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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2003

OR

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

For the transition period from to .

Commission File Number: 000-27863

METRON TECHNOLOGY N.V.

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes ý No o

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

Yes o No ý

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Information

The condensed consolidated financial statements (including notes to condensed consolidated financial statements) of Metron Technology N.V. (Metron or the Company) included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for their fair presentation. Historical results are not necessarily indicative of the results the Company expects in the future. This report should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended May 31, 2003 included in the Company s Annual Report on Form 10-K, as amended, as filed with the SEC.

Liquidity

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

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

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

Loss Per Share

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

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

Revenue Recognition

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

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

Materials and other products are generally recognized on the shipment of goods to customers. Revenue from service agreements is recognized ratably over the agreement period, while revenue from service without a service agreement is recognized in the periods in which the services are rendered to customers.

Inventories

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

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