METRON TECHNOLOGY N V
Form 10-Q
January 14, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 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: 000-27863

METRON TECHNOLOGY N.V.

(Exact name of registrant as specified in its charter)

The Netherlands	**98-0180010**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4425 Fortran Drive
San Jose, California 95134-2300
(Address of principal executive offices)

Registrant s telephone number, including area code: **(408) 719-4600**

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 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.

Title of Each Class	**Outstanding at December 31, 2003**
Common shares, par value EURO 0.44 per share	12,648,203

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

METRON TECHNOLOGY N.V.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands except per share data)

	Three months ended		Six months ended	
	November 30, 2002	**November 30, 2003**	**November 30, 2002**	**November 30, 2003**
Net revenue	$ 56,804	$ 44,022	$ 121,124	$ 90,960
Cost of revenue	46,243	34,900	99,133	72,256
Gross profit	10,561	9,122	21,991	18,704
Selling, general and administrative	14,492	13,221	28,742	26,105
Research, development and engineering		796		1,103
Restructuring costs	1,792	1,410	1,792	2,532
Other operating income, net of associated costs			1,354	
Operating loss	(5,723)	(6,305)	(7,189)	(11,036)
Equity in net income (loss) of joint ventures	19		36	(51)
Other expense, net	(424)	(785)	(886)	(1,092)
Loss before income taxes	(6,128)	(7,090)	(8,039)	(12,179)
Provision (benefit) for income taxes	(765)	378	(257)	471
Net loss	$ (5,363)	$ (7,468)	$ (7,782)	$ (12,650)
Loss per common share Basic and diluted	$ (0.41)	$ (0.59)	$ (0.60)	$ (1.00)
Weighted average number of shares Basic and diluted	13,044	12,645	13,041	12,627

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended November 30,		Six months ended November 30,	
	2002	2003	2002	2003
Net loss	$ (5,363)	$ (7,468)	$ (7,782)	$ (12,650)
Other comprehensive income (loss)				
Foreign currency translation	19	1,314	1,397	(30)
Loss from foreign currency forward contracts	(470)		(27)	
Comprehensive loss	$ (5,814)	$ (6,154)	$ (6,412)	$ (12,680)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	May 31, 2003	November 30, 2003
ASSETS		
Cash and cash equivalents	$ 12,179	$ 10,804
Accounts receivable	38,168	36,598
Loan to officer/shareholder	110	110
Inventories	38,131	42,761
Prepaid expenses and other current assets	14,124	13,510
Total current assets	102,712	103,783
Property, plant and equipment, net	24,921	23,089
Intangible and other assets	854	6,982
Total assets	$ 128,487	$ 133,854
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	$ 21,511	$ 23,037
Amounts due to affiliates	8,711	8,337
Accrued wages and employee-related expenses	5,231	5,422
Deferred revenue	4,496	6,190
Short-term borrowings and current portion of long-term debt	13,261	9,549
Amounts payable to shareholders	170	167
Other current liabilities	12,491	13,005
Total current liabilities	65,871	65,707
Long-term debt, excluding current portion	1,662	8,332
8% convertible debentures		1,339
Other long-term liabilities	3,148	7,532
Total liabilities	70,681	82,910
Commitments		
Shareholders equity:		
Preferred shares		
Common shares and additional paid-in capital	41,285	47,103
Retained earnings	17,577	4,927
Cumulative other comprehensive loss	(443)	(473)
Treasury shares	(613)	(613)
Total shareholders equity	57,806	50,944
Total liabilities and shareholders equity	$ 128,487	$ 133,854

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six months ended November 30, 2002	Six months ended November 30, 2003
Cash flows used for operating activities:		
Net loss	$ (7,782)	$ (12,650)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	2,641	2,842
Provision for doubtful accounts	89	(23)
Provision for inventory valuation	390	
Gain on modification of Entegris distribution agreement	(1,354)	
Deferred income taxes	(10)	
Restructuring costs		469
Other	(59)	56
Changes in assets and liabilities, net of asset acquisition:		
Accounts receivable	(840)	1,593
Inventories	(22)	3,035
Prepaid expenses and other current assets	(811)	604
Accounts payable	(1,217)	1,527
Amounts due affiliates	1,135	(374)
Accrued wages and employee-related expenses	822	303
Deferred revenue	5,159	1,628
Advance from affiliate	3,000	
Other current liabilities	(2,388)	(487)
Net cash flows used for operating activities	(1,247)	(1,477)
Cash flows from (used for) investing activities:		
Additions to property, plant and equipment	(2,126)	(1,200)
Proceeds from the sale of property, plant and equipment	165	
Other assets	103	(414)
Other long-term liabilities	85	(460)
Net cash flows used for investing activities	(1,773)	(2,074)
Cash flows from (used for) financing activities:		
Reductions of short-term borrowings, net	(2,680)	(4,299)
Proceeds from issuance of long-term debt	52	103
Proceeds from issuance of 8% convertible debentures		7,000
Principal payments on long-term debt	(800)	(491)
Payments to shareholders	(62)	(85)
Proceeds from issuance of common shares	192	106
Net cash flows from (used for) financing activities	(3,298)	2,334
Effect of exchange rate changes on cash and cash equivalents	656	(158)
Net change in cash and cash equivalents	(5,662)	(1,375)
Beginning cash and cash equivalents	19,949	12,179

Ending cash and cash equivalents	$	14,287	$	10,804
Supplemental cash flow information for noncash transactions:				
Acquisition of Eclipse product line assets, principally inventories				7,677
License agreement for Eclipse product line				6,000

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). 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, 2003 included in the Company s Annual Report on Form 10-K, as amended, as filed with the SEC.

Liquidity

For the fiscal year ended May 31, 2003, and the six-month period ended November 30, 2003, the Company incurred net losses of $26.7 million and $12.6 million, respectively. As of November 30, 2003, the Company had $10.8 million of cash and cash equivalents and $9.5 million of short-term borrowings of which $7.5 million were outstanding under various lines of credit. All lines of credit are payable on demand or subject to periodic, generally annual, review.

