

METRON TECHNOLOGY N V
Form 10-Q
October 12, 2001

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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 the quarterly period ended August 31, 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 No

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

<u>Title of Each Class</u>	<u>Outstanding at September 30, 2001</u>
Common shares, par value NLG 0.96 per share	12,841,164

METRON TECHNOLOGY N.V.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

<u>Three months ended</u>	
<u>August 31</u>	<u>August 31</u>
<u>2000</u>	<u>2001</u>

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	Three months ended	
	Restated	
Net revenue	\$ 119,038	\$ 74,373
Cost of revenue	98,983	60,112
Gross profit	20,055	14,261
Selling, general, administrative, and other expenses	15,894	14,450
Other operating income, net of associated costs		1,354
Operating income	4,161	1,165
Equity in net loss of joint ventures	(70)	(10)
Loss from impairment of investment		(401)
Other income (expense), net	17	(299)
Income before income taxes and cumulative effect of change in accounting principle	4,108	455
Provision (benefit) for income taxes	1,758	(247)
Income before cumulative effect of change in accounting principle	2,350	702
Cumulative effect of change in accounting principle	(1,465)	
Net income	\$ 885	\$ 702
Basic earnings per common share		
Before cumulative effect of change in accounting principle	\$ 0.18	\$ 0.05
Cumulative effect of change in accounting principle	(0.11)	
Basic earnings per common share	\$ 0.07	\$ 0.05
Diluted earnings per common share		
Before cumulative effect of change in accounting principle	\$ 0.17	\$ 0.05
Cumulative effect of change in accounting principle	(0.11)	
Diluted earnings per common share	\$ 0.06	\$ 0.05

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three months ended	
	August 31 2000	August 31 2001
	Restated	
Net income	\$ 885	\$ 702

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	<u>Three months ended</u>	
Other comprehensive income (loss)		
Foreign currency translation	(605)	1,429
Loss from foreign currency forward contracts		(24)
	<u>(605)</u>	<u>1,405</u>
Comprehensive income	<u>\$ 280</u>	<u>\$ 2,107</u>

See accompanying Notes to Condensed Consolidated Financial Statements

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

	<u>May 31 2001</u>	<u>August 31 2001</u>
ASSETS		
Cash and cash equivalents	\$ 27,769	\$ 22,432
Accounts receivable	88,833	63,973
Inventories, net	56,822	56,339
Prepaid expenses and other current assets	11,798	12,808
	<u>185,222</u>	<u>155,552</u>
Property, plant, and equipment, net	16,057	17,084
Intangible assets, net	9,606	9,228
Long term investments	1,653	1,240
Other assets	961	1,005
	<u>213,499</u>	<u>184,109</u>
Total Assets	\$ 213,499	\$ 184,109
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 34,490	\$ 22,212
Amounts due affiliates	28,913	20,535
Accrued wages and employee-related expenses	9,788	7,284
Deferred revenue for installation and warranty	15,511	14,166
Deferred income	6,770	5,416
Short term borrowings and current portion of long-term debt	19,507	15,040
Amounts payable to shareholders	177	177
Other current liabilities	14,951	13,562
	<u>130,107</u>	<u>98,392</u>
Total current liabilities	130,107	98,392
Long-term debt, excluding current portion	979	926
Deferred credits and other long-term liabilities	2,270	2,322
	<u>133,356</u>	<u>101,640</u>
Total liabilities	133,356	101,640

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	<u>May 31</u> <u>2001</u>	<u>August 31</u> <u>2001</u>
Commitments		
Shareholders' Equity:		
Preferred shares, par value		
Common shares and additional paid-in capital	38,714	38,933
Retained earnings	49,448	50,150
Cumulative other comprehensive loss	(7,427)	(6,022)
Treasury shares	(592)	(592)
	<u>80,143</u>	<u>82,469</u>
Total Liabilities and Shareholders' Equity	\$ 213,499	\$ 184,109

