METRON TECHNOLOGY N V
Form 10-K
August 15, 2002

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended May 31, 2002

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)

1350 Old Bayshore Highway
Suite 210
Burlingame, California 94010
(Address of principal executive offices)

Registrant's telephone number, including area code: **(650) 401-4600**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common shares, par value 0.44 EUR per share

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10K or any amendment to this Form 10-K. ý

The aggregate market value of voting stock held by non-affiliates of the registrant, based on the last sale price of the Common Shares on June 18, 2002 as reported by the Nasdaq National Market, was approximately $71,466,000. Shares held by each officer and director of the registrant and by each person who owns 5 percent or more of the outstanding Common Shares have been excluded from this computation in that

such persons may be deemed to be affiliates of the registrant. This determination of affiliate status for this purpose is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant's Common Shares, 0.44 EUR par value, as of July 31, 2002 was 13,042,231.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

ITEM 1. BUSINESS

Overview

Metron Technology N.V. is a holding company organized under the laws of The Netherlands in 1975. We are a leading global provider of marketing, sales, service and support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers.

On behalf of semiconductor materials and equipment suppliers, which we refer to as our principals, we provide a broad range of materials and equipment to leading semiconductor manufacturers such as Advanced Micro Devices, Chartered Semiconductor Manufacturing, IBM, Infineon, Intel, Lucent, Motorola, NEC Electronics, Philips, Samsung, ST Microelectronics and UMC. We also provide semiconductor manufacturers with the ability to outsource a wide variety of fab operations and support services. 'Fab' is the name commonly given to silicon wafer fabrication facilities. Our operations and support services include servicing a wide variety of fab equipment, materials management, parts cleaning, cleanroom services and facility maintenance. More recently, under license from the original equipment manufacturer (OEM), we began manufacturing several older types of equipment used in the fab, an activity that we refer to as the legacy (equipment) business.

Our principals are both independent companies that have developed emerging technologies and divisions of larger companies that have other primary products and markets and include Cabot Microelectronics, Ecosys (a division of ATMI), Entegris, FSI, Gigaphoton (formerly Komatsu), Pall, Schumacher (a division of Air Products), SDI, Seiko Instruments, Sigmameltec and Zeiss. Our materials offerings include an extensive array of over 10,000 items, including fluid and gas handling components, high-purity chemicals and cleanroom products. Our externally sourced equipment offerings include equipment for cleaning wafers; for microlithography, the part of the fabrication process during which an image is projected on to a wafer by passing light through a photomask, which is a high-purity quartz or glass plate used as the stencil in semiconductor device fabrication to create an integrated circuit design pattern on a semiconductor wafer; for metrology, the measurement and inspection of the wafer during the fabrication process; for photomask inspection and repair, the inspection and repair, if necessary, of the glass or quartz photomasks used during the microlithography process; and for inspection and defect characterization, the process by which silicon wafers are inspected during and after fabrication. Our legacy equipment includes sputtering or plasma vapor deposition (PVD) tools originally developed by Varian Associates, and now manufactured under license from Novellus, and rapid thermal processing (RTP) tools originally developed by AG Associates. Sputtering or PVD is a process in which a material which is a solid at room temperature is heated under vacuum conditions so that it becomes a gas, and is deposited in a thin layer on to a silicon wafer. RTP is a process in which a silicon wafer is first heated and then cooled very rapidly in order to change the chemical structure of the materials deposited on its surface without damaging the wafer itself.

Industry Background

The manufacture of semiconductors requires a wide array of equipment and materials. The semiconductor capital equipment industry consists of equipment for wafer manufacture and processing and equipment for assembly, packaging and testing of semiconductors. The high cost of equipment development and the desire of semiconductor manufacturers to buy products from financially and technically strong suppliers have led to consolidation among equipment manufacturers. At the same time, the long-term growth prospects of the industry continue to attract small players with new technologies to fill product niches. In addition, some suppliers to the industry are divisions of larger companies which have other primary products and markets.

The semiconductor materials market provides the wide variety of consumable and manufacturing materials that are required by semiconductor manufacturers, including fluid and gas handling components, high purity chemicals and cleanroom products. Rapid changes in technology have led to the creation and emergence of newer semiconductor materials manufacturers that offer innovative products. The materials industry is more fragmented and less cyclical than the equipment industry, in part because demand for semiconductor materials is driven more by the volume of semiconductors produced than by industry capacity and expectations of future revenue growth. The lower barriers to entry in this industry also attract new competitors.

As semiconductors continually become smaller and more complex, the number of manufacturing steps increases, which requires more complex and costly semiconductor equipment. The complex manufacturing process also entails the use of a large variety of materials from many sources. In addition, the high capital cost of fabs, which can now exceed $2 billion, requires that fabs quickly reach and maintain optimal productivity levels in order to maximize their return on investment. This also necessitates around-the-clock manufacturing, which in turn requires that spare parts, materials and service be delivered quickly and on short notice.

The semiconductor industry has evolved into a global industry as semiconductor manufacturers are increasingly operating fabs in multiple locations throughout the world in proximity to their customers. The requirement for the rapid ramp-up of new facilities and new products has led semiconductor manufacturers increasingly to standardize all aspects of their operations and to require that their suppliers do the same. We believe that in order to ensure standardization, semiconductor manufacturers are increasingly seeking materials and equipment suppliers that offer a comprehensive and cost-effective global procurement solution to their materials, equipment and service needs.

Semiconductor equipment and materials suppliers and semiconductor manufacturers are increasingly focusing on their core competencies and outsourcing other aspects of their operations to third parties. The increasing complexity of semiconductors and related capital investment, combined with long-term pricing pressures, have led semiconductor manufacturers to increasingly focus on design, development and manufacturing and outsource to third parties equipment service, materials management, cleanroom services and facility maintenance, as well as other similar services. We believe that outsourcing enables these companies to increase fab productivity in a cost-effective manner. In addition, semiconductor equipment and materials suppliers often focus on product development and manufacturing and outsource to third parties the marketing, sale, installation, service and support of their products. In particular, smaller semiconductor equipment and materials manufacturers that cannot afford to invest the time or the capital resources required to build a global infrastructure, and divisions of larger companies whose main focus is on other products or markets, often benefit from outsourcing. Outsourcing enables these companies to reduce their time to market, financial risk and marketing investment while maintaining the ability to compete with often larger companies with established infrastructures. In the case of legacy equipment, the OEM often wants to concentrate its resources on the current generation of equipment and wishes to outsource the manufacture, service and support of older tools to a company that can provide reliable support on a global basis.

Providers of outsourcing services to the semiconductor industry are able to take advantage of operational efficiencies owing to their ability to offer products and services from multiple suppliers and leverage their infrastructure costs over a larger revenue base. There are a large number of generally smaller companies that provide outsourcing services, including regional, privately-held companies that focus on a portion of, or a specific geographic market in, the semiconductor manufacturing industry. We believe that semiconductor equipment and materials manufacturers and semiconductor manufacturers are increasingly seeking an international services and support company that offers a comprehensive global solution.

The Metron Solution

We are a leading global provider of marketing, sales, service and support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers. We provide an important link between semiconductor manufacturers and our principals. We provide semiconductor manufacturers, who otherwise might be required to purchase materials and equipment from a range of suppliers worldwide, with the ability to purchase their materials and equipment through a single supplier and the ability to outsource equipment service, materials management, cleanroom services and facility maintenance. These services enable our customers to:

- simplify and standardize their materials and equipment purchases in multiple locations throughout the world;
- focus their resources on product design, development and marketing; and

increase fab productivity in a cost-effective manner.

We also provide timely and comprehensive marketing, sales, installation, service and support for materials and equipment manufacturers, enabling our principals to:

focus their resources on technology and product development and manufacturing;

reduce their time to market, financial risk and marketing investment; and

compete more effectively with larger companies with established infrastructures without investing the time or capital resources required to build their own infrastructures.

We also provide manufacturing services to OEM's that wish to outsource the manufacture, marketing, sales and service of older equipment.

Strategy

We believe Metron markets and sells a wider range of materials, equipment, spare parts, service and support solutions to the semiconductor industry than any other independent provider of these products and services. Our goal is to be the leading global provider of marketing, sales, service and support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers. The key elements of our strategy include:

Leverage our global infrastructure and expand our leadership position. We believe that our global infrastructure, as well as our more than 25-year history of serving the semiconductor industry, provides us with a significant competitive advantage in serving our principals and customers. As of May 31, 2002, we had over 680 sales and marketing and customer service and support employees in 40 offices in Asia (except Japan), Europe and the United States. We plan to continue to leverage our global infrastructure by offering an increasing variety of products and services.

Continue to broaden product and service offerings. We offer a wide range of semiconductor manufacturing materials and equipment and plan to selectively broaden our product lines and territories to meet the needs of our customers. We believe our competitive advantage is generally greater in product areas that are not served by one of the large globally-integrated equipment or materials manufacturers. We will also seek to enter into additional relationships with non-United States principals seeking to penetrate the United States market and other markets outside their home territories. We also plan to expand on-site maintenance and other support services, including specialized parts cleaning, inventory management and engineering services. We also plan to add additional legacy equipment lines to our portfolio. We believe these efforts will strengthen our long-term relationships with our customers.

Expand materials business. While continuing to expand our equipment business, we intend to increase the relative size of our materials business. We believe that the materials business is particularly well-suited to benefit from the global infrastructure that we have developed, in part because addressable markets are more fragmented, there are a large number of individual products and typical transactions are smaller than in the equipment business. Materials products generally offer relatively higher gross margins than externally-sourced equipment, and the materials business is generally less cyclical than the equipment business.

Foster long-term relationships with our principals. We seek to continue to develop long-term relationships with our principals. Generally, within the territories we serve for a principal, we operate as the exclusive representative of the principal and do not offer competing product lines. To foster long-term relationships with our principals, we will continue the joint training of our sales, service and applications personnel, the investment in inventories and demonstration equipment, as appropriate, and the joint participation in trade shows with our principals. In addition, to help us secure longer term relationships with our principals, we plan to selectively invest in principals during their later stage financings.

Acquire complementary businesses. To enable us to better serve our principals and customers, we plan to selectively acquire complementary businesses. Potential acquisition candidates include independent regional sales, service and support companies, which currently operate in a highly-fragmented segment of the semiconductor industry. We believe that our acquisition strategy will allow us to gain access to new principals and territories, broaden our offerings to existing customers and gain new customers. As examples of this strategy, our acquisition of T.A. Kyser Co. in July 1998, established our United States materials and components business. With our acquisition of Shieldcare Ltd. in March 2000, we entered the process tool parts cleaning business, and in November 2000, we acquired Intec Technology (S) Pte. Ltd., a supplier of cleanroom products and manufacturer of cleanroom garments in Singapore and Malaysia. In March 2002, we acquired the AG Associates RTP product line from Mattson Technologies, and in May 2002, we acquired substantially all the assets of Advanced Stainless Technologies ("AST"), a small Texas-based manufacturer of electro-polished stainless steel tubing and fittings.

Expand into Japan. Japan is the second largest producer of semiconductors in the world and accounted for approximately 21% of world production in 2001. Although we represent a limited number of Japanese principals, we do not currently operate an office in Japan. When a suitable and profitable opportunity to do so arises, we intend to expand our operations into Japan.

Products and Services

We are organized into two worldwide operating divisions, materials and equipment. In fiscal 2000, 2001 and 2002, sales by our equipment division accounted for approximately 50.2%, 50.7% and 46.3% of our revenue, respectively, and sales by our materials division accounted for approximately 49.8%, 49.3% and 53.7% of our revenue, respectively.

We operate under a series of agreements with our principals. These agreements generally give us the exclusive right to market, sell and support particular products in specific geographic regions. The agreements with our principals are typically cancelable without cause with notice periods that range from 30 days to two years. In addition to maintaining appropriate inventories of materials and spare parts, we sometimes purchase equipment for demonstration purposes, which may be installed in a customer's fab for evaluation purposes or at one of our facilities.

Product selection is critical to our success. We evaluate a large number of product opportunities, relatively few of which we ultimately add to our product offerings. In our evaluation of new product lines, we thoroughly review numerous factors, including the product line's current and projected revenue stream and market share, whether the product line is sufficiently developed for its targeted

market segment, whether distribution arrangements for the product line are currently in place, the prospective principal's anticipated ability to offer innovative and advanced products, the history and stability of the prospective principal and our ability to market, sell and provide a consistent level of service and support for the product line.