Metron operates in a highly competitive market characterized by rapidly changing technology together with competitors that have significantly greater financial resources than the Company. The Company has substantially completed a significant shift in its focus to expand its capability to manufacture and rebuild certain legacy equipment in addition to supporting its continuing distribution activities for both the equipment and materials divisions. The Company has acquired the rights from certain original equipment manufacturers (OEMs) to build and sell certain legacy products and to provide continuing manufacturing capability and field support to the OEMs customer base for those products.

The Company currently anticipates that its available cash resources, which are comprised of cash and cash equivalents, amounts available under its credit facilities (giving effect to the repayment and termination of the Compass Bank facility and to the newly-acquired $10.0 million facility from CIT, both of which occurred in November 2003) and anticipated cash from operations, will be sufficient to meet the Company s anticipated cash requirements through fiscal 2004. However, if the Company s revenues are lower than expected or its expenses are higher than anticipated, or if inventory, accounts receivable or other assets require a greater use of cash than anticipated, the Company s available cash resources, including amounts available under its credit facilities, may not be sufficient for the Company s cash requirements. In addition, existing and potential customers and vendors may take actions that could further harm the Company s liquidity position if they believe that the Company s cash balances are not adequate. Depending on market conditions, any additional financing the Company may need may not be available on terms acceptable to the Company, or at all. If the Company does not succeed in raising additional financing, if any, when needed, the Company may not be able to meet its intended business objectives.

Loss Per Share

Basic and diluted loss per common share calculations are based on the weighted-average number of common shares outstanding in each period. The weighted-average number of shares for the three months ended November 30, 2002 and 2003 were 13,044,000 shares and 12,645,000 shares, respectively. The weighted-average number of shares for the six months ended November 30, 2002 and 2003 were 13,041,000 shares and 12,627,000 shares, respectively.

Options to purchase 3,797,000 and 4,532,000 common shares of the Company were excluded from the calculation of diluted earnings per share for the three- and six-month periods ended November 30, 2002 and 2003, respectively, because their effect was anti-dilutive. Approximately 1,847,000 common shares issuable upon conversion of the convertible debentures (excluding shares that may be issued in payment of interest) and approximately 867,000 shares issuable upon exercise of warrants issued in conjunction with the convertible debentures were excluded from the computation because their effect was anti-dilutive for the fiscal quarter and six-month period ended November 30, 2003.

Revenue Recognition

The Company s revenue consists 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 Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB101). During the second quarter of fiscal 2004, the Company implemented Emerging Issues Task Force 00-21(EITF 00-21), *Multiple-Deliverable Revenue Arrangements*, which addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on the Company s consolidated financial position and results of operations was not significant.

The Company buys equipment made by OEMs for resale where it acts as principal, including taking title to the equipment and assuming all responsibility for installation and warranty. These equipment sales are recorded as multiple element transactions in which the portion of the sale represented by future installation is deferred, and only the residual amount of the sale representing the equipment itself is recognized upon shipment to the customer. In certain circumstances, depending on the specific terms of the transaction, all or a portion of the revenue related to the residual amount attributable to the equipment itself is deferred. Installation revenue and deferred equipment revenue, if any, are recognized upon completion of the installation and the customer s acknowledgement that the equipment is available for production use. Occasionally, the Company sells equipment as agent for OEMs and recognizes commission income, rather than revenue from an equipment sale, upon shipment. The Company continues to expand its capability to manufacture and rebuild certain legacy equipment (Legends Product Line) as it acquires rights to do so from OEMs. Revenues from the sale of legacy equipment where the Company does not have a manufacturing history are recognized upon customer acceptance. To date, revenues from the sale of legacy equipment have not been significant.

Materials and other products are generally recognized on the shipment of goods to customers. 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.

Inventories

Inventories consist primarily of purchased products and are stated at the lower of cost (first-in, first-out or weighted average basis) or net realizable value. Provisions are made for slow-moving and obsolete items. Components of inventory are as follows:

	May 31, 2003	November 30, 2003
	(Dollars in thousands)	
Equipment, spare parts and material inventory	$ 37,250	$ 40,627
Delivered equipment pertaining to deferred revenue	881	2,134
Total inventories	$ 38,131	$ 42,761

During the quarter ended November 30,2003, the Company acquired $7.6 million of inventory in connection with the Eclipse product line (See Note 2).

Deferred Warranty Revenue

Most equipment sales prior to the implementation of EITF 00-21 include a portion of the sale represented by the fair value of future warranty revenue. Warranty revenue was deferred when the equipment was delivered to customers and recognized ratably over the warranty period. Remaining deferred warranty revenue activity was as follows:

		For the year ended May 31, 2003		For the six month period ended November 30, 2003
		(Dollars in thousands)		
Balances at beginning of the period	$	5,006	$	2,589
Warranty revenue deferred on equipment sales		3,368		1,103
Warranty revenue recognized		(6,661)		(1,139)
Foreign exchange effect		876		(37)
Balances at the end of the period included in deferred revenue	$	2,589	$	2,516

Accounting for Stock Options

The Company uses the intrinsic value-based method under the provisions of Accounting Principles Board No. 25 to account for employee stock-based compensation plans. The Company has adopted the disclosure requirements of SFAS 148, *Accounting for Stock Based Compensation Transition and Disclosure* (an amendment of SFAS 123).

The following pro-forma information has been prepared as if the Company had accounted for its stock options and Employee Stock Purchase Plan (ESPP) using the fair value accounting method established by SFAS 123. Additional compensation expense arising from the application of SFAS 123 has been estimated using the Black-Scholes option valuation method from the date of grant. For purposes of the pro forma disclosures below, additional compensation cost is amortized to expense over the options vesting period.