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)

	<u>Three months ended</u>	
	<u>August 31</u> <u>2000</u>	<u>August 31</u> <u>2001</u>
	<u>Restated</u>	
Cash flows (used for) operating activities:		
Net income	\$ 885	\$ 702
Adjustments to reconcile net income for items currently not affecting operating cash flows:		
Cumulative effect of change in accounting principle	1,465	
Depreciation and amortization	1,061	1,258
Provisions for inventory valuation and doubtful accounts	1,040	131
Deferred income taxes	(134)	(79)
Equity in net loss of joint venture	70	10
Loss on impairment of investment		401
Gain on disposition of assets	(5)	(12)
Changes in assets and liabilities:		
Accounts receivable	(5,816)	24,783
Inventories	(4,289)	598
Prepaid expenses and other current assets	(383)	(1,001)
Accounts payable	4,403	(12,278)
Amounts due affiliates	(7,971)	(8,378)
Accrued wages and employee-related expenses	(792)	(2,504)
Deferred revenue for installation and warranty	4,083	(1,344)
Deferred income		(1,355)
Other current liabilities	2,066	(1,389)

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	Three months ended	
Net cash flows (used for) operating activities	(4,317)	(457)
Cash flows (used for) investing activities:		
Additions to property, plant, and equipment	(3,979)	(1,593)
Proceeds from the sale of property, plant, and equipment	18	37
Equity investment in joint venture	(1,000)	
Other assets	(7)	(33)
Other long-term liabilities	75	107
Net cash flows (used for) investing activities	(4,893)	(1,482)
Cash flows from (used for) financing activities:		
Sales of short-term investments	3,249	
Proceeds (payments) on short-term borrowings	3,647	(4,494)
Proceeds from issuance of long-term debt	216	97
Principal payments on long-term debt	(78)	(83)
Payments to shareholders	(62)	(62)
Proceeds from issuance of common shares	700	219
Net cash flows from (used for) financing activities	7,672	(4,323)
Effect of exchange rate changes on cash and cash equivalents	(402)	925
Net change in cash and cash equivalents	(1,940)	(5,337)
Beginning cash and cash equivalents	22,911	27,769
Ending cash and cash equivalents	\$ 20,971	\$ 22,432

See accompanying Notes to Condensed Consolidated Financial Statements

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"). Condensed consolidated statements of income, comprehensive income, and cash flows have been restated for the three months ended August 31, 2000 as a result of the retroactive application of the SEC's Staff Accounting Bulletin No. 101("SAB101"), *Revenue Recognition in Financial Statements*. 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, 2001 included in the Company's Annual Report on Form 10-K as filed with the SEC.

Earnings Per Share

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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 reported net income was used in the computation of basic and diluted earnings per common share.

A reconciliation of the shares used in the computation follows:

	Three months ended	
	August 31 2000	August 31 2001
	(Shares in thousands)	
Shares used for basic earnings per common share	13,278	12,829
Shares used for stock options having a dilutive effect	716	426
Shares used for diluted earnings per share	13,994	13,255

Options to purchase 861,000 and 1,872,000 common shares of the Company were excluded from the calculation of diluted earnings per share for the three month period ended August 31, 2000 and 2001, respectively, because their effect was anti-dilutive. These anti-dilutive securities have a weighted-average exercise price of \$14.94 and \$10.68, respectively. Excluded securities could potentially dilute basic earnings per share in the future.

Revenue Recognition

The Company's revenues consist primarily of product revenues generated from the sale of equipment and materials, and revenues associated with the provision of services. Revenue is recognized in accordance with SAB101, which was adopted by the Company as of June 1, 2000. Materials and other product sales are generally recognized on the shipment of goods to customers. Most equipment sales are recorded as "multiple element" transactions in which the portion of the sale represented by future installation and warranty services is deferred, and only the residual amount of the sale representing the equipment itself is recognized upon shipment to the customer. Installation revenue is recognized upon completion of the installation and the customer's acknowledgement that the equipment is available for production use. Warranty revenue is recognized ratably over the applicable

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warranty period. Generally, the Company warrants products sold to customers to be free from defects in material and workmanship for up to two years. Revenue from service agreements is recognized ratably over the agreement period, while revenue from service without a service agreement is recognized in the periods in which the services are rendered to customers.

