan," "project" and similar expressions are intended to identify forward-looking statements. Actual results may vary materially from those expressed in such forward-looking statements as a result of various factors, including:

The fact that these forward-looking statements are based on information of a preliminary nature which may be subject to further and continuing review and adjustment;

The risk of favorable customer contracts expiring or being renewed on less attractive terms;

Dependence on principal customers;

Seasonality in the scientific research sector;

The cyclical nature of the semiconductor, data storage, telecommunications/wireless and scientific research industries;

Fluctuations in quarterly operating results;

Risks associated with the acceptance of new products by individual customers and by the marketplace;

Risk of cancellation or rescheduling of orders;

The highly competitive nature of the industries in which the Company operates;

The financial condition of Veeco's customers;

Changes in foreign currency exchange rates; and

The other matters discussed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Although Veeco believes that these forward-looking statements are reasonable, Veeco cannot assure you that these expectations will prove to be correct.

Veeco cautions you not to put undue reliance on any forward-looking statement contained in this Report. The risk factors and cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that Veeco or persons acting on its behalf may issue. Except as otherwise required by federal securities laws, Veeco has no intention or obligation to update or revise any forward-looking statement after this document is filed to reflect the occurrence of unanticipated events or to reflect events or circumstances after the date on which such statement is made.

VEECO INSTRUMENTS INC.
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Part I. Financial Information

Item 1. Financial Statements

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,	
	2002	**2001**
Net sales	$ 77,339	$ 112,095
Cost of sales	42,137	58,956
Gross profit	35,202	53,139
Costs and expenses:		
Selling, general and administrative expense	19,335	20,714
Research and development expense	13,928	14,805
Amortization expense	3,172	881
Other (income) expense, net	(285)	226
Restructuring expense	1,050	1,000
Operating (loss) income from continuing operations	(1,998)	15,513

	Three Months Ended June 30,	
Interest expense (income), net	1,477	(397)
(Loss) income from continuing operations before income taxes	(3,475)	15,910
Income tax (benefit) provision	(1,856)	5,435
(Loss) income from continuing operations	(1,619)	10,475
Loss from discontinued operations, net of taxes		(475)
Net (loss) income	$ (1,619)	$ 10,000
(Loss) earnings per common share:		
(Loss) income per common share from continuing operations	$ (0.06)	$ 0.42
Loss from discontinued operations		(0.02)
Net (loss) income per common share	$ (0.06)	$ 0.40
Diluted (loss) income per common share from continuing operations	$ (0.06)	$ 0.42
Loss from discontinued operations		(0.02)
Diluted net (loss) income per common share	$ (0.06)	$ 0.40
Weighted average shares outstanding	29,083	24,767
Diluted weighted average shares outstanding	29,083	25,215

See Accompanying Notes.

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Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Six Months Ended June 30,	
	2002	**2001**
Net sales	$ 157,488	$ 237,481
Cost of sales	88,551	125,652
Gross profit	68,937	111,829
Costs and expenses:		
Selling, general and administrative expense	38,372	41,848
Research and development expense	27,257	29,912
Amortization expense	6,919	2,317
Other (income) expense, net	(236)	1,632
Restructuring expense	1,887	1,000
Operating (loss) income from continuing operations	(5,262)	35,120
Interest expense (income), net	2,963	(1,164)

	Six Months Ended June 30,	
(Loss) income from continuing operations before income taxes	(8,225)	36,284
Income tax (benefit) provision	(3,454)	12,593
(Loss) income from continuing operations	(4,771)	23,691
Discontinued operations:		
Loss from discontinued operations, net of taxes		(818)
Loss on disposal of discontinued operations, net of taxes	(346)	
Net (loss) income	$ (5,117)	$ 22,873
(Loss) earnings per common share:		
(Loss) income per common share from continuing operations	$ (0.16)	$ 0.96
Loss from discontinued operations	(0.02)	(0.03)
Net (loss) income per common share	$ (0.18)	$ 0.93
Diluted (loss) income per common share from continuing operations	$ (0.16)	$ 0.94
Loss from discontinued operations	(0.02)	(0.03)
Diluted net (loss) income per common share	$ (0.18)	$ 0.91
Weighted average shares outstanding	29,052	24,722
Diluted weighted average shares outstanding	29,052	25,222

See Accompanying Notes.

