METRON TECHNOLOGY N V
Form 10-Q
April 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 February 29, 2004

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	**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 March 31, 2004
Common shares, par value EURO 0.44 per share	12,760,608

METRON TECHNOLOGY N.V.

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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		Nine months ended	
	February 28, 2003	**February 29, 2004**	**February 28, 2003**	**February 29, 2004**
Net revenue	$ 57,896	$ 52,739	$ 179,020	$ 143,699
Cost of revenue	47,074	41,202	146,207	113,458
Gross profit	10,822	11,537	32,813	30,241
Selling, general and administrative	14,286	13,260	43,028	39,365
Research, development and engineering		705		1,808
Restructuring costs	1,206	724	2,998	3,256
Goodwill impairment	8,292		8,292	
Other operating income, net of associated costs			1,354	
Operating loss	(12,962)	(3,152)	(20,151)	(14,188)
Equity in net income (loss) of joint ventures		1	36	(50)
Other expense, net	(351)	(777)	(1,237)	(1,869)
Loss before income taxes	(13,313)	(3,928)	(21,352)	(16,107)
Provision (benefit) for income taxes	(686)	211	(943)	682
Net loss	$ (12,627)	$ (4,139)	$ (20,409)	$ (16,789)
Loss per common share				
Basic and diluted	$ (0.96)	$ (0.33)	$ (1.56)	$ (1.33)
Weighted average number of shares				
Basic and diluted	13,121	12,662	13,067	12,639

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		Nine months ended	
	February 28, 2003	**February 29, 2004**	**February 28, 2003**	**February 29, 2004**
Net loss	$ (12,627)	$ (4,139)	$ (20,409)	$ (16,789)
Other comprehensive income (loss)				
Foreign currency translation	1,686	836	3,083	806
Loss from foreign currency forward contracts	27			
Comprehensive loss	$ (10,914)	$ (3,303)	$ (17,326)	$ (15,983)

See accompanying Notes to Condensed Consolidated Financial Statements.

METRON TECHNOLOGY N.V.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)

	May 31, 2003	February 29, 2004
ASSETS		
Cash and cash equivalents	$ 12,179	$ 7,047
Accounts receivable	38,168	36,216
Loan to officer/shareholder	110	110
Inventories	38,131	42,778
Prepaid expenses and other current assets	14,124	13,598
Total current assets	102,712	99,749
Property, plant and equipment, net	24,921	22,818
Intangible and other assets, net	854	6,639
Total assets	$ 128,487	$ 129,206
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	$ 21,511	$ 22,318
Amounts due to affiliates	8,711	5,166
Accrued wages and employee-related expenses	5,231	4,887
Deferred revenue	4,496	5,497
Short-term borrowings and current portion of long-term debt	13,261	12,745
Amounts payable to shareholders	170	166
Other current liabilities	12,491	13,463
Total current liabilities	65,871	64,242
Long-term debt, excluding current portion	1,662	8,344
8% convertible debentures		1,419
Other long-term liabilities	3,148	7,310
Total liabilities	70,681	81,315
Commitments		
Shareholders equity:		
Preferred shares		
Common shares and additional paid-in capital	41,285	47,353
Retained earnings	17,577	788
Cumulative other comprehensive (loss) income	(443)	363
Treasury shares	(613)	(613)
Total shareholders equity	57,806	47,891
Total liabilities and shareholders equity	$ 128,487	$ 129,206

See accompanying Notes to Condensed Consolidated Financial Statements.

METRON TECHNOLOGY N.V.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

	Nine months ended	
	February 28, 2003	**February 29, 2004**
Cash flows from (used for) operating activities:		
Net loss	$ (20,409)	$ (16,789)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	4,175	4,845
Provision for doubtful accounts receivable	154	(17)
Provision for inventory valuation	936	
Interest accretion and amortization of placement agent fees		172
Gain on modification of Entegris distribution agreement	(1,354)	
Deferred income taxes	784	
Goodwill impairment	8,292	
Restructuring costs, non-cash portion		469
Other	(61)	25
Changes in assets and liabilities, net of asset acquired:		
Accounts receivable	6,018	1,989
Inventories	6,610	3,193
Prepaid expenses and other current assets	(775)	461
Accounts payable	(5,098)	805
Amounts due affiliates	1,894	(3,545)
Accrued wages and employee-related expenses	(314)	(344)
Deferred revenue	(889)	936
Advance from affiliate	3,000	
Other current liabilities	(2,025)	(228)
Net cash flows from (used for) operating activities	938	(8,028)
Cash flows used for investing activities:		
Additions to property, plant and equipment	(2,605)	(1,794)
Proceeds from the sale of property, plant and equipment	248	68
Purchase of Eclipse product line inventories and license agreement		(13,677)
Other assets	67	(357)
Other long-term liabilities	115	(445)
Net cash flows used for investing activities	(2,175)	(16,205)
Cash flows from (used for) financing activities:		
Increase (reductions) of short-term borrowings, net	(8,067)	(1,537)
Proceeds from issuance of long-term debt	52	156
Proceeds from issuance of 8% convertible debentures		7,000
Proceeds from issuance of notes payable and license obligation for the Eclipse product line		13,677
Principal payments on long-term debt	(960)	(155)

Payments to shareholders		(62)		(128)
Proceeds from issuance of common shares		191		357
Net cash flows from (used for) financing activities		(8,846)		19,370
Effect of exchange rate changes on cash and cash equivalents		1,474		(269)
Net change in cash and cash equivalents		(8,609)		(5,132)
Beginning cash and cash equivalents		19,949		12,179
Ending cash and cash equivalents	$	11,340	$	7,047

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 that 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 nine-month period ended February 29, 2004, the Company incurred net losses of $26.7 million and $16.8 million, respectively. As of February 29, 2004, the Company had $7.0 million of cash and cash equivalents and $12.7 million of short-term borrowings of which $11.1 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 solution and fab solution groups. 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 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, including its obligations to Tokyo Electron Ltd. (TEL) under the $7.6 million promissory note and the $6.0 million license agreement (See Note 2).

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 February 28, 2003 and February 29, 2004 were 13,121,000 shares and 12,662,000 shares, respectively. The weighted-average number of shares for the nine-months ended February 28, 2003 and February 29, 2004 were 13,067,000 shares and 12,639,000 shares, respectively.

Options to purchase 3,576,000 and 4,251,000 common shares of the Company were excluded from the calculation of diluted earnings per share for the three- and nine-month periods ended February 28, 2003 and February 29, 2004, 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 nine month period ended February 29, 2004.

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. 104, *Revenue Recognition* (SAB104), which superceded Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB101). SAB 104 incorporates Emerging Issues Task Force 00-21 (EITF 00-21), *Multiple-Deliverable Revenue Arrangements,* which was implemented by the company during its second quarter of fiscal 2004. EITF 00-21 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, such as when the amount the customer retains exceeds the deferred installation revenue, all or a portion of the residual equipment revenue 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.

Revenues from the sale of materials and other products other than equipment 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		**February 29, 2004**
		(Dollars in thousands)		
Equipment, spare parts and material inventory	$	37,250	$	39,184
Delivered equipment pertaining to deferred revenue		881		3,594

Total inventories	$	38,131	$	42,778

In September 2003, the Company acquired $7.6 million of inventory in connection with the Eclipse product line (See Note 2).