Materials

Our materials business includes the marketing and sale of an extensive array of over 10,000 items, including fluid and gas handling components, high purity chemicals and cleanroom products, to semiconductor manufacturers, manufacturers of semiconductor equipment and to a lesser extent, customers in other industries such as pharmaceuticals and petroleum. As of May 31, 2002, our materials division represented over 115 principals. The table below lists the business units in our materials division, the types of products sold and the largest principals within each business unit:

Business Unit	Types of Products	Largest Principals
Gas and fluid handling	Valves, fittings and other components for ultrapure applications	Entegris
	High end filtration products and systems	Pall
		Tescom

Business Unit	Types of Products	Largest Principals
	Stainless steel control valves and regulators	
Wafer management	Pellicles	MLI
Chemicals	Slurry	Cabot Microelectronics
Device handling	Vacuum release chip trays	Gelpak
	Quartz components	MGI Products
Cleanroom products	Latex gloves	Omni Sales
	Face masks	Tecnol
	Wipers and swabs	Texwipe

We believe the materials business is particularly well-suited to benefit from our global infrastructure because addressable markets are more fragmented, there are a large number of individual products and average transaction sizes are generally smaller than in the equipment business. As a result, we believe that many companies are often unable to cost-effectively provide materials, service and support globally in order to meet semiconductor manufacturer requirements and can benefit from Metron's ability to distribute their products through our international sales and marketing organization. Similarly, by working with Metron, a customer can increase sales by improving fab productivity while reducing inventory, warehousing and other costs. For some of our customers' fabs in the United States, including Motorola and Philips, our materials division has primary responsibility for the operation of the customer's on-site warehouse of materials and components we sell. Our experience, infrastructure and systems in the United States enable us to maintain a highly reliable materials inventory management and order processing system, which allows us to increase the speed of order fulfillment and provide other value-added services to both customers and principals. We plan to expand our activities in this area to other parts of the world to provide more comprehensive support to more of our customers.

Equipment

Our equipment business includes the marketing and sale of equipment, including products for cleaning, coating, developing and etching; detection, measurement and quality control tools; equipment used in the manufacture, fault diagnosis and repair of the masks used to create the complex patterning of semiconductors; automatic wafer handling, particle counting and cleanroom monitoring equipment.

The equipment division also markets specialized containers of high purity chemicals which are used in the chemical vapor deposition and diffusion phases of semiconductor wafer processing. As of May 31, 2002, our equipment division represented over 40 principals. The table below lists the largest products in the equipment division and the principals for those products:

Types of Products	Principals
Wafer cleaning tools	FSI
Metrology inspection microscopes	Zeiss
Wafer characterization and diagnostic tools	SDI
Photomask coating and developer tools	Sigmameltec
Environmental gas cleaning systems	ATMI
High purity wafer processing chemicals	Schumacher
Photo-lithography processing tools	FSI

Particularly in the equipment business, we believe our competitive advantage is generally greater in product areas that are not served by one of the large globally integrated manufacturers. We have sought, and expect to continue to seek, relationships with non-United States principals seeking to penetrate the United States market and other markets outside their home territories.

Our equipment business now includes the marketing and sale of legacy equipment that we manufacture under license from the original equipment manufacturer:

Types of Products	Licensed from
Varian sputtering (or PVD) equipment	Novellus
AG Associates rapid thermal processing (RTP) equipment	Mattson

Service and Spare Parts

We believe that as semiconductor manufacturers become increasingly sensitive to the costs of system downtime, they will direct their purchases to suppliers who can offer comprehensive local installation, maintenance and repair service and spare parts. To meet these needs, we provide installation, maintenance, repair and service for the equipment we sell, and we employ skilled service engineers in 20 offices located in approximately 16 countries. In some cases, our service engineers are located on-site at a semiconductor manufacturer's facility. By continuing to maintain local offices in most major markets and staffing those offices with nationals fluent in local languages and customs, we are able to provide our principals and customers with sales, service and support 24 hours a day, seven days a week where necessary. We also provide our customers with applications services and help them develop customized solutions to technical problems.

Our service personnel receive extensive initial and follow-up training internally and/or from the principals whose products they service. Our service personnel generally receive the same training from our principals as the principal's own personnel and receive and maintain the same certification. We generally warrant the products we sell for a period of one year. If we install externally-sourced equipment in a customer's fab, we are generally responsible for the costs of the labor component of the warranty, and the principal is responsible for replacing parts which are under warranty. In the case of legacy equipment, we are responsible for both parts and labor. After the warranty period has expired, we also offer service contracts or on-call service support for equipment that we have supplied.

We also provide our customers with the spare parts required to maintain and repair the equipment we have supplied and to operate other systems in their fabs. We work with our principals to maintain an inventory of mission-critical spare parts and materials close to our customers' sites so we can deliver

the required parts in the shortest time possible. In some cases, we are responsible for maintaining inventories at our customers' sites, and we plan to expand the service we provide in this area.

Sales and Marketing

Our worldwide sales and marketing organization is an essential part of our strategy of maintaining close relationships with our principals and with our semiconductor manufacturer customers. We provide timely and comprehensive marketing, sales, service and support for materials and equipment manufacturers, enabling these manufacturers to focus their resources on technology and product development. As of May 31, 2002, we had approximately 300 sales and marketing employees in 40 offices in Asia (except Japan), Europe and the United States. Through these sales and support offices, we maintain an important link between our principals and semiconductor manufacturers. Our sales and marketing organization identifies customer requirements, assists in product selection and monitors each transaction through final sale, shipment and installation. We also employ approximately 380 highly-skilled technical and engineering personnel around the world to support our sales and marketing organization and our customers. In Europe, we have approximately 220 support personnel in nine countries located in thirteen offices as well as at several semiconductor manufacturers' facilities. In Asia, we have approximately 140 support personnel in five countries located in eight offices as well as at several semiconductor manufacturers' facilities. In the United States, we have approximately 20 support personnel located in eleven states. With few exceptions, our employees around the world are fully conversant in local languages and familiar with the local business culture and local business practices.

We offer comprehensive sales and marketing technical support services, including materials and equipment specification review from the initial sales effort through on-going product improvement programs; demonstration of materials and equipment; tool installation, including customer site preparation and final system acceptance; on-going customer support and process improvement; writing, editing, and improving operating and maintenance manuals; and customer training programs including maintenance training and on-site operator training. Our ability to offer these extensive support services is due in part to extensive initial and follow-up training of our sales and marketing technical support personnel both in-house and by the principals whose products we sell. We also conduct technical seminars, training sessions and user group meetings. We operate two Class 100 cleanroom facilities, 720 square feet in Sunnyvale, California and 560 square feet in Austin, Texas, a 9,900 square foot, class 1,000 cleanroom facility in Glenrothes, Scotland, and a 5,750 square foot, class 10,000 cleanroom facility in San Jose, California.

We also employ applications engineers who work closely with our customers to solve particular customer problems and develop innovative processing solutions using particular equipment supplied by our principals. In some cases, our customers' engineers have collaborated with our engineers to produce and publish technical papers. Application selling and application support is a key part of our strategy to introduce and sell new technology into the semiconductor marketplace.

We utilize a number of other marketing techniques that enable our principals to access new markets and semiconductor manufacturers. We seek to actively involve our principals in the marketing and sales process and often conduct joint sales calls on existing and potential customers with representatives from our principals. We assign product managers to some of our principals to provide particular attention to the marketing,

service and support of specific product lines. We participate in various trade shows around the world, including Semicon Europa in Europe, Semicon Korea, Semicon Singapore and Semicon Taiwan in Asia and Semicon Southwest and Semicon West in the United States.

Customers

We market semiconductor materials and equipment to most of the world's semiconductor manufacturers and to many suppliers to the semiconductor industry, including semiconductor equipment manufacturers. In fiscal 2002, our 10 largest customers accounted for an aggregate of 41% of our sales. We expect that sales to relatively few semiconductor manufacturers will always account for a significant percentage of our revenue, although the relative revenue ranking of individual customers may change from period to period. The table below lists in alphabetical order our 10 largest customers in fiscal 2002 based on revenue and the geographic regions where we support them:

Customer	Locations
AMD	Germany, United Kingdom, United States
Chartered Semiconductor Manufacturing	Singapore
Dupont	France, United States
IBM	France, Singapore
Infineon	Germany, United Kingdom
Intel	Ireland, Israel, Malaysia, United Kingdom, United States
Philips	The Netherlands, France, Germany, United Kingdom, United States
Seagate	Ireland, Singapore, United Kingdom
ST Microelectronics	France, Italy, Singapore
Tower Semiconductor	Israel

Competition

The semiconductor industry is highly competitive. We face substantial competition on two distinct fronts: competition for product lines and competition for customers.

Competition for Product Lines

For those semiconductor equipment and materials manufacturers who elect to sell through independent sales and distribution companies, we must compete with other companies for the right to sell specific product lines. Some of these independent sales and distribution companies have long-standing collaborative business relationships with semiconductor equipment and materials manufacturers which are difficult to overcome. We believe that the most significant competition on this front comes from regional semiconductor equipment and materials distribution companies. Furthermore, many equipment and materials manufacturers choose to sell directly to semiconductor manufacturers in some or all markets. In Europe and Asia, we compete with equipment and materials manufacturers who choose to sell their products directly to semiconductor manufacturers as well as with regional independent distribution companies such as Macrotron and Teltec in Europe and Hermes in Taiwan. For example, Cabot Microelectronics recently decided to assume the direct distribution of its products in Europe and Singapore; the effective date of the transition will be June 1, 2003. In the United States, we compete primarily with United States semiconductor equipment and materials manufacturers who choose to sell their products directly to semiconductor manufacturers.

We believe that our competitive advantage is greater in product areas that are not served by one of the large globally-integrated equipment or materials manufacturers. We believe that to compete effectively we must maintain a high level of investment in marketing, customer service and support in all of the markets in which we operate. Although we consider our global operations and reputation to be significant competitive advantages, we cannot be certain that we will have sufficient financial resources, technical expertise, or marketing, services and support capabilities to continue to compete successfully on this front in the future.

Competition for Customers

We compete with established semiconductor equipment and materials manufacturers who sell directly to customers and with other independent sales and distribution companies for orders from semiconductor manufacturers. Some of these competitors have greater name recognition in the territories they serve and have long-standing relationships with semiconductor manufacturers that may give them a competitive advantage. Other significant competitive factors in the semiconductor equipment and materials market include product specifications and quality, product performance, product reliability, process repeatability, customer service and support, timeliness of product delivery and of new product introductions, in addition to total cost of ownership and price. We anticipate that as we expand our product portfolio and expand into new markets, we will encounter additional competition, and the competitive factors listed above, among others, might make it difficult for us to establish sales and distribution capability in new markets such as Japan. This competition, as well as the local political climate and local business practices, may limit our ability to successfully expand into new markets. We cannot be certain that we will continue to compete successfully in the future.

Financial Information about Segments and Geographic Areas

See Note 15 to the Consolidated Financial Statements contained herein.

Employees

As of May 31, 2002, we had 928 full-time employees, including 245 in our materials division, 439 in our equipment division and 244 in general administrative activities, including finance and accounting, sales administration, shipping and receiving and corporate management. Of our full-time employees, 187 are located in the United States, 469 are located in Europe and 272 are located in Asia. None of our employees is covered by a collective bargaining arrangement. We consider our relationships with our employees to be good.

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 Annual Report on Form 10-K.

Risks related to Metron.

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

If, for any reason, any of our key principals were to materially reduce its business or terminate its relationship with us, the loss of the key principal would have a material adverse effect on our business. In particular, if our commercial relationship with FSI or Entegris were to materially change or were terminated, (for example, as described in the following paragraphs) our business would be significantly adversely affected due to the large percentage of our revenue generated by sales of these companies' products. For the year ended May 31, 2002, 11.5% of our total revenue was generated from the sale of products manufactured by FSI, 13.1% represented the sale of products manufactured by Entegris, and 17.1% represented the sale of products manufactured by Cabot Microelectronics. For more information about our relationships with FSI and Entegris, see also the risk titled "We are significantly controlled by FSI and Entegris, which may limit your ability to influence the outcome of director elections and other shareholder matters." In each of our last three fiscal years, a majority of our revenue came from the sale of products from five or fewer of our principals, which is how we refer to the semiconductor materials and equipment companies we represent. Although the principals that comprise our largest sources of revenue may change from period to period, we expect that revenue from the sale of products of a relatively small number of principals will continue to account for a substantial portion of our revenue for at least the next five years.

All of the semiconductor materials, equipment and products we market, sell, service and support are sold pursuant to agreements with our principals. These agreements are generally cancelable at will, subject to notification periods that range from 30 days to two years. We generally do not sell competing products in the same market, and, therefore, the number of principals we can represent at any one time is limited. It is likely that in the future some of our principals will terminate their relationships with us upon relatively short notice. If we lose a key principal, we may not be able to find a replacement quickly, or at all. The loss of a key principal may cause us to lose customers and incur expenses associated with ending our agreement with that principal. We may lose principals for various reasons, including:

- mergers and acquisitions involving our principals and other semiconductor materials and equipment manufacturers that we do not represent;
- a principal's decision to attempt to build a direct sales organization;
- the expansion of a principal's product offerings to compete with the products of another principal, because we generally do not offer competing product lines;
- a principal's dissatisfaction with our level or quality of service; and
- the failure of a principal's business.

We have lost principals 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, Inc. 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. 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 will be June 1, 2003. Metron will continue to market Cabot Microelectronics products in Israel.

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 meet certain covenants in or renew our credit facilities.

