ADE CORP
Form 10-Q
March 18, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For Quarter Ended: January 31, 2003

or

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

For the transition period from _______ to _______
Commission file number 0-26714

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 No.)

80 Wilson Way, Westwood, Massachusetts 02090

(Address of Principal Executive Offices, Including Zip 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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2) of the Exchange Act.

Yes o No ý

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	**13,741,622 shares**
Class	Outstanding at March 14, 2003

ADE CORPORATION
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PART I.
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited):

ADE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

(in thousands, unaudited)

	January 31, 2003	April 30, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 17,649	$ 26,108
Marketable securities	1,028	2,571
Accounts receivable, net	11,754	11,725
Inventories	30,306	32,701
Prepaid expenses and other current assets	925	1,278
Total current assets	61,662	74,383
Fixed assets, net	27,860	30,658
Investments	3,651	3,610
Intangible assets, net	945	1,283
Goodwill, net	1,318	1,318
Restricted cash	3,206	3,352
Other assets	136	147
Total assets	$ 98,778	$ 114,751
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 665	$ 646
Accounts payable	3,218	6,594
Accrued expenses and other current liabilities	8,002	12,004
Deferred income on sales to affiliate	2,192	1,470
Total current liabilities	14,077	20,714
Long-term debt	10,241	10,715
Stockholders' equity:		
Common stock	137	137
Capital in excess of par value	103,851	103,553
Accumulated deficit	(30,056)	(22,439)
Accumulated other comprehensive income	528	2,071
Total stockholders' equity	74,460	83,322
Total liabilities and stockholders' equity	$ 98,778	$ 114,751

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

ADE CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data, unaudited)

	Three months ended January 31,		Nine months ended January 31,	
	2003	**2002**	**2003**	**2002**
Net Revenue:				
Systems and parts	$ 16,381	$ 16,001	$ 45,196	$ 58,620
Service	2,084	1,944	6,065	6,607
Total revenue	18,465	17,945	51,261	65,227
Cost of revenue:				
Systems and parts	7,289	8,345	21,659	31,730
Service	2,203	2,062	6,782	7,326
Total cost of revenue	9,492	10,407	28,441	39,056
Gross profit	8,973	7,538	22,820	26,171
Operating expenses:				
Research and development	3,637	5,190	12,829	17,266
Marketing and sales	2,584	2,973	8,294	10,112
General and administrative	2,094	2,995	7,389	8,103
Restructuring charges			1,588	
Total operating expenses	8,315	11,158	30,100	35,481
Income (loss) from operations	658	(3,620)	(7,280)	(9,310)
Interest and other income (expense), net	(160)		(368)	361
Income (loss) before provision for income taxes and equity in net earnings of affiliated companies	498	(3,620)	(7,648)	(8,949)
Provision for income taxes	36	9	71	10,615
Income (loss) before equity in net earnings of affiliated companies	462	(3,629)	(7,719)	(19,564)
Equity in net earnings of affiliated companies	132	384	102	560
Net income (loss)	$ 594	$ (3,245)	$ (7,617)	$ (19,004)
Basic earnings (loss) per share	$ 0.04	$ (0.24)	$ (0.56)	$ (1.40)
Diluted earnings (loss) per share	$ 0.04	$ (0.24)	$ (0.56)	$ (1.40)
Weighted average shares outstanding basic	13,721	13,627	13,699	13,601
Weighted average shares outstanding diluted	13,742	13,627	13,699	13,601

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, 2003	Nine months ended January 31, 2002
Cash flows from operating activities:		
Net loss	$ (7,617)	$ (19,004)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,550	4,084
Deferred income taxes		10,590
Equity in net earnings of affiliate, net of dividends received	(40)	(451)
Changes in assets and liabilities:		
Accounts receivable, net	(29)	11,975
Inventories	2,395	5,160
Prepaid expenses and other current assets	353	149
Accounts payable	(3,376)	(2,418)
Accrued expenses and other current liabilities	(4,002)	(3,993)
Deferred income on sales to affiliate	722	(417)
Net cash provided by (used in) operating activities	(8,044)	5,675
Cash flows from investing activities:		
Purchases of fixed assets	(415)	(3,708)
Change in restricted cash	146	129
Decrease in other assets	11	188
Net cash used in investing activities	(258)	(3,391)
Cash flows from financing activities:		
Repayment of long-term debt	(455)	(448)
Proceeds from issuance of common stock	298	834
Net cash provided by (used in) financing activities	(157)	386
Net increase (decrease) in cash and cash equivalents	(8,459)	2,670
Cash and cash equivalents, beginning of period	26,108	29,220
Cash and cash equivalents, end of period	$ 17,649	$ 31,890

