

ADE CORP
Form 10-Q
March 14, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

Form 10-Q

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

For Quarter Ended: **January 31, 2002**

Commission File Number **0-26714**

ADE CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

04-2441829

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

80 Wilson Way, Westwood, Massachusetts 02090

(Address of principal executive offices, including area code)

(781) 467-3500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

Common Stock, par value \$.01 per share

13,652,195 shares

Class

Outstanding at March 14, 2002

ADE CORPORATION

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ADE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands)

| | January 31, 2002 | April 30, 2001 |
|---|-----------------------------|---------------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 31,890 | \$ 29,220 |
| Marketable securities | 1,823 | 1,913 |
| Accounts receivable, net | 12,449 | 24,424 |
| Inventories | 33,865 | 39,025 |
| Prepaid expenses and other current assets | 1,417 | 1,566 |
| Deferred income taxes | | 6,514 |
| Total current assets | 81,444 | 102,662 |
| Fixed assets, net | 29,707 | 29,569 |
| Deferred income taxes | | 4,076 |
| Investments | 3,672 | 3,221 |
| Intangible assets, net | 2,772 | 3,286 |
| Restricted cash | 3,396 | 3,525 |
| Other assets | 180 | 368 |

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| | January 31, 2002 | April 30, 2001 |
|---|---------------------|-------------------|
| Total assets | \$ 121,171 | \$ 146,707 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 640 | \$ 621 |
| Accounts payable | 4,415 | 6,833 |
| Accrued expenses and other current liabilities | 17,141 | 21,134 |
| Deferred income on sales to affiliates | 1,699 | 2,116 |
| Total current liabilities | 23,895 | 30,704 |
| Long-term debt | 10,872 | 11,339 |
| Stockholders' equity: | | |
| Common stock | 136 | 136 |
| Capital in excess of par value | 103,263 | 102,429 |
| Retained earnings (Accumulated deficit) | (18,318) | 686 |
| Accumulated other comprehensive income | 1,323 | 1,413 |
| Total stockholders' equity | 86,404 | 104,664 |
| Total liabilities and stockholders' equity | \$ 121,171 | \$ 146,707 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ADE CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data, unaudited)

| | Three months ended January 31, | | Nine months ended January 31, | |
|-------------------------|-----------------------------------|---------------|----------------------------------|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| Net Revenue: | | | | |
| Systems and parts | \$ 16,001 | \$ 25,526 | \$ 58,620 | \$ 65,685 |
| Service | 1,944 | 2,697 | 6,607 | 7,596 |
| Total revenue | 17,945 | 28,223 | 65,227 | 73,281 |
| Cost of revenue: | | | | |
| Systems and parts | 8,345 | 11,695 | 31,730 | 28,150 |
| Service | 2,062 | 2,548 | 7,326 | 9,169 |

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| | Three months ended January 31, | | Nine months ended January 31, | |
|--|-----------------------------------|----------|----------------------------------|------------|
| | | | | |
| Total cost of revenue | 10,407 | 14,243 | 39,056 | 37,319 |
| Gross profit | 7,538 | 13,980 | 26,171 | 35,962 |
| Operating expenses: | | | | |
| Research and development | 5,190 | 5,731 | 17,266 | 16,062 |
| Marketing and sales | 2,973 | 3,508 | 10,112 | 12,054 |
| General and administrative | 2,995 | 3,203 | 8,103 | 8,054 |
| Total operating expenses | 11,158 | 12,442 | 35,481 | 36,170 |
| Income (loss) from operations | (3,620) | 1,538 | (9,310) | (208) |
| Interest and other income, net | | 281 | 361 | 947 |
| Income (loss) before provision for income taxes, equity in net earnings (loss) of affiliated companies and cumulative effect of change in accounting principle | (3,620) | 1,819 | (8,949) | 739 |
| Provision for income taxes | 9 | 47 | 10,615 | 111 |
| Income (loss) before equity in net earnings (loss) of affiliated companies and cumulative effect of change in accounting principle | (3,629) | 1,772 | (19,564) | 628 |
| Equity in net earnings (loss) of affiliated companies | 384 | (61) | 560 | (479) |
| Income (loss) before cumulative effect of change in accounting principle | (3,245) | 1,711 | (19,004) | 149 |
| Cumulative effect of change in accounting principle, net of tax | | | | (1,785) |
| Net income (loss) | \$ (3,245) | \$ 1,711 | \$ (19,004) | \$ (1,636) |
| Net earnings (loss) per share: | | | | |
| Basic | | | | |
| Earnings (loss) before cumulative effect of change in accounting principle | \$ (0.24) | \$ 0.13 | \$ (1.40) | \$ 0.01 |
| Cumulative effect of change in accounting principle | \$ | \$ | \$ | \$ (0.13) |
| Basic earnings (loss) per share | \$ (0.24) | \$ 0.13 | \$ (1.40) | \$ (0.12) |
| Diluted | | | | |
| Earnings (loss) before cumulative effect of change in accounting principle | \$ (0.24) | \$ 0.12 | \$ (1.40) | \$ 0.01 |
| Cumulative effect of change in accounting principle | \$ | \$ | \$ | \$ (0.13) |
| Diluted earnings (loss) per share | \$ (0.24) | \$ 0.12 | \$ (1.40) | \$ (0.12) |
| Weighted average shares outstanding | | | | |
| Basic | 13,627 | 13,511 | 13,601 | 13,498 |
| Diluted | 13,627 | 13,748 | 13,601 | 13,498 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