In the majority of transactions involving installation and warranty services, a portion of the sale is not due and payable until the earlier of a defined payment date or the completion of the installation, whichever comes first. Some transactions do not, however, include a defined payment date and in those cases, the Company defers the greater of the fair value of installation and warranty revenue or the portion of the sale that was not due and payable until after installation is complete. At June 1, 2000, \$1,465,000 net of \$259,000 applicable taxes of previously recognized revenue from transactions without a defined payment date was deferred. This amount has been recorded as the cumulative effect of a change in accounting principle. Revenue of \$963,000 that was deferred as part of the cumulative effect was recognized in the three months ended August 31, 2000.

Foreign Currency Hedging

On June 1, 2001 the Company adopted Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). SFAS 133 requires that all derivatives be recorded on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify, or are not effective as hedges, must be recognized currently in earnings. Upon adoption the Company recorded an immaterial cumulative transition adjustment to earnings reflecting the difference between the fair value amortization of forward contract time value, rather than the straight line amortization under SFAS52. The immaterial cumulative transition adjustment to Other Comprehensive Income of \$41,000 reflects the fair value of forward contracts hedging inventory purchases that were previously held off balance sheet. All other derivatives were reflected on the balance sheet on May 31, 2001.

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Foreign Exchange Exposure Management The Company generally acquires and sells product internationally in US dollars. Occasional purchases are made in foreign currency and Metron operates subsidiaries internationally generating additional foreign currency exchange risk. Metron continues its policy of hedging forecasted and actual foreign currency risk with forward contracts that expire within 12 months. Derivatives are employed to eliminate, reduce, or transfer selected foreign currency risks that can be confidently identified and quantified. The fair value of derivatives hedging non-functional currency monetary assets and liabilities are recorded on the balance sheet at fair value and recognized currently in earnings. In accordance with SFAS133, hedges of anticipated transactions that are designated and documented at inception as Cash Flow Hedges are evaluated for effectiveness, excluding time value, at least quarterly. As the critical terms of the forward contract and the underlying (transaction) are matched at inception, forward contract effectiveness is calculated by comparing the change in value of the anticipated transaction to the spot to spot change in value of the related forward contracts, with the effective portion of the hedge accumulated in Other Comprehensive Income (OCI). Any residual change in fair value of the instruments, including time value excluded from effectiveness testing are recognized immediately in Other Income and Expense. An immaterial amount of time value and no ineffectiveness was recognized in Q1.

To meet SFAS133 entity hedging requirements and to protect the US dollar value of margins, OCI associated with the hedges of inventory purchases are reclassified to Cost of Sales upon shipment. All values reported in OCI at August 31, 2001 will be reclassified to earnings within 12 months.

2. SEGMENT AND GEOGRAPHIC DATA

Metron operates predominantly in the semiconductor industry. Metron provides marketing, sales, service and support solutions to semiconductor materials and equipment suppliers and semiconductor

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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

	<u>Equipment Division</u>	<u>Materials Division</u>	<u>Other</u>	<u>Total</u>
(Dollars in thousands)				
Three months ended August 31, 2000 Restated				
Net revenues	\$ 56,682	\$ 62,356	\$	\$ 119,038
Income (loss) before tax	\$ 1,967	\$ 6,413	\$ (4,272)	\$ 4,108
Three months ended August 31, 2001				
Net revenues	\$ 39,387	\$ 34,986	\$	\$ 74,373
Income (loss) before tax	\$ 2,393	\$ 1,504	\$ (3,442)	\$ 455
Assets	\$ 75,673	\$ 79,673	\$ 28,763	\$ 184,109

