

PFEIFFER VACUUM TECHNOLOGY AG

Form 20-F

March 23, 2006

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

**FORM 20-F**  
**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

Commission file number 001-14264

**PFEIFFER VACUUM TECHNOLOGY AG**  
(Exact Name of Registrant as Specified in Its Charter)

**FEDERAL REPUBLIC OF GERMANY**  
(Jurisdiction of Incorporation or Organization)

**BERLINER STRASSE 43, D-35614 ASSLAR, GERMANY**

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
----------------------------	--

American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange
Ordinary Shares, without nominal value Securities registered or to be registered pursuant to Section 12(g) of the Act.	Frankfurt Stock Exchange
NONE (Title of Class)	

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary shares, without nominal value	8,690,524
(as of December 31, 2005)	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

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.

Edgar Filing: PFEIFFER VACUUM TECHNOLOGY AG - Form 20-F

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

---

## TABLE OF CONTENTS

	Page
Preliminary Remarks	7
Forward-Looking Statements	7
<b>PART I</b>	
Item 1. Identity of Directors, Senior Management and Advisers	8
Item 2. Offer Statistics and Expected Timetable	8
Item 3. Key Information	8
A. Selected Financial Data	8
Statement of Income Data	8
Balance Sheet Data	9
Other Data	9
Exchange Rate Information	9
B. Capitalization and Indebtedness	10
C. Reasons for the Offer and Use of Proceeds	10
D. Risk Factors	11
General Economic Conditions	11
Industry and Business	11
Technological Changes and Introduction of New Products	11
Highly Competitive Industry	11
Manufacturing Facility	11
Procurement Risk	12
Human Resources Management Risk	12
Information Technology Risk	12
International Operations and Legal Risk	12
Financial	12
Financial and Liquidity Risk	12
Currency Risk	12
Item 4. Information on the Company	13
A. History and Development of the Company	13
Organization and History	13
Business and Capital Expenditures	13
B. Business Overview	13
Introduction	13
Nature of the Company's Operations and Principal Activities	14
Principal Markets	14
Seasonality	15
Raw Materials and Suppliers	15
Marketing Channels	15
Dependence of the Company on Intellectual Property, Contracts and New Manufacturing Processes	15
Competitive Position	15
Material Effects of Government Regulations	16
C. Organizational Structure	16
D. Property, Plant and Equipment	16

Item 5. Operating and Financial Review and Prospects	17
Introduction	17
New Accounting Rules and Accounting Standards	18
Critical Accounting Policies	18
Revenue Recognition and Accounts Receivable	18
Inventory Valuation	18
Employment Related Benefits	18
Discontinued Operations	18
Inflation	19
Other Risks	19

## TABLE OF CONTENTS

	Page
A. Operating Results	19
Management's Discussion and Analyses of Financial Conditions and Results of Operations	19
Our Products	19
2005 Compared to 2004	23
2004 Compared to 2003	27
B. Liquidity and Capital Resources	30
Foreign Currency Exchange Hedging	31
C. Research and Development, Patents and Licenses, etc	31
D. Trend Information	32
Overall Economic Environment	32
Early 2006 and Outlook	33
E. Off-Balance Sheet Arrangements	34
F. Tabular Disclosure of Contractual Obligations	34
Contractual Obligations	34
Item 6. Directors, Senior Management and Employees	35
A. Directors and Senior Management	35
General	35
Management Board (Vorstand)	35
Supervisory Board (Aufsichtsrat)	36
Committees of the Supervisory Board	37
Audit Committee	37
Administration Committee	38
Management Board Committee	38
B. Compensation	38
C. Board Practices	39
D. Employees	39
E. Share Ownership	40
Stock-based Compensation Plans	40
Employee Participation Program, Term: 2000 through 2005	41
Employee Participation Program, Term: 2002 through 2007	41
Item 7. Major Shareholders and Related Party Transactions	41
A. Major Shareholders	41
B. Related Party Transactions	42
C. Interest of Experts and Counsel	42
Item 8. Financial Information	43
A. Consolidated Statements and Other Financial Information	43
Export Sales	43
Legal Proceedings	43
Policy on Dividend Distributions	43
B. Significant Changes	43
Item 9. The Offer and Listing	44
A. Offer and Listing Details	44
4. Market Price Information	44
Trading of ADRs on the New York Stock Exchange	44
Trading of Ordinary Shares on the Frankfurt Stock Exchange	45