	Three months ended				Six months ended			
	November 30, 2002		November 30, 2003		November 30, 2002		November 30, 2003	
	(Dollars in thousands, except per share data)							
Net loss:								
Net loss as reported	$	(5,363)	$	(7,468)	$	(7,782)	$	(12,650)
Fair value of stock based employee compensation expense (a) (b)		785		744		1,594		1,415
Stock based employee compensation expense in the financial statements as reported								
Pro forma net loss	$	(6,148)	$	(8,212)	$	(9,376)	$	(14,065)
Loss per common share								
Basic and diluted								
As reported	$	(0.41)	$	(0.59)	$	(0.60)	$	(1.00)
Pro forma	$	(0.47)	$	(0.65)	$	(0.72)	$	(1.11)

(a) Based on the following assumptions for stock option grants in the three-month periods ended November 30, 2002 and 2003: risk-free weighted average interest rates of 3.0% and 3.2%, respectively. Risk free average rates for the six month periods ended November 30, 2002 and 2003 were 3.6% and 2.6% respectively. The weighted average expected option lives is 5.0 years; no dividend yield, and a volatility of 83% has been used for both the three and six month periods ended November 30, 2002 and 2003, respectively.

(b) Based on the following assumptions for the ESPP for both the three and six-month periods ended November 30, 2002: risk-free weighted average interest rate of 1.86% with a volatility of 83%; weighted average expected option lives of 6 months; and no dividend yield. During the three and six month periods ended November 30, 2003, there was no ESPP activity.

2. PURCHASE OF ECLIPSE PRODUCT LINE

In September 2003, the Company acquired certain assets related to the Eclipse® physical vapor deposition equipment product line from Tokyo Electron Ltd. (TEL). These assets consisted primarily of inventories, intellectual properties pursuant to a license agreement and certain other assets.

As consideration, Metron Technology Distribution Corporation (MTDC), a wholly-owned subsidiary of the Company, issued TEL a five year promissory note in the principal amount of approximately $7.7 million, which bears interest at approximately 1.6% per annum, primarily for the purchase of Eclipse® inventory at fair value. Principal and interest are payable quarterly beginning October 2004 over a 5 year period. As part of the agreement, MTDC paid approximately $33,000 at closing for the excess over $100,000 of TEL s net book value of fixed assets acquired. Additionally, MTDC entered into a royalty free, irrevocable, worldwide, perpetual, and nontransferable license agreement providing for payments over a 5 year period totaling $6.0 million and an agreement to sublease the facility used by TEL in connection with manufacturing of the Eclipse products. The fair value of the license agreement, $6.0 million, has been recorded as Other long-term assets, and will be amortized on a straight-line basis over its estimated useful life of 5 years. The obligation for the license agreement has been recorded as Other current liabilities amounting to $1.2 million and Other long-term liabilities of $4.8 million.

3. FINANCING AGREEMENT

In November 2003 the Company through its wholly owned subsidiary, T.A. Kyser Co. (Kyser), entered into a financing agreement with The CIT Group/Business Credit, Inc. (CIT). The agreement provides the Company with an up to $10.0 million dollar revolving credit facility. The amount available for borrowing is based on a formula of Kyser s eligible accounts receivable, and is subject to certain adjustments. Additionally, the amounts available for borrowing are reduced by $1.5 million until January 21, 2004, at which time this restriction is removed. Interest is payable monthly, and is based on a per annum rate comprised of the prime rate of Chase Bank plus 1.5%, which is applied to the average daily balances outstanding under the facility. The interest rate at November 30, 2003 was 5.5%. The facility is collateralized by the assets of Kyser, guaranteed by the Company, and is subject to a financial covenant beginning in January 2004. Upon funding of the facility, the Company terminated its credit facility with Compass Bank, and repaid the remaining balance of $2.9 million from the initial funds borrowed from CIT. Borrowings under the CIT agreement at November 30, 2003 were $1.4 million.

4. CONVERTIBLE DEBENTURES

In August 2003, the Company issued convertible debentures for $7.0 million with an annual interest rate of 8%, payable quarterly beginning December 1, 2003. The debentures are convertible into approximately 1,847,000 common shares of the Company at any time after the closing date based on a per-share price equal to $3.79. The closing per share price of the transaction was equal to the volume weighted average of the closing price for the common shares of the Company as listed on NASDAQ for ten days prior to and including August 20, 2003. The quarterly interest is payable at the Company s option with either cash or, subject to certain conditions, registered common shares of the Company. The Company, at its option, can require the holders to convert the debentures into common shares of the Company in the event the volume-weighted average for any 20 consecutive trading days exceeds $10.34, subject to certain conditions. After February 25, 2007, the remaining balance of the debentures not converted into common shares must be repaid to the holders in cash, including any accrued interest.

The Company granted the purchasers and the placement agent of the convertible debentures warrants to purchase an aggregate of approximately 867,000 common shares of the Company. One half of the warrants are exercisable at $3.97, with the remaining warrants being exercisable at $4.31. Additionally, the Company paid a fee of $287,000 to the placement agent, which will be amortized over the life of the debt. All warrants are exercisable for a four-year period after August 2003.

The convertible debentures and warrants were recorded at their relative fair values. The fair value of the debt was determined to be $4.7 million. The fair value assigned to the warrants was determined using the Black Scholes option pricing model and approximately $2.3 million was recorded as a discount of the debt and as an increase in shareholders equity. In addition, in accordance with EITF 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments, and EITF 98-5 Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, the Company recorded a deemed dividend because the conversion price of the convertible debentures, after taking into account the fair value of the warrants, was less than the closing price of the Company s common shares, which was $4.34 per share on the closing date. The deemed dividend of approximately $3.4 million was recorded as a further discount to the debentures and an increase to shareholders equity. The interest discount will be accreted as additional non-cash interest expense over the life of the debt using the effective interest method. The following table summarizes the valuation of the convertible debentures.

(Dollars in thousands)		**November 30, 2003**
8% convertible debentures principal	$	7,000
Less: Interest discount included in shareholders equity:		
Fair value of warrants		2,348
Deemed dividend		3,364
		1,288
Interest accretion		51
8% convertible debentures	$	1,339

5. RESTRUCTURING COSTS

For the six-month period ended November 30, 2002, the Company incurred $1.8 million of restructuring costs pertaining to the cost of terminating of 88 employees and the remaining lease commitments on certain abandoned facilities. The equipment solutions group terminated 63 employees, the fab solutions group terminated 3 employees and 22 terminated employees were part of finance and administration.