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Balance Sheets
(In thousands)

	June 30, 2002	December 31, 2001
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 221,343	$ 203,154
Accounts receivable, net	73,026	88,449
Inventories	104,163	102,103
Prepaid expenses and other current assets	7,715	21,952
Deferred income taxes	54,167	46,832
Total current assets	460,414	462,490
Property, plant and equipment at cost, net	74,711	78,547
Goodwill	125,585	125,585
Long-term investments	30,453	23,519
Other assets, net	61,402	65,378

	June 30, 2002	December 31, 2001
Total assets	$ 752,565	$ 755,519
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 21,105	$ 19,657
Accrued expenses	44,605	58,070
Deferred profit	6,757	14,566
Other current liabilities	9,597	12,174
Total current liabilities	82,064	104,467
Long-term debt, net of current portion	234,729	215,519
Other non-current liabilities	11,924	11,562
Shareholders' equity	423,848	423,971
Total liabilities and shareholders' equity	$ 752,565	$ 755,519

See Accompanying Notes.

Veeco Instruments Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2002	**2001**
Net cash (used in) provided by operating activities	$ (2,659)	$ 8,400
Investing Activities		
Capital expenditures	(4,242)	(9,074)
Proceeds from sale of industrial measurement business	3,750	
Proceeds from sale of property, plant and equipment	1,790	11
Payment for net assets of businesses acquired		(7,529)
Net purchases of short-term investments		(733)
Net maturities of long-term investments	1,779	
Net cash provided by (used in) investing activities	3,077	(17,325)
Financing Activities		
Proceeds from stock issuance	983	2,358
Repayment of long-term debt, net	(815)	(809)
Proceeds from issuance of long-term debt	20,000	
Payment for debt issuance costs	(1,260)	
Net cash provided by financing activities	18,908	1,549
Effect of exchange rates on cash and cash equivalents	(1,137)	4,197

	Six Months Ended June 30,	
Net change in cash and cash equivalents	18,189	(3,179)
Cash and cash equivalents at beginning of period	203,154	63,419
Cash and cash equivalents at end of period	$ 221,343	$ 60,240

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 accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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 six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

Earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common and common equivalent shares outstanding during the period. The effect of common equivalent shares for the three and six months ended June 30, 2002 was antidilutive, therefore diluted earnings per share is not presented for such periods.

The following table sets forth the reconciliation of diluted weighted average shares outstanding:

	Three Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands)		(In thousands)	
Weighted average shares outstanding	29,083	24,767	29,052	24,722
Dilutive effect of stock options and warrants		448		500
Diluted weighted average shares outstanding	29,083	25,215	29,052	25,222

The assumed conversion of subordinated convertible notes is antidilutive for the three and six months ended June 30, 2002 and therefore is not included in the above diluted weighted average shares outstanding.

Note 2 Balance Sheet Information

Inventories

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

	June 30, 2002	December 31, 2001
	(In thousands)	
Raw materials	$ 58,885	$ 59,065
Work-in-progress	26,012	26,068
Finished goods	19,266	16,970
	$ 104,163	$ 102,103

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Other Balance Sheet Information

	June 30, 2002	December 31, 2001
	(In thousands)	
Allowance for doubtful accounts	$ 3,149	$ 3,350
Accumulated depreciation and amortization of property, plant and equipment	$ 61,110	$ 54,826
Accumulated amortization of intangible assets	$ 20,098	$ 13,179

Reclassifications

Certain amounts in the 2001 condensed consolidated financial statements have been reclassified to conform to the 2002 presentation.

Note 3 Segment Information

The following represents the reportable product segments of the Company, in thousands:

	Process Equipment	Metrology	Unallocated Corporate Amount	Restructuring Charges	Total
Three Months Ended June 30, 2002					
Net sales	$ 36,923	$ 40,416	$	$	$ 77,339
Income (loss) from continuing operations before interest, taxes and amortization	(2,396)	6,695	(2,075)	(1,050)	1,174
Three Months Ended June 30, 2001					
Net sales	73,245	38,850			112,095
Income (loss) from continuing operations before interest, taxes and amortization	12,014	6,144	(764)	(1,000)	16,394
Six Months Ended June 30, 2002					
Net sales	81,775	75,713			157,488
Income (loss) from continuing operations before interest, taxes and amortization	(4,252)	11,816	(4,020)	(1,887)	1,657
Total assets	309,312	130,906	312,347		752,565
Six Months Ended June 30, 2001					
Net sales	153,542	83,939			237,481
Income (loss) from continuing operations before interest, taxes and amortization	28,316	13,493	(3,372)	(1,000)	37,437
Total assets	$ 183,599	$ 102,962	$ 154,260	$	$ 440,821

