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METRON TECHNOLOGY N V  
Form 10-Q  
April 16, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended February 28, 2001

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: 000-27863

METRON TECHNOLOGY N.V.

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

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

98-0180010  
-----  
(I.R.S. Employer  
Identification Number)

1350 OLD BAYSHORE HIGHWAY  
SUITE 210  
BURLINGAME, CALIFORNIA 94010

-----  
(Address of principal executive offices)

Registrant's telephone number, including area code: (650) 401-4600

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 / /

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

TITLE OF EACH CLASS -----	OUTSTANDING AT MARCH 31, 2001 -----
Common shares, par value NLG 0.96 per share	12,743,780

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METRON TECHNOLOGY N.V.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

METRON TECHNOLOGY N.V.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(Dollars in thousands except per share)

	THREE MONTHS ENDED		NINE MO
	FEBRUARY 29	FEBRUARY 28	FEBRUARY 29
	2000	2001	2000
	----	----	----
Net revenue.....	\$80,980	\$137,301	\$224,616
Cost of revenue.....	65,135	113,309	183,481
	-----	-----	-----
Gross profit.....	15,845	23,992	41,135
Selling, general, administrative, and other expenses....	12,535	16,895	34,093
Other operating income, net of associated costs.....	-	91	-
	-----	-----	-----
Operating income.....	3,310	7,188	7,042
Equity in net loss of joint ventures.....	(31)	(6)	(159)
Other income (expense), net.....	340	(494)	444
	-----	-----	-----
Income before income taxes.....	3,619	6,688	7,327
Provision for income taxes.....	1,062	2,579	2,381
	-----	-----	-----
Net income.....	\$2,557	\$4,109	\$4,946
	=====	=====	=====
Earnings per common share			
Basic.....	\$0.20	\$0.30	\$0.44
Diluted.....	\$0.18	\$0.29	\$0.40

See accompanying Notes to Condensed Consolidated Financial Statements

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METRON TECHNOLOGY N.V.  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)  
(Dollars in thousands)

	THREE MONTHS ENDED		NINE
	FEBRUARY 29	FEBRUARY 28	FEBRUARY
	2000	2001	2000
	----	----	----
Net income.....	\$2,557	\$4,109	\$4,946
Other comprehensive income (loss).....	(280)	1,537	(5,000)
	-----	-----	-----
Comprehensive income.....	\$2,277	\$5,646	\$4,446
	=====	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements

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METRON TECHNOLOGY N.V.  
 CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)  
 (Dollars in thousands)

	MAY 31, 2000	PERIOD ENDING
	-----	
<b>ASSETS</b>		
Cash and cash equivalents.....	\$22,911	
Short-term investments.....	3,249	
Accounts receivable, net.....	82,433	
Inventories, net.....	40,445	
Prepaid expenses and other current assets.....	10,723	
	-----	
Total current assets.....	159,761	
Property, plant, and equipment, net.....	10,253	
Intangible assets, net.....	9,758	
Long-term investments.....	827	
Other assets.....	770	
	-----	
Total Assets.....	\$181,369	
	=====	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable.....	\$30,489	
Amounts due affiliates.....	38,372	
Accrued wages and employee-related expenses.....	7,634	
Deferred revenue for installation and warranty.....	5,247	
Deferred income.....	-	
Short term borrowings and current portion of long-term debt.....	13,140	
Amounts payable to shareholders.....	204	
Other current liabilities.....	10,288	
	-----	
Total current liabilities.....	105,374	
Long-term debt, excluding current portion.....	1,227	
Deferred credits and other long-term liabilities.....	2,253	
	-----	
Total liabilities.....	108,854	
	-----	
Commitments.....	-	
<b>Shareholders' Equity:</b>		
Preferred shares, par value NLG 0.96.....	-	
Common shares and additional paid-in capital, par value NLG 0.96.....	39,517	
Retained earnings.....	37,938	
Cumulative other comprehensive loss.....	(4,809)	
Treasury shares.....	(131)	
	-----	
Total shareholders' equity.....	72,515	
	-----	
Total Liabilities and Shareholders' Equity.....	\$181,369	
	=====	

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See accompanying Notes to Condensed Consolidated Financial Statements

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METRON TECHNOLOGY N.V.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
 (Dollars in thousands)

	NINE MONTHS FEBRUARY 29, 2000
	-----
Cash flows from (used for) operating activities:	
Net income.....	\$ 4,946
Adjustments to reconcile net income for items not affecting operating cash flows:	
Depreciation and amortization.....	1,698
Provision for inventory valuation and bad debts.....	429
Deferred income taxes.....	107
Other operating income, net of associated costs.....	-
Equity in net loss of joint venture.....	159
Gain on sale of stock warrant.....	(184)
Gain on disposition of assets.....	(57)
Changes in assets and liabilities:	
Accounts receivable.....	(21,044)
Inventories.....	(10,895)
Prepaid expenses and other current assets.....	(766)
Accounts payable.....	(674)
Amounts due affiliates.....	14,544
Accrued wages and employee-related expenses.....	985
Deferred revenue for installation and warranty.....	(20)
Deferred income.....	-
Other current liabilities.....	999
	-----
Net cash flows from (used for) operating activities.....	(9,773)
	-----
Cash flows used for investing activities:	
Additions to property, plant, and equipment.....	(1,523)
Proceeds from sale of property, plant, and equipment.....	672
Proceeds from sale of stock warrant.....	184
Equity investment in joint venture.....	(161)
Other assets.....	158
Other long-term liabilities.....	(233)
	-----
Net cash flows used for investing activities.....	(903)
	-----
Cash flows from financing activities:	
Purchases of short-term investments.....	(40,755)
Proceeds from sales of short-term investments.....	20,510
Net proceeds from short-term borrowings.....	1,168
Proceeds from issuance of long-term debt.....	62
Principal payments on long-term debt.....	(223)
Amounts payable to shareholders.....	(862)

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Net proceeds from issuance of common shares.....	34,544	-----
Net cash flows from financing activities.....	14,444	-----
Effect of exchange rate changes on cash and cash equivalents.....	(266)	-----
Net change in cash and cash equivalents.....	3,502	
Beginning cash and cash equivalents.....	10,601	-----
Ending cash and cash equivalents.....	\$ 14,103	=====
Supplemental disclosure of non-cash investing and financing activities:		
Purchase of Intec, net of cash.....	\$ -	-
Treasury stock from Entegris.....	-	-

See accompanying Notes to Condensed Consolidated Financial Statements

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### UNAUDITED INTERIM INFORMATION

The condensed consolidated financial statements (including notes to condensed consolidated financial statements) of Metron Technology N.V. ("Metron" or the "Company"), included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for their fair presentation. Historical results are not necessarily indicative of the results the Company expects in the future. This report should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended May 31, 2000 included in the Company's Report on Form 10-K/A as filed with the SEC.

##### EARNINGS PER SHARE

Basic earnings per common share are based on the weighted-average number of common shares outstanding in each period. Diluted earnings per common share reflect the potential dilution that could occur if dilutive securities were converted into common shares. For all periods presented the computation of basic and diluted earnings per common share uses reported net income.

A reconciliation of the shares used in the computation follows:

	THREE MONTHS ENDED FEBRUARY 29	FEBRUARY 28	NINE MONTH FEBRUARY 29
	-----	-----	-----
	2000	2001	2000
	----	----	----
	(SHARES IN THOUSANDS)		
Shares used for basic earnings per common share.....	12,980	13,665	11,170

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Potential common shares having a dilutive effect.....	1,364	348	1,136
	-----	-----	-----
Shares used for diluted earnings per common share....	14,344	14,013	12,306
	=====	=====	=====

Because the effect was anti-dilutive, the calculation of diluted earnings per share for the three and nine-month periods ended February 28, 2001, excludes options to purchase, respectively, 1,594,975 and 547,267 common shares of the Company. For the three and nine-month periods ended February 28, 2001, these anti-dilutive securities had a weighted-average exercise price of \$10.61 and \$13.97, respectively. Excluded potential common shares could dilute earnings per share in the future. No options were excluded from the calculation of diluted earnings per share for the three and nine-month periods ended February 28, 2000.

2. ACQUISITION OF INTEC

Effective November 17, 2000, the Company acquired all the common shares of Intec Technology (S) Pte. Ltd., a privately held company incorporated in Singapore. Intec is a supplier of cleanroom products and manufactures cleanroom garments in Singapore and Malaysia. Metron intends to use the assets acquired in the transaction to continue the operations of Intec. The transaction was accounted for as a purchase, and Intec's results of operations are included in the Company's consolidated financial statements from December 1, 2000.