For the six-month period ended November 30, 2003, the Company terminated 46 employees as follows: the equipment solutions group terminated 21 employees, the fab solutions group terminated 21 employees and 4 terminated employees were part of finance and administration. Remaining accrued personnel costs as of November 30, 2003 will be paid by May 2004. Additionally, the Company incurred approximately $1.5 million of restructuring costs in the equipment solutions segment, of which $0.8 million pertained to the cost of the abandonment of leased facilities, leasehold improvements and fixed assets. The fab solutions group incurred approximately $0.7 million of restructuring costs, of which $0.4 million pertained to the abandonment of leased facilities. In estimating the accrual for abandoned leased facilities, the Company made assumptions regarding the future sublease income of these facilities. These assumptions will be updated periodically and additional adjustments may be required.

The following table summarizes the restructuring costs and remaining accrued liabilities, of which $2,463,000 is included in current liability and $503,000 is included in other long-term liability as of November 30, 2003.

	Personnel Costs (Cash)	Abandoned Lease Facilities (Cash)	Fixed Assets (non-cash)	Total
	(Dollars in thousands)			
For the three-month period				
Balances, August 31, 2003	$ 805	$ 1,866	$ 26	$ 2,697
Amounts accrued	802	589	19	1,410
Non-cash reductions			(45)	(45)
Amounts paid	(715)	(381)		(1,096)
Balances, November 30, 2003	$ 892	$ 2,074		$ 2,966
For the six-month period				
Balances, May 31, 2003	$ 607	$ 2,098		$ 2,705
Amounts accrued	1,310	753	469	2,532
Non-cash reductions			(469)	(469)
Amounts paid	(1,025)	(777)		(1,802)
Balances, November 30, 2003	$ 892	$ 2,074		$ 2,966

6. 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 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. For the past three fiscal years, we were organized into two worldwide operating divisions, materials and equipment. However, our portfolio of products and services is focused on delivering outsource solutions to the semiconductor industry. Beginning in fiscal 2004, to better serve our customers, we reorganized into two new worldwide operating groups, Equipment Solutions and Fab Solutions. Previously reported amounts have been reclassified to conform with the new presentation. Reportable segments are the equipment solutions group, which includes equipment sales, spare part sales and equipment service; the fab solutions group, which includes materials components used in construction and maintenance, parts cleaning, and certain specialized process chemicals; and other, which includes finance, administration and corporate functions.

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

Segment information

	Equipment Solutions Group	Fab Solutions Group	Other	Total

(Dollars in thousands)

Three months ended November 30, 2002, reclassified								
Net revenues	$	19,837	$	36,967	$		$	56,804
Restructuring costs	$	1,607	$	125	$	60	$	1,792
Income (loss) before income tax	$	(3,039)	$	1,790	$	(4,879)	$	(6,128)
Three months ended November 30, 2003								
Net revenues	$	12,679	$	31,343	$		$	44,022
Restructuring costs	$	682	$	692	$	36	$	1,410
Income (loss) before income tax	$	(2,402)	$	764	$	(5,452)	$	(7,090)
Six months ended November 30, 2002, reclassified								
Net revenues	$	44,092	$	77,032	$		$	121,124
Restructuring costs	$	1,607	$	125	$	60	$	1,792
Income (loss) before income tax	$	(3,568)	$	5,649	$	(10,120)	$	(8,039)
Six months ended November 30, 2003								
Net revenues	$	28,035	$	62,925	$		$	90,960
Restructuring costs	$	1,540	$	716	$	276	$	2,532
Income (loss) before income tax	$	(3,455)	$	1,894	$	(10,618)	$	(12,179)
Assets at November 30, 2003	$	58,707	$	50,415	$	24,732	$	133,854

Geographic information

	Three-months ended November 30,		Six-months ended November 30,	
	2002	2003	2002	2003
	(Dollars in thousands)			
Net revenues:				
United States	$ 17,093	$ 14,931	$ 36,949	$ 29,837
Germany	8,585	4,455	15,763	11,412
Singapore	7,573	4,606	19,320	9,559
Israel	2,896	3,889	6,721	7,629
United Kingdom	4,934	3,617	9,661	6,697
France	6,901	2,054	13,139	6,575
The Netherlands	2,309	2,435	4,936	4,504
Other nations	6,513	8,035	14,635	14,747
Geographic totals	$ 56,804	$ 44,022	$ 121,124	$ 90,960

	May 31, 2003	November 30, 2003
	(Dollars in thousands)	
Fixed assets, net:		
The Netherlands	$ 11,207	$ 10,408
United Kingdom	4,731	4,096
United States	2,590	2,836
Singapore	2,584	2,223
Other nations	3,809	3,526
Geographic totals	$ 24,921	$ 23,089

7. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the Emerging Issues Task Force reached a consensus on Issue 00-21(EITF 00-21), *Multiple-Deliverable Revenue Arrangements*. EITF 00-21 addresses how to account for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The consensus mandates how to identify whether goods or services or both which are to be delivered separately in a bundled sales arrangement should be accounted for separately because they are separate units of accounting. The guidance can affect the timing of revenue recognition for such arrangements, even though it does not change rules governing the timing or patterns of revenue recognition of individual items accounted for separately. The final consensus will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. Additionally, companies will be permitted to apply the consensus guidance to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with Accounting Principles Board Opinion No. 20, *Accounting Changes*. The

Company implemented EITF 00-21 during its second fiscal quarter ended November 30, 2003, and the effect on its consolidated financial position and results of operations was not significant.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies financial accounting and reporting of derivative instruments and hedging activities under SFAS No. 133. The amendments pertain to decisions made: (i) as part of the Derivatives Implementation Group process that require amendment to SFAS 133, (ii) in connection with other FASB projects dealing with financial instruments and (iii) in connection with the implementation issues raised related to the application of the definition of a derivative. SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for designated hedging relationships after June 30, 2003. SFAS 149 will be applied prospectively. The Company does not believe that the adoption of SFAS 149 will have a material impact on our financial position, cash flows or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for the classification and measurement of financial instruments with characteristics of both liabilities and equity. The effective date of certain elements of SFAS No. 150 have been deferred. When finalized, the adoption of SFAS No. 150 is not expected to have a material impact on our financial position, results of operations or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51*. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in interim periods beginning after December 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The effective dates of certain elements of FIN 46 have been deferred. The Company does not believe that the adoption of this standard will have a material impact on their financial position or results of operations.