ADE CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands, unaudited)

| | Nine months ended January 31, | |
|---|----------------------------------|------------------|
| | 2002 | 2001 |
| Cash flows from operating activities: | | |
| Net loss | \$ (19,004) | \$ (1,636) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 4,084 | 4,465 |
| Deferred income taxes | 10,590 | |
| Equity in net earnings (loss) of affiliated companies, net of dividends received | (451) | 543 |
| Cumulative effect of change in accounting principle | | 1,785 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 11,975 | (8,480) |
| Inventories | 5,160 | (7,368) |
| Prepaid expenses and other current assets | 149 | (1,061) |
| Accounts payable | (2,418) | 3,237 |
| Accrued expenses and other current liabilities | (3,993) | 3,379 |
| Deferred income on sales to affiliate | (417) | 2,464 |
| | <u>5,675</u> | <u>(2,672)</u> |
| Net cash provided by (used in) operating activities | 5,675 | (2,672) |
| Cash flows from investing activities: | | |
| Purchases of fixed assets | (3,708) | (2,100) |
| Change in restricted cash | 129 | 30 |
| Advances to affiliated company | | (449) |
| (Increase) decrease in other assets | 188 | (12) |
| | <u>(3,391)</u> | <u>(2,531)</u> |
| Net cash used in investing activities | (3,391) | (2,531) |
| Cash flows from financing activities: | | |
| Repayment of long-term debt | (448) | (440) |
| Proceeds from issuance of common stock | 834 | 602 |
| | <u>386</u> | <u>162</u> |
| Net cash provided by financing activities | 386 | 162 |
| Net increase (decrease) in cash and cash equivalents | 2,670 | (5,041) |
| Cash and cash equivalents, beginning of period | 29,220 | 35,001 |
| | <u>\$ 31,890</u> | <u>\$ 29,960</u> |
| Cash and cash equivalents, end of period | \$ 31,890 | \$ 29,960 |

Nine months ended
January 31,

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ADE CORPORATION

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

1. Basis of Preparation

The accompanying unaudited condensed consolidated financial statements of ADE Corporation (the "Company") include, in the opinion of management, all adjustments (consisting only of normal and recurring adjustments) necessary for a fair statement of the Company's financial position, results of operations and cash flows at the dates and for the periods indicated. Results of operations for interim periods are not necessarily indicative of those to be achieved for full fiscal years.

Pursuant to accounting requirements of the Securities and Exchange Commission applicable to quarterly reports on Form 10-Q, the accompanying unaudited condensed consolidated financial statements and these notes do not include all disclosures required by generally accepted accounting principles for complete financial statements. Accordingly, these statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2001.

2. Change in Accounting Principle

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Historically, for some of the Company's sales transactions, a portion of the sales price, usually 10%, was not due until installation occurs and the customer accepts the product. Under SAB 101 and the new accounting method adopted retroactive to May 1, 2000, the Company now defers recognition of the portion of the sales price not due until the customer has accepted the product. Effective during the first quarter of the year ended April 30, 2001, the Company implemented the SEC's SAB 101 guidelines, which was reported as a cumulative effect of a change in accounting principle as of May 1, 2000. The cumulative effect of the change in accounting principle resulted in a charge to income of \$1.8 million (net of income taxes of \$0), or \$0.13 per share, in the first quarter of fiscal 2001. The results for the three and nine months ended January 31, 2001 have been adjusted to reflect the adoption of SAB 101.

3. Comprehensive Income (Loss)

Comprehensive income (loss) was as follows:

| | Three months ended | | Nine months ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | January 31, 2002 | January 31, 2001 | January 31, 2002 | January 31, 2001 |
| | (in thousands) | | (in thousands) | |
| Net income (loss) | \$ (3,245) | \$ 1,711 | \$ (19,004) | \$ (1,636) |
| Other comprehensive income (loss): | | | | |
| Unrealized gain (loss) on marketable securities, net of \$0 tax | 185 | | (90) | |
| Other comprehensive income (loss) | 185 | | (90) | |
| Comprehensive income (loss) | \$ (3,060) | \$ 1,711 | \$ (19,094) | \$ (1,636) |

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Three months ended

Nine months ended

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4. Inventories

Inventories consist of the following:

| | January 31, 2002 | April 30, 2001 |
|-----------------------------------|---------------------|-------------------|
| | (unaudited) | |
| | (in thousands) | |
| Raw materials and purchased parts | \$ 16,296 | \$ 16,910 |
| Work-in-process | 14,771 | 18,749 |
| Finished goods | 2,798 | 3,366 |
| | <u>\$ 33,865</u> | <u>\$ 39,025</u> |

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

| | January 31, 2002 | April 30, 2001 |
|--|---------------------|-------------------|
| | (unaudited) | |
| | (in thousands) | |
| Accrued salaries, wages and vacation pay | \$ 2,065 | \$ 2,342 |
| Accrued commissions | 1,592 | 1,341 |
| Accrued warranty costs | 1,537 | 1,899 |
| Deferred revenue | 9,223 | 11,655 |
| Other | 2,724 | 3,897 |
| | <u>\$ 17,141</u> | <u>\$ 21,134</u> |

6. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding and gives effect to all dilutive potential common shares outstanding during the period. For the three months ended January 31, 2002 and 2001, respectively, 725,230 and 385,525 common shares issuable upon the exercise of stock options have been excluded from the computation of diluted earnings per share, as their effect would have been antidilutive. For the nine months ended January 31, 2002 and 2001, respectively, 569,530 and 369,325 common shares issuable upon the exercise of stock options have been excluded from the computation of diluted earnings per share, as their effect would have been antidilutive. For the three months ended January 31, 2002 and the nine months ended January 31, 2002 and 2001, respectively, basic and diluted loss per share is the same due to the antidilutive effect of potential common shares outstanding.