As consideration for the acquisition, Metron issued 475,000 shares of the Company's common shares at an average share price of \$8.29 for a total consideration of approximately \$3,938,000. The excess of the purchase price over the approximately \$3,132,000 fair value of the net identifiable assets acquired was recorded as goodwill and will be amortized on a straight-line basis over 10 years.

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The following unaudited pro forma financial information presents the combined results of operations of Intec and the Company as if the acquisition had occurred as of June 1, 1999. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had Intec and the Company constituted a single entity during the nine months ended February 29, 2000 and February 28, 2001.

	NINE MONTHS ENDED	
	FEBRUARY 29	FEBRUARY 28
	2000	2001
	----	----
Dollars in thousands, except per share amounts		
Net revenue.....	\$229,545	\$429,545
Net income.....	\$ 5,301	\$ 5,301
Earnings per common share		
Basic.....	\$ 0.46	\$ 0.46
Diluted.....	\$ 0.41	\$ 0.41

3. SEGMENT AND GEOGRAPHIC DATA

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Metron operates predominantly in the semiconductor industry. Metron provides marketing, sales, service and support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers. Reportable segments are based on the way the Company is organized, reporting responsibilities to the chief executive officer, and on the nature of the products offered to customers. Reportable segments are the equipment division, which includes certain specialized process chemicals, spare part sales, and equipment service; the materials division, which includes components used in construction and maintenance; and other, which includes finance, administration and corporate functions.

Segment operating results are measured based on net income (loss) before tax, adjusted if necessary, for certain segment specific items. There are no inter-segment sales. Identifiable assets are the Company's assets that are identified with classes of similar products or operations in each geographic region. Corporate assets include primarily cash, short and long-investments and assets related to the administrative headquarters of the Company.

### SEGMENT INFORMATION

	EQUIPMENT DIVISION -----	MATERIALS DIVISION -----	OTHER -----
(DOLLARS IN THOUSANDS)			
Three months ended February 29, 2000			
Net revenue.....	\$ 36,501	\$ 44,479	\$
Income (loss) before income taxes.....	\$ 2,484	\$ 4,508	\$ (3,37)
Three months ended February 28, 2001			
Net revenue.....	\$ 71,724	\$ 65,577	\$
Income (loss) before income taxes.....	\$ 4,727	\$ 7,120	\$ (5,15)
Nine months ended February 29, 2000			
Net revenue.....	\$109,826	\$114,790	\$
Income (loss) before income taxes.....	\$ 7,015	\$ 10,749	\$ (10,43)
Assets.....	\$ 60,179	\$ 49,868	\$ 44,39
Nine months ended February 28, 2001			
Net revenue.....	\$203,113	\$194,965	\$
Income (loss) before income taxes.....	\$ 13,787	\$ 20,243	\$ (14,34)
Assets.....	\$101,036	\$103,543	\$ 22,48

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### GEOGRAPHIC INFORMATION

	THREE MONTHS ENDED FEBRUARY 29	FEBRUARY 28	NIN FEBRU -----
	2000	2001	200
(DOLLARS IN THOUSANDS)			
	----	----	----



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Net revenue:			
United States.....	\$17,176	\$ 32,867	\$ 53
Germany.....	8,118	29,326	27
United Kingdom.....	6,081	21,094	21
Singapore.....	12,069	14,377	32
Hong Kong.....	10,229	9,961	22
France.....	11,839	9,020	23
The Netherlands.....	5,004	6,846	13
Other nations.....	10,464	13,810	29
	-----	-----	-----
Geographic totals.....	\$80,980	\$137,301	\$224
	=====	=====	=====

	MAY 31,	FEBRUARY 28,
	-----	-----
	2000	2001
	----	----
	(DOLLARS IN THOUSANDS)	

Assets:		
United States.....	\$38,672	\$52,564
United Kingdom.....	35,460	39,796
Germany.....	13,043	29,294
Singapore.....	26,344	25,713
Hong Kong.....	19,574	17,056
France.....	18,569	15,931
The Netherlands.....	11,153	17,788
Other nations.....	18,554	28,918
	-----	-----
Geographic totals.....	\$181,369	\$227,060
	=====	=====

4. MODIFICATION OF ENTEGRIS DISTRIBUTION AGREEMENT

On January 8, 2001 the Company and Entegris, Inc. entered into an agreement to modify their existing distribution relationship. On February 13, 2001, the Company entered into a transition agreement whereby Entegris assumed direct sales responsibility for products from its Microelectronics Group in Europe beginning April 1, 2001, and in Asia beginning May 1, 2001. The Company will receive revenue for orders received before the above dates and shipped within the 90 days following these dates. In addition, on March 1, 2001, the companies entered into a new distribution agreement, under which Metron will continue to distribute Entegris' Fluid Handling Group product line in all regions in Europe, Asia, and parts of the United States covered under the previous distribution agreements. The new distribution agreement will be in effect until August 31, 2005.

As consideration for modifying the existing distribution agreement, Entegris transferred 1,125,000 shares of the Metron common shares it owned to Metron, and agreed to make cash payments totaling \$1,750,000 over a 15-month period. Metron will record a gain on the modification of \$8,365,000 as other operating income on a straight-line basis from the date of the modification, February 13, 2001, over the remaining effective term of the original agreement until August 31, 2002. The common shares transferred by Entegris represented \$6,615,000 of the gain, which was equal to their fair market

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value on February 13, 2001. In addition, during the fiscal quarter ending August 31, 2001, Entegris will repurchase, at cost, Metron's remaining saleable inventory of Microelectronics Group products. At February 28, 2001, the cost of this inventory approximated \$3,500,000.

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### 5. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998 the Financial Accounting Standards Board ("FASB") issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." The new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Accounting for changes in the values of those derivatives depends on the intended use of the derivatives and whether they qualify for hedge accounting. SFAS 133, as amended by SFAS 137 and SFAS 138, is effective for fiscal years beginning after June 15, 2000. Historically, the Company has engaged in limited hedging activities to reduce its exposure to foreign currency risks, but has not entered into derivative contracts for speculative purposes. Accordingly, the Company does not expect adoption of this new standard to materially affect its consolidated financial statements.

In September 2000 the FASB issued SFAS 140, "ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES, A REPLACEMENT OF FASB STATEMENT NO. 125". The new standard supersedes and replaces the guidance in SFAS 125, "ACCOUNTING FOR TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES". SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of Statement No. 125 without reconsideration. Statement No. 140 is effective for transfers of financial assets occurring after March 31, 2001, and applies on a prospective basis. The Company does not expect that the adoption of this statement will have any effect on its consolidated financial statements.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101") REVENUE RECOGNITION IN FINANCIAL STATEMENTS, which as amended, will be implemented by the Company in the fourth fiscal quarter of fiscal 2001. In October 2000 the SEC issued a Frequently Asked Questions and Answers document (SAB 101 FAQ) which provides further guidance on questions raised by SAB 101. SAB 101 and SAB 101 FAQ summarize certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In addition, SAB 101 requires companies that have not applied this method of accounting previously to report a change in accounting principle in accordance with Accounting Principles Bulletin No. 20, ACCOUNTING CHANGES. The Company believes that its revenue recognition policies are consistent with the provisions of SAB 101 and SAB 101 FAQ. Accordingly, the Company does not expect the implementation of SAB 101 to have an impact on the Company's consolidated financial statements.

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

The information in this Management's Discussion and Analysis of Financial Condition and Results of Operations, except for the historical information, contains forward-looking statements. These statements are subject to risks and uncertainties. You should not place undue reliance on these forward-looking statements as actual results could differ materially. We do not assume any obligation to publicly release the results of any revision or updates

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to these forward-looking statements to reflect future events or unanticipated occurrences. You should read this discussion and analysis in conjunction with our Consolidated Financial Statements and the related Notes included in Metron's Annual Report on Form 10-K/A for the fiscal year ended May 31, 2000, filed with the SEC on September 15, 2000.