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 involve known and unknown risks, uncertainties and other factors that may cause our, or our industry s, actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements, including the factors described under Part II, Item 5 Risk Factors and elsewhere in this Report on Form 10-Q. 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, which are included on our Annual Report on Form 10-K, as amended, for the fiscal year ended May 31, 2003, filed with the SEC on August 29, 2003. This discussion of the second quarters of fiscal 2003 and 2004 refers to the fiscal quarters that ended on November 30 of each fiscal year.

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 owned approximately 21% of our shares as of November 30, 2003, and by certain of our former management. In 1995, we reorganized Metron to combine three Asian companies as a reorganization 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 equipment distribution business in 1990. In July 1998, we acquired T.A. Kyser Co. (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 purchase. Shieldcare is an authorized supplier of critical parts cleaning services to major OEM and device manufacturing companies worldwide. The Company also operates as an authorized re-manufacturer of physical vapor deposition (PVD) equipment for a well-known supplier of automated systems for chemical vapor deposition (CVD). Effective November 17, 2000, we completed our acquisition of all the outstanding shares of Intec Technology (S) Pte. Ltd., a privately-held company incorporated in Singapore. The transaction was accounted for as a purchase, and the results of operations of Intec have been included in our consolidated financial statements from December 1, 2000. Intec is a distributor of cleanroom products and a manufacturer of cleanroom garments, and Intec sells these products in Singapore and Malaysia. In March 2002, we purchased the AG Associates rapid thermal processing (RTP) product line from Mattson Technology. In May 2002, we acquired certain assets of Advanced Stainless Technologies (AST), a small Texas-based manufacturer of electro-polished stainless steel tubing and fittings. The transaction has been accounted for as a purchase. In September 2003, we acquired certain assets related to the Eclipse physical vapor deposition equipment product line from Tokyo Electron Limited (TEL).

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. In general, 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 our equipment revenue associated with our installation, and, depending on the terms of the sale, we sometimes also defer a portion of the sales price attributable to the equipment, in particular, revenue related to sales of legacy equipment where we have no manufacturing history. We recognize installation revenue, and any deferred equipment revenue, upon technical acceptance of the equipment by the customer s fab personnel. We recognize service revenue in the periods the services are rendered to customers.

For the first half of fiscal 2003 and 2004, a majority of our revenue came from the sale of products from five or fewer of the semiconductor materials and equipment companies that we represent, who we refer to as our suppliers. As of November 30, 2002 and 2003, of our total revenue, the sale of products manufactured by FSI represented 10.0% and 1.4%, respectively, the sale of products manufactured by Entegris represented 14.8% and 16.6%, respectively, and the sale of products manufactured by Cabot Microelectronics represented 15.9% and 3.9%, respectively.

In addition, FSI and Entegris are our two largest shareholders and held 11.8% and 9.6%, respectively, of our outstanding shares as of November 30, 2003. Although the suppliers 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 suppliers will continue to account for a substantial portion of our revenue for at least the next five years.

During January 2001, the Company and Entegris entered into an agreement to modify their existing distribution relationship. In February 2001, the Company entered into a transition agreement whereby Entegris assumed direct sales responsibility for products from its Microelectronics Group in Europe. In March 2001, the companies entered into a new distribution agreement, under which Metron will continue to distribute products from Entegris Fluid Handling Group in all regions in Europe, Asia and parts of the United States covered under the previous distribution agreements. The new distribution agreement is in effect until August 31, 2005. The Company recorded a total gain of $8.4 million in other operating income on a straight-line basis from February 2001 through August 2002.

In August 2002, Cabot Microelectronics advised the Company of its decision to assume the direct distribution of its products in Europe and Singapore. The effective date of the transition was June 1, 2003. Metron will continue to market Cabot Microelectronics products in Israel. Revenue from the sale of products manufactured by Cabot Microelectronics excluding Israel was approximately $8.3 million for the second quarter of 2003, while there was no such revenue during our second quarter of 2004. For the six months ended November 30, 2002 and 2003, related Cabot revenue was $17.0 million and $1.3 million, respectively.

In October 2002, the Company and FSI entered into a transition agreement providing for the early termination of their distribution agreements in Europe and Asia. Pursuant to the agreement, effective March 1, 2003 (the closing date), FSI assumed direct sales, service and applications support and logistics responsibilities for its surface conditioning and microlithography products in Europe and Asia, except that the Company will continue to represent FSI products in Israel. The Company s revenues for FSI products and services in Europe and Asia were approximately $6.4 million and $0.5 million for the fiscal quarters ended November 30, 2002 and 2003, respectively, and approximately $13.3 million and $1.2 million for the six months ended November 30, 2002 and 2003, respectively.

We operate in all areas of the world in which there is a significant semiconductor industry. 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 and six-month periods ended November 30, 2002 and November 30, 2003:

	Three months ended November 30,		Six months ended November 30,	
	2002	2003	2002	2003
	(Dollars in thousands)			
Net revenue				
Europe	$ 28,467	$ 18,719	$ 55,883	$ 42,500
Asia	11,244	10,372	28,292	18,623
United States	17,093	14,931	36,949	29,837
Total net revenue	$ 56,804	$ 44,022	$ 121,124	$ 90,960

	Three months ended November 30,		Six months ended November 30,	
	2002	2003	2002	2003
	(Percentage of net revenue)			
Net revenue				
Europe	50.1%	42.5%	46.1%	46.7%
Asia	19.8	23.6	23.4	20.5
United States	30.1	33.9	30.5	32.8
Total net revenue	100.0%	100.0%	100.0%	100.0%

For the past three fiscal years, we were organized into two worldwide operating divisions, materials and equipment. However, our portfolio is focused on delivering outsource solutions to the semiconductor industry. Beginning in fiscal 2004, to better serve our customers, we reorganized into two new worldwide operating groups, Equipment Solutions and Fab Solutions.