Deferred Warranty Revenue

Prior to the implementation of EITF 00-21 a portion of the sale represented by the fair value of warranty revenue was deferred when the equipment was delivered to customers and recognized ratably over the warranty period. Upon implementation of EITF 00-21, warranty revenue ceased being deferred. Instead the Company accrues the estimated cost of

the future warranty obligation. The amount of deferred warranty revenue will be recognized over the remaining warranty period. Deferred warranty revenue activity was as follows:

	For the year ended May 31, 2003	For the nine months ended February 29, 2004
	(Dollars in thousands)	
Balances at beginning of the period	$ 5,006	$ 2,589
Warranty revenue deferred on equipment sales	3,368	944
Warranty revenue recognized	(6,661)	(1,739)
Foreign exchange effect	876	65
Balances at the end of the period included in deferred revenue	$ 2,589	$ 1,859

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		Nine months ended	
	February 28, 2003	February 29, 2004	February 28, 2003	February 29, 2004
	(Dollars in thousands, except per share data)			
Net loss:				
Net loss as reported	$ (12,627)	$ (4,139)	$ (20,409)	$ (16,789)
Fair value of stock based employee compensation expense (a) (b)	724	462	2,318	1,877
Stock based employee compensation expense in the financial statements as reported				
Pro forma net loss	$ (13,351)	$ (4,601)	$ (22,727)	$ (18,666)
Loss per common share				
Basic and diluted				
As reported	$ (0.96)	$ (0.33)	$ (1.56)	$ (1.33)
Pro forma	$ (1.02)	$ (0.36)	$ (1.74)	$ (1.48)

(a) Based on the following assumptions for stock option grants in the three- and nine-month periods ended February 28, 2003 and February 29, 2004: risk-free weighted average interest rates for three-month periods ended February 28, 2003 and February 29, 2004 were 3.0%; risk free average rates for the nine-month periods ended February 28, 2003 and February 29, 2004 were 3.4% and 2.9% respectively; the weighted average expected option lives is 5.0 years; no dividend yield, and a volatility of 83% has been used for the three- and nine-month periods ended February 28, 2003 and 81% for the three- and nine-month periods ended February 29, 2004.

(b) Based on the following assumptions: For the ESPP for both the three- and nine-month periods ended February 28, 2003: 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. For the ESPP for the three-month period ended February 29, 2004: risk free weighted average interest rate of 1.03% with a volatility of 81%; weighted average expected option lives of 6 months; and no dividend yield. During the six-month period 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 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 to 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 September 2004 over a five-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 by MTDC 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 in Intangibles and other long-term assets and is being amortized on a straight-line basis over its estimated useful life of 5 years. The $6.0 million obligation for the license agreement has been recorded in Other current liabilities of $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. 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 February 29, 2004 was 5.5%. The facility is collateralized by the assets of Kyser, guaranteed by the Company, and is subject to a financial covenant based on a defined formula. We were in violation of this covenant for January 2004, for which we obtained a waiver. As of February 29, 2004 we were in compliance with the requirements of the covenant. 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 February 29, 2004 were $5.0 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 of the closing price for the common shares of the Company 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 issued 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 per share, with the remaining warrants being exercisable at $4.31 per share. All warrants are exercisable for a four-year period after August 2003. Additionally, the Company paid a fee of $287,000 to the placement agent, which will be amortized over the life of the debt.

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 deemed dividend and fair value of the warrants 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)		**February 29, 2004**
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		131
8% convertible debentures	$	1,419

5. GOODWILL

On June 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 required that goodwill and intangible assets determined to have an indefinite useful life and acquired in a purchase business combination were not to be amortized and had to be evaluated for impairment annually.

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 substantially below NBV for the eight-month period ended February 28, 2003. As a result, the comparison of the estimates of the fair value of the Company s assets and liabilities to the lower market capitalization indicated that the Company s carrying value was fully impaired. Accordingly, the Company recognized an impairment charge of $8.3 million, the entire carrying value of the goodwill, in the three-month period ended February 28, 2003. Goodwill impairment amounted to $7.4 million that pertained to the equipment solutions group, and $0.9 million for the fab solutions group.

6. RESTRUCTURING COSTS

For the nine-month period ended February 28, 2003, the Company incurred $3.0 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 nine-month period ended February 29, 2004, the Company terminated 73 employees as follows: the equipment solutions group terminated 35 employees, the fab solutions group terminated 28 employees and 10 terminated employees were part of finance and administration. Remaining accrued personnel costs as of February 29, 2004 will be paid by May 2004. The Company incurred approximately $1.9 million of restructuring costs in the equipment solutions segment, of which $1.1 million was for personnel terminations and $0.8 million pertained to the cost of the abandonment of leased facilities, leasehold improvements and fixed assets. The fab solutions group incurred approximately $0.8 million of restructuring costs, of which $0.3 million was for personnel terminations and $0.5 million pertained to the abandonment of leased facilities. Other groups incurred approximately $0.6 million of restructuring costs, of which $0.5 million was for personnel terminations and $0.1 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 $2.2 million is included in current liability and $0.3 million is included in other long-term liability as of February 29, 2004.

	Personnel Costs (Cash)	Abandoned Lease Facilities (Cash)	Fixed Assets (non-cash)	Total
	(Dollars in thousands)			
For the three-month period				
Balances, November 30, 2002	$ 1,099	$ 262		$ 1,361
Amounts accrued	847	359		1,206
Amounts paid	(1,149)	(108)		(1,257)
Balances, February 29, 2003	$ 797	$ 513		$ 1,310
For the three-month period				
Balances, November 30, 2003	$ 892	$ 2,074		$ 2,966
Amounts accrued	598	126		724
Amounts paid	(775)	(441)		(1,216)
Balances, February 29, 2004	$ 715	$ 1,759		$ 2,474
For the nine month period				
Amounts accrued	$ 2,377	$ 621		$ 2,998
Amounts paid	(1,580)	(108)		(1,688)
Balances, February 29, 2003	$ 797	$ 513		$ 1,310
For the nine month period				
Balances, May 31, 2003	$ 607	$ 2,098		$ 2,705
Amounts accrued	1,946	841	469	3,256
Non-cash reductions			(469)	(469)
Amounts paid	(1,838)	(1,180)		(3,018)
Balances, February 29, 2004	$ 715	$ 1,759		$ 2,474

7. 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 February 28, 2003, reclassified				
Net revenues	$ 22,467	$ 35,429	$	$ 57,896
Restructuring costs	$ 725	$ 204	$ 277	$ 1,206
Goodwill impairment	$ 7,352	$ 940	$	$ 8,292
(Loss) income before income taxes	$ (8,396)	$ 1,988	$ (6,905)	$ (13,313)
Three months ended February 29, 2004				
Net revenues	$ 18,233	$ 34,506	$	$ 52,739
Restructuring costs	$ 376	$ 123	$ 225	$ 724
(Loss) income before income taxes	$ 571	$ 1,279	$ (5,778)	$ (3,928)
Nine months ended February 28, 2003, reclassified				
Net revenues	$ 66,313	$ 112,707	$	$ 179,020
Restructuring costs	$ 2,260	$ 300	$ 438	$ 2,998
Goodwill impairment	$ 7,352	$ 940	$	$ 8,292
(Loss) income before income taxes	$ (11,964)	$ 7,637	$ (17,025)	$ (21,352)
Nine months ended February 29, 2004				
Net revenues	$ 46,269	$ 97,430	$	$ 143,699
Restructuring costs	$ 1,947	$ 839	$ 470	$ 3,256
(Loss) income before income taxes	$ (2,915)	$ 3,173	$ (16,365)	$ (16,107)
Assets at February 29, 2004	$ 61,809	$ 49,834	$ 17,563	$ 129,206