### OVERVIEW

Metron Technology N.V. is a holding company organized under the laws of The Netherlands. Through our various operating subsidiaries, we are a leading global provider of marketing, sales, service and support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers. We operate in Europe, Asia and the United States. We were founded in Europe in 1975 by our two corporate shareholders, who together own about 33.4% of our shares, and certain of our current and former management. In 1995, we reorganized Metron to combine three Asian companies as a reorganization of entities under common control, and purchased Transpacific Technology Corporation ("TTC") and its subsidiaries. TTC was founded in California in 1982 as a semiconductor equipment manufacturers' representative company and expanded into the distribution business in 1990. In July 1998, we acquired T.A. Kyser Co., which we refer to as Kyser, in a transaction accounted for as a pooling of interests. Founded in 1977, Kyser markets and sells materials in nine states within the United States, principally to the semiconductor industry. In

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March 2000, we acquired Shieldcare Ltd., a company incorporated in Scotland, in a transaction accounted for as a purchase. Shieldcare is an authorized supplier of critical parts cleaning services to major OEM and device manufacturing companies worldwide. Shieldcare also operates as an authorized re-manufacturer of physical vapor deposition ("PVD") equipment for a well-known supplier of automated systems for chemical vapor deposition ("CVD"). Effective November 17, 2001 we completed our acquisition of all the outstanding shares of Intec Technology (S) Pte. Ltd., a privately held company incorporated in Singapore. The transaction was accounted for as a purchase, and the results of operations of Intec were included in the Company's consolidated financial statements from December 1, 2000. Intec is a distributor of cleanroom products, and a manufacturer of cleanroom garments, and sells these products in Singapore and Malaysia.

We derive our revenue from sales of materials, equipment, service and spare parts to the semiconductor industry, as well as from commissions on sales of equipment and materials. We recognize revenue for most of an equipment sale and all other product sales upon the shipment of goods to customers. We defer the portion of equipment revenue associated with estimated installation and warranty obligations. We recognize deferred revenue for installation upon completion of the installation process, and amortize the deferred revenue for warranty over the applicable warranty periods. We recognize service revenue in the periods the services are rendered to customers.

In each of our three and nine-month periods ended February 29, 2000 and February 28, 2001, a majority of our revenue came from the sale of products from five or fewer of the semiconductor materials and equipment companies we represent, who we refer to as our principals. Revenue from the sale of products manufactured by FSI was 23.4% and 27.2% of total revenue for the three months ended February 29, 2000 and February 28, 2001, respectively, and 23.5% and 26.0% of total revenues for the nine months ended February 29, 2000 and February 28, 2001, respectively. Revenue from the sale of products manufactured by Entegris was 30.0% and 22.8% of total revenue for the three months ended February 29, 2000 and February 28, 2001, and 25.9% and 25.3% of total revenues for the nine months ended February 29, 2000 and February 28, 2001, respectively. In addition



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	FEBRUARY 29 ----- 2000 ----	FEBRUARY 28 ----- 2001 ----
		(DOLLARS IN
Net revenue		
Europe.....	\$39,365	\$77,369
Asia.....	24,439	27,065
United States.....	17,176	32,867
	-----	-----
Total net revenue.....	\$80,980	\$137,301
	=====	=====

	THREE MONTHS ENDED FEBRUARY 29 ----- 2000 ----	FEBRUARY 28 ----- 2001 ----
		(PERCENTAGE OF
Net revenue		
Europe.....	48.6%	56.4%
Asia.....	30.2	19.7
United States.....	21.2	23.9
	-----	-----
Total net revenue.....	100.0%	100.0%
	=====	=====

We are organized into two worldwide operating divisions, equipment and materials. Our equipment division derives the majority of its revenue from the sale of capital equipment. The remainder of the division's revenue comes from service, which includes the installation, maintenance and repair of semiconductor equipment, spare part sales and commissions. Our equipment sales represent products that support various production activities for the manufacture of semiconductors. The sales of the equipment division principally represent a small number of high-dollar value transactions for which the products are generally shipped directly to the customer by the manufacturer. As a result, our equipment sales are significantly affected by the pattern of capital spending by customers, the timing of customer orders and the timing of product shipments by the equipment manufacturer.

Our materials division derives the majority of its revenue from sales of materials and components. The remainder of the division's revenue comes from commissions. The materials and components we sell are used both in the production of semiconductors and in the building and maintenance of semiconductor equipment and manufacturing facilities. Materials include products such as wafer surface preparation materials, fluid-handling components such as fittings, valves and tubing, and disposable cleanroom clothing. Sales of these products tend to be less cyclical than sales of semiconductor equipment and generally offer higher gross margins.

RESULTS OF OPERATIONS

Beginning in the second half of 1996, as the result of excess capacity and significant price erosion, especially for memory chips, semiconductor industry growth slowed significantly. This slowdown caused semiconductor

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manufacturers to exercise caution in making capital equipment purchasing decisions. Some semiconductor manufacturers reduced or delayed the expansion or construction of facilities. This directly affected the sales of semiconductor capital equipment and, to a lesser extent, the sales of materials. As a result of the slowdown, we experienced order cancellations, delays in booking new orders and delays in shipping orders to customers, all of which

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contributed to the reductions in our revenue in fiscal 1998 and 1999. We believe that, despite short term slowdowns, the semiconductor industry has long term growth opportunities. As a result, we believe we must maintain our infrastructure, even during periodic slowdowns, in order to continue to serve our customers and to be in a position to take advantage of long term growth opportunities. Accordingly, we did not reduce our operating expenses sufficiently to prevent us from recording an operating loss in fiscal 1999. During the fourth quarter of our fiscal 1999 the semiconductor industry began to recover from the slowdown and, as a result, the Company returned to profitable operations. The upturn continued through the third quarter of fiscal 2001, but in February 2001 we started to see a downturn in new orders as well as customer initiated shipment delays for existing orders, and we expect that our revenues will be lower for at least the next three to four fiscal quarters.

Our quarterly operating results have fluctuated significantly and are likely to continue to fluctuate significantly due to a number of factors including:

- the timing of significant customer orders and customer spending patterns;
- the timing of product shipments by our principals;
- the loss of any significant customer or principal;
- the timing of new product and service announcements by our principals and their competitors;
- the mix of products sold and the market acceptance of our new product lines;
- the efficiencies we are able to achieve in managing inventories of materials and spare parts;
- the timing of expenditures intended to increase future sales of materials and equipment;
- general global economic conditions or economic conditions in a particular region;
- changes in pricing by us, our principals or our competitors;
- changes in currency valuations relative to the U.S. dollar;
- costs we may incur if we become involved in future litigation; and
- other factors, many of which are beyond our control.

The following tables present certain consolidated statements of operations data as a percentage of net revenue for the three and nine-month periods ended February 28, 2000 and 2001.

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	THREE MONTHS ENDED	
	FEBRUARY 29	FEBRUARY 28
	2000	2001
	----	----
Net revenue.....	100.0%	100.0%
Cost of revenue.....	80.4	82.5
	-----	-----
Gross margin.....	19.6	17.5
Selling, general, administrative, and other expenses.....	15.5	12.4
Other operating income, net of associated costs.....	-	0.1
	-----	-----
Operating margin.....	4.1%	5.2%
	=====	=====

The following table shows our materials division and equipment division revenue as an amount and as a percent of net revenue, together with the related gross margins:

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	THREE MONTHS ENDED	
	FEBRUARY 29	FEBRUARY 28
	2000	2001
	----	----
		(DOLLARS IN M
Net revenue		
Equipment division.....	\$36.5	\$71.7
Materials division.....	44.5	65.6
Net revenue		
Equipment division.....	45.1%	52.2%
Materials division.....	54.9	47.8
Gross margins		
Equipment division.....	17.1%	14.3%
Materials division.....	21.6	20.9

THREE MONTHS ENDED FEBRUARY 28, 2001 COMPARED TO THREE MONTHS ENDED FEBRUARY 29, 2000

NET REVENUE

EQUIPMENT DIVISION. The equipment division's net revenue for the three months ended February 28, 2001 was \$71.7 million, an increase of \$35.2 million or 96.5% from the three months ended February 29, 2000. Revenues were higher in all geographic regions, and more than doubled in Europe and the United States.

MATERIALS DIVISION. The materials division's net revenue for the three

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months ended February 28, 2001 was \$65.6 million, an increase of \$21.1 million or 47.4% from the three months ended February 29, 2000. The division recorded higher revenue in all regions, with quarter over quarter growth particularly strong in Europe and the United States.

### GROSS MARGINS

EQUIPMENT DIVISION. The equipment division's gross margin of 14.3% declined 280 basis points for the three months ended February 28, 2001 compared to the three months ended February 29, 2000. The decrease in gross margin was due to lower margins on the sales of spare parts, service, and parts cleaning. The lower margins in parts cleaning were due in part to the start-up of new facilities in Israel and Singapore.