7. Segment Reporting

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The Company has three reportable segments: ADE Semiconductor Systems Group ("SSG"), ADE Phase Shift ("PST") and ADE Technologies ("ATI"). SSG manufactures and markets metrology and inspection systems to the semiconductor wafer and device manufacturing industries that are used to

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improve yield and capital productivity. Sales of the Company's stand-alone software products and software consulting services are also included in the SSG segment. PST manufactures and markets high performance, non-contact surface metrology equipment using advanced interferometric technology that provides enhanced yield management to the data storage, semiconductor and optics industries. ATI manufactures and markets high precision magnetic characterization and non-contact dimensional metrology gaging systems primarily to the data storage industry.

The Company's reportable segments are determined based upon the nature of the products, the external customers and customer industries and the sales and distribution methods used to market the products. The Company evaluates performance based upon profit or loss from operations. The Company does not measure the assets allocated to the segments. Management fees representing certain services provided by corporate offices have been allocated to each of the reportable segments based upon the usage of those services by each segment. Additionally, other income (loss), the provision for (benefit from) income taxes and the equity in net earnings (loss) of affiliated companies are not included in segment profitability.

| | SSG | PST | ATI | Total |
|---|----------------|----------|----------|-----------|
| | (in thousands) | | | |
| For the quarter ended January 31, 2002 | | | | |
| Revenue from external customers | \$ 13,732 | \$ 2,073 | \$ 2,067 | \$ 17,872 |
| Intersegment revenue | 100 | 1,262 | 291 | 1,653 |
| Income (loss) from operations | (3,922) | 469 | (263) | (3,716) |
| Depreciation and amortization expense | 1,079 | 115 | 55 | 1,249 |
| Capital expenditures | 1,558 | | 53 | 1,611 |
| For the quarter ended January 31, 2001 | | | | |
| Revenue from external customers | \$ 24,167 | \$ 3,848 | \$ 2,779 | \$ 30,794 |
| Intersegment revenue | (48) | | 129 | 81 |
| Income (loss) from operations | 2,166 | 763 | (130) | 2,799 |
| Depreciation and amortization expense | 1,074 | 64 | 35 | 1,173 |
| Capital expenditures | 1,073 | 20 | 76 | 1,169 |
| | SSG | PST | ATI | Total |
| | (in thousands) | | | |

| | | | | |
|---|-----------|----------|----------|-----------|
| For the nine months ended January 31, 2002 | | | | |
| Revenue from external customers | \$ 50,431 | \$ 5,817 | \$ 5,750 | \$ 61,998 |
| Intersegment revenue | 497 | 1,262 | 806 | 2,565 |
| Loss from operations | (8,869) | (1,157) | (1,039) | (11,065) |
| Depreciation and amortization expense | 3,611 | 305 | 168 | 4,084 |
| Capital expenditures | 3,518 | 49 | 141 | 3,708 |
| For the nine months ended January 31, 2001 | | | | |
| Revenue from external customers | \$ 62,012 | \$ 6,972 | \$ 8,159 | \$ 77,143 |
| Intersegment revenue | 241 | | 471 | 712 |
| Income (loss) from operations | 2,370 | (106) | (555) | 1,709 |
| Depreciation and amortization expense | 4,027 | 190 | 248 | 4,465 |
| Capital expenditures | 1,846 | 108 | 146 | 2,100 |

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The following is a reconciliation for the above items where aggregate reportable segment amounts differ from amounts contained in the Company's consolidated financial statements.

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| | Three months ended January 31, | | Nine months ended January 31, | |
|--|-----------------------------------|------------------|-------------------------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| Total external revenue for reportable segments | \$ 17,872 | \$ 30,794 | \$ 61,998 | \$ 77,143 |
| Net impact of revenue recognition on sales to affiliate | 73 | (2,571) | 3,229 | (3,862) |
| Total consolidated revenue | \$ 17,945 | \$ 28,223 | \$ 65,227 | \$ 73,281 |
| Total operating income (loss) for reportable segments | \$ (3,716) | \$ 2,799 | \$ (11,065) | \$ 1,709 |
| Net impact of intercompany gross profit eliminations and deferred profit on sales to affiliate | 96 | (1,261) | 1,755 | (1,917) |
| Total consolidated operating income (loss) | \$ (3,620) | \$ 1,538 | \$ (9,310) | \$ (208) |

8. New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001, and will thus be adopted by the Company, as required, in fiscal year 2003. The Company is currently assessing the impact of SFAS No. 141 and SFAS No. 142 on its consolidated financial position and results of operations and has not yet determined the impact of this adoption.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001, and will thus be adopted by the Company, as required in fiscal year 2003. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and provides a single accounting model for long-lived assets to be disposed of. The Company is currently assessing the impact of this new statement and does not expect the adoption to have a material effect on its consolidated financial position and results of operations.