Geographic information

	Three-months ended February 28,		Nine months ended February 28,	
	February 28 2003	February 29 2004	February 28 2003	February 29 2004
	(Dollars in thousands)			
Net revenues:				
United States	$ 14,326	$ 19,214	$ 51,275	$ 49,051
Germany	5,143	4,819	20,907	16,231
Singapore	8,308	5,371	27,628	14,930
Israel	4,156	6,139	10,877	13,768
United Kingdom	3,464	3,743	13,125	10,440
France	12,615	2,595	25,755	9,170
The Netherlands	2,146	2,325	7,082	6,829
Other nations	7,738	8,533	22,371	23,280
Geographic totals	$ 57,896	$ 52,739	$ 179,020	$ 143,699

	May 31, 2003	February 29, 2004
	(Dollars in thousands)	
Long-lived assets, net:		
The Netherlands	$ 11,284	$ 10,494
United Kingdom	4,731	4,235
United States	2,970	8,914
Singapore	2,584	2,098
Other nations	4,206	3,716
Geographic totals	$ 25,775	$ 29,457

8. RECENT ACCOUNTING PRONOUNCEMENTS

On December 17, 2003, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104), which supercedes Staff Accounting Bulletin No. 101 Revenue Recognition in Financial Statements (SAB 101). SAB 104 rescinds accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of Emerging Issues Task Force Issue No. 00-21 (EITF 00-21), Accounting for Revenue Arrangements with Multiple Deliverables. Additionally, SAB 104 rescinds the SEC s Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the FAQ) issued with SAB 101 that had been codified in SEC topic 13, Revenue Recognition . While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. Metron does not expect the adoption of SAB 104 to have a material effect on its financial condition 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 third quarters of fiscal 2003 and 2004 refers to the fiscal quarters that ended on February 28, 2003 and February 29, 2004.

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 all areas of the world where 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 nine-month periods ended February 28, 2003 and February 29, 2004:

	Three months ended		Nine months ended	
	February 28 2003	February 29 2004	February 28 2003	February 29 2004
	(Dollars in thousands)			
Net revenue				
Europe	$ 31,171	$ 21,464	$ 87,055	$ 63,963
Asia	12,399	12,061	40,690	30,685
United States	14,326	19,214	51,275	49,051
Total net revenue	$ 57,896	$ 52,739	$ 179,020	$ 143,699

	Three months ended		Nine months ended	
	February 28 2003	February 29 2004	February 28 2003	February 29 2004
	(Percentage of net revenue)			
Net revenue				
Europe	53.8%	40.7%	48.6%	44.5%
Asia	21.4	22.9	22.7	21.4
United States	24.8	36.4	28.7	34.1
Total net revenue	100.0%	100.0%	100.0%	100.0%

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. For products from our suppliers, we generally recognize revenue upon the shipment of goods to customers. We defer the portion of our equipment revenue associated with our installation. In certain circumstances, depending on the specific terms of the transaction, such as when the amount the customer retains exceeds the deferred installation revenue, all or a portion of the residual equipment revenue is deferred. We recognize installation revenue, and any deferred equipment revenue, upon technical acceptance of the equipment by the customer s fab personnel. Revenue is deferred until technical acceptance for the sales of legacy equipment where we have no manufacturing history. We recognize service revenue in the periods the services are rendered to customers.

Prior to our fiscal year 2004, 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. Previous 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.

To facilitate the transition to the Legends Product Line, we acquired previous generation product lines from OEMs. In March 2002, we purchased the AG Associates rapid thermal processing (RTP) product line from Mattson Technology. In September 2003, we acquired certain assets related to the Eclipse physical vapor deposition (PVD) equipment product line from Tokyo Electron Ltd. (TEL). The Company also operates as an authorized re-manufacturer of PVD equipment for a well-known supplier of automated systems for chemical vapor deposition (CVD).

Fab solutions represent a new outsourcing model for the semiconductor industry. Fab solutions are 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.

For the first nine months 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 February 28, 2003 and February 29, 2004, of our total revenue, the sale of products manufactured by FSI International, Inc. (FSI) represented 11.4% and 2.3%, respectively, the sale of products manufactured by Entegris, Inc. (Entegris) represented 13.7% and 17.1%, respectively, and the sale of products manufactured by Cabot Microelectronics Corporation (Cabot Microelectronics) represented 15.9% and 3.2%, respectively.

In addition, FSI and Entegris are our two of our largest shareholders and held 11.8% and 8.6%, respectively, of our outstanding shares as of February 29, 2004. 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. However, with our increased focus on manufacturing the Legends Product Line we believe that suppliers will comprise a smaller source of revenue compared to our manufactured products.

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 third quarter of fiscal 2003, while there was no such revenue during our third quarter of fiscal 2004. For the nine months ended February 28, 2003 and February 29, 2004, related Cabot revenue was $25.2 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 $9.9 million and $0.2 million for the fiscal quarters ended February 28, 2003 and February 29, 2004, respectively, and approximately $21.9 million and $1.4 million for the nine months ended February 28, 2003 and February 29, 2004, respectively.

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. 104, *Revenue Recognition* (SAB104), which superceded Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB101). SAB 104 incorporates Emerging Issues Task Force 00-21 (EITF 00-21), *Multiple-Deliverable Revenue Arrangements,* which was implemented by the company during its second quarter of fiscal 2004. EITF 00-21 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 our 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 specific terms of the transaction, such as when the amount the customer retains exceeds the deferred installation revenue, all or a portion of the residual equipment revenue is deferred. 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.

Valuation of accounts receivable and inventory. 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 or obsolete inventory to determine if any provisions are required. Estimated provisions are based on past usage and on assumptions about future demand and market conditions.

Evaluation of long-lived assets. We review our long-lived assets, primarily fixed and intangible assets, periodically. We record an impairment loss to reduce the carrying value of our long-lived assets when events or changes in circumstances indicate the carrying value may not be recoverable because it exceeds the fair value of the long-lived assets.

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 February 28, 2003. 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, which remain fully reserved. 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 the first nine months of fiscal 2004, our revenues and expenses did not meet our expectations. Accordingly, we terminated an additional 73 employees and abandoned the use of eight leased facilities. We expect revenue for our fourth quarter of fiscal 2004 will be greater than our revenue our third quarter 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 nine-month periods ended February 28, 2003 and February 29, 2004.

	Three months ended		**Nine months ended**	
	February 28 2003	**February 29 2004**	**February 28 2003**	**February 29 2004**
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	81.3	78.1	81.7	79.0
Gross margin	18.7	21.9	18.3	21.0
Selling, general, administrative, and other expenses	24.7	25.1	24.0	27.4
Research, development and engineering		1.4		1.2
Restructuring costs	2.1	1.4	1.7	2.3
Impairment of goodwill			4.6	
Other operating income, net of associated costs	14.3		0.8	

Operating margin	(22.4)%	(6.0)%	(11.2)%	(9.9)%

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		Nine months ended	
	February 28 2003 reclassified	February 29 2004	February 28 2003 reclassified	February 29 2004
	(Dollars in millions)			
Net revenue				
Equipment solutions group	$ 22.5	$ 18.2	$ 66.3	$ 46.3
Fab solutions group	35.4	34.5	112.7	97.4
Net revenue				
Equipment solutions group	38.8%	34.6%	37.0%	32.2%
Fab solutions group	61.2	65.4	63.0	67.8
Gross margins				
Equipment solutions group	17.1%	24.5%	16.2%	22.4%
Fab solutions group	19.7	20.5	19.6	20.4

Three Months Ended February 29, 2004 Compared to Three Months Ended February 28, 2003

Net Revenue

Equipment solutions group. The equipment solutions group s net revenue for the three months ended February 29, 2004 was $18.2 million, a decrease of $4.3 million or 18.8% from the three months ended February 28, 2003. This decrease includes a decrease of $9.8 million for FSI products and service revenue due to the loss of that product line in all areas of the world, except Israel. Geographically revenue increases in Asia and the United States were offset by the revenue decline in Europe. Revenues increased in all product areas of the equipment solutions group, except for the sale of specialty equipment and spare parts, which more than offset the increases for the rest of our product offerings. While replacement revenues from our second quarter acquisition of the Eclipse product line provided significant growth for our legacy products, this growth was not able to offset the loss of the FSI product line. Revenues from the Eclipse products were $2.1 million and $6.0 million for our second and third fiscal quarters of 2004, respectively.