Equipment Solutions are focused on two distinct areas of the semiconductor capital equipment market: advanced technology equipment and early generation equipment. Many innovative, specialized semiconductor equipment manufacturers lack sufficient infrastructure to market, sell and support their products in a global market. We believe that our experienced, global organization will be key to the introduction and continued support of these advanced technologies in the industry. Over the last several years, under license from original equipment manufacturers (OEMs), we have begun to market, sell, manufacture and support early generation semiconductor equipment. Our outsource offering to OEMs allows them to concentrate on the development of new generation equipment and maintain critical levels of support for mature equipment. Our focus on early generation equipment ensures customer satisfaction through an extended product life cycle. We refer to the early generation equipment as the Legends Product Line. Early generation equipment remains fundamental for many semiconductor manufacturers today. As the installed equipment base matures, access to critical technical expertise and repair capability can deteriorate. We provide the continued availability of service, spares and manufacturing capability for mature capital equipment.

Fab Solutions represents a new outsourcing model for the semiconductor industry. Fab Solutions are solely focused on the needs of the semiconductor fab. Through an extensive network of preferred suppliers and branded services, we are able to offer our customers a comprehensive portfolio to address the critical, non-core functions of the fab. Our Fab Solutions model allows our customers to streamline the supply chain while maintaining the flexibility to manage varying market conditions. By outsourcing the critical, non-core areas of the fab, customers can focus valuable resources on developing competitive technologies. Our fab solution group derives the majority of its revenue from sales of materials and components. The remainder of the group s revenue comes from parts cleaning services, other outsourcing services and 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 than externally sourced equipment.

Critical Accounting Policies and Estimates

Metron s discussion and analysis of its financial condition and results of operations is based on the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, inventories, goodwill and income taxes. Metron bases its estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Together these form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue recognition. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB101). During the second quarter of fiscal 2004, the Company implemented Emerging Issues Task Force 00-21(EITF 00-21), *Multiple-Deliverable Revenue Arrangements*, which addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on its consolidated financial position and results of operations was not significant. We have adopted specific and detailed guidelines for recognizing revenue. Nevertheless, certain judgments affect the application of our revenue policy. Most equipment sales are recorded as multiple element transactions in which the portion of the sale represented by the fair value of future installation is deferred and only the residual amount of the sale representing the equipment itself is recognized upon shipment to the customer. In certain circumstances, depending on the terms of the transaction, we also defer all or a portion of the revenue related to the residual amount attributable to the equipment itself. The installation revenue we defer for each machine sold requires us to estimate the amount of time we expect it to take to install the equipment. The estimated time is valued using the fair value of our service rates in each country. We review the adequacy of our estimates periodically and revise them as necessary. We recognize deferred installation revenue and deferred equipment revenue, if any, when the customer accepts the equipment as production enabled in the fab.

We continue to expand our capability to manufacture and rebuild certain legacy equipment (Legends Product Line) as we acquire rights to do so from OEMs that no longer intend to build the legacy equipment. Revenues from the sale of legacy equipment where we do not have any manufacturing history are recognized upon customer acceptance. To date, revenues from the sale of legacy equipment has not been significant.

Valuation accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The estimate is based on our historical experience and our current assessment of the credit-worthiness of specific customers. The allowances are re-evaluated and adjusted at each balance sheet date as additional information is received that impacts the amount reserved.

The Company values its inventory at the lower of cost or market. The Company analyzes the composition of its inventory and identifies and evaluates slow-moving inventory to determine if any provisions are required. Estimated provisions are based on past usage and on assumptions about future demand and market conditions.

Goodwill. As a result of some of our business acquisitions, we had as of May 31, 2002, approximately $8.3 million in goodwill remaining after amortizing $1.2 million and $1.3 million of goodwill during fiscal 2001 and 2002, respectively. With the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* as of June 1, 2002, goodwill was not amortized during fiscal 2003. In lieu of amortization, we were required to perform an impairment review of our goodwill. Under the transition provisions of SFAS 142, the

Company performed an assessment to determine if there was an indication that goodwill was impaired as of the date of adoption. Additionally, as a result of the Company s restructuring activities and an agreement providing for the early termination of the FSI distribution agreement, the Company performed an interim assessment of the carrying value of goodwill during its second quarter ended November 30, 2002. The result of both assessments indicated that the carrying value of the Company s goodwill was not impaired.

However, the Company s market capitalization (share price quoted on NASDAQ multiplied by common shares outstanding) had been below its net book value (NBV) since July 2002, and was substantially below NBV throughout the eight-month period ended February 2003. As a result, the comparison for estimates of the fair value of the Company s assets and liabilities to the lower market capitalization indicated that the Company s carrying value of goodwill had been completely impaired. Accordingly, the Company charged $8.3 million, the entire carrying value of goodwill, to the Company s statement of operations during its third quarter of fiscal 2003.

Income taxes. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process may result in the recording of deferred tax assets which represent temporary differences between the tax bases of assets and liabilities and financial statement amounts reported by each subsidiary, as well as operating loss and tax credit carryforwards. At each balance sheet date, we assess the recoverability of deferred tax assets based on our ability to carryback the temporary differences to recover taxes previously paid, if any, or our ability to generate sufficient future taxable income in the relevant tax jurisdiction. If we determine the recoverability of the deferred tax asset is in doubt, we record a valuation allowance. We regularly update our estimate of future taxable income in each jurisdiction, and these updates can result in changes in the valuation allowance. During our fourth quarter of fiscal 2003, we provided a valuation allowance for all of our deferred tax assets. Tax provisions in fiscal 2004 reflects taxable income in foreign jurisdictions and adjustments for fiscal 2003 taxes due to changes in estimates.