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Geographic information

Three months ended

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	Three months ended	
	August 31 2000	August 31 2001
	Restated	
	(Dollars in thousands)	
Net revenues:		
United States	\$ 29,931	\$ 16,805
United Kingdom	17,936	9,504
Hong Kong	14,810	6,960
Singapore	14,761	8,223
Germany	11,386	11,579
France	8,523	6,194
The Netherlands	5,842	2,640
Other nations	15,849	12,468
Geographic totals	\$ 119,038	\$ 74,373
	May 31 2001	August 31 2001
	(Dollars in thousands)	
Assets:		
United States	\$ 46,760	\$ 38,772
United Kingdom	35,531	31,132
Singapore	25,533	24,524
Hong Kong	13,317	16,991
Germany	27,053	22,092
France	19,811	14,587
The Netherlands	18,364	16,951
Other nations	27,130	19,060
Geographic totals	\$ 213,499	\$ 184,109

4. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS 141, "Business Combinations," and SFAS 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies the criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 141 notes, however, that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

The Company is required to adopt the provisions of SFAS 141 immediately and SFAS 142 on June 1, 2002. Furthermore, goodwill and intangible assets determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142.

Upon adoption of SFAS 142, SFAS 141 will require that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Upon adoption of SFAS 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS 142 within the first year of adoption. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, SFAS 142 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test.

In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities (in a manner similar to a purchase price allocation) to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of an accounting change in the Company's consolidated income statement.

As of the date of adoption, the Company expects to have approximately \$8,292,000 of unamortized goodwill, which will be subject to the transition provisions of SFAS 141 and 142. Amortization expense related to goodwill is \$291,000 and \$309,000 for the three months ended August 31, 2000 and 2001, respectively.

Because of the extensive effort needed to comply with adopting SFAS 141 and 142, it is not practicable to reasonably estimate the impact of adopting these statements on the Company's consolidated financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

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 to these forward-looking statements to reflect future events or unanticipated occurrences. This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and the related Notes, included elsewhere in this report, and our Consolidated Financial Statements and the related Notes for our fiscal year ended May 31, 2001, which are included in Metron's Annual Report on Form 10-K for the fiscal year ended May 31, 2001, filed with the SEC.

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 33.2% 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 March 2000, we acquired Shieldcare Ltd., a company incorporated in Scotland, in a transaction accounted for as a

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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. On November 17, 2000 we acquired all of 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. Net sales and results of operations for Intec were not significant for the three months ended August 31, 2001. 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, and depending on the terms of the sales contract, we sometimes defer a portion of the revenue from equipment. We recognize deferred revenue for installation and any deferred equipment revenue upon completion of the installation process, and amortize the deferred revenue for warranty over the applicable warranty periods. Revenue from service agreements is recognized ratably over the agreement period, while revenue from service without a service agreement is recognized in the periods in which the services are rendered to customers.

In each of our three month periods ended August 31, 2000 and 2001, a majority of our revenue came from the sale of products from six or fewer of the semiconductor materials and equipment companies we represent, whom we refer to as our principals. Revenue from the sale of products

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manufactured by FSI was 23.0% and 17.2% of total revenue for the three months ended August 31, 2000 and 2001, respectively. Revenue from the sale of products manufactured by Entegris was 28.3% and 13.1% of total revenue for the three months ended August 31, 2000 and 2001, respectively. In addition to representing our two largest sources of revenue, FSI and Entegris are also our two largest shareholders, holding 21.0% and 12.2%, respectively, of our outstanding shares. 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.