MATERIALS DIVISION. The gross margin of the materials division decreased 70 basis points to 20.9% for the three months ended February 28, 2001 compared to the three months ended February 29, 2000. The decline was due principally to the higher proportion of sales coming from fab construction activity where order sizes are typically larger and gross margins typically tighter.

SELLING, GENERAL, ADMINISTRATIVE AND OTHER (SG&A) EXPENSES. SG&A expenses for the three months ended February 28, 2001 were \$16.9 million, up \$4.4 million or 34.8% from the \$12.5 million incurred in the three months ended February 29, 2000. The increase was due principally to the increase in the number of employees and to higher travel expenses. In addition \$0.8 million of the SG&A expense increase in our third quarter of fiscal 2001 pertained to Shieldcare and Intec, results from which were not included in our third quarter of fiscal 2000. SG&A expenses consist principally of salaries and other employment-related costs, travel and entertainment, occupancy, communications and computer-related expense, trade show and professional services, depreciation and amortization of acquisition goodwill. Our SG&A expenses are a function principally of our total headcount. Over 60% of SG&A expenses consist of salaries and other employment-related costs for the three months ended February 29, 2000 and February 28, 2001.

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NINE MONTHS ENDED FEBRUARY 28, 2001 COMPARED TO NINE MONTHS ENDED FEBRUARY 29, 2000

### NET REVENUE

EQUIPMENT DIVISION. The equipment division's net revenue in the nine months ended February 28, 2001 was \$203.1 million, up \$93.3 million or 84.9% from the nine months ended February 29, 2000. Net revenue increased in all geographic regions with strong growth in both the United States and Europe, which more than doubled for the comparable nine month periods.

MATERIALS DIVISION. The materials division's net revenue in the nine months ended February 28, 2001 was \$195.0 million, up \$80.2 million or 69.8% from the nine months ended February 29, 2000. Materials revenue was higher in all geographic areas. Materials' revenue growth was particularly strong in Asia, which almost doubled from the prior nine-month period.

### GROSS MARGINS

EQUIPMENT DIVISION. The equipment division's gross margin decreased 20



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basis points to 15.0% for the nine months ended February 28, 2001 when compared to the nine months ended February 29, 2000. The decrease in gross margin in fiscal 2001 was due principally to declines in spare parts, service, and parts cleaning margins which was only partially offset by higher equipment margins and a higher proportion of equipment commissions.

MATERIALS DIVISION. The gross margin of the materials division decreased 70 basis points to 20.6% for the nine months ended February 28, 2001 when compared to the nine months ended February 29, 2000. While margins improved in Asia, they decreased in the both Europe and the United States. The decline in the United States was principally due to a higher percentage of sales for fab construction activity, where order sizes are typically larger and gross margins typically tighter.

SELLING, GENERAL, ADMINISTRATIVE AND OTHER (SG&A) EXPENSES. SG&A expenses for the nine months ended February 28, 2001 were \$50.4 million, up \$16.3 million or 47.7% from the \$34.1 million incurred for the nine months ended February 29, 2000. The increase is due principally to the increase in the number of employees and to higher travel expenses. In addition \$2.1 million of the SG&A expense increase in our third quarter of fiscal 2001 pertained to Shieldcare and Intec, results from which were not included in our third quarter of fiscal 2000. Over 60% of SG&A expenses consist of salaries and other employment-related costs for the nine months ended February 29, 2000 and February 28, 2001.

OTHER INCOME (EXPENSE). The following table summarizes the components of other income (expense) for the periods indicated.

	THREE MONTHS ENDED	
	FEBRUARY 29	FEBRUARY 28
	2000	2001
	----	----
	(DOLLARS IN	
Foreign exchange gain (loss).....	\$205	\$ (544)
Interest income.....	468	202
Interest expense.....	(434)	(312)
Miscellaneous income.....	101	160
	-----	-----
Other income (expense).....	\$340	\$ (494)
	=====	=====

The exchange loss of \$544, 000 incurred for the three-month period ended February 28, 2001, was primarily the result of the sudden and significant appreciation of the Euro against the US Dollar in December 2000. We engage in limited hedging activities to reduce our exposure to exchange risks arising from fluctuations in foreign currency, but because hedging activities can be costly, we do not attempt to cover all potential foreign currency exposures. During the three and

nine-month periods ended February 28, 2000 and 2001, we entered into contracts to hedge firm purchase commitments, to hedge the maturities of foreign currency denominated liabilities with foreign currency denominated assets and to hedge differences existing between foreign currency assets and liabilities. The

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currencies in which we purchase forward exchange contracts have numerous market makers to provide ample depth and liquidity for our hedging activities.

Interest income represents primarily earnings on our available cash balances and amounts invested in short-term investments. Compared to the same periods of the previous fiscal year, our interest expense for the three and nine-month periods ended February 28, 2001 decreased primarily as the result of the reduction in our average use of bank facilities.

Miscellaneous income for the nine-month period ended February 28, 2001 was lower than the nine-month ending February 29, 2000 primarily because the earlier period included a gain of \$184,000 from the exercise and sale of stock warrants held in a non-related principal.

### LIQUIDITY AND CAPITAL RESOURCES

We define liquidity as our ability to generate resources to pay our current obligations and to finance our growth during periods of business expansion. Our principal requirement for capital is for working capital to finance receivables and inventories. Until we completed our initial public offering in late November 1999, our principal sources of liquidity were cash flow from operations and bank borrowings. Our working capital, current assets less current liabilities, at February 28, 2001 was \$56.9 million, higher than our working capital at May 31, 2000 of \$54.4 million. Our current ratio, current assets divided by current liabilities, was 1.5 at May 31, 2000 and 1.4 at February 28, 2001.

OPERATING ACTIVITIES. In the nine months ended February 29, 2000, the net total of net income plus items which did not affect operating cash flows was \$7.1 million. The net negative effect of increases in accounts receivables and inventories offset by increases in accounts payable including payables to affiliates and changes in other assets and liabilities for the first nine months in fiscal 2000 was \$(16.9) million. In combination operating activities used \$9.8 million of cash in the period.

In the nine months ended February 28, 2001, the net total of net income plus items which did not affect operating cash flows was \$18.1 million. This increase is primarily the result of significantly higher net income, together with increases in the amounts we provided for reserves for inventory valuation and bad debts and increases in amortization and depreciation expense. The net negative effect of increases in accounts receivables and inventories offset by increases in accounts payable including payables to affiliates and changes in other assets and liabilities for the first nine months in fiscal 2000 was \$(18.2) million. The significant increase in our revenues this year also required significant increases in accounts receivable, inventories and prepaid expenses, which were substantially offset by increases in accounts payable and in other liabilities. In total, operating activities used a small amount of cash for the period.

INVESTING ACTIVITIES. Our capital expenditures for property, plant and equipment totaled \$1.5 million for the first nine months of fiscal 2000, and \$7.8 million for the same period in fiscal 2001. Approximately \$3.8 million of our capital expenditures in fiscal 2001 was spent to build our new parts cleaning facility in Singapore, and we invested \$1.1 million in our new operations management information system. We estimate that our total capital expenditures in fiscal 2001 will be approximately \$8.9 million, of which \$1.9 million pertains to the initial phase of our new operations management information system. We estimate that the total costs of the new management information system will be \$4.0 to \$5.0 million over a 24 to 36 month period.

In August 2000, we invested \$1.0 million for a 20% equity share of Advanced

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Stainless Technologies, Inc., a company in Austin, Texas that electro-polishes stainless steel tubing used principally in semiconductor fabrication facilities.

FINANCING ACTIVITIES. During November 1999 we completed our initial public offering, and in December 1999, the Company sold an additional 562,500 common shares to cover the exercise of the underwriters' over-allotment option. We received net proceeds of \$34.5 million, and invested the majority of the proceeds in short-term securities. During the nine-month period ending February 28, 2001, we satisfied our funding requirements from the sale of our short-term investments and from internally generated funds and our various borrowing facilities. In addition, we received \$1.0 million from stock purchases through our employee stock purchase plan and from the exercise of stock options by our employees. In November 2000, the purchase of Intec resulted in net proceeds of \$1.4 million for the 475,000 common shares we issued to

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the shareholders of Intec, which was equal to the \$3.9 million fair value of Metron's common shares less the fair value of Intec's assets net of cash.

