

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000944209-96-000536**

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### FILER

#### PLASMA & MATERIALS TECHNOLOGIES INC

CIK: **868326** | IRS No.: **954054321** | State of Incorpor.: **CA** | Fiscal Year End: **0228**  
Type: **10-Q** | Act: **34** | File No.: **033-94450** | Film No.: **96664590**  
SIC: **3559** Special industry machinery, nec

#### Mailing Address

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9255 DEERING AVENUE  
SACHATSWORTH CA 91311

#### Business Address

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222 W. ORANGE GROVE AVE  
CHATSWORTH CA 91311

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-Q

[Mark one]

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

For the quarterly period ended SEPTEMBER 30, 1996

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-26482

PLASMA & MATERIALS TECHNOLOGIES, INC.

-----  
(Exact name of registrant as specified in its charter)

California

95-4054321

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification  
number)

9255 Deering Avenue, Chatsworth, California 91311

-----  
(Address of principle executive offices) (Zip Code)

(818) 886-8000

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

Not Applicable

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

Indicated 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 periods 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  
--- ---

As of September 30, 1996, the total number of outstanding shares of the  
Registrant's common stock was 8,692,264.

Plasma & Materials Technologies, Inc.

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Plasma & Materials Technologies, Inc.

ITEM 1 - CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>  
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	SEPTEMBER 30, 1996	DECEMBER 31, 1995 (1)
	-----	-----
	(UNAUDITED)	
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 7,449,643	\$24,770,363
Short-term investments.....	12,559,216	13,992,109
Accounts receivable.....	16,519,423	8,423,272
Inventories.....	15,765,795	5,453,835
Demonstration inventory.....	4,478,208	1,367,233
Prepaid expenses.....	494,919	223,970
	-----	-----
Total current assets.....	57,267,204	54,230,782
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization.....	9,924,486	4,576,043
Other assets.....	2,962,917	486,182
	-----	-----
Total assets.....	\$70,154,607	\$59,293,007
	=====	=====
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued expenses.....	\$11,565,613	\$ 4,023,705
Warranty expense.....	814,306	449,295
Accrued salaries and related liabilities.....	287,244	228,998
Current portion of capital lease obligations...	482,384	491,561
	-----	-----
Total current liabilities.....	13,149,547	5,193,559
Capital lease obligations, less current portion..	336,430	686,230
Commitments and contingencies		
Shareholders' equity:		
Preferred Stock undesignated:		
Authorized shares -- 20,000,000		
Issued and outstanding -- None		
Convertible Preferred Stock (Series A and B), no par value		
Authorized shares -- None		
Issued and outstanding -- None		
Common Stock, no par value:		
Authorized shares -- 16,666,666		

Issued and outstanding -- 8,692,264 at September 30, 1996 and 8,659,843 at December 31, 1995.....	61,108,385	60,975,483
Accumulated deficit.....	(4,439,755)	(7,562,265)
Total shareholders' equity.....	56,668,630	53,413,218
Total liabilities and shareholders' equity.....	\$70,154,607	\$59,293,007

</TABLE>

(1) The Balance Sheet at December 31, 1995 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by Generally Accepted Accounting Principles for complete financial statements.

See notes to condensed consolidated financial statements.

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Plasma & Materials Technologies, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
<S>	<C>	<C>	<C>	<C>
Revenues:				
Product sales.....	\$ 7,904,906	\$ 6,505,429	\$25,851,165	\$13,597,325
License revenues.....	-	-	-	400,000
Contract revenues.....	918,449	-	1,767,127	-
	8,823,355	6,505,429	27,618,292	13,997,325
Costs and expenses:				
Cost of goods sold.....	3,863,568	3,554,446	12,991,004	7,301,202
Research and development.....	1,992,661	1,152,237	5,449,346	3,195,472
Selling, general and administrative.....	2,755,340	1,537,396	7,125,153	4,272,689
	8,611,569	6,244,079	25,565,503	14,769,363
Income (loss) from operations.....	211,786	261,350	2,052,789	(772,038)
Other:				
Interest income (expense), net.....	293,880	115,144	1,086,698	(32,774)
Income (loss) before income tax provision.....	505,666	376,494	3,139,487	(804,812)
Income tax provision.....	4,495	-	16,977	800
Net income (loss).....	\$ 501,171	\$ 376,494	\$ 3,122,510	\$ (805,612)
Net income (loss) per share:				
Primary.....	\$ 0.06	\$ 0.06	\$ 0.34	\$ (0.15)
Average common shares and equivalents.....	9,103,103	6,845,824	9,120,709	5,495,391

</TABLE>

See notes to condensed consolidated financial statements.