9. Income Taxes

The Company has deferred tax assets, which have arisen primarily as a result of operating losses incurred in prior years, as well as other temporary differences between book and tax accounting. Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," requires the establishment of a valuation allowance to reflect the likelihood of the realization of deferred tax assets. During the second quarter of fiscal 2002, as a result of current year operating losses to date, anticipated additional operating losses for the third quarter of 2002, an expected operating loss for fiscal 2002, and uncertainty as to the extent and timing of profitability in future periods, the Company recorded an additional valuation allowance to reserve the remaining deferred tax assets, resulting in income tax expense of \$10.6 million. The company currently has a full valuation allowance. As of January 31, 2002, the Company has available unused operating loss carryforwards, which may be applied against future taxable income.

10. Pending Litigation

On October 12, 2000, the Company filed a patent infringement lawsuit against KLA-Tencor (KLA), a competitor, in the U.S. District Court in Delaware. The Company seeks damages and a permanent injunction against further infringement of United States Patent Number 6,118,525, entitled "Wafer Inspection System for Distinguishing Pits and Particles." On November 22, 2000, KLA filed a counterclaim in the United States District Court in Delaware alleging that ADE has infringed three patents owned by KLA. KLA is seeking damages for the alleged patent infringement and a permanent injunction against future infringement. In addition, KLA has asked the District Court for a declaration that United States Patent Number 6,118,525, owned by ADE, is invalid and not infringed by KLA. At this time, the Company cannot predict the outcome or the amount of gain or loss, if any.

ADE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

ADE Corporation (the "Company") designs, manufactures, markets and services highly precise, automated measurement, defect detection and handling equipment with current applications in the production of semiconductor wafers, semiconductor devices and computer disks.

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in this Quarterly Report and the audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2001.

Forward-Looking Statements

This quarterly report on Form 10-Q contains certain forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed by such statements. Those statements that make reference to the Company's expectations, predictions and anticipations should be considered forward-looking statements. These statements include, but are not limited to, risks and uncertainties associated with the strength of the semiconductor and hard disk markets, wafer pricing and wafer demand, the results of its product development efforts, the success of ADE's product offerings to meet customer needs within the timeframes required by customers in these markets, further increases in backlog, our visibility and the Company's predictions of future financial outcomes. Further information on potential factors that could affect ADE Corporation's business is described in "Other Risks" appearing at the end of this Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Company's reports on file with the Securities and Exchange Commission, including its Form 10-K for the fiscal year ended April 30, 2001.

Results of Operations

Three Months Ended January 31, 2002 compared to Three Months Ended January 31, 2001

Revenue. Revenue decreased 36% to \$17.9 million in the third quarter of fiscal 2002 from \$28.2 million in the third quarter of fiscal 2001. Decreased sales of the Company's products in the Semiconductor Systems Group ("SSG") segment reflected a decrease in demand for capital equipment in the semiconductor wafer and device industries as a result of the current severe down cycle. The Company also experienced a decrease in revenue in the ADE Phase Shift ("PST") segment. Wafer manufacturers' capital equipment purchases have been focused on advanced industry requirements rather than on capacity expansion, which resulted in technology purchases of the Company's next generation of products. For the three months ended January 31, 2002, 83% of the Company's revenue was derived from the semiconductor industry compared to 87% for the year earlier period. The Company sells its semiconductor products to both wafer and device manufacturers. Historically, the Company's semiconductor revenue has been derived to a greater extent from wafer manufacturers compared to device manufacturers. For the three months ended January 31, 2002, 77% of semiconductor revenue was derived from wafer manufacturers while 23% was derived from device manufacturers compared to 84% and 16%, respectively, for the year earlier period. An increase in short-term chip demand or increases in semiconductor market capital expenditures is expected to impact device manufacturers prior to wafer manufacturers as wafer manufacturers are further down on

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the overall semiconductor industry supply chain. The decrease in service revenue was also due to the overall slowdown in the semiconductor wafer and device industries as described above.

The data storage industry has continued to experience extreme pricing pressure, consolidation and excess supply in many data storage market segments, which has resulted in reduced production and capital equipment purchases. Consequently, revenues from the products that are marketed to the data storage industry by the Company's ADE Technologies ("ATI") segment have decreased in the third quarter of fiscal 2002 compared with the year earlier period. Data storage industry revenue comprised 17% of total revenue for the three months ended January 31, 2002, compared to 13% for the year earlier period.

Gross Margin. Gross margin decreased to 42% in the third quarter of fiscal 2002 from 50% in the third quarter of fiscal 2001. The decrease in gross margin was due primarily to the higher percentage of shipments of 300mm products in the SSG segment, which carry lower margins in their initial stages than the Company's legacy products. The Company expects these lower margins to continue in the short term due to expected shipments of newer technologies. Also contributing to the decrease in gross margins was a decline in factory utilization in both the SSG and ATI segments during the third quarter of fiscal 2002 due to the decrease in demand for the Company's products. The decrease in gross margins at the SSG and ATI segments was somewhat offset by an increase in the gross margin of the PST segment, which was due to product mix.

Research and Development. Research and development expense decreased \$541,000, or 9%, to \$5.2 million in the third quarter of fiscal 2002 from \$5.7 million in the third quarter of 2001 and increased as a percentage of revenue to 29% compared to 20% in the third quarter of fiscal 2001. The decrease in expense resulted primarily from a decrease in project materials in the SSG segment. Research and development expense in the ATI segment in the third quarter of fiscal 2002 were consistent with the third quarter of fiscal 2001. The overall decrease in expense was somewhat offset by an increase in expense at the PST segment. The Company continues to invest in its AFS and AWIS products as well as new products for the data storage industry, including those that measure the magnetic properties of materials used in manufacturing disk drives. The increase in expense as a percentage of revenues is the result of decreased revenues as discussed above. The Company is committed to continuing its investment in research and development to maintain its position as a technological leader, which may necessitate continued research and development spending at or above current levels.