We do not anticipate that we will need to raise additional capital to permit us to conduct our operations in the ordinary course of business. However, we may need to raise additional capital for significant acquisitions or other extraordinary transactions. We do not currently have any specific plans, agreements or commitments related to any such significant transaction and are not currently engaged in any negotiations related to any such transaction. We have no plans to pay any dividends on our common shares and intend to retain all of our future profits to fund future growth. However, our future growth, including potential acquisitions, may require additional external financing, and from time to time we may need to raise additional funds through public or private sales of equity and/or additional borrowings. If we are unable to obtain this additional funding, we might have to curtail our expansion plans. The issuance of additional equity or debt securities convertible into equity could result in dilution to our existing shareholders.

The following table summarizes our material borrowing facilities as of February 28, 2001:

	U.S. \$ EQUIVALENT FACILITY AMOUNT -----	AMOUNT OUTSTANDING ----- (DOLLARS IN T
Compass Bank.....	\$15,000	\$11,146
Deutsche Bank.....	3,753	-
Royal Bank of Scotland.....	2,825	673
All Others.....	9,596	5,246
	-----	-----
Total.....	\$31,174	\$17,065
	=====	=====

### EFFECT OF CURRENCY EXCHANGE RATE AND EXCHANGE RATE RISK MANAGEMENT

A significant portion of our business is conducted outside of the United States through our foreign subsidiaries. While many of our international

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sales are denominated in dollars, some are denominated in various foreign currencies. To the extent that our sales and operating expenses are denominated in foreign currencies, our operating results may be adversely affected by changes in exchange rates. Owing to the number of currencies involved, the substantial volatility of currency exchange rates, and our constantly changing currency exposures, we cannot predict the effect of exchange rate fluctuations on our future operating results. Although we engage in foreign currency hedging transactions from time to time, these hedging transactions can be costly, and therefore, we do not attempt to cover all potential foreign currency exposures. These hedging techniques do not eliminate all of the effects of foreign currency fluctuations on anticipated revenue.

In addition, the transition period from legacy currencies to the Euro currently is set to expire January 1, 2002. One of the goals of our project to install a new management information system is to accommodate the eventual elimination of the legacy currencies.

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### MARKET RISK

At February 28, 2001 we had aggregate forward exchange contracts in various currencies as follows:

CONTRACT AMOUNT US DOLLARS -----	BUY ---	SELL ----	WEIGHTED AVERAGE CONTRACT RATE -----	FAIR VALUE -----
		(DOLLARS IN THOUSANDS)		
\$ 487	Japanese Yen	-	109.55	\$13
\$2,200	-	Israeli Shekel	4.15	(16)
\$4,500	Italian Lira	-	2,115.06	(11)
\$6,000	Deutschmark	-	2.12	8
\$5,200	French Franc	-	7.13	(2)
				-----
				\$ (8)
				=====

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Effect of Currency Exchange Rate and Exchange Rate Risk Management" and "Market Risk" under Part I, Item 2 of this report.

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

Not applicable.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

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(c) Not applicable.

(d) Not applicable.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

### ITEM 5. OTHER INFORMATION

#### RISK FACTORS

OUR BUSINESS FACES SIGNIFICANT RISKS. THESE RISKS INCLUDE THOSE DESCRIBED BELOW AND MAY INCLUDE ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL. IF ANY OF THE EVENTS OR CIRCUMSTANCES DESCRIBED IN THE FOLLOWING RISKS OCCURS, OUR BUSINESS, OPERATING RESULTS OR FINANCIAL CONDITION COULD BE MATERIALLY ADVERSELY AFFECTED. THESE RISKS SHOULD BE READ IN CONJUNCTION WITH THE OTHER INFORMATION SET FORTH IN THIS REPORT.

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#### RISKS RELATED TO METRON.

WE ARE DEPENDENT ON A FEW KEY PRINCIPALS FOR A MAJORITY OF OUR REVENUE; THEREFORE, THE LOSS OF ONE OR MORE OF OUR KEY PRINCIPALS COULD SERIOUSLY HARM OUR BUSINESS.

If, for any reason, any of our key principals were to materially reduce its business or terminate its relationship with us, the loss of the key principal would have a material adverse effect on our business. In particular, if our commercial relationship with FSI or Entegris were to materially change or were terminated, (for example, as described in the following paragraphs) our business would be significantly adversely affected due to the large percentage of our revenue generated by sales of these companies' products. For the three month period ended February 28, 2001, 27% of our total revenue was generated from the sale of products manufactured by FSI and 23% from the sale of products manufactured by Entegris. For more information about our relationships with FSI and Entegris, see also the risk titled "We are significantly controlled by FSI and Entegris, which may limit your ability to influence the outcome of director elections and other shareholder matters" and "Certain Transactions." In each of our last three fiscal years, a majority of our revenue came from the sale of products from five or fewer of the semiconductor materials and equipment companies we represent, who we refer to as our principals. Although the principals that comprise our largest sources of revenue may change from period to period, we expect that revenue from the sale of products of a relatively small number of principals will continue to account for a substantial portion of our revenue for at least the next five years.

On January 8, 2001 the Company and Entegris, Inc. entered into an agreement to modify their existing distribution relationship. On February 13, 2001, the Company entered into a transition agreement whereby Entegris assumed direct sales responsibility for products from its Microelectronics Group in Europe beginning April 1, 2001, and in Asia beginning May 1, 2001. The Company will receive revenue for orders received before the above dates and shipped within the 90 days following these dates. In addition, on March

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1, 2001, the companies entered into a new distribution agreement, under which Metron will continue to distribute Entegris' Fluid Handling Group product line in all regions in Europe, Asia, and parts of the United States covered under the previous distribution agreements. The new distribution agreement will be in effect until August 31, 2005. Revenues from products for the Microelectronics Group were as follows:

	THREE MONTHS ENDED	
	FEBRUARY 29	FEBRUARY 28
	-----	-----
	2000	2001
	----	----
		(DOLLARS IN
Revenue.....	\$15,333 =====	\$15,644 =====

All of the semiconductor materials, equipment and products we market, sell, service and support are sold pursuant to agreements with our principals. These agreements are generally cancelable at will, subject to notification periods which range from 30 days to two years. We generally do not sell competing products in the same market, and therefore the number of principals we can represent at any one time is limited. It is likely that in the future some of our principals will terminate their relationships with us upon relatively short notice. If we lose a key principal, we may not be able to find a replacement quickly, or at all. The loss of a key principal may cause us to lose customers and incur expenses associated with ending our agreement with that principal. We may lose principals for various reasons, including:

- mergers and acquisitions involving our principals and other semiconductor materials and equipment manufacturers that we do not represent;
  - a principal's decision to attempt to build a direct sales organization;
  - the expansion of a principal's product offerings to compete with the products of another principal, because we generally do not offer competing product lines;
  - a principal's dissatisfaction with our level or quality of service; and
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- the failure of a principal's business.

We have lost other principals in the past. For example, after Ontrak was acquired by Lam Research in August 1997, we ceased marketing and selling Ontrak products in Europe in September 1998 and in South Korea in June 1998. In March 1999, A.G. Associates was acquired by Steag. As a result of this acquisition, we ceased marketing and selling A.G. Associates' products in September 1999. In July 1999, FSI sold its chemical management division to BOC Edwards. As a result of this divestiture, we are phasing out our marketing and sale of products of this division. In October 1999, Applied Materials acquired Obsidian. As a result of the acquisition, Obsidian terminated its agreement with us.

THE SEMICONDUCTOR INDUSTRY IS HIGHLY CYCLICAL, AND THEREFORE, A DOWNTURN MAY RESULT IN POOR OPERATING RESULTS.

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The semiconductor industry is highly cyclical and historically has experienced periodic downturns, which often have resulted in decreased expenditures by semiconductor manufacturers. These downturns generally have adversely affected the sales, gross profits and operating results of semiconductor materials and equipment suppliers. Our business depends in large part on the procurement expenditures of semiconductor manufacturers, which, in turn, depend on the current and anticipated demand for semiconductors and products utilizing semiconductors. The downturn in the semiconductor industry from mid-1996 until the end of 1998 had a material adverse effect on our operating results. In February 2001 we started to experience a downturn in new orders as well as delays in shipment for existing orders. The continuation of the downturn, or an increase in the number of shipment delays, could have a materially adverse effect on our operating results.