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Plasma & Materials Technologies, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>  
<CAPTION>

	NINE MONTHS ENDED	
	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income (loss).....	\$ 3,122,510	\$ (805,612)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization.....	1,199,912	867,333
Changes in operating assets and liabilities:		
Accounts receivable.....	(8,096,151)	(5,090,037)
Inventories.....	(10,311,960)	1,059,378
Demonstration inventory.....	(3,110,975)	
Other current assets.....	-	(202,550)
Prepaid expenses.....	(270,949)	(77,921)
Accounts payable and other accrued expenses.....	7,965,165	(477,224)
Other current liabilities.....	-	80,918
Net cash used in operating activities.....	(9,502,448)	(4,645,715)
INVESTING ACTIVITIES		
Purchases of property, equipment and leasehold improvements.....	(6,548,355)	(444,433)
Proceeds from sales of short-term investments.....	19,914,800	-
Purchases of short-term investments.....	(18,481,907)	-
Other assets.....	(2,476,735)	-
Net cash used in investing activities.....	(7,592,197)	(444,433)
FINANCING ACTIVITIES		
Borrowings under line of credit.....	-	1,810,708
Repayments of line of credit.....	-	(3,810,708)
Proceeds from sale of Preferred Stock.....	-	3,366,204
Proceeds from Initial Public Offering (Common Stock), (before deducting \$1,000,000 for related expenses during the nine months ended September 30, 1995).....	-	41,175,750
Proceeds from sale of Common Stock.....	132,902	41,719
Payments on capital lease obligations.....	(358,977)	(452,526)
Net cash used in financing activities.....	(226,075)	42,131,147
Net increase (decrease) in cash and cash equivalents.....	(17,320,720)	37,040,999
Cash and cash equivalents at beginning of period.....	24,770,363	3,563,753
Cash and cash equivalents at end of period.....	\$ 7,449,643	\$40,604,752

</TABLE>

See notes to condensed consolidated financial statements.

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Plasma & Materials Technologies, Inc.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

NOTE A - 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 (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the nine months ended September 30,

1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

NOTE B - INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market. The components of inventory consist of the following:

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
<S>	<C>	<C>
Components.....	\$10,186,046	\$3,774,458
Work in process.....	3,943,618	1,611,382
Finished goods.....	1,636,131	67,995
	-----	-----
	15,765,795	5,453,835
Demonstration inventory....	4,478,208	1,367,233
	-----	-----
	\$20,244,003	\$6,821,068
	=====	=====

</TABLE>

Demonstration inventory or evaluation units represent completed systems located at certain strategic customer sites or at the Company's facilities. The Company provides these demonstration systems at no charge for a specified evaluation period. All operating costs incurred during the evaluation period are paid by the customer. At the conclusion of the agreed upon evaluation period, provided that the equipment performs to required specifications, management expects that the customer, while not obligated to do so, will purchase the system. Demonstration inventory is stated at lower of cost or estimated net realizable value. Demonstration inventory is not amortized.

NOTE C - PMT CVD PARTNERS, L.P.

On March 29, 1996, the Company entered into a number of agreements with PMT CVD Partners, L.P. (the "Limited Partnership") and the limited partners thereof (the "Limited Partners"). The Limited Partnership was formed to fund research and development costs and expenses relating to chemical vapor deposition ("CVD") technology and applications. An aggregate of approximately \$5,350,000 was invested in the Limited Partnership to fund such research and development efforts. The Limited Partnership owns the rights to the technology developed. PMT has entered into a license agreement with the Limited

Plasma & Materials Technologies, Inc.

NOTE C - PMT CVD PARTNERS, L.P. (CONTINUED)

Partnership whereby PMT is obligated to pay stated royalties to the Limited Partnership on sales of related products, and the royalty percentage will vary based on the geographic location of the sale. There is no provision for royalty payments to the Limited Partners in fiscal 1996. PMT has been granted an exclusive option to purchase all of the Limited Partners' interest in the Limited Partnership, based on an established purchase price formula which terminates PMT's obligation under the license agreement. PMT may exercise such option at its sole discretion.