Results of Operations

During the fourth quarter of fiscal 1999, the semiconductor industry began to recover from the slowdown that began in the second half of 1996. The recovery continued through fiscal 2001, and we returned to profitability. However, in the fourth quarter of fiscal 2001, we began to experience order cancellations, delays in booking new orders and delays in shipping orders to customers, all of which contributed to the significant reduction in our revenue in fiscal 2002. This directly affected the sales of semiconductor capital equipment and the sales of materials. As a result of the decline in revenue, we recorded operating losses for fiscal 2002. We believed that, despite short-term slowdowns, the semiconductor industry had long-term growth opportunities. As a result, we believed we had to maintain our infrastructure, even during periodic slowdowns, in order to continue to serve our customers and to be in a position to take advantage of long-term growth opportunities. Consequently, we did not reduce our operating expenses in the first and second quarters of fiscal 2003. However, we continued to incur operating losses during fiscal 2003. As a result, we announced in October 2002 plans to reduce our number of employees by approximately 125 in addition to the approximately 90 employees we expected to be transferred to FSI as part of the termination of our distribution agreement with FSI. As of May 31, 2003, we had terminated 125 employees, and on March 1, 2003, we transferred 93 employees to FSI. During our first and second quarters of fiscal 2004, our revenues and expenses did not meet our expectations. Accordingly, we terminated an additional 46 employees and abandoned the use of seven leased facilities. We expect revenue for our third quarter of fiscal 2004 will be greater than our revenue in each of our first two quarters of fiscal 2004.

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 suppliers;

the loss of any significant customer or supplier;

the timing of new product and service announcements by our suppliers 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 suppliers or our competitors;

changes in currency valuations relative to the U.S. dollar;

costs we may incur if we become involved in future litigation; and

other factors, many of which are beyond our control.

The following table presents certain consolidated statements of operations data as a percentage of net revenue for the three and six-month periods ended November 30, 2002 and November 30, 2003.

	Three months ended November 30,		**Six months ended November 30,**	
	2002	**2003**	**2002**	**2003**
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	81.4	79.3	81.8	79.4
Gross margin	18.6	20.7	18.2	20.6
Selling, general, administrative, and other expenses	25.5	30.0	23.7	28.7
Research, development and engineering		1.8		1.2
Restructuring costs	3.2	3.2	1.5	2.8
Other operating income, net of associated costs			1.1	
Operating margin	(10.1)%	(14.3)%	(5.9)%	(12.1)%

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

	Three months Ended November 30,		Six months ended November 30,	
	2002 reclassified	2003	2002 reclassified	2003
	(Dollars in millions)			
Net revenue				
Equipment solutions group	$ 19.8	$ 12.7	$ 44.1	$ 28.0
Fab solutions group	37.0	31.3	77.0	62.9
Net revenue				
Equipment solutions group	34.9%	29.1%	36.4%	30.8%
Fab solutions group	65.1	70.9	63.6	69.2
Gross margins				
Equipment solutions group	16.6%	21.2%	16.1%	21.1%
Fab solutions group	19.7	20.5	19.3	20.3

Three Months Ended November 30, 2003 Compared to Three Months Ended November 30, 2002

Net Revenue

Equipment solutions group. The equipment solutions group s net revenue for the three months ended November 30, 2003 was $12.7 million, a decrease of $7.1 million or 35.3% from the three months ended November 30, 2002. Of this decrease, $5.9 million pertained to the loss of the FSI product line in all areas of the world, except Israel. Revenue declined in all product areas of the equipment solutions group except for the sale of legacy spare parts which more than doubled primarily due to the acquisition of the Eclipse product line. Revenues from the Eclipse spare parts during the second quarter of fiscal 2004 were approximately $2.1 million. Service revenues declined to a lesser extent, and commissions revenue increased for the second quarter of fiscal 2004 when compared to the second quarter of fiscal 2003.

Fab solutions group. The fab solutions group s net revenue for the three months ended November 30, 2003 was $31.3 million, a decrease of $5.7 million or 15.6% from the three months ended November 30, 2002. Revenue from our parts cleaning units and commission revenue were slightly higher, however, lower revenue generated by the materials unit was the cause the decline. The loss of the Cabot product line in all areas of the world, except Israel amounted to $ 8.3 million for our second quarter of 2004 when compared to the same quarter of 2003. Geographically, the group s revenues were lower in all areas of the world, but revenues in Europe and Asia represented the most significant reductions when compared to the three months ended November 30, 2002. The revenue for the materials component of the group tends to track wafer starts, which is 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, have been improving during our second quarter of 2004.

Gross Margins

Equipment solutions group. The group s gross margin of 21.2% increased from 16.6% for the three months ended November 30, 2003, compared to the three months ended November 30, 2002. The increase was primarily due to the increase in margins from legacy spare parts sales and commission revenue. Of the improvement in gross margins approximately 20 basis points pertained to sale of products where costs had been previously written down. Margins from the legacy spares equipment component contributed to the increase primarily because of the margin on the sales of spare parts from the Eclipse product line acquired during our second quarter of 2004, however, margins for specialty spare parts declined as a result lower margins resulting from the sale of the remaining FSI spare parts inventory. Margins for specialty equipment declined due to the mix of low margin equipment being sold in our second quarter of 2004. Fixed costs increased as the result of the Eclipse product line license fee, which had the effect of lowering the gross margin for the group. Geographically, margins improved in both Europe and Asia, but declined in the United States.

Fab solutions group. The gross margin of the fab solutions group increased 80 basis points for the three months ended November 30, 2003, compared to the three months ended November 30, 2002. While margins for the materials component slightly decreased, improved margins from parts cleaning units were the primary reason for the overall increase for the group. Geographically, margins improved in all regions of the world.