We operate in all areas of the world in which there is a significant semiconductor industry, except Japan. The following tables show our sales in Europe, Asia and the United States in dollars and as a percentage of net revenue for each of the three periods ended August 31, 2000 and 2001:

	Three months ended	
	August 31 2000	August 31 2001
	Restated	
	(Dollars in thousands)	
Net revenue		
Europe	\$ 56,968	\$ 40,008
Asia	32,424	17,560
United States	29,646	16,805
Total net revenue	\$ 119,038	\$ 74,373

Three months ended	
August 31 2000	August 31 2001
Restated	

	Three months ended	
	(Percentage of net revenue)	
Net revenue		
Europe	47.9%	53.8%
Asia	27.2	23.6
United States	24.9	22.6
	100.0%	100.0%
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. With the acquisition of Shieldcare, we added new revenue categories; refurbished equipment sales and revenue from the cleaning of shields used in the manufacturing of semiconductors. 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

In late fiscal 1999 the semiconductor industry started to recover from a slowdown that began in 1996. The recovery continued through the second quarter of our fiscal 2001. However, in the third quarter of fiscal 2001, we began to experience another industry slowdown. This slowdown caused semiconductor 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 contributed to the reductions in our revenue in the first quarter of fiscal 2002. We believe that, despite short-term slowdowns, the semiconductor industry has long-term growth opportunities. As a result, we currently believe that we must maintain our infrastructure, even during this periodic slowdown, in order to continue to serve our customers and to be in a position to take advantage of long-term growth opportunities. We expect that revenues for the second quarter of fiscal 2002 will fall below the level of the first quarter of fiscal 2002.

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;

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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.

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The following table presents certain consolidated statements of operations data as a percentage of net revenue for the three month periods ended August 31, 2000 and 2001.

	Three months ended	
	August 31 2000	August 31 2001
	Restated	
Net revenue	100.0%	100.0%
Cost of revenue	83.2	80.8
Gross margin	16.8	19.2
Selling, general, administrative, and other expenses	13.4	19.4
Other operating income, net of associated costs		1.8
Operating margin	3.4%	1.6%

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:

	Three months ended	
	August 31 2000	August 31 2001
	Restated	

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	Three months ended	
Net revenue (Dollars in millions)		
Equipment division	\$ 56.7	\$ 39.4
Materials division	62.3	35.0
Net revenue		
Equipment division	47.6%	53.0%
Materials division	52.4	47.0
Gross margins		
Equipment division	12.4%	20.1%
Materials division	20.9	18.3

Three Months Ended August 31, 2001 Compared to Three Months Ended August 31, 2000

Net Revenue

Equipment division. The equipment division's net revenue for the three months ended August 31, 2001 was \$39.4 million, a decrease of \$17.3 million or 30.5% from the three months ended August 31, 2000. Revenues were lower in all geographic regions due to the slowdown of the semiconductor equipment industry.

Materials division. The materials division's net revenue for the three months ended August 31, 2001 was \$35.0 million, a decrease of \$27.3 million or 43.8% from the three months ended August 31, 2000. The division recorded lower revenue in all regions, with sharp falls in Asia and the United States. Materials revenues tend to track wafer starts, the number of new silicon wafers that semiconductor makers start to transform into semiconductor devices, and capacity utilization, which is the proportion of available capacity that semiconductor makers are using. Both metrics are currently weak.

Gross Margins

Equipment division. The equipment division's gross margin of 20.1% increased from 12.4% for the three months ended August 31, 2001 compared to the three months ended August 31, 2000. The increase in gross margin for the three months ended August 31, 2001 when compared to the same

period in fiscal 2000 was due principally to the recognition in fiscal 2002 of equipment retention revenue in Asia previously deferred as required under SAB101. This revenue resulted from the completion of equipment installations during the first fiscal quarter of 2002. Service margins also improved.

Materials division. The gross margin of the materials division decreased 260 basis points for the three months ended August 31, 2001 compared to the three months ended August 31, 2000. The decline was due to pricing pressures, and to the fact that period costs, principally warehousing, were spread over a smaller volume.