PMT has agreed to provide certain personnel to the Limited Partnership to perform such research and development activities. PMT will be paid for such services at an amount equal to its actual direct costs, as defined, plus a stated percentage of such costs. During the quarter and nine months ended September 30, 1996, the amount of research and development costs incurred, including the stated percentage of 250% of direct costs, with respect to CVD technology and applications was \$918,449 and \$1,767,127, respectively and is reflected in contract revenue in the accompanying statement of operations.

NOTE D - IMPACT ON FINANCIAL STATEMENTS OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board ("FASB") issued

Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS No. 121"), which will be effective for the Company's fiscal year ending December 31, 1996. SFAS No. 121 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are presented and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted SFAS No. 121 for the annual reporting period of fiscal 1996, during the first quarter ended March 31, 1996. No adjustments are required with respect to such action.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, Accounting for Awards of Stock-Based Compensation to Employees ("SFAS No. 123"), which will be effective for the Company's fiscal year ending December 31, 1996. SFAS No. 123 provides alternative accounting treatment to APB No. 25 with respect to stock-based compensation and requires certain additional disclosures, including disclosures if the Company elects not to adopt the accounting requirements of SFAS No. 123. The Company intends to make additional disclosure requirements of SFAS No. 123 for the annual reporting period of fiscal 1996, but will elect to continue to measure compensation costs following present accounting rules under APB No. 25. Consequently, the Company will provide pro forma disclosures of what net income and earnings per share would have been had the fair market value method of SFAS No. 123 been used for the relevant periods.

#### NOTE E - INCOME TAXES

The provision for income taxes at September 30, 1996 differs from the statutory federal rate of 35% due to the reduction of the valuation allowance attributed to the utilization of the net operating loss carryforwards.

#### NOTE F - NET INCOME (LOSS) PER SHARE

Net income (loss) per share is computed using the weighted average number of shares of Common Stock outstanding. Common equivalent shares from stock options and warrants (using the treasury stock method) have been included in the computation when dilutive, and common equivalent shares from the redeemable convertible Preferred Stock and convertible Preferred Stock which converted into Common Stock in connection with the Company's Initial Public Offering are included as if converted at the original date of issuance, even though inclusion is anti-dilutive, for the three and nine months ended

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Plasma & Materials Technologies, Inc.

#### NOTE F - NET INCOME (LOSS) PER SHARE

September 30, 1995. Pursuant to the Securities and Exchange Commission (SEC) Staff Accounting Bulletins, all common and common equivalent shares issued by the Company at an exercise price below the Initial Public Offering price of \$14.00 per share during the twelve-month period prior to the offering (cheap stock) have been included in the calculation as if they were outstanding for the three and nine months ended September 30, 1995 (using the treasury stock method at the Initial Public Offering price of \$14.00 per share and the if-converted method for redeemable convertible Preferred Stock and convertible Preferred Stock). For the nine months ended September 30, 1996, such cheap stock shares were not included in the calculation.

#### NOTE G - REVOLVING AND EQUIPMENT LINE OF CREDIT

On June 5, 1996, the Company renewed its line of credit agreement (the "Agreement") with a commercial bank which provides for borrowing up to the lesser of 80% of eligible accounts receivable or \$3,000,000. Interest on the line of credit is payable monthly at prime (8.25% at September 30, 1996) plus 0.5%. The Agreement also provides for equipment loans which allows the Company to borrow up to the lesser of 80% of eligible equipment purchases or \$3,000,000, subject to certain limits. Interest on borrowings under the equipment line is payable monthly at prime plus 1.5%. At September 30, 1996, there were no balances outstanding on either of these two loans.

#### NOTE H - SUBSEQUENT EVENTS

##### Acquisition

On July 17, 1996 the Company executed a definitive agreement to purchase Electrotech Limited and Electrotech Equipments Limited, United Kingdom corporations for \$75,000,000 cash and the issuance of 5,600,000 shares of the Company's common stock. The agreement, which has received shareholder approval, is subject to certain conditions including obtaining appropriate financing.

Included in other assets are approximately \$2,280,695 of direct costs, incurred to date, of the acquisition through September 30, 1996. If the agreement is terminated, except in certain circumstances, the Company will be required to pay a \$1,000,000 termination fee which along with all direct acquisition and financing costs incurred through the termination will be charged to operations in the period the contract is terminated.

Plasma & Materials Technologies, Inc.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
-----

This Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are subject to certain risks and uncertainties, including slowing growth in the demand for semiconductors and challenges from the Company's competition that could cause actual results to differ materially from those projected. Additional risks and uncertainties are discussed in the Company's Form 10-K filed with the Securities and Exchange Commission on March 30, 1996 and the Proxy Statement filed with the Securities and Exchange Commission on September 11, 1996.