Note 4 Comprehensive Income (Loss)

Total comprehensive income (loss) was $1.9 million and ($2.1) million for the three and six months ended June 30, 2002, respectively, and $9.7 million and $21.7 million for the three and six months ended June 30, 2001, respectively. Other comprehensive income (loss) is comprised of foreign currency translation adjustments, minimum pension liability and net unrealized holding gains and losses on available-for-sale securities.

Note 5 Recent Accounting Pronouncements

Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. The intangible assets that are classified as goodwill and those with indefinite lives are no longer amortized under the provisions of this standard. Intangible assets with definite lives will continue to be amortized over their estimated useful life. The standard also requires that an impairment test be performed to support the carrying value of goodwill and indefinite lived intangible assets at least annually.

The Company completed the first of the required impairment tests of goodwill and indefinite lived intangible assets in the first quarter of 2002. The Company has reviewed its business and determined that four reporting units be reviewed for impairment in accordance with the standard. The four reporting units are New York Equipment and Telecommunications Equipment, which comprise the process equipment operating segment, and Atomic Force Microscope ("AFM") and Optical, which comprise the metrology operating segment. Based upon the judgment of management, it was determined that there is no impairment to goodwill or intangibles with definite lives as of January 1, 2002.

The following table outlines the components of goodwill by business segment at June 30, 2002 after the adoption of the standard, in thousands:

	Process Equipment Segment	Metrology Segment	Total
Goodwill	$ 102,808	$ 22,777	$ 125,585

The gross carrying amount and the accumulated amortization of the major intangible asset classes are as follows, in thousands:

	As of June 30, 2002	
	Gross Carrying Amount	Accumulated Amortization
Purchased technology	$ 54,100	$ 10,533
Other intangible assets	25,309	9,565
Total	$ 79,409	$ 20,098

The estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

For six months ended December 31, 2002	$ 5,766
2003	11,571
2004	11,253
2005	10,969
2006	10,269

Net income for the three and six months ended June 30, 2001, includes approximately $0.4 million and $0.8 million of goodwill amortization expense, respectively. Excluding these amounts would have resulted in net income per common share and diluted net income per common share of $0.42 and $0.41, and $0.96 and $0.94, respectively for the three and six months ended June 30, 2001.

In January 2002, the Company adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* (FAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations for a Disposal of a Segment of a Business*. Adoption of this Statement did not have an impact on the Company's consolidated financial position or results of operations.

Note 6 Recent Events

Restructuring

In response to the significant decline in the business environment and current market conditions, the Company has restructured its business and operations. The actions giving rise to the restructuring charges below were implemented in order for Veeco to remain competitive and such actions are expected to benefit Veeco by reducing future operating costs.

During the three months ended June 30, 2002, the Company incurred a restructuring charge of approximately $1.1 million related to the reduction in work force announced in both the fourth quarter of 2001 and the first quarter of 2002. The $1.1 million charge includes severance related costs for approximately 30 employees, which included both management and manufacturing employees in the process equipment segment. As of June 30, 2002, approximately $0.2 million has been expended and approximately $0.9 million remains accrued. Of the remaining amount at June 30, 2002, approximately $0.6 million is expected to be paid during the next six months and approximately $0.3 million is expected to be paid by the third quarter of 2003.

During the three months ended March 31, 2002, the Company incurred a restructuring charge of $0.8 million related to the reduction in work force announced in the fourth quarter of 2001. This charge includes severance related costs for approximately 60 employees which included both management and manufacturing employees located at the Company's Minnesota, Plainview and Rochester operations. As of June 30, 2002, approximately $0.5 million has been expended and approximately $0.3 million remains accrued. The remaining liability is anticipated to be paid during the next six months of 2002.