IF WE ARE UNABLE TO SUCCESSFULLY IDENTIFY NEW PRODUCTS AND ENTER INTO AND IMPLEMENT ARRANGEMENTS WITH THE SUPPLIERS OF THESE PRODUCTS, OUR BUSINESS WILL BE SERIOUSLY HARMED.

To the extent we are unable to enter into relationships with principals that anticipate or respond adequately to technological developments or customer requirements, we could suffer a loss of competitiveness. Such loss, or any significant delays in product development or introductions by these principals, could have a materially adverse effect on our business. The semiconductor materials and equipment market is subject to rapid technological change, changing customer requirements and frequent new product introductions. Because of this, the life cycle of products that we market and sell is difficult to determine. Our future success will depend to a significant extent on our principals' ability to keep pace with changes in the market and, particularly because we generally do not carry competing product lines, on our ability to identify and obtain new product lines which achieve market success.

WE FACE INTENSE COMPETITION FROM COMPANIES WITH SIGNIFICANTLY GREATER FINANCIAL, TECHNICAL AND MARKETING RESOURCES, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO MAINTAIN OR INCREASE SALES.

We face intense competition on two distinct fronts: competition for product lines and competition for customers.

IF WE ARE UNABLE TO COMPETE SUCCESSFULLY FOR PRODUCT LINES AGAINST INDEPENDENT SALES AND DISTRIBUTION COMPANIES THAT HAVE GREATER FINANCIAL RESOURCES, ARE MORE ESTABLISHED OR HAVE LONGER-STANDING RELATIONSHIPS WITH SEMICONDUCTOR MATERIALS AND EQUIPMENT MANUFACTURERS, WE WILL BE UNABLE TO OFFER COMPETITIVE PRODUCTS, WHICH WILL NEGATIVELY IMPACT OUR SALES.

We compete with independent sales and distribution companies for the right to sell specific product lines in specific territories. We believe that our most formidable competition comes from regionally established semiconductor materials and equipment distribution companies. Some of these independent sales and distribution companies have substantially greater financial resources to devote to a particular region than we do, are better established in particular regions than we are, have greater name recognition in their chosen markets than we have and have long-standing collaborative business relationships with semiconductor materials and equipment manufacturers which are difficult to overcome. If we are unable to effectively compete with sales and distribution companies to attract and retain principals, our business will be adversely affected.

IF WE ARE UNABLE TO COMPETE FOR CUSTOMERS OWING TO OUR INABILITY TO PROVIDE SALES, MARKETING AND SUPPORT SERVICES OR PARTICULAR PRODUCT OFFERINGS, OUR ABILITY TO MAINTAIN OR INCREASE SALES WILL BE ADVERSELY AFFECTED.

We compete for orders from semiconductor manufacturers with established semiconductor materials and equipment manufacturers who sell directly to customers and with independent sales and distribution companies and sales representatives. We believe that to compete effectively for customers we must maintain a high level of investment in marketing, customer service and support in all of the markets in which we operate, and we may not have sufficient financial resources, technical expertise or marketing, services and support capabilities to continue to compete successfully in the future. Some of our competitors have greater name recognition in the territories they serve and have long-standing relationships with semiconductor manufacturers that may give them an advantage in attracting and retaining customers. Furthermore, we believe that once a semiconductor manufacturer has selected a particular product for a specific use from a vendor that is not one of our principals, it may be difficult to achieve significant sales of a competing product to that customer unless there are compelling reasons for the customer to switch products, such as significant performance or cost advantages.

We anticipate that as we continue to diversify our product portfolio and expand into new markets for our principals' products, we will encounter additional competition for customers. If we cannot continue to compete successfully for customers in the future, any such lack of success will have a significant negative impact on our business.

THE MANAGEMENT INFORMATION SYSTEMS THAT WE CURRENTLY USE IN OUR DAY-TO-DAY OPERATIONS ARE NOT INTEGRATED ACROSS COUNTRY BORDERS AND NEED TO BE UPGRADED. UPGRADING THEM WILL BE COSTLY, AND IF THE NEW SYSTEM IS NOT SUCCESSFULLY IMPLEMENTED, OUR BUSINESS MAY SUFFER MATERIAL ADVERSE CONSEQUENCES.

While our financial reporting management information system is integrated and operational, our current management information systems that we use to control our day-to-day operations are not integrated across country borders. To accommodate growth in the past, we have had to hire additional people to compensate for the lack of a fully-functional, integrated operations management information system. We are currently investing in a new operations management information system in order to maintain our current level of business and accommodate any future growth. We anticipate that the total costs associated with the implementation of the new system will be approximately \$4.0 to \$5.0 million and that the system will be implemented over the next 24 to 36 months. Any failure to successfully implement our new operations management information system may result in delayed growth, increased inefficiency due to a lack of centralized data, higher inventories, increased expenses associated with employing additional employees, a loss of our investment in the new operations management information system and may have additional material adverse effects on our business.

WE NEED TO SUCCESSFULLY MANAGE THE ANTICIPATED EXPANSION IN OUR OPERATIONS OR OUR BUSINESS MAY SUFFER MATERIAL ADVERSE CONSEQUENCES.

To the extent we are unable to effectively manage future expansion and the system and procedural transitions required by expansion, our business and our operating results could be seriously harmed. We have expanded our operations in the past and anticipate future expansion of our operations through acquisitions and otherwise. Our growth has placed and will continue to place significant demands on our management, operational, financial and technical resources, as well as our accounting and control systems, as we work to integrate geographically dispersed offices and administrative personnel, diverse service and maintenance operations and different accounting and financial systems. Our future operating results will depend on the ability of our



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management and other employees to:

- continue to implement and improve our operational, customer support and financial control systems;
- recruit, train, manage and motivate our employees;
- identify companies that are strategic acquisition candidates and successfully acquire and integrate them with our existing business;
- communicate information efficiently throughout our organization; and
- work effectively with principals and customers.

We cannot predict whether these efforts will be successful or will occur in a timely or efficient manner. We may not be able to install adequate control systems in an efficient and timely manner, and our current or planned operational systems, procedures and controls may not be adequate to support our future operations. The difficulties

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associated with installing and implementing new systems, procedures and controls may place a significant burden on our management and our internal resources. Delays in the implementation of new systems or operational disruptions when we transition to new systems would impair our ability to accurately forecast sales demand, manage our product inventory and record and report financial and management information on a timely and accurate basis.

WE MAY NOT BE SUCCESSFUL IN ANY EFFORT TO PENETRATE JAPAN, WHICH COULD LIMIT OUR FUTURE GROWTH.

We do not market and sell products to semiconductor manufacturers in Japan. However, approximately 22% of the world's production of semiconductors takes place in Japan. Accordingly, to reach all of the world's major semiconductor markets, we will need to establish or acquire sales and marketing capabilities in Japan. Historically, it has been difficult for non-Japanese companies to succeed in establishing themselves in Japan, and we believe that expanding our operations to Japan would be both expensive and time-consuming and would place additional demands on our management. In addition, both FSI and Entegris have existing arrangements for the sale, service and support of their products in Japan and have not indicated that they would modify such arrangements in the event that Metron establishes or acquires sales and marketing capabilities in Japan. We cannot predict whether any of our efforts to penetrate the Japanese market will be successful. If we are not successful in our efforts to penetrate the Japanese market, our future growth may be limited.

WE EXPECT CONTINUED DOWNWARD PRESSURE ON THE GROSS MARGINS OF THE PRODUCTS WE SELL, AND AS A RESULT, IF WE ARE UNABLE TO CONTINUE TO DECREASE OUR OPERATING EXPENSES AS A PERCENTAGE OF SALES, WE WILL BE UNABLE TO INCREASE OR MAINTAIN OUR OPERATING MARGINS.

Particularly during industry down cycles, pressure on the gross margins of the products we sell is intense and can adversely impact our financial performance. We have experienced significant downward pressure on our gross margins mainly as a result of sales discounts offered by our competitors and pressure from our customers to reduce prices and from our principals to reduce the discounts they provide to us. This, in turn, has put significant downward pressure on our operating margins. To maintain or increase our gross margins, we must develop and maintain relationships with principals who introduce new products and product enhancements on a timely basis. As a result of continued

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pressure on gross margins, we must find ways to decrease our selling, general, administrative and other expenses as a percentage of sales to increase or maintain our operating margins. If our principals cannot continue to innovate, if we cannot maintain our relationships with innovating principals, or if we cannot successfully manage our selling, general, administrative and other expenses, our operating margins may decrease. If our operating margins decline as a result of these factors, our business would be harmed.