C. Markets	45
General	45

## TABLE OF CONTENTS

	Page
Item 10. Additional Information	46
A. Share Capital	46
B. Memorandum and Articles of Association	46
Registration, Objects and Purposes of the Company	46
General	46
The Annual General Meeting of Shareholders	46
The Supervisory Board	46
The Management Board	46
Directors	47
Ordinary Shares	47
Dividends	48
Voting Rights	49
Change of Shareholders' Rights	49
Notification Requirements and Disclosure of Shareholdings	50
General Shareholders' Meeting	50
Limitation on the Right to own Securities	50
Provisions that would delay a Change in Control	50
Provisions of German Law that are significantly different from Provisions of U.S. Law	51
Provisions governing changes in the capital that are more stringent than required by law	51
German Corporate Governance Code Declaration	51
NYSE Comparison	51
C. Material Contracts	51
D. Exchange Control	52
E. Taxation	52
Taxation	52
Withholding Tax on Dividends	52
Withholding Tax Refund Procedures	53
Reduced United States Tax Rate for Certain Dividends	53
Taxation of Capital Gains	54
German Capital Tax (Vermögensteuer)	54
Other German Taxes	54
F. Dividends and Paying Agents	54
G. Statement by Experts	54
H. Documents on Display	55
I. Subsidiary Information	55
Item 11. Quantitative and Qualitative Disclosures about Market Risk	55
Exchange Rate Risk	55
Transaction Risk and Currency Risk Management	55
Effects of Currency Translation	56
Foreign Currency Exchange Risk	56
Interest Rate Risk	57
Commodity Price Risk	57
Item 12. Description of Securities other than Equity Securities	57
A. Debt Securities	57
B. Warrants and Rights	57



C. Other Securities		57
D. American Depositary Shares		58

**TABLE OF CONTENTS**

	Page
<b>PART II</b>	
Item 13. Defaults, Dividend Arrearages and Delinquencies	58
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	58
Changes with Respect to Ordinary Shares	58
Treasury Stock	58
Item 15. Controls and Procedures	58
Disclosure Controls and Procedures	58
Internal Control over Financial Reporting	58
Item 16A. Audit Committee Financial Expert	59
Audit Committee and Financial Expert	59
Item 16B. Code of Ethics	59
Item 16C. Principal Accountant Fees and Services	59
Audit Committee's pre-approval policies and procedures	60
Item 16D. Exemptions from the Listing Standards for Audit Committees	60
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	60
<b>PART III</b>	
Item 17. Financial Statements	60
Item 18. Financial Statements	60
Item 19. Exhibits	61
Signature	62

### **Preliminary Remarks**

These Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) and the regulations of the United States Securities and Exchange Commission (SEC), Washington D.C., U.S.A.

Unless otherwise specified, the terms we, us, our, Pfeiffer Vacuum or the Company or the Group refers to Vacuum Technology AG and its consolidated subsidiaries included in this Annual Report, or any more of them, as the context may require.

Unless express reference is made to a differing presentation, all amounts in our Consolidated Financial Statements are expressed in euros (€).

### **Forward-Looking Statements**

This Annual Report contains forward-looking statements that reflect our current views about future events. We use the words anticipate, assume, believe, estimate, expect, intend, may, plan, project, should and similar to identify forward-looking statements. These statements are subject to certain risks and uncertainties, including:

changes in general political, economic or business conditions, especially an economic downturn or slow economic growth in Europe or the United States;

changes in currency exchange rates and interest rates;

changes in laws, regulations and government policies, particularly those relating to emissions, environmental protections and waste disposals;

introduction of competing products and possible lack of acceptance of new products or services;

increased competitive pressures which may limit our ability to reduce sales incentives and raise prices;

price increases, shortages or supply interruptions of production materials, or labor strikes;

other risks and uncertainties, some of which are described in Item 3. Key information under the heading Risk Factors.

If any of these risks and uncertainties materialize, or if the assumption underlying any of our forward-looking statements prove incorrect, then our actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made.