Fab solutions group. The fab solutions group s net revenue for the three months ended February 29, 2004 was $34.5 million, a decrease of $0.9 million or 2.6% from the three months ended February 28, 2003. Revenue from our parts cleaning units was slightly higher; however, lower revenue generated by the materials unit and lower commissions.

The effect of the loss of the Cabot Microelectronics product line in all regions of the world, except Israel, was $8.2 million of revenue for our third quarter of fiscal 2004. Geographically, the group s revenues were lower in Europe and Asia, while revenues in the United States increased when compared to the three months ended February 28, 2003. 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 third quarter of fiscal 2004.

Gross Margins

Equipment solutions group. The group s gross margin of 24.5% increased from 17.1% for the three months ended February 29, 2004, compared to the three months ended February 28, 2003. The increase was primarily due to the increase in margins from legacy spare parts sales, service and commission revenue. Of the improvement in gross margins approximately 80 basis points pertained to the sale of products where inventory 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 fiscal 2004; however, margins for specialty spare parts declined as a result of 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 the third quarter of fiscal 2004. Geographically, margins improved in both Europe and Asia, but declined in the United States.

Fab solutions group. The gross margin of 20.5% for the fab solutions group increased 80 basis points for the three months ended February 29, 2004, compared to the three months ended February 28, 2003. Margins for the materials component and parts cleaning units improved and were the primary reason for the overall increase for the group. Geographically, margins improvement in Europe was offset by declines in Asia and the United States.

Expenses

Selling, general and administrative. SG&A expenses for the three months ended February 29, 2004 were $13.3 million, down $1.0 million from the $14.3 million incurred in the three months ended February 28, 2003. The increase in the value of the EURO and British Pound contributed to an increase of approximately $0.5 million of SG&A costs in the fiscal quarter ended February 29, 2004 when compared to the third 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 57% 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 in addition to the employees that we expected would be transferred to FSI. During the quarter ended February 28, 2003, the Company incurred an additional $1.2 million of the restructuring costs pertaining to the cost of terminating of 36 employees and the remaining lease commitments on the abandonment of certain facilities in both the equipment and materials segments. The total number of employees terminated as of February 28, 2003 was 124 people. The equipment solutions group reduced its headcount by 66 employees, the fab solutions group terminated 12 employees, and 46 terminated employees were part of finance and administration.

During our third quarter of fiscal 2004, the Company terminated an additional 27 employees as follows: the equipment solutions group terminated 14 employees, the fab solutions group terminated 7 employees and 6 terminated employee was part of finance and administration. Accrued personnel costs remaining will be paid by May 2004. The Company incurred approximately $0.4 million of restructuring costs in the equipment solutions group. The fab solutions group incurred approximately $0.1 million of restructuring costs, and the other segment incurred $0.2 million.

Goodwill impairment. The Company s market capitalization (share price quoted on NASDAQ multiplied by common shares outstanding) has been below net book value (NBV) since July 2002, and was substantially below NBV for the eight-month period ended February 28, 2003. 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 was fully impaired. Accordingly, the Company charged $8.3 million of goodwill, the entire carrying value, to the Company s statement of operations during the three-month period ended February 28, 2003.

Nine Months Ended February 29, 2004 Compared to Nine Months Ended February 28, 2003

Net Revenue

Equipment solutions group. The equipment solutions group s net revenue for the nine months ended February 29, 2004 was $46.3 million, down $20.0 million or 30.2% from the nine months ended February 28, 2003. 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 $20.5 million of the revenue decline during the nine months ended February 28, 2003. Equipment and spare parts revenues from the Eclipse product line acquired from TEL during the second quarter of fiscal 2004 were approximately $8.1 million.

Fab solutions group. The fab solutions group s net revenue declined for the nine months ended February 29, 2004 when compared to the same period in 2003. Revenue was $97.4 million, down $15.3 million or 13.6% from the nine months ended February 28, 2003. The loss of $23.9 million in revenue from Cabot Microelectronics products was the cause of the decline.

Gross Margins

Equipment solution group. The equipment solution group s gross margin increased 620 basis points to 22.4% for the nine months ended February 29, 2004 when compared to the nine months ended February 28, 2003. 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 70 basis points pertained to the sale of products where inventory had been previously written down.

Fab solutions group. The gross margin of the fab solutions group increased 80 basis points to 20.4% for the nine months ended February 29, 2004 compared to the nine months ended February 28, 2003. Margins from our parts cleaning operations improved, which primarily caused the margin growth for the group.

Selling, General and Administrative. SG&A expenses for the nine months ended February 29, 2004 were $39.4 million, down $3.7 million or 8.5% from the $43.0 million incurred for the nine months ended February 28, 2003. Personnel and

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related costs accounted for $2.3 million of decrease in SG&A expenses primarily due to a reduction in the number of employees. The increase in the value of the EURO and British Pound contributed to an increase of approximately $1.3 million of SG&A costs for the nine-month period ended February 29, 2004 when compared to same period of the prior fiscal year. 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 announced plans to reduce the number of its employees by approximately 125. Accordingly, the Company incurred $3.0 million of the restructuring costs pertaining to the cost of terminating of 124 employees and the remaining lease commitments on the abandonment of certain facilities in both the equipment and fab solutions groups. The equipment division terminated 66 employees, the materials division terminated 12 employees, and 46 terminated employees were part of finance and administration.

During the first nine months of fiscal 2004, the Company terminated 73 employees; the equipment solutions group terminated 35 employees, the fab solutions group terminated 28 employees, and 10 terminated employees were part of finance and administration. Accrued personnel costs remaining will be paid by May 2004. The Company incurred approximately $1.9 million of restructuring costs in the equipment solutions segment, which included $0.3 million of cost for the abandonment of leased facilities in Scotland, France, Germany and Sweden, and $0.5 million of leasehold improvements and fixed assets. The fab solutions segment incurred approximately $0.8 million of restructuring costs of which $0.5 million pertained to the cost of the abandonment of leased facilities in the United States and Singapore. Other groups incurred approximately $0.6 million of restructuring costs, of which $0.5 million was for personnel terminations and $0.1 million pertained to the abandonment of leased facilities. The Company continues to evaluate its operating costs and may if deemed appropriate execute additional restructuring. 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.

Goodwill impairment. The Company s market capitalization has been below net book value (NBV) since July 2002, and was substantially below NBV for the eight-month period ended February 28, 2003. 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 was fully impaired. Accordingly, the Company charged $8.3 million of goodwill, the entire carrying value, to the Company s statement of operations during our third quarter of fiscal 2003.

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 the end date of the original distribution agreement.