OUR EMPLOYMENT COSTS IN THE SHORT-TERM ARE TO A LARGE EXTENT FIXED, AND THEREFORE ANY UNEXPECTED REVENUE SHORTFALL COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

Our operating expense levels are based in significant part on our head count, which is generally driven by longer-term revenue goals. For a variety of reasons, particularly the high cost and disruption of lay-offs and the costs of recruiting and training, our head count in the short-term is, to a large extent, fixed. In particular, approximately half of our employees are in Europe, and the costs associated with any reductions of our labor force in Europe are high. Accordingly, we may be unable to reduce employment costs in a timely manner to compensate for any unexpected revenue or gross margin shortfall, which could have a material adverse effect on our operating results.

WE MAY BEAR INVENTORY RISK DUE TO AN INABILITY TO RETURN PRODUCTS, AND IF WE ARE UNABLE TO MANAGE OUR INVENTORY EFFECTIVELY, OUR OPERATING RESULTS COULD BE ADVERSELY AFFECTED.

We bear inventory risk because we generally take title to the products we sell when we receive them from our principals, and we cannot always return products to the principal in the event the products are not sold. Our customers do not always purchase at the time or in the quantities we originally anticipated. For example, as a result of the industry downturn in 1997 and 1998, we had excess inventory for which we booked reserves in both the United States and Asia. Typically, products cannot be returned to principals after they have been in our inventory for a certain period of time; this time period varies depending on the product and the principal. In addition, although it is typical when a relationship with a principal terminates for that principal to repurchase most of the inventory we have of that principal's products, it is possible under certain circumstances that a principal may be unable or unwilling to repurchase our inventory. If we fail to manage our inventory and accumulate substantial product that cannot be returned, our operating results could be

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adversely affected. Furthermore, if a principal cannot provide refunds in cash for the inventory we desire to return, we may be forced to dispose of inventory below cost, and this may have a material adverse effect on our financial results.

OUR REVENUE AND OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS, WHICH COULD ADVERSELY AFFECT OUR SHARE PRICE.

In the past, we have experienced fluctuations in our quarterly and annual operating results and anticipate that these fluctuations will continue in the future due to a variety of factors, many of which are out of our control. Fluctuations in our results could cause our share price to decline substantially. We believe that period-to-period comparisons of our results of operations may not be meaningful, and you should not rely upon them as indicators of our future performance. Our sales in, and the operating results for, a particular quarter can vary significantly due to a variety of factors, including those described elsewhere in this report and the following:

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- THE TIMING OF SIGNIFICANT CUSTOMER ORDERS AND CUSTOMER SPENDING PATTERNS. During industry downturns, our customers may ask us to delay or even cancel the shipment of previously firm orders. Delays and cancellations may adversely affect our operating results in any particular quarter if we are unable to recognize revenue for particular sales in the quarter in which those sales were expected.
- THE TIMING OF PRODUCT SHIPMENTS BY OUR PRINCIPALS. For the most part, we recognize sales upon the shipment of goods to our customers. Most of the equipment and some of the materials we sell is shipped by the principal directly to our customers, and we do not necessarily have any control over the timing of a particular shipment. If we are unable to recognize revenue for a particular sale in the quarter in which that sale was expected, our operating results in that particular quarter will be negatively affected.
- THE TIMING OF NEW PRODUCT AND SERVICE ANNOUNCEMENTS BY OUR PRINCIPALS AND THEIR COMPETITORS. New product announcements by our principals and their competitors could cause our customers to delay a purchase or to decide to purchase products of one of our principal's competitors which would adversely affect our revenue and, therefore, our results of operations. New product announcements by others may make it necessary for us to reduce prices on our products or offer more service options, which could adversely impact operating margins and net income.
- THE MIX OF PRODUCTS SOLD AND THE MARKET ACCEPTANCE OF OUR NEW PRODUCT LINES. The mix of products we sell varies from period to period, and because margins vary amongst and/or within different product lines, this can adversely affect our results of operations. If we fail to sell our products which generate higher margins, our average gross margins may be lower than expected. If we fail to sell our new product lines, our revenue may be lower than expected.
- GENERAL GLOBAL ECONOMIC CONDITIONS OR ECONOMIC CONDITIONS IN A PARTICULAR REGION. When economic conditions in a region or worldwide worsen, customers may delay or cancel their orders. There may also be an increase in the time it takes to collect from our customers or even outright defaults in payments. This can negatively affect our cash flow and our results.
- COSTS WE MAY INCUR IF WE BECOME INVOLVED IN FUTURE LITIGATION. Litigation is often costly, and even if we are successful in defending or making any claim, the expenses incurred may significantly impact our results.

As a result of the factors listed above, our future operating results are difficult to predict. Further, we base our current and future expense plans in significant part on our expectations of our longer-term future revenue. As a result, we expect our expense levels to be relatively fixed in the short-run. An unanticipated decline in revenue for a particular quarter may disproportionately affect our net income in that quarter. If our revenue is below our projections, then our operating results will also be below expectations and, as we have in the past, we may even have losses in the short-run. Any one of the factors listed above, or a combination thereof, could adversely affect our quarterly results of operations, and consequently may cause a decline in our share price.

WE DEPEND ON SALES TO A RELATIVELY SMALL NUMBER OF CUSTOMERS FOR A SIGNIFICANT PORTION OF OUR REVENUE, AND IF ANY OF OUR LARGE CUSTOMERS WERE TO STOP OR REDUCE THEIR PURCHASING FROM US, THIS WOULD MATERIALLY AND ADVERSELY AFFECT OUR REVENUE.

A loss or a significant reduction or delay in sales to any of our major customers could materially and adversely affect our revenue. We depend on a small number of customers for a substantial portion of our revenue. During fiscal 2000, our top ten customers accounted for an aggregate of 40% of our sales. Although a ranking by revenue of our

largest customers will vary from period to period, we expect that revenue from a relatively small number of customers will account for a substantial portion of our revenue in any accounting period for the foreseeable future. Consolidation in the semiconductor industry may result in increased customer concentration and the potential loss of customers as a result of acquisitions. Unless we diversify and expand our customer base, our future success will significantly depend upon certain factors which are not within our control, including:

- the timing and size of future purchase orders, if any, from our larger customers;
- the product requirements of our customers; and
- the financial and operational success of our customers.

If any of our largest customers were to stop or reduce their purchasing from us, our financial results could be adversely affected. A significant decrease in sales to a major customer or the deferral or cancellation of any significant order would have a material adverse effect on our operating results.

OUR SALES CYCLE, PARTICULARLY FOR EQUIPMENT, IS LONG AND UNPREDICTABLE, WHICH COULD REQUIRE US TO INCUR HIGH SALES AND MARKETING EXPENSES WITH NO ASSURANCE THAT A SALE WILL RESULT.

Sales cycles for some of our products, particularly equipment, can run as long as 12 to 18 months. As a result, we may not recognize revenue from efforts to sell particular products for extended periods of time, or at all. We believe that the length of the sales cycle may increase as some current and potential customers of our key principals centralize purchasing decisions into one decision-making entity. We expect this may intensify the evaluation process and require us to make additional sales and marketing expenditures with no assurance that a sale will result.

WE HAVE NOT YET DEVELOPED A STRATEGY TO SELL TO OUR CUSTOMERS OVER THE INTERNET, AND IF A COMPETITOR DEVELOPS AND IMPLEMENTS AN EFFECTIVE E-COMMERCE STRATEGY, WE MAY LOSE SOME OF OUR CUSTOMERS, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR RESULTS OF OPERATIONS.

Although we have begun efforts to develop an e-commerce strategy, we have not implemented a process to sell to our customers over the Internet. Because our principals grant us the right to sell their products only for specific territories and sales conducted over the Internet may occur anywhere around the globe, it is difficult to adopt e-commerce practices in our industry. If our principals decide to directly distribute their products over the Internet, if our competitors develop a successful strategy for engaging in e-commerce or if our customers require e-commerce capabilities which we are unable to provide, we may lose customers, which would have a negative impact on our revenue and on our operating results.

RISKS RELATED TO OUR INTERNATIONAL OPERATIONS.

ECONOMIC DIFFICULTIES IN COUNTRIES IN WHICH WE SELL OUR PRODUCTS CAN LEAD TO A DECREASE IN DEMAND FOR OUR PRODUCTS AND IMPAIR OUR FINANCIAL RESULTS.