Our building mortgage contained and certain of our credit facilities contain financial covenants that require us to meet and maintain certain minimum ratios. At May 31, 2002, we were in violation of covenants to maintain a specified interest coverage ratio on our building mortgage and on one other credit facility. To resolve these issues, in June 2002, we repaid our building mortgage, and, in July 2002, we repaid a portion of our borrowing on the credit facility to reduce our borrowing to the newly agreed lower facility limit. We intend to pursue discussions with our lenders to further waive, modify or, possibly, eliminate, certain financial covenants in our credit facilities. However, we cannot give any assurance that the lenders will agree to modify or eliminate such covenants or that we can comply with the covenants and meet the financial tests of our credit facilities, even if and as modified. We do not expect to meet the interest coverage covenant on the reduced approximately $1 million credit facility in The Netherlands at August 31, 2002. Our credit facilities are typically subject to periodic, generally annual, review, and we cannot give any assurance that our lenders will agree to renew our facilities on terms acceptable to the Company, or at all. Lenders might base a decision not to renew on general industry conditions without regard to our financial performance. A breach of a covenant in, or failure to renew, a credit facility could result in the lender demanding repayment of the related indebtedness and could impair our ability to obtain additional access to our current or alternate credit facilities. Any such demand or impairment of our access to capital could have a material adverse effect on our liquidity and financial condition.

If we are unable to successfully identify new products and enter into and implement arrangements with the suppliers of these products, our business will be seriously harmed.

To the extent we are unable to enter into relationships with principals who anticipate or respond adequately to technological developments or customer requirements, we could suffer a loss of competitiveness. Such loss, or any significant delays in product development or introductions by these principals, could have a materially adverse effect on our business. The semiconductor materials and equipment market is subject to rapid technological change, changing customer requirements and frequent new product introductions. Because of this, the life cycle of products that we market and sell

is difficult to determine. Our future success will depend to a significant extent on our principals' ability to keep pace with changes in the market and, particularly because we generally do not carry competing product lines, on our ability to identify and obtain new product lines which achieve market success.

We face intense competition from companies with significantly greater financial, technical and marketing resources, which could adversely affect our ability to maintain or increase sales.

We face intense competition on two distinct fronts: competition for product lines and competition for customers.

If we are unable to compete successfully for product lines against independent sales and distribution companies that have greater financial resources, are more established or have longer-standing relationships with semiconductor materials and equipment manufacturers, we will be unable to offer competitive products, which will negatively impact our sales.

We compete with independent sales and distribution companies for the right to sell specific product lines in specific territories. We believe that our most formidable competition comes from regionally established semiconductor materials and equipment distribution companies. Some of these independent sales and distribution companies have substantially greater financial resources to devote to a particular region than we do, are better established in particular regions than we are, have greater name recognition in their chosen markets than we have and have long-standing collaborative business relationships with semiconductor materials and equipment manufacturers which are difficult to overcome. If we are unable to effectively compete with sales and distribution companies to attract and retain principals, our business will be adversely affected.

If we are unable to compete for customers owing to our inability to provide sales, marketing and support services or particular product offerings, our ability to maintain or increase sales will be adversely affected.

We compete for orders from semiconductor manufacturers with established semiconductor materials and equipment manufacturers who sell directly to customers and with independent sales and distribution companies and sales representatives. We believe that to compete effectively for customers we must maintain a high level of investment in marketing, customer service and support in all of the markets in which we operate, and we may not have sufficient financial resources, technical expertise or marketing, services and support capabilities to continue to compete successfully in the future. Some of our competitors have greater name recognition in the territories they serve and have long-standing relationships with semiconductor manufacturers that may give them an advantage in attracting and retaining customers. Furthermore, we believe that once a semiconductor manufacturer has selected a particular product for a specific use from a vendor that is not one of our principals, it may be difficult to achieve significant sales of a competing product to that customer unless there are compelling reasons for the customer to switch products, such as significant performance or cost advantages.

We anticipate that as we continue to diversify our product portfolio and expand into new markets for our principals' products, we will encounter additional competition for customers. If we cannot continue to compete successfully for customers in the future, any such lack of success will have a significant negative impact on our business.

The management information systems that we currently use in our day-to-day operations are not integrated across 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 went live with the first implementation of the new system in The Netherlands in April 2001, in France in July 2001, in Italy in October 2001, in the United Kingdom and Ireland in February 2002, and in Germany in June 2002. 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 24 to 30 months. Any failure to successfully implement our new operations management information system may result in delayed growth, increased inefficiency due to a lack of centralized data, higher inventories, increased expenses associated with employing additional employees, a loss of our investment in the new operations management information system and may have additional material adverse effects on our business.

We need to successfully manage the anticipated expansion in our operations or our business may suffer material adverse consequences.

To the extent we are unable to effectively manage future expansion and the system and procedural transitions required by expansion, our business and our operating results could be seriously harmed. We have expanded our operations in the past and anticipate future expansion of our operations through acquisitions and otherwise. Our growth has placed and will continue to place significant demands on our management, operational, financial and technical resources, as well as our accounting and control systems, as we work to integrate geographically dispersed offices and administrative personnel, diverse service and maintenance operations and different accounting and financial systems. Our future operating results will depend on the ability of our management and other employees to:

- implement and improve our operational, customer support and financial control systems;
- recruit, train, manage and motivate our employees;
- identify companies that are strategic acquisition candidates and successfully acquire and integrate them with our existing business;
- communicate information efficiently throughout our organization; and
- work effectively with principals and customers.

We cannot predict whether these efforts will be successful or will occur in a timely or efficient manner. We may not be able to install adequate control systems in an efficient and timely manner, and our current or planned operational systems, procedures and controls may not be adequate to support our future operations. The difficulties associated with installing and implementing new systems, procedures and controls may place a significant burden on our management and our internal resources. Delays in the implementation of new systems or operational disruptions when we transition to new systems would impair our ability to accurately forecast sales demand, manage our product inventory and record and report financial and management information on a timely and accurate basis.

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

We do not market and sell products to semiconductor manufacturers in Japan. However, approximately 21% of the world's production of semiconductors in 2001 took place in Japan. Accordingly, to reach all of the world's major semiconductor markets, we will need to establish or acquire sales, marketing and/or service capabilities in Japan. Historically, it has been difficult for non-Japanese companies to succeed in establishing themselves in Japan, and we believe that expanding our operations to Japan would be both expensive and time-consuming and would place additional demands on our management. In addition, both FSI and Entegris have existing arrangements for the sale, service and support of their products in Japan and have not indicated that they would modify these arrangements in the event that Metron establishes or acquires sales and marketing capabilities in Japan. We cannot predict whether any of our efforts to penetrate the Japanese market will be

successful. If we are not successful in our efforts to penetrate the Japanese market, our future growth may be limited.

We expect continued downward pressure on the gross margins of the products we sell, and as a result, if we are unable to continue to decrease our operating expenses as a percentage of sales, we will be unable to increase or maintain our operating margins.

Particularly during industry down cycles, pressure on the gross margins of the products we sell is intense and can adversely impact our financial performance. We have experienced significant downward pressure on our gross margins mainly as a result of sales discounts offered by our competitors and pressure from our customers to reduce prices and from our principals to reduce the discounts they provide to us. This, in turn, has put significant downward pressure on our operating margins. To maintain or increase our gross margins, we must develop and maintain relationships with principals who introduce new products and product enhancements on a timely basis. As a result of continued pressure on gross margins, we must find ways to decrease our selling, general, administrative and other expenses as a percentage of sales to increase or maintain our operating margins. If our principals cannot continue to innovate, if we cannot maintain our relationships with innovating principals, or if we cannot successfully manage our selling, general, administrative and other expenses, our operating margins may decrease. If our operating margins decline as a result of these factors, our business would be harmed.

Our employment costs in the short-term are to a large extent fixed, and therefore any cyclical revenue shortfall could adversely affect our operating results.

Our operating expense levels are based in significant part on our head count, which is generally driven by longer-term revenue goals. For a variety of reasons, particularly the high cost and disruption of lay-offs and the costs of recruiting and training, our head count in the short-term is, to a large extent, fixed. In addition, approximately half of our employees are in Europe, and the costs associated with any reductions of our labor force in Europe are high. Accordingly, we may be unable to reduce employment costs in a timely manner to compensate for any cyclical revenue or gross margin shortfall, which could have a material adverse effect on our operating results.

We may bear inventory risk due to an inability to return products, and if we are unable to manage our inventory effectively, our operating results could be adversely affected.

We bear inventory risk because we generally take title to the products we sell when we receive them from our principals, and we cannot always return products to the principal in the event the products are not sold. Our customers do not always purchase at the time or in the quantities we originally anticipated. For example, as a result of the industry downturn in 1997 and 1998, we had excess inventory for which we booked reserves in both the United States and Asia. Typically, products cannot be returned to principals after they have been in our inventory for a certain period of time; this time period varies depending on the product and the principal. In addition, although it is typical when a relationship with a principal terminates for that principal to repurchase most of the inventory we have of that principal's products, it is possible under certain circumstances that a principal may be unable or unwilling to repurchase our inventory. If we fail to manage our inventory and accumulate substantial product that cannot be returned, our operating results could be adversely affected. Furthermore, if a principal cannot provide refunds in cash for the inventory we desire to return, we may be forced to dispose of inventory below cost, and this may have a material adverse effect on our financial results.

Our revenue and operating results may fluctuate in future periods, which could adversely affect our share price.

In the past, we have experienced fluctuations in our quarterly and annual operating results and anticipate that these fluctuations will continue in the future due to a variety of factors, many of which are outside our control. Fluctuations in our results could cause our share price to decline substantially.

We believe that period-to-period comparisons of our results of operations may not be meaningful, and you should not rely upon them as indicators of our future performance. Our sales in, and the operating results for, a particular quarter can vary significantly due to a variety of factors, including those described elsewhere in this Annual Report on Form 10-K and the following:

The Timing Of Significant Customer Orders And Customer Spending Patterns. During industry downturns, our customers may ask us to delay or even cancel the shipment of previously firm orders. Delays and cancellations may adversely affect our operating results in any particular quarter if we are unable to recognize revenue for particular sales in the quarter in which those sales were expected.

The Timing Of Product Shipments By Our Principals. For the most part, we recognize sales upon the shipment of goods to our customers. Most of the equipment and some of the materials we sell are shipped by the principal directly to our customers, and we do not necessarily have any control over the timing of a particular shipment. If we are unable to recognize revenue for a particular sale in the quarter in which that sale was expected, our operating results in that particular quarter will be negatively affected.

The Timing Of New Product And Service Announcements By Our Principals And Their Competitors. New product announcements by our principals and their competitors could cause our customers to delay a purchase or to decide to purchase products of one of our principal's competitors which would adversely affect our revenue and, therefore, our results of operations. New product announcements by others may make it necessary for us to reduce prices on our products or offer more service options, which could adversely impact operating margins and net income.

The Mix Of Products Sold And The Market Acceptance Of Our New Product Lines. The mix of products we sell varies from period to period, and because margins vary amongst and/or within different product lines, this can adversely affect our results of operations. If we fail to sell our products 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.

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 2002, our top ten customers accounted for an aggregate of 41% of our sales. Although a ranking by revenue of our largest customers will vary from period to period, we expect that revenue from a relatively small number of customers will account for a substantial portion of our revenue in any accounting period for the foreseeable future. Consolidation in the semiconductor industry may result in increased customer concentration and the potential loss of customers as a result of acquisitions. Unless we diversify and expand our customer base, our future success will significantly depend upon certain factors which are not within our control, including:

- the timing and size of future purchase orders, if any, from our larger customers;
- the product requirements of our customers; and
- the financial and operational success of our customers.

If any of our largest customers were to stop or reduce their purchasing from us, our financial results could be adversely affected. A significant decrease in sales to a major customer or the deferral or cancellation of any significant order would have a material adverse effect on our operating results.

Our sales cycle, particularly for equipment, is long and unpredictable, which could require us to incur high sales and marketing expenses with no assurance that a sale will result.

Sales cycles for some of our products, particularly equipment, can run as long as 12 to 18 months. As a result, we may not recognize revenue from efforts to sell particular products for extended periods of time, or at all. We believe that the length of the sales cycle may increase as some current and potential customers of our key principals centralize purchasing decisions into one decision-making entity. We expect this may intensify the evaluation process and require us to make additional sales and marketing expenditures with no assurance that a sale will result.

We have recently expanded our operations to include manufacturing, an activity of 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 of which we have no prior experience.

We now manufacture, under license from the original equipment manufacturer, Varian sputtering (PVD) equipment, licensed from Novellus, and AG Associates rapid thermal processing (RTP) equipment, licensed from Mattson. 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 tube and fittings. We had no prior experience of operating a plant such as AST's, and we may incur unexpected costs in connection with AST's business.

We have not yet developed a strategy to sell to our customers over the Internet, and if a competitor develops and implements an effective e-commerce strategy, we may lose some of our customers, which would have a negative impact on our results of operations.