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

	Three months ended		Nine months ended	
	February 28 2003	February 29 2004	February 28 2003	February 29 2004
	(Dollars in thousands)			
Foreign exchange loss	$ (213)	$ (134)	$ (653)	$ (460)
Interest income	32	22	96	45
Interest expense	(282)	(793)	(822)	(1,546)
Miscellaneous income (expense)	112	128	142	92
Other expense, net	$ (351)	$ (777)	$ (1,237)	$ (1,869)

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 February 28, 2003 and February 29, 2004, 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. During the first half of fiscal 2004, the foreign exchange loss primarily pertained to the cost of hedging the Israel Shekel. The higher cost was primarily due to the difference in the interest rates between the United States dollar and Israel Shekel.

Interest income represents primarily earnings on our available cash balances. Interest expense reflects interest on our borrowings as well as the accretion of non-cash flow interest discount related to the 8% convertible debenture, which resulted from the $2.3 million for the fair value of the warrants, and $3.4 million from the deemed dividend from obtaining $7.0 million of convertible debentures. Interest accretion for our third quarter of fiscal 2004 was approximately $80,000, and for the nine-month period was approximately $131,000.

Provision for income taxes. In the fourth quarter of fiscal 2003, we established a valuation allowance for all of our deferred tax assets, due to the uncertainty of our ability to generate sufficient taxable income to realize net deferred tax assets. We continue to provide a full valuation allowance for our deferred tax assets. For the nine-month period of fiscal 2004, the overall tax provision represents the tax for profitable entities in Singapore, and adjustments related to our fiscal 2003 income tax provision due to changes in estimates.

Liquidity and Capital Resources

We define liquidity as our ability to generate resources to pay our current obligations and to finance our operations in line with our business plan. Our principal requirement for capital is for working capital to finance receivables and inventories, to repay our current debt and other obligations and to a lesser extent to fund major capital expenditures such as parts cleaning facilities.

During fiscal 2003, our principal sources of liquidity were cash flow from operations and bank borrowings. However, in August 2003, we obtained $7.0 million from the issuance of convertible debentures, which are due in February 2007. Our working capital, current assets less current liabilities, at May 31, 2003 was $36.8 million, compared to $35.5 million at February 29, 2004. Our current ratio, current assets divided by current liabilities, was 1.6 as of May 31, 2003 and February 29, 2004.

Operating Activities. In the nine months ended February 29, 2004, we used cash totaling $8.0 million in our operating activities. Our net loss adjusted for non-cash operating expenses totaled $(11.3) million, which was partially offset by the positive cash flow of $3.3 million from changes in assets and liabilities, primarily from a reduction of accounts receivable, inventories and deferred revenue. In the nine months ended February 28, 2003, we generated cash totaling $0.9 million in our operating activities. Of this amount, the net change in assets and liabilities represented $8.4 million. Within this amount, decrease in accounts receivable and inventory together with the advance from FSI amounted to $15.6 million while decreases in prepaid expenses and liabilities was approximately 7.2 million. Our net loss plus non-cash operating expenses totaled $(7.5) million for the first nine months of fiscal 2003.

Investing Activities. In September 2003, we purchased approximately $7.6 million of assets, primarily inventory for the Eclipse product line, and a $6.0 million obligation for the license agreement from TEL. Our capital expenditures for property, plant and equipment for the nine-month period of fiscal 2003 and 2004 totaled $2.6 million and $1.8 million, respectively. Of these amounts we invested $0.8 million and $0.6 million for the same periods of 2003 and 2004, respectively, in our new operations management information system. To date**,** we have invested $8.8 million in the new system, and we estimate the total cost will be $12.0 to $15.0 million over the next 18 - 24 months. We expect that our capital expenditures for property, plant and equipment in fiscal 2004 will total approximately $2.0 million.

Financing Activities. In August 2003, the Company issued convertible debentures due in February 2007 in the principal amount of $7.0 million with an annual interest rate of 8%, payable quarterly beginning December 1, 2003. In September 2003, we issued a $7.6 million promissory note for primarily for the purchase of the Eclipse product line assets and entered into a $6.0 million obligation for the license arrangement with TEL. In November 2003, we completed a $10.0 million

financing facility with CIT, repaid the remaining balance of the Compass Bank facility of $2.9 million from the initial CIT funding. We then terminated our credit facility with Compass Bank. The total reduction of short-term borrowings was $1.5 million for the nine-month period of fiscal 2004.

During the same period for fiscal 2003, we repaid $8.1 million on our short-term borrowing facilities. We also repaid $1.0 million of our long-term debt, the majority of which was the repayment of the mortgage on our building in Scotland.

Current and future liquidity position. As of February 29, 2004, the Company had $7.0 million of cash and cash equivalents and $12.7 million of short-term borrowings of which $11.1 million were outstanding under various lines of credit. We believe that our available cash resources, which are comprised of cash and cash equivalents, amounts available under the Company s credit facilities (giving effect to the repayment and termination of the Compass Bank facility and to the newly-acquired 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 the remainder of fiscal 2004. However, if our revenues are lower than expected or our expenses are higher than anticipated, or if inventory, accounts receivable or other assets require a greater use of cash than anticipated, our available cash resources, including amounts available under our credit facilities, may not be sufficient for our cash requirements, including our obligations to TEL under the $7.6 million promissory note and the $6.0 million license arrangement. Further, existing and potential customers and vendors may take actions that could harm our liquidity position if they believe that our 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. In addition, if revenues increase materially, we may need to raise additional cash resources from external sources to permit us to conduct our operations in the ordinary course of business through fiscal 2004. We also intend to seek additional financing during fiscal 2004 or early fiscal 2005 to meet our anticipated cash requirements for fiscal 2005 and beyond.

Certain of our credit facilities contain financial covenants that require us to meet and maintain certain financial tests. We were in violation of the covenant under the CIT facility for January 2004, for which we obtained a waiver. As of February 29, 2004 we were in compliance with this covenant.

We intend to pursue discussions with our lenders to further waive, modify or, possibly, eliminate certain financial covenants in our credit facilities and to pursue discussions with additional lenders that may not require such financial covenants. However, we cannot give any assurance that the lenders will agree to modify or eliminate such covenants or that we will be able to enter into arrangements with additional or alternative lenders that do not require such covenants. While we anticipate that we will be able to comply with covenants in our credit facilities, we cannot give any assurance that we can comply with the covenants of our existing credit facilities. A breach of a covenant in a credit facility could result in the lender demanding repayment of all or part of our indebtedness, could impair our ability to obtain additional access to our current or alternate credit facilities and could result in a cross-default under our convertible debentures.

While we believe that our current lines of credit will continue to be available to us through fiscal 2004, all of our lines of credit are payable on demand or subject to periodic, generally annual, review. Given recent developments in our business and industry, we cannot give any assurance that our lenders will agree to continue to make our credit facilities available to us, or that new lenders will agree to make credit facilities available to us, on terms or in amounts acceptable to us, or at all.

Any failure to retain our existing credit facilities or enter into replacement facilities may impair our ability to fund our current operations and achieve our longer-term business objectives. If our significant credit facility lenders demand repayment of all or a significant portion of our indebtedness after the end of fiscal 2004, we may not have the cash resources necessary to repay such indebtedness when due.