During the year ended December 31, 2001, the Company recorded restructuring charges of approximately $20.0 million in response to the significant downturn in the telecommunications industry and the overall weak business environment. These charges consisted of a $13.6 million write-off of inventory ($9.6 million associated with the process equipment segment and $4.0 million with the metrology segment), related to order cancellations and the rationalization of certain product lines, $3.0 million related to personnel and business relocation costs and $3.4 million related to the write-down of long-lived assets. The $3.0 million charge for personnel and business relocation costs principally related to plant consolidations and a workforce reduction of approximately 230 employees, which included both management and manufacturing employees located in all operations of the Company. During the three and six months ended June 30, 2002, approximately $0.5 million and $1.0 million, respectively, of the $3.0 million liability for relocation and termination benefits has been paid and approximately $0.8 million remains accrued at June 30, 2002. Since the date charge was recorded, approximately $2.2 million has been paid as of June 30, 2002. Of the $0.8 million remaining accrual, $0.4 million relates to rental payments on a lease agreement for space that the Company has

vacated and will be paid over the next four years and $0.4 million relates to termination costs that will be paid by the end of 2002.

A reconciliation of the liabilities for the 2002 restructuring charges for severance related costs is as follows (in millions):

	Second Quarter 2002 Charge	First Quarter 2002 Charge
Charged to accrual	$ 1.1	$ 0.8
Cash payments during the first Quarter ended March 31, 2002		0.3
Cash payments during the second Quarter ended June 30, 2002	0.2	0.2
Balance as of June 30, 2002	$ 0.9	$ 0.3

A reconciliation of the liability for the 2001 restructuring charge, for personnel and business relocation costs is as follows (in millions):

	Accrued Severance Costs	Accrued Lease Costs
Charged to accrual	$ 2.6	$ 0.4
Cash payments through December 31, 2001	1.2	
	0.5	

	Accrued Severance Costs		Accrued Lease Costs	
Cash payments during the first Quarter ended March 31, 2002				
Cash payments during the second Quarter ended June 30, 2002		0.5		
Balance as of June 30, 2002	$	0.4	$	0.4

Discontinued Operations

In May 2002, the Company sold the remainder of its industrial measurement business. During the six months ended June 30, 2002, the Company recorded an additional loss on the disposal of the discontinued operations of $0.3 million, net of taxes of approximately $0.2 million.

Note 7 Subsequent Events

On July 11, 2002, the Company signed a definitive merger agreement with FEI Company ("FEI"), of Hillsboro, Oregon. Under the terms of the agreement, FEI shareholders will receive 1.355 shares of Veeco common stock for each share of FEI common stock outstanding. Based upon FEI's approximately 32 million shares outstanding, the FEI shareholders will receive approximately 44 million Veeco shares. The merger, which will be accounted for under the purchase method, is expected to close in the fourth quarter of 2002, subject to the approval of shareholders of both companies, certain regulatory approvals and other customary closing conditions. Upon consummation of the merger, FEI will become a wholly-owned subsidiary of Veeco, and Veeco will be renamed Veeco FEI Inc. FEI designs, manufactures, markets and services products based on focused charged particle beam technology. FEI's products include transmission electron microscopes (TEM), scanning electron microscopes (SEM), focused ion-beam systems (FIBs) and DualBeam systems that combine a FIB column and a SEM column on a single platform. FEI also designs, manufactures and sells certain components of electron microscopes and FIBs to other manufacturers.

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

Results of Operations.

Three Months Ended June 30, 2002 and 2001

Net sales of $77.3 million for the three months ended June 30, 2002, represent a decrease of $34.8 million, or 31%, from the 2001 comparable period sales of $112.1 million, resulting principally from a decrease in sales of process equipment products. Sales in the U.S., Europe, Japan and Asia Pacific, accounted for 36%, 21%, 18% and 25%, respectively, of the Company's net sales for the three months ended June 30, 2002. Sales in the U.S. decreased 56% from the comparable 2001 period due to a 67% decline in U.S. process equipment sales, particularly for sales of optical filter deposition products to the telecommunications industry, as well as a 27% decrease in U.S. metrology sales. The decrease in metrology sales was a result of a 15% reduction in the sale of AFMs, as well as a 52% reduction in the sale of optical metrology products, which was primarily due to the decline in sales of the slider level crown adjust (SLC) product line to the data storage industry, which has been phased out in 2001. Sales in Europe and Asia Pacific increased 32% and 81%, respectively. The increase in Europe is principally a result of $3.7 million of sales of molecular beam epitaxy (MBE) equipment produced by Veeco's Applied Epi subsidiary, which was acquired by the Company in September 2001. The increase in Asia Pacific is principally a result of an increase in etch and deposition equipment sales to the data storage industry, as well as an increase of $6.5 million in sales of optical metrology products, primarily to the data storage industry. Sales in Japan decreased 49% from the 2001 comparable period, due primarily to the decline in sales of both etch and deposition products to data storage customers, as well as optical filter deposition products to telecommunications customers. The Company believes that there will continue to be quarter-to-quarter variations in the geographic concentration of sales.