Although we have begun efforts to develop an e-commerce strategy, we have not implemented a process to sell to our customers over the Internet. Because our principals grant us the right to sell their products only for specific territories and sales conducted over the Internet may occur anywhere around the globe, it is difficult to adopt e-commerce practices in our industry. If our principals decide to directly distribute their products over the Internet, if our competitors develop a successful strategy for engaging in e-commerce or if our customers require e-commerce capabilities which we are unable to

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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 third quarter of fiscal 2001, we recorded exchange losses of approximately $500,000. Given the number of currencies involved, the substantial volatility of currency exchange rates, and our constantly changing currency exposures, we cannot predict the effect of exchange rate fluctuations on our future operating results. Although we engage in foreign currency hedging transactions from time

to time, these hedging transactions can be costly, and, therefore, we do not attempt to cover all potential foreign currency exposures. These hedging techniques do not eliminate all of the effects of foreign currency fluctuations on anticipated revenue.

Risks related to investing in our common shares.

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

As of May 31, 2002, FSI owned 20.7%, and Entegris owned 12.0% 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.

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

We believe that our cash and cash equivalents, combined with currently available lines of credit and expected cash flows from operations, will be sufficient to meet our anticipated cash needs for fiscal 2003 at current operating levels. However, if quarterly revenues increase materially, we will need to raise additional working capital from external sources to permit us to conduct our operations in the ordinary course of business through fiscal 2003. While we currently expect to be able to raise additional working capital to support increased revenues, we cannot give any assurance that additional financing will be available on terms acceptable to the Company, or at all. Our current lines of credit are typically subject to periodic, generally annual, review, and we cannot give any assurance that our lenders will agree to renew these facilities on terms acceptable to the Company, or at all. Lenders might base a decision not to renew on general industry conditions without regard to our financial performance. Our

forecast of the period of time through which our financial resources are expected to be adequate to support our operations is based on our expected cash flow from operations, which 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 our forecast, including the risks and uncertainties discussed in these "Risks Related to Metron."

We also intend to seek additional financing during the next twelve months to meet the Company's working capital requirements for fiscal 2004. Any inability on our part to renew and expand our existing credit facilities or to raise additional funds through public or private debt or equity financing or other sources could result in the Company not achieving its longer-term business objectives. In addition, 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. The issuance of additional equity or debt securities convertible into equity would result in a reduction of the ownership stakes of our existing shareholders, and the new equity securities may have rights, preferences and privileges that are senior to those of our existing common shares.

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 Annual Report on Form 10-K and the following:

- failure to meet 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.

We do not intend to pay dividends.

We have never declared or paid any cash dividends on our capital shares. We currently intend to retain any future earnings to fund our growth and, therefore, do not expect to pay any dividends in the foreseeable future.

Risks related to being a Dutch company.

Our Supervisory Board has the authority to issue shares without shareholder approval, which may make it more difficult for a third party to acquire us.

As a Netherlands "*Naamloze Vennootschap*," or N.V., we are subject to requirements not generally applicable to corporations organized in United States jurisdictions. Among other things, under Netherlands law, the issuance of shares of 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 stock price. Furthermore, some United States tax laws may discourage third parties from accumulating significant blocks of our common shares.

Special Note Regarding Forward-Looking Statements

Some of the statements under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and elsewhere in this Annual Report on Form 10-K are "forward-looking statements." These statements involve known and unknown risks, uncertainties, and other factors that may cause our, or our industry's, actual results,

levels of activity, performance or achievements to be 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 Item 1 Business Risk Factors and elsewhere in this Annual Report on Form 10-K.

In some cases, you can identify forward-looking statements by terminology such as "expects," "anticipates," "intends," "may," "should," "plans," "believes," "seeks," "estimates," "could," "would" or the negative of such terms or other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We 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.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Burlingame, California. The head of our global materials division is based in Austin, Texas. We own our 30,000 square foot facility in Livingston, Scotland, 16,300 square foot facility in Glenrothes, Scotland and our 6,500 square foot facility in Almere, The Netherlands. We also own an 18,000 square foot facility in Aschheim, Germany, which we are currently attempting to sell. In addition, we lease space for marketing and customer service and support purposes in 40 locations worldwide. We operate two Class 100 cleanroom facilities, 720 square feet in Sunnyvale, California and 560 square feet in Austin, Texas, a 9,900 square foot, Class 1,000 cleanroom facility in Glenrothes, Scotland, and a 5,750 square foot, Class 10,000 cleanroom facility in San Jose, California.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common shares, 0.44 EUR par value per share (previously 0.96 NLG), have been traded on the Nasdaq National Market ("Nasdaq-NMM") under the symbol "MTCH" since our initial public offering on November 19, 1999. The following table sets forth the high and low sales prices, as reported by Nasdaq-NMM, for the periods indicated.

	High	Low
Fiscal 2000		
First Quarter	N/A	N/A
Second Quarter	$ 17.50	$ 15.06
Third Quarter	25.94	14.88
Fourth Quarter	36.00	10.75
Fiscal 2001		
First Quarter	14.50	6.88
Second Quarter	13.94	6.13
Third Quarter	8.00	3.50
Fourth Quarter	8.20	3.91
Fiscal 2002		
First Quarter	7.95	6.51
Second Quarter	7.24	6.28
Third Quarter	8.55	6.65
Fourth Quarter	11.05	8.65

There were approximately 81 shareholder accounts of record on July 31, 2002, and the number of beneficial shareholders was estimated to be 2,069.

Dividends

The Company has not paid dividends on its common shares and currently does not plan to pay any cash dividends in the foreseeable future.

Certain Dutch tax consequences of holding Metron common shares

General. The following is a summary of the material anticipated Dutch tax consequences of the holding of common shares in Metron Technology N.V. by non-Dutch resident individuals and corporate entities. This summary addresses only dividend withholding tax, income tax, corporate income tax, and gift and inheritance tax. It does not cover other taxes imposed by The Netherlands and/or its political subdivisions. Further this summary does not purport to be an exhaustive discussion or analysis of all relevant tax matters related to the holding of our common shares. In particular, this summary does not address the tax consequences under any non-Dutch tax laws, nor does it address the tax position of a holder of our common shares to which a special tax regime is applicable or any other special circumstances that may apply to any individual holder. Accordingly, a holder of our common shares should consult his, her or its own tax advisors regarding the tax consequences of the holding of our common shares. This summary is based on the tax laws of The Netherlands as in effect on July, 26, 2002 and is subject to changes in such laws which changes may have retroactive effect. Metron expressly disclaims any responsibility to update this summary for changes in facts or laws occurring subsequent to the date of the filing of this Form 10-K.

This summary represents Metron's interpretation of existing Dutch tax law and, accordingly, no assurance can be given that the tax authorities or the courts in the Netherlands will agree with the summary below. This summary addresses the Dutch tax consequences to a holder of our common shares who or which neither is nor is deemed to be, a resident of The Netherlands for purposes of the relevant tax laws (a "non-resident shareholder"). Under Dutch tax law, residence is determined both by reference to the relevant facts and circumstances and to several principles of law.

Dutch Taxation Regarding Dividends. To the extent that Metron distributes dividends, such dividends will, in principle, be subject to Dutch dividend withholding tax at a rate of 25%. For this purpose, dividends include, among other things, dividends in cash or in kind, deemed dividends, constructive dividends, repayments of paid-in capital not recognized for Dutch tax purposes and liquidation proceeds in excess of paid-in capital as recognized for Dutch tax purposes. Stock dividends are subject to dividend withholding tax unless distributed out of Metron's

paid-in share premium as recognized for Dutch tax purposes. With respect to non-resident corporate shareholders, or shareholders that are treated as corporate taxpayers for Dutch tax purposes which have a permanent establishment or permanent representative in The Netherlands to which the common shares are attributable, no withholding is required in connection with distributions to such shareholders, provided that The Netherlands participation exemption applies with respect to their respective holding of the common shares. A non-resident shareholder may be eligible for a reduction or a refund of Dutch dividend withholding tax pursuant to the EU Parent-Subsidiary Directive or a tax convention in effect between the country of residence of the non-resident shareholder and The Netherlands. The Netherlands has concluded such a convention with the United States, the Convention between the Kingdom of The Netherlands and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "Treaty"), which became effective as of January 1, 1994. A holder of our common shares can claim the benefits of the Treaty only if such holder is a resident of the United States as defined in the Treaty and if such holder's entitlement to such benefits is not limited by the limitations on benefits provisions of Article 26 of the Treaty. Under the Treaty, dividends paid by Metron to a holder of our common shares who or which is entitled to the benefits of the Treaty, are generally eligible for a reduction of The Netherlands statutory rate of withholding tax of 25%, to 15%. The withholding tax rate will be reduced to 5% if the beneficial owner is a qualifying United States resident company that directly holds at least 10% of the voting power of Metron. The Treaty provides for a complete exemption for dividends received by exempt pension funds and exempt organizations as defined therein.

No dividend withholding tax is due any part of a dividend, which is considered excessive pursuant to a transitional regime effective as of January 1, 2001 through December 31, 2005 and which, under these transitional rules, is subject to the additional corporate income tax, as described below, provided that the shareholder is a resident of The Netherlands, The Netherlands Antilles or Aruba, an EU-member state, or a jurisdiction with which The Netherlands has concluded a tax treaty in respect of taxes on income and capital gains.

The corporate income tax payable by Metron will be increased by 20% of the difference between the total amount of dividends paid in a calendar year and the highest of the following amounts:

4% of the market value of the issued share capital at the beginning of the calendar year;

double the amount of the normal dividend, which is the average dividend paid in the three years preceding 2001, provided that there is a consistent policy;

the profit for accounting purposes of the preceding financial year in accordance with the published (consolidated) annual accounts;

The temporary additional corporate income tax is not levied to the extent that the total profit distributions during the period from January 1, 2001 up to and including December 31, 2005, are in

excess of the balance of the assets, liabilities and provisions, calculated on the basis of fair market value, reduced by the paid-in capital at the end of the book year that ended prior to January 1, 2001.

The temporary additional corporate income tax will be decreased proportionally to the extent that the common shares have been held for a period of three years by shareholders that have an interest of at least 5% at the time of the dividend payment. The three years period is deemed to be satisfied for shareholders owning at least 5% on September 14, 1999. A requirement is, however, that the relevant shareholder is a resident of The Netherlands, The Netherlands Antilles or Aruba, an EU-member state, or a jurisdiction that has concluded a tax treaty in respect of taxes on income and capital gains with The Netherlands.

On July 9, 2002, a bill was adopted by the Dutch parliament introducing new legislation in order to counteract "dividend stripping". Parts of the new legislation relevant to the description below will have retroactive effect from April 27, 2001. Pursuant to the new legislation, a reduction, credit or refund of dividend withholding tax is denied if the recipient of the dividend is not the beneficial owner. The new legislation generally targets situations, commonly referred to as "dividend stripping", in which a shareholder retains its economic interest in shares, but tries to reduce the withholding tax cost on dividends by a transaction with another party. The Dutch tax authorities will also apply the proposed definition of beneficial ownership in the context of a tax treaty in respect of taxes on income and capital gains.

Dutch Income Tax And Corporate Income Tax. A non-resident shareholder will not be subject to Dutch income tax or corporate income tax with respect to dividends or capital gains derived from the common shares, provided that:

the common shares are not attributable to (1) a business or part of a business of the shareholder that is in whole or in part carried on through a permanent establishment, a deemed permanent establishment or a permanent representative in the Netherlands, which we refer to as a "Netherlands business", or to (2) a deemed "Netherlands business";

the shareholder does not have a substantial interest or a deemed substantial interest in Metron, or in any of Metron's subsidiaries, or in the event that such shareholder is a corporate entity and does have such interest, it forms part of the business assets of a business, other than a Netherlands business;

in the case of an individual shareholder, the dividends received from the common shares and capital gain realized in respect of a disposal of the common shares are not regarded, for Dutch income tax purposes, as "taxable income from one or more activities performed in the Netherlands not being activities that generate taxable profit or taxable wages" (belastbaar resultaat uit overige werkzaamheden in Nederland); and

the shareholder is not an individual who has made an election to be treated as a resident of the Netherlands for Dutch income tax purposes.

In general terms, a substantial interest in the share capital of Metron does not exist if the non-resident shareholder, his/her spouse, registered partner, other persons sharing his/her household or certain of their relatives by blood or marriage in the direct line (including foster children), do not hold alone or together, directly or indirectly, the ownership of, or an option to acquire, common shares representing 5% or more of the total issued and outstanding capital, or the issued and outstanding capital of any class of shares of Metron, or profit sharing rights representing an entitlement to at least 5% of the annual profit of Metron or of the proceeds upon the liquidation of Metron. The substantial interest tax rate for individuals is 25%. The maximum tax rate for corporate shareholders is 34.5%. A holder of common shares entitled to the benefits of the Treaty will be protected under the Treaty from Dutch taxation on income or capital gains derived from a substantial interest in the share capital of Metron.

Dutch Gift And Inheritance Tax. A gift or inheritance of our common shares from a holder of our common shares who is not a resident nor deemed to be a resident of The Netherlands, will not be subject to Dutch gift and inheritance tax, unless: (1) such shareholder, at the time of the gift has, or at the time of death had, a business or an interest in a business that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which business or part thereof, as the case may be, the common shares are or were attributable; or (2) in the case of a gift of the common shares by an individual who at the date of the gift was neither resident nor deemed to be resident of the Netherlands, such individual dies within 180 days after the date of the gift, while at the time of death being resident or deemed to be resident of the Netherlands.

As of January 1, 2001, the Dutch net wealth tax has been abolished.