We cannot give any assurance that financing will be available when needed on terms acceptable to the Company, or at all. If we determine that we need to issue additional equity securities or debt securities convertible into equity to address our need for cash resources, the issuance of additional equity securities or debt securities convertible into equity is likely to result in significant dilution to our existing shareholders, and the new equity securities or debt securities may have rights, preferences and privileges that are senior to those of our existing common shares. It may be necessary to raise additional funds through strategic transactions, in which event we may cease conducting or relinquish

rights to a portion of our current business. Strategic transactions may not be available on terms that are favorable to us from a longer-term perspective.

In addition to our intent to raise capital to fund our operations, we may need to raise additional capital through public or private sales of equity and/or additional borrowings for significant acquisitions, significant capital expenditures or other extraordinary transactions. If we cannot raise additional 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.

In addition to the liquidity issues associated with our need for capital from external sources, our ability to generate our anticipated cash flow from operations is subject to the risks and uncertainties discussed under Part II Item 5; Risk Factors Risks Related to Metron. These risks include, in particular, our dependence upon a few key suppliers and a relatively small number of customers for a majority of our revenue, variations in the amount of time it takes for us to sell our products and collect accounts receivable and in the timing of customer orders and risks associated with the semiconductor industry and its periodic downturns.

Our forecast of the period of time through which our financial resources are expected to be adequate to support our operations is a forward-looking statement. This statement involves known and unknown risks, uncertainties and other factors that may cause our, or our industry s, actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. These factors are discussed under Part II Item 5; Risk Factors Risks Related to Metron and elsewhere in this Report on Form 10-Q.

The following table summarizes our contractual cash obligations as of February 29, 2004:

Contractual Obligations and Commercial Commitments	**Payments Due By Period**				
	Total	**Less than 1 Year**	**2 3 Years**	**4 5 Years**	**After 5 Years**
	(Dollars in thousands)				
Long-term debt including current portion	$ 9,971	$ 1,627	$ 4,144	$ 4,200	$
8% convertible debentures	7,000			7,000	
Short-term borrowing obligations	11,118	11,118			
Operating lease obligations	23,972	5,485	9,580	4,820	4,087
Purchase commitments	30,532	30,532			
License arrangement with TEL	6,000	1,200	2,400	2,400	
Other long-term liabilities	2,510	1,166	769		575
Total contractual obligations and commercial commitments for cash	$ 91,103	$ 51,128	$ 16,893	$ 18,420	$ 4,662

Transactions with related parties:

Two of Metron s shareholders, FSI and Entegris, owned approximately 11.8%, and 8.6%, respectively, of the outstanding shares of the Company as of February 29, 2004. The Company purchases goods from these shareholders and their subsidiaries for resale in the normal course of business under terms and conditions similar to those with unrelated vendors. For the nine-month periods ended February 28, 2003 and February 29, 2004, such purchases totaled approximately $26.3 million and $11.1 million, respectively. Sales to these shareholders during the same periods for 2003 and 2004 were $1.6 million and $1.2 million, respectively. At May 31, 2003 and February 29, 2004, amounts payable to these shareholders were $8.7 million and $5.2 million, respectively. At May 31, 2003 and February 29, 2004, amounts receivable from these shareholders were $0.9 million and $0.8 million, respectively.

In July 1995, an officer/Managing Director of Metron entered into a Tax Indemnification Agreement (TIA) with the Company as part of its acquisition of Transpacific Technology Corporation. At the time of the acquisition and until it completed its initial public offering in November 1999, Metron was a controlled foreign corporation under Subpart F of

the US Internal Revenue Code (Subpart F), and as a US person the officer/director was liable for personal income tax on income imputed to him under Subpart F. Under the agreement, the Company has provided cash advances for taxes due for Subpart F income that totaled $0.3 million. Under the TIA, the officer/Managing Director is required to repay these advances only to the extent that he benefits from the increase in the tax basis of his holding of Metron stock. Accordingly, in fiscal 2001, the Company recorded a reserve of $0.2 million against these advances. Repayment of a portion of the advances is required beginning with the first sale of shares owned by the officer/director.

The following table summarizes our material borrowing facilities as of February 29, 2004:

	U.S. $ Equivalent Facility Amount	Amount Currently Outstanding	Maximum Amount Available(1)	Recent Interest Rate
		(Dollars in thousands)		
CIT	$ 10,000	$ 4,994	$ 5,006	5.5%
HSBC	2,500	1,411	1,089	2.8 to 5%
Deutsche Bank	2,889	330	2,559	3.0 to 8.5%
Royal Bank of Scotland	3,990	2,344	1,646	5.8%
Bank Leumi	1,496	1,001	495	3.3%
All Others	2,878	1,038	1,840	3.7 to 9.8%
Total	$ 23,753	$ 11,118	$ 12,635	

(1) Amounts available are subject to each respective borrowing base formula.

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 U.S. 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.

Market Risk

At February 29, 2004, 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	441	137	1.24		(7)	March 2004
Israeli Shekel		6,999	4.48		22	March 2004
Singapore Dollar	1,457		1.74		2	March 2004
				$	17	

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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures (1) were adequate and effective to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this quarterly report was being prepared and (2) provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, including information regarding its consolidated subsidiaries, is recorded, processed, summarized and reported within the time periods specified by the SEC.

Changes in Internal Controls

There were no significant changes in the Company s internal controls that could significantly affect these controls subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Company s internal controls.

Limitations on the Effectiveness of Controls.

The Company s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company s disclosure controls and procedures or the Company s internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The inherent limitations in all control systems include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

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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

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 may need to raise additional capital, and any inability to raise required funds could harm our business.

As of February 29, 2004, we had $7.0 million of cash and cash equivalents and $12.7 million of short-term borrowings, of which $11.1 million were under our various lines of credit. We incurred net losses of $26.7 million and $16.8 million for the year ended May 31, 2003 and the nine-month period ended February 28, 2003, respectively. We believe that our available cash resources, which comprise cash and cash equivalents, amounts available under our credit facilities and anticipated cash from operations, will be sufficient to meet our anticipated cash requirements through fiscal 2004. However, if our revenues are lower or our expenses are higher than anticipated, or if inventory, accounts receivable or other assets require a greater use of cash than anticipated, our available cash resources, including amounts available under our credit facilities, may not be sufficient for our cash requirements, including our obligations to TEL under the $7.6 million promissory note and the $6.0 million license arrangement. Further, existing and potential customers and vendors may take actions that could harm our liquidity position if they believe that our cash balances are not adequate. Depending on market conditions, any additional financing we may need may not be available on terms acceptable to us, or at all. In addition, if revenues increase materially, we may need to raise additional cash resources from external sources to permit us to conduct our operations in the ordinary course of business through fiscal 2004. We also intend to seek additional financing during fiscal 2004 or early fiscal 2005 to meet our anticipated cash requirements for fiscal 2005 and beyond.

We cannot give any assurance that financing will be available when needed on terms acceptable to us, or at all. If we determine that we need to issue additional equity securities or debt securities convertible into equity to address our need for cash resources, the issuance of additional equity securities or debt securities convertible into equity is likely to result in significant dilution to our existing shareholders, and the new equity securities or debt securities may have rights, preferences and privileges that are senior to those of our existing common shares. It may be necessary to raise additional funds through strategic transactions, in which event we may cease conducting or relinquish rights to a portion of our current business. Strategic transactions may not be available on terms that are favorable to us from a longer-term perspective.

In addition to our intent to raise capital to fund our operations, we may need to raise additional capital through public or private sales of equity and/or additional borrowings for significant acquisitions, significant capital expenditures or other extraordinary transactions. If we cannot raise additional 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 forecast of the period of time through which our financial resources are expected to be adequate to support our operations is a forward-looking statement. This statement involves known and unknown risks, uncertainties and other factors that may cause our, or our industry s, actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. These factors are discussed in these Risks Related to Metron and elsewhere in this Report on Form 10-Q.