**Part I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data****Selected Financial Data**

The following selected financial data should be read in conjunction with, and are qualified in their entirety by reference to Pfeiffer Vacuum's Consolidated Financial Statements and Operating and Financial Review and Prospects included elsewhere in this Annual Report. For further information please see Item 5. Operating and Financial Review and Prospects and Item 8. Financial Information.

The consolidated statement of income data and balance sheet data have been derived from our Audited Consolidated Financial Statements, prepared in accordance with Accounting Principles Generally Accepted in the United States, which we refer to as U.S. GAAP.

	2005	2004	2003	2002	2001
	(in thousands, except per share amounts)				
<b>Statement of Income Data</b>					
Net sales	159,517	151,512	138,590	150,684	170,140
Gross profit	75,505	72,502	63,197	69,002	74,346
Selling and marketing expenses	(19,877)	(18,973)	(20,394)	(23,944)	(25,650)
General and administrative expenses	(12,408)	(12,524)	(12,153)	(11,569)	(12,018)
Research and development expenses	(6,432)	(6,387)	(6,301)	(7,517)	(8,503)
Operating profit	36,788	34,618	24,349	25,972	28,175
Income from continuing operations before taxes and minority interests	39,337	36,447	28,030	29,620	29,400
Income from continuing operations	23,742	21,814	14,705	20,074	29,400
Loss from discontinued operations, net of tax	(994)	(10,188)	(1,959)	(2,539)	
Net income	22,748	11,626	12,746	17,535	18,871
Net earnings per share/ADR from:					
Continuing operations, basic and diluted	2.73	2.51	1.68	2.28	2.16
Discontinued operations, basic and diluted	(0.11)	(1.17)	(0.22)	(0.29)	
Net earnings per share/ADR ( )	2.62	1.34	1.46	1.99	2.16

	2005	2004	2003	2002	2001
<b>Statement of Income Data (continued)</b>					
Dividends declared and paid per Ordinary Share (*)	1.35	0.90	0.70	0.56	0.56
Dividends declared and paid per Ordinary Share in U.S. dollars (*)	\$ 1.60	\$ 1.23	\$ 0.88	\$ 0.59	\$ 0.50

(\*) 2005: proposed

We have translated the euro dividend proposed for 2005 into dollars solely for our shareholders' convenience at an exchange rate of 1 = \$1.1834, the noon buying rate for euros on December 31, 2005. The U.S. dollar amounts for prior years reflect the dollar amounts translated at the noon-buying rate of December 31, of the respective years.

We succeeded in increasing the earnings in our core business of vacuum pumps during the past fiscal year. Our management and our supervisory board plan to propose at the annual shareholders' meeting that the shareholders participate in Pfeiffer Vacuum's success in the form of a dividend of 1.35. The dividend will thus be significantly higher than the years before (2004: 0.90). For additional information on our policy on dividend distribution, please see Item 8. Financial information.

In conformity with the tax reform that has been in effect in Germany since January 1, 2001, and to assure comparability of the data, the presentation of the dividend payment per share has been changed from a gross-dividend to a cash-dividend basis.

	2005	2004	2003	2002	2001
<b>(in thousands, except share data)</b>					
<b>Balance Sheet Data</b>					
Current assets from continuing operations	104,468	92,842	66,445	113,580	115,650
Net current assets of discontinued operations		1,862	11,592	8,895	
Total assets	138,824	125,233	119,780	155,496	150,604
Current liabilities from continuing operations	20,796	22,443	21,962	19,579	26,589
Net current liabilities of discontinued operations		1,186	895	907	
Long term debt				7,746	9,037
Share capital	22,504	22,504	22,504	22,504	22,504
Shareholders' equity	112,631	99,355	95,037	92,508	83,402

#### Other Data

Adjusted weighted average number of shares outstanding					
basic	8,690,524	8,690,524	8,750,201	8,790,600	8,719,507
diluted	8,690,524	8,690,524	8,750,201	8,790,600	8,719,507

#### Exchange Rate Information

Fluctuations in the exchange rate between the euro (€) and the U.S. dollar will affect the U.S. dollar amounts received by holders of ADRs on the conversion by the Depositary into U.S. dollars of cash dividends paid in euros on the Ordinary Shares represented by the ADRs.