HOLDERS OF MTNV SHARES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS ABOUT THE DUTCH TAX CONSEQUENCES TO SUCH SPECIFIC HOLDER OF THE HOLDING OF MTNV SHARES.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data contained elsewhere in this Annual Report on Form 10-K. In March 2000, Metron Technology (United Kingdom) Ltd., a wholly owned subsidiary of the Company, acquired all the common shares of Shieldcare Ltd., a company incorporated in Scotland. In November 2000, the Company acquired all the common shares of Intec Technology (S) Pte. Ltd., a company incorporated in Singapore. Both these acquisitions have been accounted for as purchases. Accordingly, the Consolidated Statement of Operations Data includes the results of operations for our

purchase acquisitions from the acquisition date. The historical results presented below are not necessarily indicative of the results to be expected for any future fiscal year.

	Fiscal Year Ended May 31,				
	1998	1999	2000	2001	2002
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net revenue	$ 275,024	$ 228,618	$ 337,551	$ 517,441	$ 232,240
Operating income (loss)	$ 3,118	$ (6,618)	$ 12,437	$ 23,746	$ (1,998)
Cumulative effect of change in accounting principle	$	$	$	$ 1,465	$
Net income (loss)	$ 1,102	$ (4,534)	$ 7,752	$ 11,510	$ (2,768)
Basic earnings (loss) per common share before cumulative effect of change in accounting principle	$ 0.11	$ (0.44)	$ 0.66	$ 0.98	$ (0.22)
Cumulative effect of change in accounting principle	$	$	$	$ (0.11)	$
Basic earnings (loss) per common share	$ 0.11	$ (0.44)	$ 0.66	$ 0.87	$ (0.22)
Diluted earnings (loss) per common share before cumulative effect of change in accounting principle	$ 0.10	$ (0.44)	$ 0.60	$ 0.94	$ (0.22)
Cumulative effect of change in accounting principle	$	$	$	$ (0.11)	$
Diluted earnings (loss) per common share	$ 0.10	$ (0.44)	$ 0.60	$ 0.83	$ (0.22)
Pro forma amounts assuming change in accounting principle is applied retroactively					
Net income (loss) (a)	N/A	$ (5,308)	$ 6,193		
Basic earnings (loss) per common share (a)	N/A	$ (0.51)	$ 0.53		
Diluted earnings (loss) per common share (a)	N/A	$ (0.51)	$ 0.48		
Shares used for basic earnings (loss) per common share calculation	10,369	10,325	11,675	13,260	12,870
Shares used for diluted earnings (loss) per common share calculation	11,112	10,325	12,896	13,793	12,870

(a) Pro-forma amounts for fiscal year 1998 assuming the change in accounting principle is applied retroactively is not presented due to the lack of contractual information necessary to reasonably estimate and compute such amounts.

	As of May 31,				
	1998	1999	2000	2001	2002
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 10,387	$ 10,601	$ 22,911	$ 27,769	$ 19,949

	As of May 31,				
Total assets	114,161	99,625	181,369	213,499	163,636
Long-term debt	1,379	1,141	1,227	979	1,791
Total shareholders' equity	36,049	29,955	72,515	80,143	80,369

ITEM 7. 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 Item 1 Business Risk Factors and elsewhere in this Annual Report on Form 10-K. 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 elsewhere in this Annual Report on Form 10-K. This discussion of fiscal 2000, 2001 and 2002 refers to the fiscal years which ended on May 31 of each year.

Overview

Metron Technology N.V. is a holding company organized under the laws of The Netherlands. Through our various operating subsidiaries, we are a leading global provider of marketing, sales, service and support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers. We operate in Europe, Asia (except Japan) and the United States. We were founded in Europe in 1975 by our two corporate shareholders, who together owned approximately 33% of our shares as of May 31, 2002, and by certain of our former management. In 1995, we reorganized Metron to combine three Asian companies as reorganization under common control, and purchased Transpacific Technology Corporation ("TTC") and its subsidiaries. TTC was founded in California in 1982 as a semiconductor equipment manufacturers' representative company and expanded into the equipment distribution business in 1990. In July 1998, we acquired T.A. Kyser Co., which we refer to as Kyser, in a transaction accounted for as a pooling of interests. Founded in 1977, Kyser markets and sells materials in nine states within the United States, principally to the semiconductor industry. In March 2000, we acquired Shieldcare Ltd., a company incorporated in Scotland, in a transaction accounted for as a purchase. Shieldcare is an authorized supplier of critical parts cleaning services to major OEM and device manufacturing companies worldwide. The company also operates as an authorized re-manufacturer of physical vapor deposition ("PVD") equipment for a well-known supplier of automated systems for chemical vapor deposition ("CVD"). Effective November 17, 2000, we completed our acquisition of all the outstanding shares of Intec Technology (S) Pte. Ltd., a privately held company incorporated in Singapore. The transaction was accounted for as a purchase, and the results of operations of Intec have been included in our consolidated financial statements from December 1, 2000. Intec is a distributor of cleanroom products, and a manufacturer of cleanroom garments, and sells these products in Singapore and Malaysia. In March 2002, we purchased the AG Associates rapid thermal processing ("RTP") products from Mattson Technology. In May 2002, we acquired certain assets of Advanced Stainless Technologies ("AST"), a small Texas-based manufacturer of electro-polished stainless steel tubing and fittings. The transaction has been accounted for as a purchase.

We derive our revenue from sales of materials, equipment, service and spare parts to the semiconductor industry, as well as from commissions on sales of equipment and materials. In general, we recognize revenue for most of an equipment sale and all other product sales upon the shipment of goods to customers. We defer the portion of our equipment revenue associated with our installation and warranty obligations, and, depending on the terms of the sale, we sometimes defer also a portion of the sales price attributable to the equipment. We recognize installation revenue, and any deferred equipment revenue, upon technical acceptance of the equipment by the customer's fab personnel, and we amortize the deferred warranty revenue over the applicable warranty period. We recognize service revenue in the periods the services are rendered to customers.

In each of our three fiscal years ended May 31, 2002, a majority of our revenue came from the sale of products from five or fewer of the semiconductor materials and equipment companies we represent, who we refer to as our principals. In fiscal 2002, 11.5% of our total revenue was generated from the sale of products manufactured by FSI, 13.1% from the sale of products manufactured by Entegris and 17.1% from the sale of products manufactured by Cabot Microelectronics. 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 will be June 1, 2003. Metron will continue to market Cabot Microelectronics products in Israel.

In addition to representing two of our largest sources of revenue, FSI and Entegris are also our two largest shareholders, holding 20.7% and 12.0%, respectively, of our outstanding shares. Although the principals that comprise our largest sources of revenue may change from period to period, we expect that revenue from the sale of products of a relatively small number of principals will continue to account for a substantial portion of our revenue for at least the next five years.

On January 8, 2001 we entered into an agreement with Entegris to modify our existing distribution relationship. On February 13, 2001, we entered into a transition agreement with Entegris whereby Entegris assumed direct sales responsibility for products from its Microelectronics Group in Europe beginning April 1, 2001, and in Asia beginning May 1, 2001. We received revenue for orders received before the above dates and shipped within the 90 days following these dates. In addition, on March 1, 2001, we entered into a new distribution agreement with Entegris, under which we will continue to distribute Entegris' Fluid Handling Group product line in all regions in Europe, Asia, and parts of the United States covered under the previous distribution agreements. The new distribution agreement will be in effect until August 31, 2005. Revenue from products distributed for the Microelectronics Group under the previous distribution agreement for the years ended May 31, 2000, 2001 and 2002 were $51,420,000, $75,245,000 and $4,273,000, respectively.

As consideration for modifying the existing distribution agreement, Entegris transferred 1,125,000 shares of the Metron common shares it owed to us, and agreed to make cash payments totaling $1,750,000 over a 15-month period. We will record a gain on the modification of $8,365,000. This gain will be recognized on a straight-line basis as other operating income over the period from the date of the modification, February 13, 2001 until August 31, 2002, which represents the remaining effective term of the original agreement. The common shares transferred by Entegris represented $6,615,000 of the gain, which was equal to their fair market value on February 13, 2001. We operate in all areas of the world in which there is a significant semiconductor industry, except Japan. The following tables show our sales in Europe, Asia and the United States in dollars and as a percentage of net revenue for each of the three fiscal years ended May 31, 2000, 2001 and 2002:

	Year Ended May 31,		
	2000	2001	2002
	(in thousands)		
Net revenue			
Europe	$ 164,914	$ 284,700	$ 125,235
Asia	98,015	115,758	48,127
United States	74,622	116,983	58,878
Total net revenue	$ 337,551	$ 517,441	$ 232,240

	Year Ended May 31,		
	2000	2001	2002
	(percentage of net revenue)		
Net revenue			
Europe	48.9%	55.0%	53.9%
Asia	29.0	22.4	20.7
United States	22.1	22.6	25.4
Total net revenue	100.0%	100.0%	100.0%

We are organized into two worldwide operating divisions, equipment and materials. Our equipment division derives the majority of its revenue from the sale of capital equipment. The remainder of the division's revenue comes from service, which includes the installation, maintenance and repair of semiconductor equipment, spare part sales and commissions. With the acquisition of Shieldcare, and later of the AG Associates RTP products, we added new revenue categories; revenue from the cleaning of shields used in the manufacturing of semiconductors and revenue from the sale of legacy equipment that we manufacture ourselves. Our equipment sales represent products that support various production activities for the manufacture of semiconductors. The sales of the equipment division principally represent a small number of

high-dollar value transactions. In the majority of cases where the equipment is externally sourced, i.e. is manufactured by one of our principals, the equipment is shipped directly to the customer by the manufacturer. As a result, our equipment sales are significantly affected by the pattern of capital spending by customers, the timing of customer orders, the timing of product shipments by the equipment manufacturer, and the timing of customer acceptances.

Our materials division derives the majority of its revenue from sales of materials and components. The remainder of the division's revenue comes from commissions. The materials and components we sell are used both in the production of semiconductors and in the building and maintenance of semiconductor equipment and manufacturing facilities. Materials include products such as wafer surface preparation materials, fluid-handling components such as fittings, valves and tubing, and disposable cleanroom clothing. Sales of these products tend to be less cyclical than sales of semiconductor equipment and generally offer higher gross margins than externally sourced equipment.

Critical Accounting Policies and Estimates

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

Revenue recognition. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB101"), which was adopted by the Company as of June 1, 2000. 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 and warranty services 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 precise terms of the transaction, we also defer a portion of the residual amount attributable to the equipment itself. The installation and warranty revenue we defer for each machine sold requires us to estimate the amount of time we expect it to take to install the equipment and to maintain the equipment during the warranty period. 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 recognize deferred warranty revenue ratably over the warranty period.

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

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

Goodwill and intangibles. As a result of some of our business acquisitions, we have recorded approximately $8.3 million in goodwill and other intangible assets. The determination of the value of such intangible assets requires us to make estimates and assumptions regarding future cash flows and the lives of technology. During fiscal 2002, we amortized $1.3 million of goodwill. Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* became effective on June 1, 2002. Goodwill will no longer be amortized with the adoption of SFAS 142. In lieu of amortization, we are required to perform an impairment review of our goodwill using a two step test. The initial step is to identify any potential impairment in the first half of fiscal 2003. The second step measures the impairment loss, if any, and must be completed by the end of fiscal 2003. An impairment review of goodwill will be performed annually thereafter. We expect to complete our initial review during the first six months of fiscal 2003. Until the review is completed, we will not know for certain whether or not we will need to record an impairment charge, or whether such charge, if any, will be material.

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 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.

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 revenues, we

recorded operating losses during the second and third quarters of fiscal 2002. While operations were slightly positive in our fourth quarter, we experienced an operating loss for fiscal 2002 as a whole. We believe that, despite short-term slowdowns, the semiconductor industry has long-term growth opportunities. As a result, we believe we must 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. Accordingly, we did not reduce our operating expenses sufficiently to prevent us from recording an operating loss in fiscal 2002. We expect that revenues for the first quarter of fiscal 2003 will be higher than our revenues in the fourth quarter of fiscal 2002.

The following table summarizes our historical results of operations as a percentage of net revenue for the fiscal years indicated. The historical financial data for fiscal 2000, 2001 and 2002 were derived from, and should be read in conjunction with, our audited Consolidated Financial Statements and the related Notes included elsewhere in this Annual Report on Form 10-K.