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

ADE CORPORATION

NOTES TO 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 in the United States of America 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, 2002.

2. Comprehensive Income (Loss)

Comprehensive income (loss) was as follows:

	Three months ended		Nine months ended	
	January 31, 2003	**January 31, 2002**	**January 31, 2003**	**January 31, 2002**
	(in thousands)		**(in thousands)**	
Net income (loss)	$ 594	$ (3,245)	$ (7,617)	$ (19,004)
Other comprehensive income (loss):				
Unrealized income (loss) on marketable securities, net of $0 tax	31	185	(1,543)	(90)
Other comprehensive income (loss):	31	185	(1,543)	(90)
Comprehensive income (loss)	$ 625	$ (3,060)	$ (9,160)	$ (19,094)

3. Inventories

Inventories consist of the following:

	(in thousands)	
	January 31, 2003	**April 30, 2002**
	(unaudited)	
Raw materials and purchased parts	$ 15,656	$ 16,228
Work-in-process	13,622	15,104
Finished goods	1,028	1,369

	(in thousands)	
	$ 30,306	$ 32,701

4. Goodwill and Intangible Assets

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which was effective for the

Company on May 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization and includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and reclassification of certain intangibles out of previously reported goodwill. In accordance with this statement, the Company discontinued the amortization of its net goodwill of $1.3 million. In addition, the Company completed the transitional impairment test of its goodwill during the six months ended October 31, 2002 and determined that the carrying value was not impaired. The Company is required to perform impairment tests under SFAS 142 annually and whenever events or changes in circumstances suggest that the goodwill may be impaired. During the second quarter of fiscal year 2003, the Company's market capitalization value fell below its book value for a brief period of time. If the Company's market value subsequently falls below its book value for an extended period of time in the future, the Company may be required to record an impairment of its goodwill and such amount could be material to the Company's results of operations. No events or circumstances occurred during the third quarter which indicated that the goodwill was impaired. Had SFAS 142 been in effect during the three and nine months ended January 31, 2002, the Company's net income (loss) and earnings (loss) per share would have been as follows:

	Three months ended January 31,		Nine months ended January 31,	
	2003	2002	2003	2002
	(in thousands, except per share data, unaudited)			
Reported net income (loss)	$ 594	$ (3,245)	$ (7,617)	$ (19,004)
Add back of goodwill amortization		59		178
Adjusted net income (loss)	$ 594	$ (3,186)	$ (7,617)	$ (18,826)
Reported basic earnings (loss) per share	$ 0.04	$ (0.24)	$ (0.56)	$ (1.40)
Add back of goodwill amortization		0.01		0.02
Adjusted basic earnings (loss) per share	$ 0.04	$ (0.23)	$ (0.56)	$ (1.38)
Reported diluted earnings (loss) per share	$ 0.04	$ (0.24)	$ (0.56)	$ (1.40)
Add back of goodwill amortization		0.01		0.02
Adjusted diluted earnings (loss) per share	$ 0.04	$ (0.23)	$ (0.56)	$ (1.38)

The Company has $2.9 million in capitalized license fees for software included in the Company's products, which are still being amortized and have accumulated amortization of $2.0 million and $1.6 million at January 31, 2003 and April 30, 2002, respectively. These license fees are amortized at the greater of 1) the ratio that current gross revenue for the related products bear to the total current and anticipated future gross revenue for those products or 2) on a straight-line basis over the estimated useful life of the related products. For the three and nine months ended January 31, 2003, respectively, the Company amortized $113,000 and $338,000 of the license fees to the cost of revenue. Estimated amortization is $450,000 for the fiscal year ended April 30, 2003, $150,000 for each of the fiscal years ended April 30, 2004, 2005 and 2006, and $50,000 for the fiscal year ended April 30, 2007.