The table below sets forth, for periods after January 1, 2001, the high, low, average and period-end noon buying rates for the euro expressed as U.S. dollars per 1.

<b>Year Ended December 31,</b>	<b>High</b>	<b>Low</b>	<b>Average Rate (*)</b>	<b>End of Period</b>
2005	\$ 1.3514	\$ 1.1655	\$ 1.2451	\$ 1.1834
2004	1.3640	1.1798	1.2434	1.3640
2003	1.2610	1.0371	1.1309	1.2610
2002	1.0477	0.8600	0.9449	1.0477
2001	0.9548	0.8388	0.8958	0.8820
2005				
July	\$ 1.2180	\$ 1.1895	\$ 1.2039	\$ 1.2089
August	1.2464	1.2179	1.2294	1.2195
September	1.2551	1.2019	1.2254	1.2049
October	1.2150	1.1926	1.2019	1.2042
November	1.2059	1.1655	1.1787	1.1773
December	1.2020	1.1699	1.1859	1.1834
2006				
January (through January 31, 2006)	1.2312	1.1831	1.2106	1.2108

(\*) The average of the Noon Buying Rates on the last business day of each full month during the relevant period. Fluctuations in exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of our ordinary shares on the German Stock Exchange. Accordingly, exchange rate fluctuations are likely to affect the market price of our ADRs on the New York Stock Exchange.

Exchange rate fluctuations may also affect the amount of any cash dividend we pay if a shareholder receives the dividend in U.S. dollars rather than in euros. Please refer to Item 3. Key Information Risk Factors and Item 11.

Quantitative and Qualitative Disclosures about Market Risk, for information how exchange rate fluctuations affect our business and operations. Please also refer to Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources for a discussion of the hedging techniques we use to manage our exposure to exchange rate fluctuations.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

#### **D. Risk Factors**

Within the context of our global operations, naturally we are subject to various risks, which are intrinsically linked with our entrepreneurial activities. In order to be able to specifically deal with these risks, we utilize suitable instruments for identification, analysis and action in our risk management system and evolve these instruments in our individual departments. We have defined the risk areas of risk management within our individual departments and put in place the necessary procedures, early warning and monitoring systems. We take the defined risk factors into consideration in our annual budgeting process and our multiple-year strategic planning. The planning processes are accompanied by comments from the planning and supervising bodies.

Moreover, the strategic planning, budget and current business position are comprehensively deliberated with our supervisory board. Our supervisory board receives detailed monthly overviews of the Company's financial results, as well as reports from the management board that could be of particular importance with respect to profitability or liquidity. Our supervisory board is involved in the entire risk management process.

##### ***General Economic Conditions***

A substantial portion of our sales are generated in Europe and the United States. As a result, an economic weakness or a decline in growth in these markets can have a negative impact on our profitability. A substantial slow-down or decline in demand for our products could have serious effects on our economic and financial positions. In addition, the strong competition that prevails in our market poses the risk of loss of market share and name recognition. In order to limit these market risks, we constantly analyze the environment and the competitive situation. We relativize negative economic changes through measures aimed at adjusting capacities and cost reduction. Ongoing contact and the market intimacy that this brings with it supplies us with important information about the needs of our customers. We utilize the information about technology needs that we gain from the marketplace to enhance our competitive position and name recognition.

##### ***Industry and Business***

##### **Technological Changes and Introduction of New Products**

The vacuum industry is characterized by ongoing technological change, as well as by enhancements and new developments to its products. A substantial portion of our economic success is dependent upon our ability to continue to market enhanced or new products on a timely basis and at competitive prices. A failure to preserve our technological lead and manufacture adequate new products in the event of substantial technological change or the superiority of a competitor's product could lead to significant changes with respect to our business operations, financial condition and profitability.

In fiscal 2005, we spent a total of 6.4 million on research and development, to combat the risk of technology losses and to maintain our high standards of quality. Strict quality controls reduce the risk of quality shortcomings.

##### **Highly Competitive Industry**

We are one of the leading full-line suppliers of vacuum technology and we operate in a highly competitive market. Significant factors that affect competition include product performance, applications support, post-sales service and training, a network of sales and service organizations, pricing and product availability, as well as brand name recognition. Certain of our competitors have greater resources and a broader product line. There can be no absolute assurance that we will be able to continue to increase or maintain our market share or that stronger competition might not have a negative effect on our business operations, financial condition and profitability.