Marketing and Sales. Marketing and sales expense decreased \$535,000, or 15%, to \$3.0 million in the third quarter of fiscal 2002 from \$3.5 million in the third quarter of 2001 and increased as a percentage of revenue to 17% from 12% in the third quarter of fiscal 2001. The decreased expense resulted primarily from decreased payroll expense and discretionary spending such as travel and advertising in all segments of the Company. Also contributing to the decrease in expense was a decrease in commissions expense on sales made through internal and external sales representatives. The mix of sales channels through which the Company's products are sold may have a significant impact on the Company's marketing and sales expense and the results in any period may not be indicative of marketing and sales expense for future periods. The increase in marketing and sales expense as a percentage of revenue resulted from the decrease in revenue during the third quarter of fiscal 2002 as discussed above.

General and Administrative. General and administrative expense decreased \$208,000, or 6%, to \$3.0 million in the third quarter of fiscal 2002 from \$3.2 million in the third quarter of fiscal 2001 and increased as a percentage of revenue to 17% from 11% in the third quarter of 2001. Expense decreased primarily due to a decrease in payroll related expense, which was partially offset by an increase in legal and patent expense.

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Interest and Other Income, Net. Net interest and other income was zero in the third quarter of fiscal 2002 compared to net interest and other income of \$281,000 in the third quarter of fiscal 2001. Interest income of \$201,000 for the third quarter of fiscal 2002 was offset by an equal amount of interest expense. The decrease in interest and other income resulted primarily from lower interest returns due to lower interest rates during the third quarter of fiscal 2002 compared to the year earlier period.

Income Taxes. There was a provision for income taxes of \$9,000 in the third quarter of fiscal 2002 compared to a provision for income taxes of \$47,000 in the third quarter of fiscal 2001. The provision for income taxes in the third quarter of fiscal 2002 primarily consists of foreign income taxes.

Equity in Net Earnings (Loss) of Affiliated Companies. Equity in net earnings of affiliated companies was \$384,000 in the third quarter of fiscal 2002 compared to equity in net loss of affiliated companies of \$61,000 in the third quarter of fiscal 2001. The Company's Japanese affiliate sells primarily to the semiconductor industry and the current period earnings reflect the timing of shipments and the recognition of revenue by the affiliate.

Nine Months Ended January 31, 2002 compared to Nine Months Ended January 31, 2001

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Revenue. Revenue decreased 11% to \$65.2 million in the nine months ended January 31, 2002 from \$73.3 million in the year earlier period. Decreased sales of the Company's products in the Semiconductor Systems Group ("SSG") segment reflected a decrease in demand for capital equipment in the semiconductor wafer and device industries as a result of the current severe down cycle. Wafer manufacturers' capital equipment purchases have been focused on advanced industry requirements rather than on capacity expansion, which resulted in technology purchases of the Company's next generation of products. Revenue at the PST segment for the nine months ended January 31, 2002 was consistent with the year earlier period. For the nine months ended January 31, 2002, 85% of the Company's revenue was derived from the semiconductor industry compared to 86% for the year earlier period. The Company sells its semiconductor products to both wafer and device manufacturers. Historically, the Company's semiconductor revenue has been derived to a greater extent from wafer manufacturers compared to device manufacturers. For the nine months ended January 31, 2002, 84% of semiconductor revenue was derived from wafer manufacturers while 16% was derived from device manufacturers compared to 81% and 19%, respectively, for the year earlier period. An increase in short-term chip demand or increases in semiconductor market capital expenditures is expected to impact device manufacturers prior to wafer manufacturers as wafer manufacturers are further down on the overall semiconductor industry supply chain. The decrease in service revenue was also due to the overall slowdown in the semiconductor wafer and device industries as described above.

The data storage industry has been experiencing extreme pricing pressure, consolidation and excess supply in many data storage market segments, which has resulted in reduced production and capital equipment purchases. Consequently, revenues from the products that are marketed to the data storage industry by the Company's ADE Technologies ("ATI") segment have decreased in the nine months ended January 31, 2002 compared with the year earlier period. Data storage industry revenue comprised 15% of total revenue for the nine months ended January 31, 2002 compared to 14% in the year earlier period.

Gross Margin. Gross margin decreased to 40% in the nine months ended January 31, 2002 from 49% in the year earlier period. The decrease in gross margin was due primarily to the higher percentage of shipments of 300mm products in the SSG segment, which carry lower margins in their initial stages than the Company's legacy products. The Company expects these lower margins to continue in the short term due to expected shipments of newer technologies. Also contributing to the decrease in gross margins was a decline in factory utilization in both the SSG and ATI segments during the nine months ended January 31, 2002 due to the decrease in demand for the Company's products.

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Gross margin at the PST segment during the nine months ended January 31, 2002 was consistent with the year earlier period.