OVERVIEW

During the third quarter of fiscal 1996, Plasma & Materials Technologies, Inc. ("PMT" or the "Company") reported product sales and net income of \$7.9 million and \$0.5 million, respectively.

RESULTS OF OPERATIONS

The following table sets forth the statement of operations data of the Company expressed as a percentage of revenues for the period indicated.

<TABLE>  
<CAPTION>

	Three months ended		Nine months ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
<S>	<C>	<C>	<C>	<C>
Revenues.....	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	43.8%	54.6%	47.0%	52.2%
Gross profit.....	56.2%	45.4%	53.0%	47.8%
Operating expenses:				
Research and development.....	22.6%	17.7%	19.7%	22.8%
Selling, general and administrative.....	31.2%	23.6%	25.8%	30.5%
Total operating expenses.....	53.8%	41.3%	45.5%	53.3%
Income (loss) from operations.....	2.4%	4.1%	7.5%	(5.5%)
Interest income (expense), net.....	3.3%	1.7%	3.9%	(0.2%)
Income (loss) before income tax provision.....	5.7%	5.8%	11.4%	(5.7%)
Income tax provision.....	-%	-%	0.1%	-%
Net income (loss).....	5.7%	5.8%	11.3%	(5.7%)

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</TABLE>

Revenues

Product Sales. Product sales for the third quarter of fiscal 1996 increased 22% to \$7.9 million compared to \$6.5 million for the third quarter of fiscal 1995. Product sales increased as a result of the shipment of two of the Company's PINNACLE 8000R(TM) plasma processing systems, five process modules and four MORI sources. Product sales for the nine month period ending September 30, 1996 increased 90% to \$25.9 million from \$13.6 million for the nine month period ending September 30, 1995. Product sales increased as a result of the shipment of one PINNACLE 8000 (R) and ten PINNACLE 8000R(TM) systems, six process modules



and eight MORI sources for the nine months ended September 30, 1996 as compared to five PINNACLE 8000(R) systems, four process modules and sixteen MORI sources shipped in the nine months ended September 30, 1995. Notwithstanding the quarter-to-quarter and period-to-period increases

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#### Plasma & Materials Technologies, Inc.

noted above, product sales for the third quarter of 1996 decreased from \$10.2 million, or 22.5%, as compared to product sales for the second quarter of 1996. Management believes that this decrease in product sales is primarily attributable to the current downturn in the semiconductor industry, which has adversely affected the semiconductor equipment manufacturing industry. See "Item 5. Other Information--Industry Conditions," below.

International sales, which are predominately to customers based in Japan and Korea, accounted for 94% and 91% of product sales for the third quarter of fiscal years 1996 and 1995, respectively. International product sales accounted for 82% and 54% for the nine months ending September 30, 1996 and 1995, respectively.

License Revenue. The Company received no license revenues for the third quarter and nine month period of fiscal 1996, compared to \$0 and \$400,000 for the third quarter and the nine month period, respectively, of fiscal 1995, because all of the past license agreements the Company had entered into were fully paid prior to 1996. The Company does not anticipate the receipt of any additional license revenues in the next twelve months. However, the Company may enter into additional license agreements as it deems appropriate in order to broaden the applications of its MRI technology, or to improve the Company's market penetration.

Contract Revenue. The Company received contract revenues for the third quarter and nine month period of fiscal 1996 of \$918,449 and \$1,767,127, respectively, as compared to no contract revenue for the third quarter and nine month period of fiscal 1995. This increase was due to the March 1996 agreement between PMT and PMT CVD Partners, L.P. See Note C to Notes to Condensed Consolidated Financial Statements.

#### Gross Margin on Product Sales

The Company's gross margin on product sales for the third quarter of fiscal 1996 increased to 51% as compared to 45% for the third quarter of fiscal 1995, and for the nine months ended September 30, 1996 it increased to 50% in comparison to 46% for the nine months ended September 30, 1995. The improved margin is attributable to the higher sales volume which resulted in increased production efficiencies and higher average selling prices. Notwithstanding the increases in gross margins referenced above, management believes that pricing pressure attendant to PMT's shipment of products in the current and future quarters could result in lower gross and operating margins in such future periods. See "Item 5. Other Information--Industry Conditions," below.