We may not be able to meet certain covenants in or renew certain credit facilities.

As of February 29, 2004, we had $12.7 million of short-term borrowings, of which $11.1 million were under our various lines of credit. Certain of our credit facilities contain financial covenants that require us to meet and maintain certain financial tests. We were in violation of the covenant under the CIT facility for January 2004, for which we obtained a waiver. As of February 29, 2004, we were in compliance with this covenant.

A breach of a covenant in a credit facility could result in the lender demanding repayment of all or part of our indebtedness, could impair our ability to obtain additional access to our current or alternate credit facilities and could result in a cross-default under our convertible debentures.

All of our lines of credit are payable on demand or subject to periodic, generally annual, review. Given recent developments in our business and industry, we cannot give any assurance that our lenders will agree to continue to make our credit facilities available to us, or that new lenders will agree to make credit facilities available to us, on terms or in amounts acceptable to us, or at all.

Any failure to retain our existing credit facilities or enter into replacement facilities may impair our ability to fund our current operations and achieve our longer-term business objectives. If our significant credit facility lenders demand repayment of all or a significant portion of our indebtedness after the end of fiscal 2004, we may not have the cash resources necessary to repay such indebtedness when due.

Our outstanding convertible debentures may accelerate upon the occurrence of certain events of default, and we may not be able to repay our convertible debentures upon such an acceleration.

In August 2003, the Company completed the sale of $7,000,000 aggregate principal amount of its convertible debentures. Upon any Event of Default (as defined in the convertible debentures and described below), the outstanding convertible debentures and any unpaid interest thereon may, at the holder s election, become immediately due and payable in cash. Upon any such acceleration, the aggregate amount so due and payable is determined according to a formula set forth in the convertible debentures, which could result in an aggregate payment in excess of 120% of the principal amount of convertible debentures plus all accrued and unpaid interest thereon plus all other amounts, costs, expenses and liquidated damages due in respect of the convertible debentures. The Events of Default under the convertible debentures include, among other

things:

any default in the payment of principal, interest or liquidated damages in respect of any convertible debentures (subject to a 5-day cure period);

any material breach of any material covenant contained in any of the documents or agreements executed in connection with the Financing (subject to a 15-day cure period);

the commencement of certain bankruptcy, liquidation or related procedures by or against the Company or certain of its subsidiaries;

any default by the Company in its obligations under certain of the Company s current or future mortgages, credit agreements, facilities and other indebtedness if that default results in the acceleration of any payment under that indebtedness;

certain change of control transactions involving the Company or certain redemptions or repurchases by the Company of more than 100,000 of the Company s outstanding common shares; and

certain other events described in the convertible debentures.

We cannot give any assurance that our cash reserves in the event of such an acceleration of the convertible debentures will be sufficient to repay the amounts due and payable upon such an acceleration. In addition, the use of our cash reserves to make any such accelerated repayment of the convertible debentures could seriously harm our business.

We are dependent on a few key suppliers for a majority of our revenue; therefore, the loss of or change in our relationship with one or more of our key suppliers could seriously harm our business.

If, for any reason, any of our key suppliers were to materially reduce its business or terminate its relationship with us, the loss of the key supplier would have a material adverse effect on our business. 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 suppliers, which is how we refer to the semiconductor materials and equipment companies we represent. 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.

All of the semiconductor materials, equipment and products we market, sell, service and support are sold pursuant to agreements with our suppliers. 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 suppliers we can represent at any one time is limited. It is likely that in the future some of our suppliers will terminate their relationships with us upon relatively short notice. If we lose a key supplier, we may not be able to find a replacement quickly, or at all. The loss of a key supplier may cause us to lose customers and incur expenses associated with ending our agreement with that supplier. We may lose suppliers for various reasons, including:

mergers and acquisitions involving our suppliers and other semiconductor materials and equipment manufacturers that we do not represent;

a supplier s decision to attempt to build a direct sales organization;

the expansion of a supplier s product offerings to compete with the products of another supplier, because we generally do not offer competing product lines;

a supplier s dissatisfaction with our level or quality of service; and

the failure of a supplier s business.

We have lost suppliers in the past. For example, 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 these products. In October 1999, Applied Materials acquired Obsidian. As a result of the acquisition, Obsidian terminated its agreement with us. In January 2001, we entered into an agreement with Entegris to modify our existing distribution relationship, 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. In May 2002, by mutual agreement, we terminated our distributor agreement with August Technology, except in Korea. In August 2002, Cabot Microelectronics advised us 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. In October 2002, FSI advised us of its decision to assume the direct distribution of its products in Europe (except Israel) and Asia; the effective date of the transition was March 1, 2003.

Our revenues for FSI products and services in Europe and Asia were approximately $21.9 million and $1.4 million (12.2% and 1.0% of revenue) for the nine-month periods ended February 28, 2003, and February 29, 2004, respectively.

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.

We may not be able to successfully implement our restructuring efforts, and such efforts may adversely impact our ability to retain and attract future employees.

In October 2002, we announced that we would be reducing our workforce by approximately 125 employees worldwide. The total number of employees terminated as of May 31, 2003 was 125 people. On March 1, 2003, we transferred 93 employees to FSI. During the first half of fiscal 2004, we terminated an additional 46 employees, and we abandoned unutilized leased facilities as part of our restructuring. Workforce reductions could result in a temporary lack of focus and reduced productivity by our remaining employees, which in turn may affect our revenues in the current or a future quarter. In addition, prospects and current customers may decide to delay or not purchase our products due to the perceived uncertainty caused by our reduction in force. We cannot assure you that we will not reduce or otherwise adjust our workforce again in the future or that the related transition issues associated with such a reduction will not occur again. Further, we believe that our future success will depend in large part upon our ability to attract and retain highly-skilled personnel. We may have difficulty attracting such personnel as a result of a perceived risk of future workforce reductions.

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 suppliers 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 suppliers, 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 suppliers 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 suppliers, 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 suppliers, 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 suppliers 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 the globe and some of them 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 the globe. 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 commenced implementation of the new system in Europe in 2001 and 2002. We implemented the financial management reporting system to support the centralization of our European operations into an entity called Metron Europa during our second quarter of fiscal 2004, and to commence the implementation in Asia with the next installation scheduled for Singapore after implementation in Metron Europa has been completed. We currently anticipate that the total costs associated with the implementation of the new system will be approximately $12.0 to $15.0 million and that the system will be fully implemented over the next 18 to 24 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 suppliers 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.

Our indebtedness and debt service obligations may adversely affect our cash flow and ability to obtain additional financing.

Our annual debt service obligations on our 8% convertible debentures due 2007 are approximately $0.6 million per year in interest payments. Our indebtedness could have significant negative consequences, including: requiring the dedication of a portion of our expected cash flow from operations to service our indebtedness if we do not make interest payments in our common shares rather than cash, thereby reducing the amount of our expected cash flow available for other purposes, including capital expenditures; increasing our vulnerability to general adverse economic and industry conditions; limiting our ability to obtain additional financing; limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and placing us at a possible competitive disadvantage to less leveraged competitors and competitors that have better access to capital resources. The existence of debt service obligations and the anti-dilution provisions of our convertible debentures may also limit our ability to obtain additional financing on terms favorable to us.

We may not be successful in our effort to penetrate Japan, which could limit our future growth.