Research and Development. Research and development expense increased \$1.2 million, or 7%, to \$17.3 million in the nine months ended January 31, 2002 from \$16.1 million in the year earlier period and increased as a percentage of revenue to 26% compared to 22% in the year earlier period. The increase in expense resulted primarily from continued investment by the SSG segment to develop its AFS and AWIS products to capitalize on the next wave of worldwide capital spending, which is expected to be focused on 300mm wafer production. Also contributing to the overall increase was continued investment in research and development at the PST segment. The Company also continues to develop new products for the data storage industry, including those that measure the magnetic properties of materials used in manufacturing disk drives. The Company is committed to continuing its investment in research and development to maintain its position as a technological leader, which may necessitate continued research and development spending at or above current levels.

Marketing and Sales. Marketing and sales expense decreased \$1.9 million, or 16%, to \$10.1 million in the nine months ended January 31, 2002 from \$12.1 million in the year earlier period and was consistent as a percentage of revenue with the year earlier period. The decreased expense resulted primarily from decreased commissions expense on sales made through external sales representatives. The mix of sales channels through which the Company's products are sold may have a significant impact on the Company's marketing and sales expense and the results in any period may not be indicative of marketing and sales expense for future periods. Also contributing to the decrease in expense was a decrease in payroll expense and discretionary spending such as travel and advertising during the nine months ended January 31, 2002. Marketing and sales expense remained consistent as a percentage of revenue due to both the decrease in revenue and the corresponding decrease in expense during the nine months ended January 31, 2001 as discussed above.

General and Administrative. General and administrative expense was \$8.1 million in the nine months ended January 31, 2002 and 2001 and increased as a percentage of revenue to 12% compared to 11% in the year earlier period. Expense in the nine months ended January 31, 2002 were consistent with the year earlier period, however, there was a decrease in payroll related expense that was offset by an increase in legal and patent expense.

Interest and Other Income, Net. Net interest and other income was \$361,000 in the nine months ended January 31, 2002 compared to net interest and other income of \$947,000 in the year earlier period. The decrease in interest and other income resulted primarily from lower interest returns due to lower interest rates during the nine months ended January 31, 2002 compared to the year earlier period.

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Income Taxes. There was a provision for income taxes of \$10.6 million in the nine months ended January 31, 2002 compared to a provision for income taxes of \$111,000 in the year earlier period. The provision for income taxes in the nine months ended January 31, 2002 consists of an increase in the valuation allowance against the Company's deferred tax assets that was recorded in the second quarter of fiscal 2002. The Company has deferred tax assets, which have arisen primarily as a result of operating losses incurred in prior years, as well as other temporary differences between book and tax accounting. Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," requires the establishment of a valuation allowance to reflect the likelihood of the realization of deferred tax assets. During the second quarter of fiscal 2002, as a result of current year operating losses to date, anticipated additional operating losses for the third quarter of 2002, an expected operating loss for fiscal 2002, and uncertainty as to the extent and timing of profitability in future periods, the Company recorded an additional valuation allowance to reserve the remaining deferred tax assets, resulting in income tax expense of \$10.6 million. The Company currently has a full valuation allowance.

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As of January 31, 2002, the Company has available unused operating loss carryforwards, which may be applied against future taxable income.

Equity in Net Earnings (Loss) of Affiliated Companies. Equity in net earnings of affiliated companies was \$560,000 in the nine months ended January 31, 2002 compared to equity in net loss of affiliated companies of \$479,000 in the year earlier period. The net earnings from affiliated companies in the nine months ended January 31, 2002 compared to the loss in the year earlier period was due primarily to the absence of the losses incurred by the Company's former affiliate, Microspec, which was sold during the first quarter of fiscal 2001. The Company's Japanese affiliate sells primarily to the semiconductor industry and the current period earnings reflect the timing of shipments and the recognition of revenue by the affiliate.

Liquidity and Capital Resources

At January 31, 2002, the Company had \$31.9 million in cash and cash equivalents and \$57.5 million in working capital. In addition, the Company had \$3.4 million in restricted cash used as security for a tax-exempt Industrial Development Bond ("IDB") issued through the Massachusetts Industrial Finance Agency in December 1997. Under the terms of the bond agreement, the Company may substitute a letter of credit in an amount equal to approximately 105% of the outstanding principal balance as collateral for the Company's obligations under the IDB, assuming the Company has the ability to borrow under a credit facility. Such actions would allow the restricted cash balance to be used for general corporate purposes.

Cash provided by operating activities for the nine months ended January 31, 2002 was \$5.7 million. This amount resulted from net loss of \$19.0 million adjusted for non-cash charges of \$14.2 million and a \$10.5 million net decrease in working capital accounts. Non-cash items consisted primarily of a deferred income tax charge of \$10.6 million and \$4.1 million of depreciation and amortization. Working capital items consisted primarily of decreases in accounts receivable of \$12.0 million, inventories of \$5.2 million, accounts payable of \$2.4 million, accrued expenses and other current liabilities of \$4.0 million and deferred income on sales to affiliates of \$0.4 million. The decrease in accounts receivable was due to improved collections and a decrease in sales during the first nine months of fiscal 2002. The decrease in inventory was due to shipments during the first nine months of fiscal 2002 as well as a decrease in the purchase of raw materials. The decrease in accounts payable was primarily due to the decrease in inventory purchases. The decrease in accrued expenses and other current liabilities was primarily due to the decrease in deferred revenue and other accrued expenses. The decrease in deferred income on sales to affiliate is due to the timing of shipments and revenue recognition by the Company's Japanese affiliate.