Expenses

Selling, general and administrative. SG&A expenses for the three months ended November 30, 2003 were $13.2 million, down $1.3 million from the $14.5 million incurred in the three months ended November 30, 2002. The decrease in SG&A was primarily due to $0.6 million of reductions in salaries and other employment-related costs. Additionally, the increase in the value of the EURO and British Pound caused approximately $0.4 million of the increase in SG&A costs in the fiscal quarter ended November 30, 2003 when compared to the second quarter of the prior fiscal year. 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 and depreciation. Our SG&A expenses are a function principally of our total headcount. About 58% of SG&A expenses consist of salaries and other employment-related costs.

Research, development and engineering. During the fourth quarter of fiscal 2003, we hired engineers and technicians to support our internally-manufactured equipment for both specialty and legend equipment. With the addition of the Eclipse product line during our second quarter of fiscal 2004, approximately 38 additional engineers and technicians were hired to support the manufacturing of the new Eclipse product line.

Restructuring costs. During our second quarter of fiscal 2003, as a result of continuing slow industry conditions, the Company announced plans to reduce the number of its employees by approximately 125. During the quarter ended November 30, 2002, the Company incurred $1.8 million of the restructuring costs pertaining to the cost of terminating 88 employees and the remaining lease commitments on the abandonment of certain facilities. The equipment division terminated 63 employees, the materials division terminated 3 employees, and 22 terminated employees were part of finance and administration.

During our second quarter of fiscal 2004, the Company terminated an additional 19 employees as follows: the equipment solutions group terminated 2 employees, the fab solutions group terminated 16 employees and 1 terminated employee was part of finance and administration. Accrued personnel costs remaining will be paid by May 2004. The Company incurred approximately $0.7 million of restructuring costs in the equipment solutions group, of which $0.2 million pertained to the cost of the abandonment of leased facilities in France and Sweden. The longest such lease expires in 2007. Additionally, $0.1 million pertained to leasehold improvements and certain fixed assets for these facilities. The fab solutions group incurred approximately $0.7 million of restructuring costs of which $0.3 million pertained to the cost of the abandonment of leased facilities in the United States and Singapore, with the longest such lease expiring in 2007. In estimating the accrual for abandoned leased facilities, the Company made assumptions regarding the future sublease income of these facilities. These assumptions will be updated periodically and additional adjustments may be required.

Six Months Ended November 30, 2003 Compared to Six Months Ended November 30, 2002

Net Revenue

Equipment solutions group. The equipment solutions group s net revenue for the six months ended November 30, 2003 was $28.0 million, down $16.1 million or 36.4% from the six months ended November 30, 2002. Decreases in revenues in the equipment group were primarily due to the termination of the FSI distribution agreement for sale of FSI products and services in all areas of the world except Israel. This contributed to $12.1 million of the revenue decline during the six months ended November 30, 2002. Spare parts revenues from the Eclipse product line acquired from TEL during the second quarter of 2004 were approximately $2.1 million.

Fab solutions group. The fab solutions group s net revenue declined for the six months ended November 30, 2003 when compared to the same period in 2002. Revenue was $62.9 million, down $14.1 million or 18.3% from the six months ended November 30, 2002. The loss of $15.7 million in revenue from Cabot products was the cause of the decline.

Gross Margins

Equipment solution group. The equipment solution group s gross margin increased 500 basis points to 21.1% for the six months ended November 30, 2003 when compared to the six months ended November 30, 2002. The increase in gross margin in fiscal 2004 was due principally to the sale of legacy spare parts and a higher proportion of specialty equipment commissions. Of the improvement in gross margins approximately 60 basis points pertained to the sale of products where costs had been previously written down.

Fab solutions group. The gross margin of the fab solutions group increased 100 basis points to 20.3% for the six months ended November 30, 2003 compared to the six months ended November 30, 2002.

Selling, General and Administrative (SG&A) Expenses. SG&A expenses for the six months ended November 30, 2003 were $26.1 million, down $2.6 million or 9.2% from the $28.7 million incurred for the six months ended November 30, 2002. Personnel and related costs accounted for a $2.7 million decrease in SG&A expenses. 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 and depreciation. Our SG&A expenses are a function principally of our total headcount. Over 57% of SG&A expenses consist of salaries and other employment-related costs.

Restructuring costs. During our second quarter of fiscal 2003 the Company reduced the number of its employees by approximately 125. Accordingly, the Company incurred $1.8 million of the restructuring costs pertaining to the cost of terminating of 88 employees and the remaining lease commitments on the abandonment of certain facilities during that quarter. The equipment division terminated 63 employees, the materials division terminated 3 employees, and 22 terminated employees were part of finance and administration.

During the first half of fiscal 2004, the Company terminated 46 employees; the equipment solutions group terminated 21 employees, the fab solutions group terminated 21 employees, and 4 terminated employees were part of finance and administration. Accrued personnel costs remaining will be paid by May 2004. The Company incurred approximately $1.5 million of restructuring costs in the equipment solutions segment, of which $0.8 million pertained to the cost of the abandonment of leased facilities in Scotland, France and Sweden to include certain leasehold improvements and fixed assets for these facilities. The fab solutions segment incurred approximately $0.7 million of restructuring costs of which $0.4 million pertained to the cost of the abandonment of leased facilities in the United States and Singapore. The Company continues to evaluate its operating costs and may if deemed appropriate execute additional restructuring.

Other operating income, net of associated costs. During 2001, we entered into an agreement with Entegris to modify our then existing distribution relationship whereby Entegris assumed direct sales responsibility for products from its Microelectronics Group in Europe and Asia. In March 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. The total gain from the consideration for the modification of the distribution agreement amounted to $8.4 million, which has been recognized on a straight-line basis as other operating income over the period from the date of the modification from February 2001 through November 30, 2002.

Other expense, net. The following table summarizes the components of other expense for indicated periods:

	Three months ended November 30,		**Six months ended November 30,**	
	2002	**2003**	**2002**	**2003**
	(Dollars in thousands)			