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	(in thousands)	
	January 31, 2003	April 30, 2002
	(unaudited)	
Accrued salaries, wages and vacation pay	$ 1,444	$ 2,223
Accrued commissions	926	1,191
Accrued warranty costs	961	1,146
Accrued restructuring	210	
Deferred revenue	1,620	4,537
Other	2,841	2,907
	$ 8,002	$ 12,004

6. Restructuring

During the second quarter of fiscal 2003, as a result of the continued downturn in the semiconductor wafer and device manufacturing and magnetic data storage industries, the Company recorded a restructuring charge of $711,000, which consisted primarily of severance expenses for the 41 terminated employees across all segments and various functional areas of the Company. The majority of all severance payments from the second quarter restructuring will be made by the end of fiscal year 2003.

In August 2002, an agreement was entered into between the Company and its former Chief Executive Officer, Robert C. Abbe. Under the terms of the agreement, Mr. Abbe will receive a total of $1.1 million over a three year period, beginning in September 2002, for severance and consulting services. The Company recorded a restructuring charge of $307,000 for the severance portion of Mr. Abbe's agreement, which will be paid through September 2003. This amount is included in the $711,000 discussed above. The consulting portion of the agreement will be expensed as incurred.

During the first quarter of fiscal 2003, the Company implemented selective headcount reductions and closed three satellite offices in response to the prolonged downturn in the semiconductor and magnetic data storage industries. The Company recorded a restructuring charge of $877,000, which consisted of $679,000 in employee severance expenses for the 39 terminated employees spread across all functional areas of the Company and $198,000 related to the closing of the satellite offices, which primarily represents future lease obligations on the vacated offices. When applicable, anticipated future sublease income relating to vacated offices was offset against the charge for the remaining lease payments. The sublease income was based on estimates and will be monitored going forward and is subject to change. All severance payments from the first quarter restructuring will be made by the end

of fiscal year 2003. Below is a table summarizing the activity related to the restructuring accrual for the nine months ended January 31, 2003:

	Severance	Office Closures	Total
		(in thousands)	
Restructuring accrual	$ 679	$ 198	$ 877
Cash payments	(338)	(44)	(382)

	Severance		Office Closures		Total
Balance at July 31, 2002		341		154	495
Restructuring accrual		701		10	711
Cash payments		(566)		(64)	(630)
Balance at October 31, 2002		476		100	576
Restructuring accrual					
Cash payments		(311)	$	(55)	(366)
Balance at January 31, 2003	$	165	$	45	$ 210

7. 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, 2003 and 2002, respectively, 1,004,027 and 725,230 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, 2003 and 2002, respectively, 1,081,716 and 569,530 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, 2003 and 2002, respectively, basic and diluted loss per share is the same due to the antidilutive effect of potential common shares outstanding.

The following is a reconciliation of the shares used in calculating basic and diluted earnings per share:

		Three months ended January 31,		Nine months ended January 31,	
		2003	2002	2003	2002
		(in thousands)		(in thousands)	
Shares used in computation:					
a.	Weighted average common stock outstanding used in computation of basic earnings (loss) per share	13,721	13,627	13,699	13,601
b.	Dilutive effect of stock options outstanding	21			
c.	Shares used in computation of diluted earnings (loss) per share	13,742	13,627	13,699	13,601

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8. Segment Reporting

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 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.

Some sales to Japan ADE, Ltd., ADE's 50% owned affiliate, are reflected in segment revenue during the period they are shipped by the respective segment, which can differ from the period the revenue is recognized for consolidated financial reporting purposes. For the reportable segments, intersegment sales are recorded at 60% of the domestic list price of the respective product.

	SSG	PST	ATI	Total
		(in thousands)		
For the quarter ended January 31, 2003				
Revenue from external customers	$ 12,113	$ 5,060	$ 1,264	$