Cash used in investing activities was \$3.4 million, and consisted primarily of \$3.7 million for purchases of fixed assets, which was partially offset by a combined decrease in other assets and restricted cash of \$317,000.

Cash provided by financing activities was \$386,000, which consisted of \$834,000 of aggregate proceeds from the issuance of common stock from the exercise of stock options and stock purchased through the employee stock purchase plan, partially offset by \$448,000 in repayments of long-term debt.

The Company expects to meet its near-term working capital needs and capital expenditures primarily through cash generated from operations and its available cash and cash equivalents.

Other Risk Factors

Capital expenditures by semiconductor wafer and device manufacturers historically have been cyclical as they in turn depend upon the current and anticipated demand for integrated circuits. While the semiconductor industry is in the midst of a severe down cycle, it is not clear when semiconductor

wafer manufacturers, who account for approximately 72% of the Company's revenue, will be in a position to increase their purchases of capital equipment. The data storage industry has been in a period of oversupply and excess manufacturing capacity for an extended period of time and this has also had an adverse impact on the Company. At January 31, 2002, the Company's backlog was \$26.6 million. The Company remains uncertain about when sustained growth in revenue will return. The Company continues to evaluate its cost structure relative to expected revenue and will continue to implement aggressive cost containment measures where necessary.

Furthermore, the Company's success is dependent upon supplying technologically superior products to the marketplace at appropriate times to satisfy customer needs. Product development requires substantial investment and is subject to technological risks. Delays or difficulties in product development or market acceptance of newly developed products could adversely affect the future performance of the Company.

Change in Accounting Principle

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Historically, for some of the Company's sales transactions, a portion of the sales price, usually 10%, was not due until installation occurs and the customer accepts the product. Under SAB 101 and the new accounting method adopted retroactive to May 1, 2000, the Company now defers recognition of the portion of the sales price not due until the customer has accepted the product. Effective during the first quarter of the year ended April 30, 2001, the Company implemented the SEC's SAB 101 guidelines, which was reported as a cumulative effect of a change in accounting principle as of May 1, 2000. The cumulative effect of the change in accounting principle resulted in a charge to income of \$1.8 million (net of income taxes of \$0), or \$0.13 per share, in the first quarter of fiscal 2001. The results for the three and nine months ended January 31, 2001 have been adjusted to reflect the adoption of SAB 101.

New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001, and will thus be adopted by the Company, as required, in fiscal year 2003. The Company is currently assessing the impact of SFAS No. 141 and SFAS No. 142 on its consolidated financial position and results of operations and has not yet determined the impact of this adoption.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001, and will thus be adopted by the Company, as required in fiscal year 2003. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and provides a single accounting model for long-lived assets to be disposed of. The Company is currently assessing the impact of this new statement and does not expect the adoption to have a material effect on its consolidated financial position and results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in the Company's exposure to market risk from April 30, 2001.

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings:

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On October 12, 2000, the Company filed a patent infringement lawsuit against KLA-Tencor (KLA), a competitor, in the U.S. District Court in Delaware. The Company seeks damages and a permanent injunction against further infringement upon United States Patent Number 6,118,525, entitled "Wafer Inspection System for Distinguishing Pits and Particles." On November 22, 2000, KLA filed a counterclaim in the United States District Court in Delaware that ADE has infringed upon three patents owned by KLA. KLA is seeking damages for patent infringement and a permanent injunction against any future infringement activity. In addition, KLA has asked the District Court for a declaration that United States Patent Number 6,118,525, owned by ADE, is invalid and not infringed upon by KLA. At this time, the Company cannot predict the outcome or the amount of gain or loss, if any.

Item 2. Changes in Securities:

None

Item 3. Defaults Upon Senior Securities:

None

Item 4. Submission of Matters to a Vote of Security Holders:

None

Item 5. Other Information:

None

Item 6. Exhibits and Reports on Form 8-K:

- a. See Exhibit Index, Page 19
- b. Reports on Form 8-K
None

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADE CORPORATION

Date: March 14, 2002

/s/ BRIAN C. JAMES

Brian C. James
*Executive Vice President, Treasurer and
Chief Financial Officer*

Date: March 14, 2002

/s/ ROBERT C. ABBE

Robert C. Abbe
President and Chief Executive Officer

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EXHIBIT INDEX

| Exhibit Number | Description |
|-------------------|--|
| 2.1 | Agreement and Plan of Merger dated as of February 27, 1997 by and between ADE Corporation, ADE Technologies, Inc., Digital Measurement Systems, Inc., Dennis E. Speliotis, Elias Speliotis, Evanthia Speliotis, Ismene Speliotis, Advanced Development Corporation, David C. Bono and Alan Sliski (filed as Exhibit 10.18 to the Company's Form 10-K for the fiscal year ended April 30, 1997 and incorporated herein by reference). |
| 2.2 | Agreement and Plan of Merger dated as of May 31, 1998 by and among ADE Corporation, Theta Acquisition Corp., Phase Shift Technology, Inc., Chris Koliopoulos and David Basila (filed as Exhibit 2 to the Company's Form 8-K dated June 25, 1998 and incorporated herein by reference). |
| 2.3 | Purchase and Sale Agreement dated as of February 28, 1997 by and between ADE Corporation and Dennis E. Speliotis, individually and as Trustee of Thouria Investment Trust under a Declaration of Trust dated August 18, 1992, Elias Speliotis, Evanthia Speliotis and Ismene Speliotis (filed as Exhibit 10.20 to the Company's Form 10-K for the fiscal year ended April 30, 1997 and incorporated herein by reference). |
| 3.1 | Restated Articles of Organization (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (33-96408) or amendments thereto and incorporated herein by reference). |
| 3.2 | By-laws (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1 (33-96408) or amendments thereto and incorporated herein by reference). |
| 4.1 | Registration Rights Agreement dated as of February 28, 1997 by and between ADE Corporation and Dennis E. Speliotis, individually and as Trustee of Thouria Investment Trust under a Declaration of Trust dated August 18, 1992 recorded in the Middlesex South District Registry of Deeds at Book 22305, Page 375 (filed as Exhibit 10.21 to the Company's Form 10-K for the fiscal year ended April 30, 1997 and incorporated herein by reference). |
| 4.2 | Registration Rights Agreement dated as of February 27, 1997, by and among ADE Corporation and Advanced Development Corporation, David C. Bono and Alan Sliski (filed as Exhibit 10.19 to the Company's Form 10-K for the fiscal year ended April 30, 1997 and incorporated herein by reference). |
| 4.3 | Registration Rights Agreement dated as of May 31, 1998 by and among ADE Corporation, Chris Koliopoulos and David Basila (filed as Exhibit 4.6 to the Company's Form 8-K dated June 25, 1998 and incorporated herein by reference). |
| 10.1 | Form of Employee Confidentiality Agreement (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (333-96408) or amendments thereto and incorporated herein by reference). |
| 10.2 | 2000 Stock Option Plan (filed as Exhibit A to the Company's Proxy Statement with respect to its Annual Meeting of Shareholders for the fiscal year ended April 30, 2000 and incorporated herein by reference).* |
| 10.3 | 1997 Stock Option Plan (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-8 (333-46505) or amendments thereto and incorporated herein by reference). * |
| 10.4 | Amendment to 1997 Stock Option Plan dated April 7, 1999 (filed as Exhibit 10.3 to the Company's Form 10-K for the fiscal year ended April 30, 1999 and incorporated herein by reference). * |
| 10.5 | 1995 Stock Option Plan (filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 (33-96408) or amendments thereto and incorporated herein by reference).* |
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| 10.6 | 1992 Stock Option Plan (filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1 (33-96408) or amendments thereto and incorporated herein by reference).* |
| 10.7 | Amendment to 1992 Stock Option Plan dated April 7, 1999 (filed as Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended April 30, 1999 and incorporated herein by reference). * |
| 10.8 | |

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- 1982 Stock Option Plan (filed as Exhibit 4.5 to the Company's Registration Statement on Form S-8 (333-2280) and incorporated herein by reference).*
- 10.9 Employee Stock Purchase Plan (as amended) (filed as Exhibit 10.9 to the Company's Form 10-Q for the quarter ended October 31, 2001 and incorporated herein by reference).*
- 10.11 Purchase and Sale Agreement for 80 Wilson Way, Westwood, Massachusetts, dated January 11, 1996, between Met Path New England, Inc., and the Company, with Schedules (filed as Exhibit 10.12 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.12 Loan Agreement dated as of June 7, 1996, among GE Capital Public Finance, Inc., Massachusetts Industrial Finance Agency and the Company (filed as Exhibit 10.9 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.13 Certificate as to Nonarbitrage and Tax Compliance, dated as of June 7, 1996, from the Company to Massachusetts Industrial Finance Agency (filed as Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.14 Letter of Credit Agreement, dated June 7, 1996, between Citizens Bank of Massachusetts and the Company (filed as Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.15 Mortgage, Security Agreement, and Assignment, dated June 7, 1996, from the Company to Citizens Bank of Massachusetts (filed as Exhibit 10.13 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.16 Pledge Agreement, dated June 7, 1996, from the Company to Citizens Bank of Massachusetts (filed as Exhibit 10.14 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.17 Oil and Hazardous Materials Indemnification Agreement, dated June 7, 1996, between the Company and Citizens Bank of Massachusetts (filed as Exhibit 10.15 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.18 Indemnification Agreement, dated as of February 28, 1996, among MetPath of New England, Inc., Corning Life Sciences, Inc. and the Company (filed as Exhibit 10.16 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.19 Letter Agreement regarding collateral assignment of Indemnification from the Company to Citizens Bank of Massachusetts, with attachment, (filed as Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended April 30, 1996 and incorporated herein by reference).
- 10.20 Noncompetition Agreement dated as of May 31, 1998 by and between ADE Corporation and Chris Koliopoulos (filed as Exhibit 10.21 to the Company's Form 10-K for the fiscal year ended April 30, 1998, and incorporated herein by reference).
- 10.21 Noncompetition Agreement dated as of May 31, 1998 by and between ADE Corporation and David Basila (filed as Exhibit 10.22 to the Company's Form 10-K for the fiscal year ended April 30, 1998, and incorporated herein by reference).

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- 21.1 Subsidiaries of the Company (filed as Exhibit 21.1 to the Company's Form 10-Q for the quarter ended October 31, 2000 and incorporated herein by reference).
- 23.1 Consent of PricewaterhouseCoopers LLP (filed as exhibit 23.1 to the Company's Form 10-K for the fiscal year ended April 30, 2001 and incorporated herein by reference).
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Compensatory plan or agreement applicable to management and employees.

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QuickLinks

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ADE CORPORATION

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ADE CORPORATION CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands, unaudited)

ADE CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADE CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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