Process equipment sales of $36.9 million for the three months ended June 30, 2002, decreased by $36.3 million, or 50%, from the comparable 2001 period. The decrease in process equipment sales has resulted primarily from the decline in sales of optical filter deposition equipment of $26.5 million, or 87%, to the telecommunications industry, as well as a $16.3 million decrease in sales of etch and deposition products to the data storage industry. This decrease was partially offset by a $6.5 million increase in the sale of MBE equipment to the telecommunications industry by the Company's Applied Epi subsidiary, which was acquired in September 2001. Metrology sales of $40.4 million for the three months ended June 30, 2002, increased slightly (4%) from the comparable prior period sales of $38.9 million, due to a $2.2 million or 23% increase in optical metrology sales, principally to the data storage and semiconductor industries.

Veeco received $78.2 million of orders during the three months ended June 30, 2002, a 3% decrease compared to $80.3 million of orders for the comparable 2001 period. Process equipment orders decreased 8% to $37.1 million, due to a decline in orders from optical telecommunications and data storage customers. Veeco's Ion Tech subsidiary had a decrease of $2.3 million, or 25%, in orders from the comparable 2001 period. Etch and deposition equipment orders decreased 19% to $25.2 million from $31.2 million for the comparable 2001 period. Metrology orders increased slightly (2%) to $41.1 million. The Company's second quarter book/bill ratio for 2002, which is calculated by dividing orders received in a given time period by revenue recognized in that same time period, was 1.01.

The order and sales declines are a result of the general economic slowdown that has had a very significant impact on the telecommunications, data storage and semiconductor markets that the Company serves.

The Company's backlog generally consists of product orders for which a purchase order has been received and which are scheduled for shipment within twelve months. Veeco schedules production of its systems based on order backlog and customer commitments. Because certain of the Company's orders require products to be shipped in the same quarter in which the order was received, and due to

possible changes in delivery schedules, cancellations of orders and delays in shipment, the Company does not believe that the level of backlog at any point in time is an accurate indicator of the Company's future performance. Due to the current weak business environment, the Company may experience cancellation and/or rescheduling of orders.

Gross profit, as a percentage of net sales decreased to 45.5%, for the second quarter of 2002, from 47.4% for the comparable 2001 period. The decline is attributable to the decrease in sales volume of process equipment products.

Selling, general and administrative expenses of $19.3 million for the three months ended June 30, 2002, decreased by approximately $1.4 million from the 2001 comparable period due principally to cost reductions implemented by the Company in the fourth quarter of 2001 and the first quarter of 2002, as well as a decrease in selling and commission expenses as a result of the decreased sales volume. The decrease is partially offset by the selling, general and administrative expenses of Veeco's Applied Epi and TM Microscopes ("TM") subsidiaries, which were acquired in the third quarter of 2001, and thus had no comparable spending in the second quarter of 2001.

Research and development expenses of $13.9 million for the three months ended June 30, 2002, decreased by approximately $0.9 million, or 6%, from the comparable period of 2001, due primarily to cost reduction efforts implemented by the Company in the fourth quarter of 2001 and the first quarter of 2002.

Amortization expense totaled $3.2 million in the three months ended June 30, 2002 compared with $0.9 million in 2001. The increase is due primarily to the intangible assets acquired in connection with the acquisitions of Applied Epi and TM, offset in part by $0.4 million of reduced amortization expense related to the accounting requirement to no longer amortize goodwill, effective January 1, 2002, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill is to be reviewed annually for impairment. As of January 1, 2002, no impairment exists.

During the three months ended June 30, 2002, the Company recorded a restructuring charge of $1.1 million related to the reduction in workforce announced in both the fourth quarter of 2001 and the first quarter of 2002. This charge includes severance related costs for approximately 30 employees, which included both management and manufacturing employees, in the Company's process equipment segment. As of June 30, 2002, approximately $0.2 million has been expended and approximately $0.9 million remains accrued. Of the