	Fiscal Year Ended May 31,		
	2000	**2001**	**2002**
Net revenue	100.0%	100.0%	100.0%
Cost of revenue	81.8	82.2	80.3
Gross margin	18.2	17.8	19.7
Selling, general, administrative and other expenses	14.5	13.4	22.6
Other operating income, net of associated costs		0.3	2.5
Restructuring and merger costs			0.5
Operating margin (loss)	3.7%	4.7%	(0.9)%

The following table shows our materials division and equipment division revenue as a percent of net revenue, together with the related gross margins:

	Fiscal Year Ended May 31,		
	2000	**2001**	**2002**
Net revenue			
Equipment division	50.2%	50.7%	46.3%
Materials division	49.8	49.3	53.7

Gross margins

	Fiscal Year Ended May 31,		
Equipment division	15.6%	14.8%	19.7%
Materials division	20.9	20.8	19.7

Net Revenue

Equipment division. The equipment division's net revenue in fiscal 2002 was $107.6 million, down $154.6 million, or 59.0%, from $262.2 million in fiscal 2001. Our fiscal 2001 equipment division revenue was up $92.8 million, or 54.8%, from $169.4 million in fiscal 2000. Equipment division revenue grew during fiscal 2001 in all geographic regions, with particularly strong growth in Europe and the United States. However, in the fourth quarter of fiscal 2001 we began to experience a severe slowdown. which continued until the third quarter of fiscal 2002. Despite a modest sequential increase in revenues in the fourth quarter of fiscal 2002, for the fiscal year as a whole we experienced significant revenue reductions in all geographic regions, particularly in Europe.

Materials division. The materials division's net revenue in fiscal 2002 was $124.6 million, down $130.6 million, or 51.2%, from $255.2 million in fiscal 2001. The materials division's net revenue in fiscal 2001 was up $87.0 million, or 51.8%, from $168.2 million in fiscal 2000. Revenue grew sequentially from the two year low in the first quarter of fiscal 1999, when the industry began to

emerge from its prolonged downturn, and continued to grow through the third quarter of fiscal 2001 in all geographic regions. As with the equipment division, we experienced a severe slowdown beginning with our fourth quarter of fiscal 2001 and continuing until the third quarter of fiscal 2002. Despite a 26% sequential increase in revenues in the fourth quarter of fiscal 2002, which were only 1.4% below the revenues reported in the first quarter, for the fiscal year as a whole we experienced significant revenue reductions in all geographic regions, particularly in Europe.

Gross Margins

Equipment division. Gross margins in the equipment division increased by 490 basis points in fiscal 2002. Margins improved in all revenue categories, with the majority of the increase coming from service and spare parts. Service margins improved as a result of the recognition of installation revenues deferred from earlier periods. Commissions, which have no associated cost of goods sold, also contributed to the margin improvement because they represented a higher proportion of division revenue in fiscal 2002 than in fiscal 2001. Equipment division gross margins for fiscal 2001 declined by 80 basis points when compared to fiscal 2000. The decline was due primarily to the smaller proportion of sales represented by spare parts revenues in fiscal 2001 and to the start-up costs of new parts cleaning facilities in Israel and Singapore.

Materials division. Gross margins in the materials division declined 110 basis points in fiscal 2002. While product margins remained essentially flat, warehousing costs increased on a relative basis, which, coupled with a reduction in commission revenue, resulted in lower overall margins. Gross margins in the materials division in fiscal 2001 were essentially unchanged from fiscal 2000.

Selling, General, Administrative and Other (SG&A) Expenses. SG&A expenses in fiscal 2002 were $52.4 million, down $17.2 million, or 24.7%, from fiscal 2001. SG&A expenses in fiscal 2001 were $69.6 million, up $20.6 million, or 42.1%, from fiscal 2000. Our acquisition of Intec accounted for $0.9 million and $0.5 million of SG&A in fiscal 2001 and 2002, respectively.

SG&A expenses consist principally of salaries and other employment-related costs, occupancy costs, travel and entertainment, communications and computer-related expense, trade show and professional services, depreciation and amortization of acquisition goodwill. Our SG&A expenses are a function principally of our total headcount. Almost 60% of our operating expenses consist of salaries and other employment-related costs.

The decrease in SG&A expense in fiscal 2002 was due principally to lower personnel expenses amounting to $11.5 million, which includes incentive plans and bonuses, and lower travel and entertainment expense amounting to $2.5 million. In the fourth quarter, we succeeded in substantially reducing the amount of receivables that were over 90 days. Consequently, we reduced our provision for doubtful accounts by $1.1 million. The increase in SG&A expenses in fiscal 2001 was primarily due to increases in headcount, travel and incentive plan expense. In addition, in fiscal 2001, we increased our allowance for doubtful accounts as a result of the increase in the level of our accounts receivable, the proportion of our accounts receivable which were not being paid in accordance with agreed terms and the deteriorating short-term outlook for the industry.

Restructuring costs. Restructuring costs of $1.1 million incurred during fiscal 2002 comprise termination costs of $0.7 million for a reduction in head count of 56 employees and abandonment of a lease amounting to $0.4 million. Of the reduction in headcount totaling 56 employees, 27 worked in the equipment division, 17 in the materials division and 12 in finance and administration. Restructuring costs of $0.4 million incurred during fiscal 2002 represent the costs of an abandoned leasehold in the United States. This cost represents the estimated difference between the total discounted future sublease income and our lease commitments relating to this space. The charge is an estimate and may be adjusted if we obtain a sublease for the space and the actual sublease income is significantly

different from the estimate. If we are not successful in subleasing our unused office space, we may be required to take an additional charge for the balance of the future lease cost. At May 31, 2002, no liability remained for the termination costs, and the liability pertaining to the abandoned leasehold was approximately $0.4 million.

Other Operating Income, Net of Associated Costs. On January 8, 2001, we entered into an agreement with Entegris to modify our existing distribution relationship. On February 13, 2001, we entered into a transition agreement with Entegris whereby Entegris assumed direct sales responsibility for products from its Microelectronics Group in Europe beginning April 1, 2001, and in Asia beginning May 1, 2001. On March 1, 2001, we entered into a new distribution agreement with Entegris, under which we 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.

As consideration for modifying the existing distribution agreement, Entegris transferred 1,125,000 of the Metron common shares it owed to us and agreed to make cash payments totaling $1.75 million over a 15-month period. The total gain of $8.4 million is being recognized on a straight-line basis as other operating income over the period from the date of the modification, February 13, 2001, until August 31, 2002, which represents the remaining effective term of the original agreement. The common shares transferred by Entegris represented $6.6 million of the gain, which was equal to their fair market value on February 13, 2001.

Loss From Impairment of Investment. During fiscal 2002, we recorded a loss of $1.1 million for an estimated "other than temporary" impairment in the value of our investments in Advanced Stainless Technologies, Inc. ("AST"), and Abeto GmbH ("Abeto"). $0.4 million of the loss was recorded against our equity investment in AST, a Texas-based manufacturer of specialty stainless steel tubing. The remainder of the loss pertained to Abeto, an investment we made in May 2000. Abeto was established in September 1999 as a spin-off from Infineon Technologies AG to provide outsource services in the reclaim and refurbishment of packaging materials for the semiconductor industry. During the fourth quarter of fiscal year 2002, we assessed Abeto's ability to continue as a going concern without additional financial support, and in the fourth quarter, as a result of our assessment, we recorded an impairment loss of $0.7 million.

Other Income (Expense).

The following table summarizes the components of other income (expense).

	Year Ended May 31,		
	2000	2001	2002
	(in thousands)		
Foreign exchange gain (loss)	$ 443	$ (877)	$ (197)
Interest income	1,008	867	397
Interest expense	(1,760)	(1,341)	(1,323)
Other income	574	468	269
Other income (expense)	$ 265	$ (883)	$ (854)

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-year period ended May 31, 2002, we entered into contracts to hedge firm purchase commitments, to hedge the maturities of foreign currency denominated liabilities with foreign currency denominated assets and to hedge differences existing between foreign currency assets and liabilities. The currencies in which we purchase forward

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exchange contracts have numerous market makers to provide ample depth and liquidity for our hedging activities. In the third quarter of fiscal 2001, we had an exchange loss of $0.5 million, which was primarily the result of the sudden and significant appreciation of the euro against the United States dollar in December 2000.

Interest income represents primarily earnings on our available cash balances. The decrease in our interest income in fiscal 2002 is a result of lower average cash balances and of declining interest rates. The decrease in fiscal 2001 represents utilization of our short-term investments for acquisitions and capital expenditures. Interest income for fiscal 2000 represents primarily interest earned from the investment of the proceeds from our initial public offering in short-term investments.

Interest expense for fiscal 2001 decreased primarily due to a reduction of interest rates. Our interest expense for fiscal 2000 increased primarily as the result of increased borrowings to support the increased working capital requirements associated with higher revenues.

Other income for fiscal 2002 and 2001 consisted of various miscellaneous non-operating income. In fiscal 2000 other income consisted of various miscellaneous income, and the proceeds from the exercise and sale of stock warrants held in a non-related principal.

Provision for Income Taxes. In fiscal 2002, our effective income tax rate was a benefit of 31.9%. The effective rate was lower than The Netherlands' statutory tax rate of 35%, primarily because of non-deductible losses in Asia, and tax losses in Asia for which we recorded a valuation allowance, which eliminates any benefit to our effective tax rate.

In fiscal 2001, our effective income rate was 42.8%. The effective rate was higher than The Netherlands' statutory tax rate of 35%, primarily because of higher tax rates in countries other than The Netherlands where we do business, and non-deductible losses in Asia.

In fiscal 2000, our effective income tax rate was 38.0%. The rate was higher than The Netherlands' statutory tax rate primarily due to an additional assessment in Germany stemming from the restructuring in fiscal 1997 of our German subsidiary's Italian branch, and an increase in goodwill amortization, a non-deductible expense, which resulted from our acquisition of Shieldcare.

Liquidity and Capital Resources

We define liquidity as our ability to generate resources to pay our current obligations and to finance our growth during periods of business expansion. Our principal requirement for capital is for working capital to finance receivables and inventories, and to a lesser extent to fund major capital expenditures such as parts cleaning facilities.

Until we completed our initial public offering in late November 1999, our principal sources of liquidity were cash flow from operations and bank borrowings. Our working capital, current assets less current liabilities, at May 31, 2002 was $50.1 million compared to $55.1 million at May 31, 2001. Our current ratio, current assets divided by current liabilities, was 1.6 at May 31, 2002 and 1.4 at May 31, 2001.

Operating Activities.

Cash flows generated by operating activities in fiscal 2002 were $1.6 million, which represents a $3.5 million decline from fiscal 2001. Our net loss plus non-cash items included in net loss totaled $(4.2) million in fiscal 2002, a decrease of $22.1 million from fiscal 2001. Changes in assets and liabilities due to a substantial decrease in receivables, the reduction of inventories, partially offset by the reductions in payables generated $5.8 million in cash. The cash generated by changes in assets and liabilities more than offset the net loss plus non-cash items.

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Cash flows generated by operating activities in fiscal 2001 were $5.2 million, which represents an $11.0 million improvement from fiscal 2000. Net income plus non-cash items included in net income totaled $17.9 million in fiscal 2001, an increase of $6.8 million from fiscal 2000. Changes in assets and liabilities absorbed $12.8 million in fiscal 2001; changes in receivables and inventories offset by increases in payables absorbed $29.1 million, reflecting higher sales in fiscal 2001 and the fact that our customers generally did not pay us as promptly as we are required to pay our suppliers. The comparable amounts in fiscal 2000 were; changes in assets and liabilities $17.0 million; changes in receivables and inventories offset by increases in payables $23.5 million.

Investing Activities.

Our capital expenditures for property, plant and equipment totaled $12.2 million for fiscal 2002, up from $9.6 million for the same period in fiscal 2001. We spent approximately $2.9 million in fiscal 2002 to build our new parts cleaning facility in The Netherlands and to improve our facility in Scotland, and we invested $5.1 million in our new operations management information system. We estimate that our total capital expenditures in fiscal 2003 will be approximately $4.0 million, of which $1.0 million pertains to our new operations management information system. We estimate that the total costs of the new management information system will be $12.0 to $15.0 million over an approximately 24 to 30 month period.

Our capital expenditures for property, plant and equipment totaled $9.6 million for fiscal 2001, up from $3.5 million for the same period in fiscal 2000. We spent approximately $4.4 million in fiscal 2001 to build our new parts cleaning facilities in Singapore and Israel, and we invested $2.6 million in our new operations management information system. We invested $1.0 million for an approximately 20% interest in Advanced Stainless Technologies, Inc. (AST), a Texas-based manufacturer of electro-polished stainless steel tubes and fittings for ultra high purity systems.

In fiscal 2000, we invested $33.4 million from the proceeds of our initial public offering to purchase short-term investments, and received $30.1 million from the sale of those investments. We invested $9.7 million of net cash to acquire all the common shares of Shieldcare Ltd., and invested $0.7 million in Abeto GmbH. Abeto was established in September 1999 as a spin-off from Infineon Technologies AG to provide outsource services in the reclaim and refurbishment of packaging materials for the semiconductor industry. Our capital expenditures for property, plant and equipment totaled $3.5 million for fiscal 2000 representing expenditures for leasehold improvements, computer and communications equipment.

Financing Activities.

Equity. In fiscal 2002, we received $1.0 million from employees for the purchase of approximately 76,000 common shares through our employee stock purchase plan, and approximately 160,000 common shares from the exercise of stock options. In fiscal 2001, the Company received $1.4 million from employees for the purchase of approximately 79,000 common shares through its employee stock purchase plan, and 171,000 common shares from the exercise of stock options and related tax benefits. In fiscal 2000, we completed our initial public offering with the issuance of 2,862,500 common shares, and received net proceeds of $33.3 million. In fiscal 2000, we also received $1.1 million from the exercise of stock options by our employees.