Expenses

Selling, General, Administrative and Other (SG&A) Expenses. SG&A expenses for the three months ended August 31, 2001 were \$14.5 million, down \$1.4 million or 9.1% from the \$15.9 million incurred in the three months ended August 31, 2000. The decrease is due principally to a reduction in the number of employees, lower reserves for incentive plans and to lower travel expenses. Intec, acquired during our third quarter of fiscal 2001, accounted for \$0.3 million of the SG&A in our first quarter of fiscal 2002. 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.

Other Operating Income, Net of Associated Costs. On January 8, 2001 we entered into an agreement with Entegris. to modify our existing distribution relationship. On February 13, 2001, we entered into a transition agreement with Entegris 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. On March 1, 2001, we entered into a new distribution agreement with Entegris, under which we will continue to distribute Entegris' Fluid Handling Group

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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 us, and agreed to make cash payments totaling \$1,750,000 over a 15-month period. The total gain of \$8,365,000 is being recognized on a straight-line basis as other operating income over the period from the date of the modification, February 13, 2001 until August 31, 2002, which represents the remaining effective term of the original agreement. The common shares transferred by Entegris represented \$6,615,000 of the gain, which was equal to their fair market value on February 13, 2001.

Loss on impairment of investment. In our fiscal first quarter of 2002, we recorded a loss of \$401,000 against our equity investment in Advanced Stainless Technologies ("AST"), a small Texas-based manufacturer of specialty stainless steel tubing. Like many suppliers to the semiconductor industry, AST has been hard hit by the swiftness and severity of the downturn, and with no recovery in sight, we recognized the estimated other than temporary impairment of the value of our investment.

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Other Income (Expense). The following table summarizes the components of other income (expense) for the periods indicated.

	Three months ended	
	August 31 2000	August 31 2001
	(Dollars in thousands)	
Foreign exchange loss	\$ (23)	\$ (191)
Interest income	238	170
Interest expense	(313)	(352)
Miscellaneous income	115	74
Other income (expense)	\$ 17	\$ (299)

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-month periods ended August 31, 2000 and August 31, 2001, we entered into contracts to hedge firm purchase commitments, certain net asset (liability) foreign currency exposures at our subsidiaries. The 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, which primarily resulted from the proceeds of our initial public offering. Our interest expense for the same periods increased primarily as the result of increased borrowings to support the increased working capital requirements associated with higher revenues.

Provision for Income Taxes. The overall tax benefit of \$0.2 million for the three months ended August 31, 2001 reflects our ability to benefit our operating losses in most countries.

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 August 31, 2001 was \$57.2 million compared to \$55.1 million at May 31, 2001. Our current ratio, current assets divided by current liabilities, was 1.6 at August 31, 2001 and 1.4 at May 31, 2001.

Operating Activities. In the three months ended August 31, 2000 we used cash totaling \$4.3 million in our operating activities. Our net income and the \$3.5 million net total of non-cash income statement items totaled \$4.4 million which was more than offset by the net decrease of \$8.7 million in assets and liabilities. In the three months ended August 31, 2001 we used cash totaling \$0.5 million in our operating activities. Our net income plus non-cash income statement items totaled \$2.4 million which was more than offset by the net increase of \$2.9 million in

assets and liabilities.

Investing Activities. Our capital expenditures for property, plant and equipment totaled \$4.0 million for the first three months of fiscal 2001, and \$1.6 million for the same period in fiscal 2002. Approximately \$2.9 million of our capital expenditures in fiscal 2001 was for our new parts cleaning facility in Singapore, and we invested \$0.3 million in our new operations management information system. In fiscal 2002 we invested \$0.8 million in our new operations management information system. We expect that our capital expenditures in fiscal 2002 will total about \$7.0 million, of which \$4.0 million relates to the establishment of our parts cleaning facility in The Netherlands, and

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\$2.6 million pertains to the initial phase of our new operations management information system. We estimate the costs of the new management information system could total \$8.0 to \$10.0 million over a 24 to 30 month period. In August 2000, we invested \$1.0 million for a 20% equity share of Advanced Stainless Technologies, Inc., a company in Austin, Texas that electro-polishes stainless steel tubing used in semiconductor fabrication manufacturing facilities.