#### Research and Development

Research and development expenses for the third quarter of fiscal 1996 were \$2.0 million, or 23% of net revenues, compared to \$1.2 million, or 18% of net revenues, for the third quarter of fiscal 1995. For the nine months ended September 30, 1996, research and development expenses were \$5.4 million, or 20% of net revenues, as compared to \$3.2 million, or 23% of net revenues, for the nine months ended September 30, 1995. As the Company's revenues have increased, these expenses became a smaller percentage of net revenues. The dollar increases in expenses are attributable principally to the Company's continued investment in the development of new processes in further advancing its proprietary plasma source technology. In addition, expenses include costs incurred associated with the contract revenue from PMT, CVD Partners, L.P., with respect to CVD applications of the Company's technology. See Note C of Notes to Condensed Consolidated Financial Statements.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the third quarter of fiscal 1996 were \$2.8 million, or 31% of net revenues, compared to \$1.5 million, or 24% of net revenues, for the third quarter of fiscal 1995. For

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#### Plasma & Materials Technologies, Inc.

the nine months ended September 30, 1996, selling, general and administrative

expenses were \$7.1 million, or 26% of net revenues, as compared to \$4.3 million, or 31% of net revenues, for the nine months ended September 30, 1995. The increased expense was due primarily to the addition of employees in both the sales and support departments to accommodate the increased sales volume.

#### Income Tax Provision

The Company paid a nominal amount of Federal and State income taxes for the first nine months of fiscal 1996. In addition, a nominal amount of income tax was paid by the Company's Korean subsidiary. The Company paid no income tax for the first nine months of fiscal 1995 due to the Company's ability to utilize prior net operating loss and credit carryforwards that can be applied against future income but is subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. The provision for income taxes at September 30, 1996 differs from the statutory federal rate of 35% due to the reduction of the valuation allowance attributed to the utilization of the net operating loss carryforwards.

#### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1996, PMT had \$20.0 million in cash, cash equivalents and short-term investments, compared to \$38.8 million at December 31, 1995. This \$18.8 million decrease was primarily due to the increases in inventories and accounts receivable related to the sales volume increase. In addition, \$6.5 million was invested in capital equipment as the Company used funds to expand its applications laboratory to support process development and customer demonstrations. This was offset by net cash provided by the higher payables activity related to the purchase of inventory and capital equipment.

At September 30, 1996, there were no borrowings outstanding under the revolving credit line, and \$3,000,000 was available for borrowings under that agreement which runs through June 5, 1997. The agreement places certain restrictions on PMT which, among other things, prohibit PMT from paying cash dividends or repurchasing its stock, and requires PMT to comply with certain financial ratios and covenants. PMT is currently in compliance with all covenants and restrictions contained in the revolving line of credit. PMT also has a \$3,000,000 equipment leasing facility that runs through December 30, 1996. At September 30, 1996 there were no borrowings under the equipment leasing facility.

PMT anticipates that it will spend approximately \$6.8 million for capital expenditures during fiscal 1996, of which \$6.5 million has been invested in capital equipment during the first nine months of 1996. This is expected to include investments in demonstration and test equipment, information systems, and other capital items that should enable PMT to expand its ability to support and develop new products and services. In addition, PMT expects to increase its investment in inventory of evaluation systems at customer sites.

In March 1996, PMT sponsored a partnership with certain third-party investors to fund research and development costs and expenses relating to CVD technology and application. Third-party investors invested an aggregate of approximately \$5,350,000 in the partnership, which aggregate amount is available to fund such costs and expenses. At September 30, 1996 approximately \$3,148,868 is remaining for future investment in such research and development. See Note C to Notes to Condensed Consolidated Financial Statements.

While the Company's cash requirements will fluctuate based on the timing and extent of the normal operation of the business, PMT believes that cash generated from operations, together with the existing cash, cash equivalents, short-term investments and borrowings under existing bank lines should be sufficient to support its stand alone operations over the next 12 months, although there can be no assurance in that regard.

On July 17, 1996 the Company executed a definitive agreement to purchase Electrotech Limited and Electrotech Equipments Limited, United Kingdom corporations. Assuming consummation of the Acquisition, PMT anticipates that it will issue approximately \$86.0 million of Subordinated Notes in the Private Financing. Additionally, to satisfy the Working Capital Condition, PMT anticipates the establishment of the New Credit Facility which, among other things, will provide to PMT approximately \$35.0 million in available borrowings. PMT believes that cash provided or available from the Subordinated Notes, the New Credit Facility and other sources of capital available to PMT, including cash on hand, will be sufficient to support PMT's liquidity needs over the next 12 months, including the cash payment requirements resulting from the Acquisition. See Note H to Notes to Condensed Consolidated Financial Statements.