Debt. In fiscal 2002, we increased our long-term debt by $1.5 million, principally as a result of the acquisition of the assets of AST. In fiscal 2001, we increased our credit facilities to keep pace with increased revenues, and increased our short-term borrowings by $6.2 million.

Current and future position. As of May 31, 2002, the Company had $19.9 million of cash and cash equivalents and $20.2 million of short-term borrowings under its various lines of credit. We believe that

these funds, combined with currently available lines of credit and expected cash flows from operations, will be sufficient to meet the Company's cash needs for fiscal 2003 at current operating levels. However, if quarterly revenues increase materially, we will need to raise additional working capital from external sources to permit us to conduct our operations in the ordinary course of business through fiscal 2003. While we currently expect to be able to raise additional working capital to support increased revenues, we cannot give any assurance that additional financing will be available on terms acceptable to the Company, or at all. Our current lines of credit are typically subject to periodic, generally annual, review, and we cannot give any assurance that our lenders will agree to renew these facilities on terms acceptable to the Company, or at all. Lenders might base a decision not to renew on general industry conditions without regard to our financial performance. In the event that our current lenders decide not to renew our current facilities, we believe that we would have access to alternate sources to enable us to meet the Company's cash needs for fiscal 2003. As of May 31, 2002, we were in violation of covenants to maintain specified interest coverage ratios on our building mortgage and on a small credit facility in The Netherlands. To resolve these issues, in June 2002, we repaid our building mortgage, and, in July 2002, we repaid a portion of our borrowing on the credit facility to reduce our borrowing to the newly agreed lower facility limit. With the exception of the reduced approximately $1 million credit facility in The Netherlands, as to which we do not expect to meet the interest coverage covenant at August 31, 2002, we believe that we will be able to renew our various lines of credit as they expire, and expand them as necessary. Certain of our credit facilities contain other covenants that require us to meet or maintain certain minimum ratios, but we expect to meet all such other financial covenants. In addition, our ability to generate our anticipated cash flow from operations is subject to the risks and uncertainties discussed under Item I. Part 1 Risks Related to Metron. This includes, in particular, our dependence upon a few key principals 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.

We also intend to seek additional financing during the next twelve months to meet the Company's working capital requirements for fiscal 2004. Any inability on our part to renew and expand our existing credit facilities or to raise additional funds through public or private debt or equity financing or other sources could result in the Company not achieving its longer-term business objectives.

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. We do not currently have any specific plans, agreements or commitments related to any such significant transaction and are not currently engaged in any negotiations related to any such transaction. We have no plans to pay any dividends on our common shares and intend to retain all of our future profits to fund future growth. 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. The issuance of additional equity or debt securities convertible into equity could result in dilution to our existing shareholders. In July 2002, in order to give ourselves additional financing flexibility, we filed a shelf registration statement covering up to $15 million of common shares.

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 listed under Item I. Part 1 Risks Related to Metron and elsewhere in this Annual Report on Form 10-K.

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The following table summarizes our contractual cash obligations as of May 31, 2002:

	Payments Due By Period				
Contractual Obligations and Commercial Commitments	**Total**	**Less than 1 Year**	**2 3 Years**	**4 5 Years**	**After 5 Years**
	(Dollars in thousands)				
Long-term debt including current portion	$ 2,689	$ 898	$ 816	$ 975	$
Short-term borrowing obligations	19,396	19,396			
Operating lease obligations	17,351	5,154	6,311	3,204	2,682
Commercial commitments	39,177	39,177			
Deferred credits and other long-term liabilities	3,212	236	736	82	2,158
Total contractual obligations and commercial commitments for cash	$ 81,825	$ 64,861	$ 7,863	$ 4,261	$ 4,840

Transactions with related parties:

Two of Metron's shareholders, FSI and Entegris, own approximately 20.7%, and 12.0%, respectively of the outstanding shares of the Company as of May 31, 2002. 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 years ended May 31, 2000, 2001, and 2002 such purchases totaled approximately $103.7 million, $191.4 million, and $24.4 million, respectively. At May 31, 2001, and 2002, amounts payable to these affiliates were $28.9 million and $5.8 million, respectively. At May 31, 2001, and 2002, amounts receivable from these affiliates were $0.6 million and $0.2 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.

In conjunction with the acquisition of T.A. Kyser Co., we assumed a note from a shareholder for purchase of retired treasury shares. The note had a remaining balance of $0.1 million at May 31, 2002, an annual interest rate of 6.65% and was paid in July 2002.

Bank Borrowing Facilities

The following table summarizes our material borrowing facilities as of May 31, 2002:

Lender	U.S. $ Equivalent Facility Amount	Amount Currently Outstanding	Amount Available	Recent Interest Rate
	(Dollars in thousands)			
Compass Bank	$ 10,000	$ 9,184	$ 816	3.8%
Royal Bank of Scotland	3,416	3,416		5.3%
Deutsche Bank	4,793	4,538	255	5.5%
ING Bank	2,127	1,212	915	6.0%
All Others	3,488	2,173	1,315	3.5 to 8.5%
Total	$ 23,824	$ 20,523	$ 3,301	

In June 2002, the Company's Singapore subsidiary obtained an additional $2.5 million revolving credit facility with an interest rate based on the bank prime rate plus 0.25%. As of July 2002, the ING Bank facility has been reduced to the equivalent of 1.0 million EUROS or $0.9 million US Dollars.

Effect of Currency Exchange Rate Fluctuations and Exchange Rate Risk Management

A significant portion of our business is conducted outside of the United States through our foreign subsidiaries. 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. 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 May 31, 2002, 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 US $000	Expiration Date
Euro	5,619	1,667	0.91	$ 109	October 2002
Israeli Shekel		4,572	4.27	711	June 2002
Japanese Yen	7,769		123.67	65	February 2003
Singapore Dollar	1,261		1.78	(3)	June 2002
				$ 882	

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See information/discussion appearing under the subcaption "Market Risk" of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of Metron Technology N.V.

In our opinion, the accompanying consolidated balance sheet as of May 31, 2002 and the related consolidated statement of operations, of shareholders' equity and comprehensive income (loss) and of cash flows, present fairly, in all material respects, the financial position of Metron Technology N.V. and its subsidiaries at May 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule under Item 14(a)(2) presents fairly, in all material respects, the information set forth therein for the year ended May 31, 2002 when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Jose, California
July 8, 2002

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Metron Technology N.V.:

We have audited the accompanying consolidated balance sheet of Metron Technology N.V. and subsidiaries as of May 31, 2001, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended May 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metron Technology N.V. and subsidiaries as of May 31, 2001, and the results of their operations and their cash flows for each of the years in the two-year period ended May 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Mountain View, California
July 12, 2001

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METRON TECHNOLOGY N.V. CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands except per share data)

	Year ended May 31,		
	2000	**2001**	**2002**
Net revenue	$ 337,551	$ 517,441	$ 232,240
Cost of revenue	276,085	425,577	186,513
Gross profit	61,466	91,864	45,727
Selling, general, administrative and other expenses	49,029	69,563	52,390
Other operating income, net of associated costs		1,445	5,748
Restructuring and merger costs			1,083
Operating income (loss)	12,437	23,746	(1,998)
Equity in net loss of joint ventures	(206)	(185)	(112)
Loss from impairment from investments			(1,100)
Other income (expense), net	265	(883)	(854)
Income (loss) before income taxes	12,496	22,678	(4,064)
Income tax expense (benefit)	4,744	9,703	(1,296)
Net income (loss) before cumulative effect of change in accounting principle	7,752	12,975	(2,768)
Cumulative effect of change in accounting principle		1,465	
Net income (loss)	$ 7,752	$ 11,510	$ (2,768)
Basic earnings (loss) per common share			
Before cumulative effect of change in accounting principle	$ 0.66	$ 0.98	$ (0.22)

	Year ended May 31,		
Cumulative effect of change in accounting principle		$ (0.11)	
Basic earnings (loss) per common share	$ 0.66	$ 0.87	$ (0.22)
Diluted earnings (loss) per common share			
Before cumulative effect of change in accounting principle	$ 0.60	$ 0.94	$ (0.22)
Cumulative effect of change in accounting principle		$ (0.11)	
Diluted earnings (loss) per common share	$ 0.60	$ 0.83	$ (0.22)
Pro forma amounts assuming change in accounting principle is applied retroactively			
Net income (loss)	$ 6,193		
Basic earnings (loss) per common share	$ 0.53		
Diluted earnings (loss) per common share	$ 0.48		
Weighted average number of shares			
Basic	11,675	13,260	12,870
Diluted	12,896	13,793	12,870

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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METRON TECHNOLOGY N.V. CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except share and per share data)

	May 31,	
	2001	**2002**
ASSETS		
Cash and cash equivalents	$ 27,769	$ 19,949
Accounts receivable, net of allowance for doubtful accounts of $2,861, and $1,786, respectively	88,833	42,160
Loan to officer/shareholder	141	110
Inventories, net	56,822	52,065
Prepaid expenses and other current assets	11,657	14,244
Total current assets	185,222	128,528
Property, plant and equipment, net	16,057	25,484
Intangible assets, net	9,606	8,292
Other assets	2,614	1,332
Total Assets	$ 213,499	$ 163,636

LIABILITIES AND SHAREHOLDERS' EQUITY

	May 31,	
Accounts payable	$ 34,490	$ 23,489
Amounts due to affiliates	28,913	5,788
Accrued wages and employee-related expenses	9,788	4,477
Deferred revenue	15,511	12,492
Deferred income	6,770	1,354
Short term borrowings and current portion of long-term debt	19,507	20,232
Amounts payable to shareholders	177	177
Other current liabilities	14,951	10,374
Total current liabilities	130,107	78,383
Long-term debt, excluding current portion	979	1,791
Other long-term liabilities	2,270	3,093
Total liabilities	133,356	83,267
Commitments (Note 13)		
Shareholders' equity:		
Preferred shares, par value EUR 0.44; Authorized: 10,000,000 shares; Issued and outstanding: none		
Common shares and additional paid-in capital, par value EUR 0.44; Authorized: 40,000,000 shares Issued: 14,195,787 and 14,431,238 shares, respectively Outstanding: 12,789,780 and 13,025,231 shares, respectively	38,714	39,749
Retained earnings	49,448	46,680
Cumulative other comprehensive loss	(7,427)	(5,468)
Treasury shares; 1,406,007 shares	(592)	(592)
Total shareholders' equity	80,143	80,369
Total liabilities and shareholders' equity	$ 213,499	$ 163,636

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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

	Year ended May 31,		
	2000	2001	2002
Cash flows from operating activities:			
Net income (loss)	$ 7,752	$ 11,510	$ (2,768)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Cumulative effect of accounting change		1,465	
Depreciation and amortization	2,754	4,747	5,058
Provision for doubtful accounts	388	2,190	(1,126)
Gain on modification of Entegris distribution agreement		(1,445)	(5,416)

	Year ended May 31,		
Deferred income taxes	289	(734)	(1,079)
Loss from impairment of investments			1,100
Other	(53)	204	76
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(39,288)	(7,217)	47,852
Loan to officer/shareholder	(202)	124	(31)
Inventories	(15,656)	(15,636)	6,491
Prepaid expenses and other current assets	428	(855)	(1,363)
Accounts payable	7,760	3,210	(11,001)
Amounts due to affiliates	25,246	(9,459)	(23,125)
Accrued wages and employee-related expenses	1,680	2,104	(5,311)
Deferred revenue	636	8,799	(3,019)
Deferred income		1,750	
Other liabilities	2,418	4,401	(4,696)
Net cash flows provided by (used in) operating activities	(5,848)	5,158	1,642
Cash flows from investing activities:			
Purchases of short-term investments	(33,359)		
Proceeds from sale of short-term investments	30,110	3,249	
Additions to property, plant, and equipment	(3,460)	(9,598)	(12,236)
Proceeds from the sale of property, plant, and equipment	768	113	316
Proceeds from the sale of stock warrant	184		
Additions to long-term investments	(848)	(1,011)	
Net cash received in conjunction with the acquisition of Intec		1,127	
Payment for the acquisition of Shieldcare, net of cash acquired	(9,685)		
Other assets	321	(340)	(154)
Other long-term liabilities	(196)	320	236
Net cash flows provided by (used in) investing activities	(16,165)	(6,140)	(11,838)
Cash flows from financing activities:			
Net increase in short-term borrowings	1,652	6,248	256
Proceeds from issuance of long-term debt	185	372	710
Principal payments on long-term debt	(309)	(385)	(435)
Principal payments on indebtedness to officer and shareholder	(874)	(89)	(62)
Proceeds from issuance of common shares	34,514	1,413	1,035
Net cash flows provided by financing activities	35,168	7,559	1,504
Effect of exchange rate changes on cash and cash equivalents	(845)	(1,719)	872
Net change in cash and cash equivalents	12,310	4,858	(7,820)
Beginning cash and cash equivalents	10,601	22,911	27,769
Ending cash and cash equivalents	$ 22,911	$ 27,769	$ 19,949

The accompanying Notes are an integral part of the Consolidated Financial Statements.