Financing Activities. During the three-month period ended August 31, 2000, we satisfied our funding requirements from the sale of our short-term investments and from internally generated funds and our various borrowing facilities, while in same period of fiscal 2002 we repaid \$4.5 million on these facilities. In addition, in our first fiscal quarters of 2001 and 2002, we received \$0.7 and \$0.2 million, respectively, from stock purchases through our employee stock purchase plan and from the exercise of stock options by our employees.

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 August 31, 2001:

	U.S. \$ Equivalent Facility Amount	Amount Currently Outstanding	Amount Available	Recent Interest Rate
(Dollars in thousands)				
Compass Bank	\$ 15,000	\$ 9,672	\$ 5,328	7.08%
HSBC	4,000		4,000	6.50%
Deutsche Bank	3,747	2,179	1,568	7.75%
Royal Bank of Scotland	2,793	619	2,174	7.72%
Ing Bank	2,083	2,075	8	5.25%
All Others	3,442	1,421	2,021	4.5 to 7.75%
Total	\$ 31,065	\$ 15,966	\$ 15,099	

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 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.

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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.

Market Risk

At August 31, 2001 we had aggregate forward exchange contracts in various currencies as follows:

Currency	Amount Bought US \$000	Amount Sold US \$000	Weighted Average Contract Rate	Fair Value	Expiration Date
(Dollars in thousands)					
Euro	10,004	480	.90	\$ 190	December 2001
Israeli Shekel	5,185		4.24	71	June 2002
Japanese Yen	3,596	110	115.72	(47)	April 2002
Singapore Dollar	4,312	2,811	1.76	(70)	September 2001
				\$ 144	

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.
- (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

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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.

Risks related to Metron.

We are dependent on a few key principals for a majority of our revenue; therefore, the loss of or change in our relationship with 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 year ended May 31, 2001, 25% of our total revenue was generated from the sale of products manufactured by FSI, and 25% represented 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." In each of our last three fiscal years, a majority of our revenue came from the sale of products from five or fewer of our principals, which is how we refer to the semiconductor materials and equipment companies we represent. 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 we entered into an agreement with Entegris, Inc. to modify our existing distribution relationship. On February 13, 2001, we entered into a transition agreement with Entegris 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. We received revenue for orders received before the above dates and shipped within the 90 days following these dates. In addition, on March 1, 2001, we entered into a new distribution agreement with Entegris, under which we 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 \$22,034,000 and \$2,526,000 for the three months ended August 31, 2000 and 2001, respectively.

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 that 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;

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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

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 South Korea in June 1998 and in Europe in September 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 no longer market and sell 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 during its periodic downturns, our operating results will deteriorate.

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 for any extended period, or an increase in the number of shipment delays, would 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 who 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, the 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 went live with the first implementation of the new system in The Netherlands in April 2001, and in France in July 2001, and in Italy in October 2001. We currently anticipate that the total costs associated with the implementation of the new system will be approximately \$8.0 to \$10.0 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 management and other employees 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 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 20% 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, marketing and/or service 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 these 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 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 cyclical 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 addition, 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 cyclical 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 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 outside 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:

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 are 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. A 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. In fiscal 2001, our top ten customers accounted for an aggregate of 39% 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 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.

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While most of our international sales are denominated in United States 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 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 in those countries where our current systems cannot accommodate the transition to the euro, this could have a material adverse effect on our business.

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 May 31, 2001, FSI owned 21.0%, and Entegris owned 12.2% 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, 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;

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changes in market values of comparable companies;

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.

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.

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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 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

Some of the statements under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" 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

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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
- (b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended August 31, 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: October 12, 2001

/s/ PETER V. LEIGH

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