## Plasma &amp; Materials Technologies, Inc.

## PART II - OTHER INFORMATION

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## ITEM 5 OTHER INFORMATION

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Industry Conditions. The semiconductor industry is currently experiencing a significant downturn, which PMT anticipates will result in reduced demand for semiconductor processing equipment and increase pricing pressure upon equipment manufacturers, including PMT. As noted above, PMT's product sales for the third quarter ended September 30, 1996 declined to \$7.9 million from product sales of \$10.2 million for the second quarter ended June 30, 1996, a reduction of 22.5%. Reduced demand for semiconductor processing equipment could continue to adversely affect PMT's product sales and margins for subsequent periods. Additionally, the loss or delay of one or more system sales during any quarter would significantly and adversely affect PMT's operating results, including its gross and operating margins, for that quarter.

Recent Developments. On October 7, 1996, PMT issued \$86.25 million of its 7 1/8% Convertible Subordinated Notes due 2001 (the "Convertible Notes") in a private offering. The net proceeds from the sale of the Convertible Notes will be used to fund the purchase price to be paid by PMT in connection with its previously announced acquisition of all of the outstanding capital stock of Electrotech Limited and Electrotech Equipments Limited, pursuant to the terms of that certain Share Purchase Agreement dated as of July 17, 1996, as amended (the "Share Purchase Agreement"). In that regard, at PMT's annual meeting of shareholders held on Thursday October 10, 1996, the shareholders of PMT approved, among other things, the consummation of the transactions contemplated by the Share Purchase Agreement.

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

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(a) The following exhibits are included herein:

Exhibit Number -----	Description -----
11.1	Computation of Per Share Earnings
27.1	Financial Statement Data

(b) Reports on Form 8-K:

None.

## Plasma &amp; Materials Technologies, Inc.

## SIGNATURES

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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.

PLASMA & MATERIALS TECHNOLOGIES, INC.

Date November 14, 1996  
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/s/ John W. La Valle  
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John W. La Valle  
Vice President, Chief Financial Officer  
and Secretary

## Plasma &amp; Materials Technologies, Inc.

EXHIBIT INDEX

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<CAPTION>

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11.1	Computation of Per Share Earnings.....	
27.1	Financial Statement Data.....	

</TABLE>

EXHIBIT 11.1 - STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

<TABLE>  
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	Three months ended		Nine months ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
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Primary:				
Average Common shares outstanding.....	8,691,862	4,026,199	8,681,339	1,980,084
Preferred Stock converted to common shares.....	---	1,779,229	---	2,609,343
Stock options and warrants issued during the period prior to the initial public offering using the treasury method (offer price of \$14 per share).....	---	617,749	---	905,964
Net effect of dilutive stock options - based on the treasury stock method using average fair market price.....	360,529	322,406	386,275	---
Net effect of dilutive warrants - based on the treasury stock method using average fair market price.....	50,712	100,242	53,095	-
Total shares.....	9,103,103	6,845,824	9,120,709	5,495,391
Net income (loss).....	\$ 501,171	\$ 376,494	\$ 3,122,510	\$ (805,612)
Per share amount.....	\$ 0.06	\$ 0.06	\$ 0.34	\$ (0.15)
Fully diluted:				
Average Common shares outstanding.....	8,691,862	4,026,199	8,681,339	1,980,084
Preferred Stock converted to common shares.....	---	1,779,229	---	2,609,343
Stock options and warrants issued during the period prior to the initial public offering using the treasury method (offer price of \$14 per share).....	---	617,749	---	905,964
Net effect of dilutive stock options - based on the treasury stock method using the greater of the average fair market price during the period or the fair market price at the end of the period.....	403,091	324,006	407,745	---
Net effect of dilutive warrants - based on the treasury stock method using the greater of the average fair market price during the period or the fair market price at the end of the period.....	55,385	100,685	55,385	---
Total shares.....	9,150,338	6,847,868	9,144,469	5,495,391
Net income (loss).....	\$ 501,171	\$ 376,494	\$ 3,122,510	\$ (805,612)
Per share amount.....	\$ 0.05	\$ 0.05	\$ 0.34	\$ (0.15)

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