##### **Manufacturing Facility**

All of our manufacturing activities take place in the facility located at our Headquarters in Asslar, Germany. Any extended interruption or impairment of our production capabilities at the Asslar facility would have a material adverse effect on the Company's business, financial condition and results of operations. We maintain a business interruption insurance to insure us against stoppage primarily due to natural disasters, such as thunderstorm and flood.



### **Procurement Risk**

The procurement market includes the risk of delivery bottlenecks and the dependence of single suppliers. We examine continuously alternative suppliers and prefer reliable vendors. We attempt to lessen the risk of reduced supply of raw materials including steel and aluminum with long-term framework contracts.

### **Human Resources Management Risk**

As a high-tech manufacturer we depend on a well trained and educated staff. Losing a main part of our key personnel may lead to serious problems in the factory.

### **Information Technology Risk**

Risks may arise from malfunctions of our hardware or software and computer crimes, such as hacker or virus attacks aligned with loss of data or system outages. Our internal support team manages this security-sensitive problems with daily backups of all data and implementation of regularly updated virus scanners and firewalls.

### **International Operations and Legal Risk**

As in the case of all internationally operating enterprises, we are subject to risks with respect to regional economic conditions, differing taxation and legislation, unexpected changes in national regulatory requirements, compliance with import and export conditions, as well as foreign legislation. Furthermore, we have to observe, among other things, foreign import and export licensing requirements, trade restrictions and changes in tariff and freight rates, which can involve material risks. The professional expertise required for assessing the Company's day-to-day business is provided by our qualified staff. To further minimize risk, we draw upon the assistance of external legal and tax advisors in connection with complex questions and/or out-of-the-ordinary occurrences. No legal disputes are currently pending whose outcome could have a material impact on our financial condition or results of operation.

### **Financial**

#### **Financial and Liquidity Risk**

In what continues to be a tense overall economic situation, financial risks result from the insolvency of customers, in particular. Generally, liquidity risks are the result of the inability to satisfy payment obligations in a timely fashion. We reduce creditworthiness risks, and thus accounts receivable losses, with the aid of a rigorous system of accounts receivable management and by monitoring our customers' payment patterns. However, our dependence upon individual customers is very limited, as no end customer accounts for more than 5% of our total sales. To steer liquidity, a cash management system is in place between our German companies, which assures the companies a sufficient supply of cash. Overall, we possess sufficient liquid assets to finance our operative business, to cushion negative developments and to continue to grow from within.

#### **Currency Risk**

We prepare our financial reports in euros (€). Approximately 37% of our sales are invoiced in foreign currencies, primarily in U.S. dollars. Our sales, operating profit and cash flows are significantly exposed to changes in exchange rates between the euro and foreign currencies. We utilize foreign currency forward transactions and options to hedge anticipated receipts in foreign currencies against foreign currency exchange fluctuations. Such hedging transactions are restricted to currencies in which we generate substantial sales (primarily U.S. dollars) and are conducted exclusively with well established financial institutions. Pfeiffer Vacuum does not engage in speculative foreign currency forward transactions for investment purposes.

**Item 4: Information on the Company**

**A. History and Development of the Company**

***Organization and History***

Pfeiffer Vacuum Technology AG is domiciled at Berliner Strasse 43, D-35614 Asslar, Germany; telephone: +49-(0)6441-802-0, fax: +49-(0)6441-802-202, <http://www.pfeiffer-vacuum.net>.

We are a stock corporation ( Aktiengesellschaft ) organized under the laws of the Federal Republic of Germany. We develop, manufacture, sell and service a broad range of vacuum technology products for various applications. Pfeiffer Vacuum was founded in 1890. We had already been active in the vacuum technology industry since the early 20th century, and developed into a leader in vacuum technology with such developments as the turbomolecular pump in 1958. In 1996, the Company was converted from a limited liability company ( Gesellschaft mit beschränkter Haftung ) into a stock corporation ( Aktiengesellschaft ) and listed on the New York Stock Exchange ( NYSE ). A second listing of our common shares on the Frankfurt Stock Exchange has been in effect since April 15, 1998.

***Business and Capital Expenditures***