The volatility of general economic conditions and fluctuations in currency exchange and interest rates can lead to decreased demand in countries in which we sell products. For example, in 1997 and 1998 many Asian countries experienced economic and financial difficulties. During this period, we

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experienced cancellation or delay of orders for our products from customers in Asia, which adversely affected our results of operations. Moreover, any economic, banking or currency difficulties experienced by countries in which we have sales may lead to economic instability in those countries. This in turn may result in the cancellation or delay of orders for our products from customers in those countries, thus adversely affecting our results of operations.

MOST OF OUR PRODUCT SALES ARE OUTSIDE THE UNITED STATES, AND CURRENCY FLUCTUATIONS MAY IMPAIR OUR FINANCIAL RESULTS.

While most of our international sales are denominated in dollars, some are denominated in various foreign currencies. To the extent that our sales and operating expenses are denominated in foreign currencies, our operating results may be adversely affected by changes in exchange rates. For example, in the third quarter of fiscal 2001, we recorded exchange losses of approximately \$500,000. Given the number of currencies involved, the substantial

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volatility of currency exchange rates, and our constantly changing currency exposures, we cannot predict the effect of exchange rate fluctuations on our future operating results. Although we engage in foreign currency hedging transactions from time to time, these hedging transactions can be costly, and therefore, we do not attempt to cover all potential foreign currency exposures. These hedging techniques do not eliminate all of the effects of foreign currency fluctuations on anticipated revenue.

In addition, the transition period from legacy currencies to the euro currently is set to expire January 1, 2002. Our new operations management information system is designed to accommodate the eventual elimination of the legacy currencies. If our new system is not successfully installed on a timely basis, this could have a material adverse effect on our business.

IF WE OR OUR NON-UNITED STATES SUBSIDIARIES ARE DEEMED SUBJECT TO UNITED STATES TAXES, OUR BUSINESS, FINANCIAL CONDITION AND RESULTS MAY SUFFER.

Metron and its non-United States subsidiaries conduct most of their activities in a manner which we believe does not constitute the conduct of a trade or business in the United States. Accordingly, although we report taxable income and pay taxes in the countries where we operate, including the United States, we believe that income earned by Metron and its non-United States subsidiaries from operations outside the United States is not reportable in the United States for tax purposes and is not subject to United States income tax. If income earned by us or our non-United States subsidiaries from operations outside the United States is determined to be income effectively connected to an United States trade or business and as a result becomes taxable in the United States, we could be subject to United States taxes on this income. If we were to be deemed to be subject to these taxes, our business, financial condition and results of operations might be materially and adversely affected.

RISKS RELATED TO INVESTING IN OUR COMMON SHARES.

WE ARE SIGNIFICANTLY CONTROLLED BY FSI AND ENTEGRIS, WHICH MAY LIMIT YOUR ABILITY TO INFLUENCE THE OUTCOME OF DIRECTOR ELECTIONS AND OTHER SHAREHOLDER MATTERS.

As of February 28, 2001, FSI owned 21.1%, and Entegris owned 12.3% of our outstanding shares. By virtue of their share ownership and the fact that each holds one of the five seats on our supervisory board, FSI and Entegris can exercise significant voting and management control over Metron. As a result,

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each of these shareholders has significant influence over all matters requiring shareholder or supervisory board approval, including the election of directors and approval of significant corporate transactions, which may have the effect of delaying or preventing a third party from acquiring control over us.

WE MAY NEED TO RAISE ADDITIONAL CAPITAL, AND ANY INABILITY TO RAISE REQUIRED FUNDS COULD HARM OUR BUSINESS.

We expect that cash from operations and borrowings under our credit facilities will be sufficient to meet our working capital and capital expenditure needs for the foreseeable future. However, we may need to raise additional capital to acquire or invest in complementary businesses. Further, if we issue additional equity securities, the ownership stakes of our existing shareholders would be reduced, and the new equity securities may have rights, preferences or privileges senior to those of our existing common shares. If we cannot raise funds, if needed, on acceptable terms, we may not be able to develop our business, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, all of which could seriously harm our business and results of operations.

OUR SHARE PRICE IS VOLATILE.

The trading price of our common shares is subject to wide fluctuations in response to various factors, some of which are beyond our control, including factors discussed elsewhere in this report and the following:

- failure to meet the published expectations of securities analysts for a given quarterly period;
  - changes in financial estimates by securities analysts;
  - changes in market values of comparable companies;
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- stock market price and volume fluctuations, which are particularly common among securities of high technology companies;
  - stock market price and volume fluctuations attributable to inconsistent trading volume levels;
  - additions or departures of key personnel; and
  - commencement of our involvement in litigation.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation may result in substantial costs and divert management's attention and resources, which may seriously harm our business.

WE DO NOT INTEND TO PAY DIVIDENDS.

We have never declared or paid any cash dividends on our capital shares. We currently intend to retain any future earnings for funding growth and, therefore, do not expect to pay any dividends in the foreseeable future.

RISKS RELATED TO BEING A DUTCH COMPANY.

OUR SUPERVISORY BOARD HAS THE AUTHORITY TO ISSUE SHARES WITHOUT SHAREHOLDER APPROVAL, WHICH MAY MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US.

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As a Netherlands "NAAMLOZE VENNOOTSCHAP," or N.V., we are subject to requirements not generally applicable to corporations organized in United States jurisdictions. Among other things, under Netherlands law the issuance of shares of a N.V. company must be approved by the shareholders unless the shareholders have delegated the authority to issue shares to another corporate body. Our articles of association provide that the shareholders have the authority to resolve to issue shares, common or preferred, and may designate the Metron board of supervisory directors as the corporate body with the authority to adopt any resolution to issue shares, but this designation may not exceed a period of five years. Our articles also provide that as long as the supervisory board has the authority to adopt a resolution to issue shares, the shareholders will not have this authority. Pursuant to the Metron articles, the supervisory board has the authority to adopt resolutions to issue shares until five years from the November 19, 1999, deed of conversion from a B.V. to an N.V. and the related amendment of our articles of association. This authorization of the supervisory board may be renewed by the shareholders from time to time. As a result, our supervisory board currently has the authority to issue common and preferred shares without shareholder approval.

The issuance of preferred shares could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding shares of our share capital.

IT MAY NOT BE POSSIBLE TO ENFORCE UNITED STATES JUDGMENTS AGAINST NETHERLANDS CORPORATIONS, DIRECTORS AND OTHERS.

Our articles provide that Metron has two separate boards of directors, a managing board and a supervisory board. One of our managing directors resides outside of the United States. A significant percentage of our assets are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon the managing director who lives outside the United States. Furthermore, judgments of United States courts, including judgments against us, our directors or our officers predicated on the civil liability provisions of the federal securities laws of the United States, are not directly enforceable in The Netherlands.

PROVISIONS OF OUR CHARTER DOCUMENTS AND DUTCH LAW COULD DISCOURAGE POTENTIAL ACQUISITION PROPOSALS AND COULD DELAY, DETER OR PREVENT A CHANGE IN CONTROL.

Our articles of association and the applicable law of The Netherlands contain provisions that may be deemed to have anti-takeover effects. These provisions may delay, defer or prevent a takeover attempt that a shareholder might consider in the best interest of our shareholders. For example, our articles may be amended only pursuant to a proposal of the supervisory board followed by a resolution of a general meeting of shareholders. To amend our articles requires

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that at a general meeting of shareholders, (1) more than half of the issued share capital is represented and (2) the resolution to amend the articles is supported by a two-thirds majority of the valid votes cast. This supermajority voting requirement may have the effect of discouraging a third party from acquiring a majority of the outstanding Metron shares. In addition, these provisions could have a negative impact on our stock price. Furthermore, some United States tax laws may discourage third parties from accumulating significant blocks of our common shares.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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Some of the statements under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report are "forward-looking statements." These statements involve known and unknown risks, uncertainties, and other factors that may cause our, or our industry's, actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. These factors are listed under "Risk Factors" and elsewhere in this report.

In some cases, you can identify forward-looking statements by terminology such as "expects," "anticipates," "intends," "may," "should," "plans," "believes," "seeks," "estimates," "could," "would" or the negative of such terms or other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

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

#### (a) Exhibits

ITEM	DESCRIPTION
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#### (b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended February 28, 2001.

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### SIGNATURE

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.

METRON TECHNOLOGY N.V.

Date: April 16, 2001

/s/ PETER V. LEIGH  
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Peter V. Leigh  
Vice President, Finance  
Signing on behalf of the registrant  
and as principal accounting officer