On April 8, 2003, we announced the opening of Metron Technology (Japan) K.K. (Metron Japan) in Yokohama, Japan. Approximately 22% of the world s production of semiconductors in 2002 took place in Japan. Accordingly, to reach all of the world s major semiconductor markets, we will need to be successful in our efforts 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. We intend Metron Japan to serve as our headquarters for building partnerships with original equipment manufacturers (OEMs) in Japan and to provide service and outsource solutions in the local market. We cannot predict whether 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 or find replacement product lines with higher gross margins, 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 suppliers 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 suppliers 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 suppliers cannot continue to innovate, if we cannot maintain our relationships with innovating suppliers, if we cannot otherwise identify product lines with higher gross margins 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. As a result of these factors, we were unable to reduce employment costs in a timely manner to compensate for the cyclical revenue or gross margin shortfall we have suffered during the current downturn, which has had a material adverse effect on our operating results. We cannot assure you that we will be able to reduce employment costs sufficiently to compensate for future cyclical revenue shortfall.

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 suppliers, and we cannot always return products to the supplier 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 current industry downturn beginning in fiscal 2001, we had excess inventory for which we booked reserves in Europe, the United States and Asia. Typically, products cannot be returned to suppliers after they have been in our inventory for a certain period of time; this time period varies depending on the product and the supplier. In addition, although it is typical when a relationship with a supplier terminates for that supplier to repurchase most of the inventory we have of that supplier s products, it is possible under certain circumstances that a supplier 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 supplier 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 Suppliers. 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 supplier 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 Suppliers And Their Competitors. New product announcements by our suppliers and their competitors could cause our customers to delay a purchase or to decide to purchase products of one of our supplier 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 that 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.

Charges to Earnings for Other Long Lived Assets. As a result of our market capitalization being less than our shareholders equity, we may be required to recognize an impairment charge in connection with the carrying value of our long-lived assets. This could negatively 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 2003, our top ten customers accounted for an aggregate of 42% 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. In October 2002, FSI advised us of its decision to assume the direct distribution of its products in Europe (except Israel) and Asia; the effective date of the transition was March 1, 2003. This transition means we can no longer sell these FSI products to our customers in these regions, which could result in the loss of some customers. Our revenues for FSI products and services in Europe and Asia were approximately $21.9 million and $1.4 million

(12.2% and 1.0% of revenue) for the nine-month period ended February 28, 2003, and February 29, 2004, respectively. 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 suppliers 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 recently expanded our operations to include manufacturing, an activity with which we do not have significant experience. This new activity will require us to hire managers and employees with different skills from those of our existing employees and to develop systems to manage processes with which we have no prior experience.

We now manufacture, under license from the original equipment manufacturer, Varian sputtering (PVD) equipment, licensed from Novellus, AG Associates rapid thermal processing (RTP) equipment, licensed from Mattson and, MRC Eclipse (PVD) equipment licensed from TEL. Prior to our entry into what is commonly called the legacy equipment business, we did not manufacture any equipment. With our entry into this business, we have had to hire managers and other employees who have different skills from those of our existing employees. We have also had to install new systems to keep track of manufacturing inventories. As a consequence of our lack of experience, our newly initiated manufacturing activity may incur unanticipated costs, and we may not realize the gross margins that we planned to in making the necessary investments. In May 2002, we acquired certain assets of Advanced Stainless Technologies (AST), a Texas-based manufacturer of electro-polished stainless steel tubes and fittings.

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 suppliers 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 suppliers 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.

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 second quarter of fiscal 2002, we recorded exchange losses of approximately $470,000. In fiscal 2003, approximately $449,000 of the foreign exchange loss pertained to the cost of hedging the Israel Shekel. The higher cost was primarily due to the difference in the interest rates between the United States dollar and Israel Shekel. 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.

Risks related to investing in our common shares.

We are significantly controlled by FSI and Entegris, which may limit your ability to influence the outcome of director elections and other shareholder matters.

As of February 29, 2004, FSI owned 11.8%, and Entegris owned 8.6%, of our outstanding shares. By virtue of their share ownership, FSI and Entegris can exercise significant voting control over Metron. As a result, each of these shareholders has significant influence over all matters requiring shareholder approval, including the election of directors, which may have the effect of delaying or preventing a third party from acquiring control over us.

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 our publicly-stated expectations or the published expectations of securities analysts for a given quarterly period;
- changes in financial estimates by securities analysts;
- changes in market values of comparable companies;

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.

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 an N.V. 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. The shareholders may designate the Company s Supervisory Board 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 unless such approval is required under the terms of our Nasdaq listing agreement.

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. A significant percentage of our assets are located outside the United States. Furthermore, judgments of United States courts, including judgments against us, our directors or our officers predicated on the civil liability provisions of the federal securities laws of the United States, are not directly enforceable in The Netherlands.

Provisions of our charter documents and Dutch law could discourage potential acquisition proposals and could delay, deter or prevent a change in control.

Our articles of association and the applicable law of The Netherlands contain provisions that may be deemed to have anti-takeover effects. These provisions may delay, defer or prevent a takeover attempt that a shareholder might consider in the best interest of our shareholders. For example, our articles may be amended only pursuant to a proposal of the Supervisory Board followed by a resolution of a general meeting of shareholders. To amend our articles requires 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 share price. Furthermore, some United States tax laws may discourage third parties from accumulating significant blocks of our common shares.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

2.1(i) Agreement and Plan of Merger and Reorganization among Metron Technology B.V., Metron Acquisition Sub, Inc. and T.A. Kyser Co., dated June 12, 1998

2.2(ii) Agreement for the acquisition of the whole of the issued share capital of Shieldcare Limited

2.3(i) Amendment to Agreement and Plan of Merger and Reorganization among Metron Technology B.V., Metron Acquisition Sub, Inc. and T.A. Kyser Co., dated July 13, 1998

2.4(i) Joinder Agreement among certain stockholders of T.A. Kyser Co, Metron Technology B.V. and Metron Acquisition Sub, Inc. dated July 13, 1998

3.1(i) Articles of Association of the Registrant and translation thereof

4.1(i) Specimen Common Share Certificate

4.2(iii) Form of 8% Convertible Debenture

4.3(iii) Registration Rights Agreement, dated as of August 25, 2003, by and between Metron Technology N.V. and the Purchasers

4.4(iii) Form of Common Share Warrant issued to the Purchasers

31.1 Certification required by Rule 13a-14(a) or Rule 15d-14(a).

31.2 Certification required by Rule 13a-14(a) or Rule 15d-14(a).

32.1* Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350).

(i) Incorporated by reference from the Company s Registration Statement on Form S-1 (No. 333-87665), filed with the Commission on September 23, 1999, as amended through the date hereof.

(ii) Filed as an exhibit to the Company s Form 8-K, filed with the Commission on March 17, 2000, and incorporated herein by reference.

(iii) Filed as an exhibit to the Company s Form 8-K, filed with the Commission on August 27, 2003, and incorporated herein by reference.

* This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by Metron for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended.

(b) Reports on Form 8-K

The Company s current report on Form 8-K filed with the SEC on January 7, 2003, describing and furnishing the press release announcing the Company s earnings for the fiscal second quarter ended November 30, 2003, which press release included the Company s condensed consolidated balance sheets and condensed consolidated statements of operations for the periods.

SIGNATURE

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

METRON TECHNOLOGY N.V.

Date: April 13, 2004	/s/	DOUGLAS J. McCUTCHEON
		Douglas J. McCutcheon Senior Vice President and Chief Financial Officer Signing on behalf of the registrant and as principal accounting officer