METRON TECHNOLOGY N.V. CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Common Shares and Additional Paid-in Capital						
	Shares	**Amount**	**Retained Earnings**	**Cumulative Other Comprehensive Loss**	**Treasury Shares**	**Total**	**Comprehensive Income (Loss)**
Balances at May 31, 1999	10,104	$ 3,030	$ 30,186	$ (3,130)	$ (131)	$ 29,955	
Net income			7,752			7,752	$ 7,752
Foreign translation adjustment				(1,679)		(1,679)	(1,679)
Release of rights under Buy-Sell Agreement		1,973				1,973	
Issuance of shares:							
Initial public offering	2,863	33,406				33,406	
Stock option exercises	222	1,108				1,108	
Balances at May 31, 2000	13,189	39,517	37,938	(4,809)	(131)	$ 72,515	$ 6,073
Net income			11,510			11,510	$ 11,510
Foreign translation adjustment				(2,618)		(2,618)	(2,618)
Receipt of treasury shares on modification of distribution agreement	(1,125)	(6,154)			(461)	(6,615)	
Issuance of shares:							
Acquisition of Intec	475	3,938				3,938	
Stock option exercises and employee stock purchase plan, including related tax benefits	251	1,413				1,413	
Balances at May 31, 2001	12,790	38,714	49,448	(7,427)	(592)	80,143	$ 8,892
Net loss			(2,768)			(2,768)	$ (2,768)
Foreign translation adjustment				1,663		1,663	1,663
Unrealized gain from foreign currency froward contracts				296		296	296
Stock option exercises and employee stock purchase plan	235	1,035				1,035	
Balances at May 31, 2002	13,025	$ 39,749	$ 46,680	$ (5,468)	$ (592)	$ 80,369	$ (809)

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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METRON TECHNOLOGY N.V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Metron Technology N.V. ("Metron" or the "Company") is a holding company organized under the laws of The Netherlands. Metron and its subsidiaries are engaged in the marketing, sales, service and provision of support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers in Europe, Asia (except Japan) and the United States. The majority of Metron's revenue is derived from sales of materials and equipment.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applicable in the United States of America. Certain prior period items have been reclassified to conform with the current year presentation. Conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future results may differ from these estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany balances and transactions have been eliminated. Assets and liabilities of the Company's foreign subsidiaries are translated to the US Dollar at the current year end exchange rates, while income and expenses are translated at the average exchange rates for the period.

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 SAB101, which was adopted by the Company as of June 1, 2000. Materials and other product sales are generally recognized on the shipment of goods to customers. Most equipment sales are recorded as "multiple element" transactions in which the portion of the sale represented by future installation and warranty services is deferred, and only the residual amount of the sale representing the equipment itself is recognized upon shipment to the customer. In certain circumstances, depending on the precise terms of the transaction, a portion of the residual amount attributable to the equipment itself is deferred. Installation revenue and deferred equipment revenue, if any, is recognized upon completion of the installation and the customer's acknowledgement that the equipment is available for production use. Warranty revenue is recognized ratably over the applicable warranty period. Generally, the Company warrants products sold to customers to be free from defects in material and workmanship for up to two years. Revenue from service agreements is recognized ratably over the agreement period, while revenue from service without a service agreement is recognized in the periods in which the services are rendered to customers.

As the result of the adoption of SAB 101, at June 1, 2000, $1,724,000 of previously recognized revenue from transactions without a defined payment date, net of $259,000 applicable taxes, was deferred. This amount has been recorded as the cumulative effect of a change in accounting principle. Revenue of $1,724,000, which was deferred as part of the cumulative effect, was recognized in the fiscal year ended May 31, 2001.

Cumulative Other Comprehensive Income (Loss)

Cumulative other comprehensive income (loss) consists of revenues, expenses, gains, and losses that are not included in net income, but rather are recorded directly in shareholders' equity. For the

fiscal years ended May 31, 2000, and 2001, the Company had one item of cumulative other comprehensive loss related to its foreign currency translation adjustment. For the fiscal year ended May 31, 2002, the Company had two items: a foreign currency translation adjustment; and an unrealized gain from foreign currency forward contracts.

Earnings Per Share

Basic earnings per common share are based on the weighted-average number of common shares outstanding in each year. Diluted earnings per common share reflect the potential dilution that could occur if dilutive securities were exercised into common shares. For all years presented the reported net income (loss) was used in the computation of basic and diluted earnings per common share.

A reconciliation of the shares used in the computation follows:

	Year ended May 31,		
	2000	**2001**	**2002**
	(Shares in thousands)		
Shares used for basic earnings (loss) per common share calculation	11,675	13,260	12,870
Shares used for stock options having a dilutive effect	1,221	533	

	Year ended May 31,		
Shares used for diluted earnings (loss) per common share calculation	12,896	13,793	12,870

The share equivalents excluded from diluted earnings per share for fiscal years 2000, 2001 and 2002, because their effect was anti-dilutive, amounted to 574,800, 1,158,632 and 945,574, respectively. These amounts represent options to purchase the Company's common shares and have a weighted-average exercise price of $17.03, $8.20 and $13.45, respectively. Excluded securities could potentially dilute basic earnings per share in the future.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less from the date of purchase.

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. Provision is made for slow-moving and obsolete items.

Foreign Currency Hedging

On June 1, 2001, the Company adopted Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). SFAS 133 requires that all derivatives be recorded on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify, or are not effective as hedges, must be recognized currently in earnings. Upon adoption, the Company recorded an immaterial cumulative transition adjustment to earnings reflecting the difference between the fair value amortization of forward contract time value, rather than the straight line amortization under SFAS 52. The immaterial cumulative transition adjustment to Cumulative Other Comprehensive Income (Loss) of $41,000 for the year ended May 31, 2002, reflects the fair value of forward contracts hedging inventory purchases that were previously held off the balance sheet.

Foreign Exchange Exposure Management

The Company generally acquires and sells products internationally in U.S. dollars. Occasional purchases are made in foreign currency, and Metron operates subsidiaries internationally generating

additional foreign currency exchange risk. Metron continues its policy of limited hedging forecasted and actual foreign currency risk with forward contracts that expire within 12 months. Derivatives are employed to eliminate, reduce or transfer selected foreign currency risks that can be confidently identified and quantified. The fair value of derivatives hedging non-functional currency monetary assets and liabilities are recorded on the balance sheet at fair value and recognized currently in earnings. In accordance with SFAS 133, hedges of anticipated transactions that are designated and documented at inception as Cash Flow Hedges are evaluated for effectiveness, excluding time value, at least quarterly. As the critical terms of the forward contract and the underlying (transaction) are matched at inception, forward contract effectiveness is calculated by comparing the change in value of the anticipated transaction to the spot to spot change in value of the related forward contracts, with the effective portion of the hedge accumulated in Other Comprehensive Income (OCI). Any residual change in fair value of the instruments, including time value excluded from effectiveness testing, are recognized immediately in Other Income and Expense. An immaterial amount of time value and no ineffectiveness were recognized in the year ended May 31, 2002.

Financial Instruments and Credit Risk

The carrying value of the Company's consolidated financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and debt approximates fair value. Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable.

The Company sells its products and services principally to leading, well-established semiconductor companies. Credit risk is concentrated in North America, Europe and Asia. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, does not require collateral from its customers. The Company has experienced write-offs of accounts receivable, and, based on an ongoing evaluation

of its accounts receivable collectibility and customer creditworthiness, believes it has adequately provided for potential losses, which have been within management's expectations.

The Company attempts to reduce its exposure arising from foreign currency fluctuations by matching the maturities of foreign currency assets and liabilities, mainly accounts receivable and accounts payable. Metron enters into forward exchange contracts that are designated to hedge differences existing between foreign currency assets and liabilities. Any gains or losses on these contracts are recognized in the income statement, and generally offset the resulting gains and losses on the related balance sheet items. Metron also uses forward exchange contracts that are designated to hedge firm purchase commitments. Any unrealized gains or losses are deferred and realized gains or losses adjust the carrying basis of assets acquired, principally inventory.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization is determined primarily by the straight-line method over the estimated useful life of the related asset, while leasehold improvements are depreciated over the lesser of the estimated useful life or the lease term, as follows:

Buildings and leasehold improvements	10 50 years
Computers and software	3 7 years
Machinery, equipment, vehicles and fixtures	3 17 years

Land is not depreciated. Gains and losses on disposals are included in income at amounts equal to the difference between the net book value of the disposed assets and the proceeds received upon disposal. Repair and maintenance costs are capitalized only if they extend the useful life of the related asset. The Company reviews the carrying value of these assets for impairment whenever events and

circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and disposition. Where undiscounted expected cash flows are less than the carrying value, an impairment loss is recognized for the difference between the estimated fair value and the carrying value of an asset. No impairment of property, plant, and equipment has been recognized in fiscal 2000, 2001 or 2002.

Intangible Assets

Intangible assets consist primarily of goodwill, representing the excess of the purchase price paid over the fair value of net assets acquired in business combinations. Goodwill is amortized in selling, general, administrative and other expenses over a 10-year period, using the straight-line method. Amortization of goodwill was $617,000, $1,201,000 and $1,314,000 for the fiscal years ended May 31, 2000, 2001 and 2002, respectively.

The Company will adopt the provisions of SFAS 142, *Goodwill and Other Intangible Assets* on June 1, 2002. In the future, goodwill and intangible assets determined to have an indefinite useful life that are acquired in a purchase business combination will not be amortized, but will be evaluated for impairment at least annually. Upon adoption of SFAS 142, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combinations and make any necessary reclassifications in order to conform with the new criteria in SFAS 141, *Business Combinations,* for recognition apart from goodwill.

As of June 1, 2002, the Company has approximately $8,292,000 of unamortized goodwill, which will be subject to the transition provisions of SFAS 141 and SFAS 142. Under the transition provisions of SFAS 142, the Company is required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations and make any necessary amortization period adjustments by the end of the first interim period after adoption, the quarter ending August 31, 2002. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS 142 within the first interim period of the year of adoption. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

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

step of the transitional impairment test.

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

The Company expects to complete its initial review during the first six months of fiscal 2003. Until the review is completed, the Company will not know for certain whether or not the Company will need to record an impairment charge or whether such charge, if any, will be material.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are provided to reflect the net tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, and of operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the final enactment date.

Accounting for Stock Options

The Company uses the intrinsic value-based method to account for employee stock-based compensation plans. The Company has adopted the disclosure requirements of SFAS 123, *Accounting for Stock Based Compensation*.

2. ACQUISITIONS

Effective November 17, 2000, the Company acquired all the common shares of Intec Technology (S) Pte. Ltd., a privately held company incorporated in Singapore. Intec is a supplier of cleanroom products and manufactures cleanroom garments in Singapore and Malaysia. Metron uses the assets acquired in the transaction to continue the operations of Intec. The transaction was accounted for as a purchase, and Intec's results of operations are included in the Company's consolidated financial statements from December 1, 2000.

As consideration for the acquisition, Metron issued 475,000 shares of the Company's common shares at an average share price of $8.29 and paid transaction costs of $300,000 for a total consideration of approximately $4,238,000. The excess of the purchase price over the approximately $3,132,000 fair value of the net identifiable assets acquired was recorded as goodwill and was being amortized on a straight-line basis over 10 years. Amortization of goodwill will cease on June 1, 2002 upon adoption of SFAS 142.

The following unaudited pro forma financial information presents the combined results of the operations of the acquisition of Intec and the Company as if the acquisition had occurred as of the beginning of fiscal year 2000, after giving effect for the amortization of goodwill. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the acquisitions and the Company constituted a single entity during the past two fiscal years.

	Year ended May 31,	
	2000	**2001**
	(unaudited)	
(Dollars in thousands, except per share amounts)		
Net revenue	$ 342,493	$ 525,936
Net income	$ 6,883	$ 12,337

Earnings per common share

	Year ended May 31,	
Basic	$ 0.59	$ 0.93
Diluted	$ 0.53	$ 0.89

In March 2002, the Company bought inventory and certain other assets of to the AG Associates RTP product line from Mattson Technologies. The value of the inventory was approximately $3,170,000.

In May 2002, the Company acquired certain assets and assumed certain liabilities of Advanced Stainless Technologies ("AST"). AST is a manufacturer of electro-polished stainless steel tubing and fittings. The transaction has been accounted for as a purchase, and AST's results of operations are included in the Company's consolidated financial statements from May 1, 2002. As consideration for the assets acquired, Metron assumed certain debt of AST amounting to $1,500,000 and contributed its 20% equity interest, which the Company held prior to the acquisition. Metron agreed to pay additional consideration of up to $1,200,000 in the form of the Company's common shares, if certain performance milestones are achieved over the next two fiscal years. The fair value of the net assets acquired was approximately $2,500,000. The excess of the fair value of the net assets over the consideration was approximately $404,000, has been recorded as a current liability until the amount of contingent consideration to be paid is determined.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	May 31,	
	2001	2002
	(Dollars in thousands)	
Land	$ 838	$ 838
Buildings and leasehold improvements	7,100	11,934
Machinery, equipment, vehicles and fixtures	14,631	16,882
Computers and software	4,366	10,969
Construction in progress	2,878	2,214
	29,813	42,837
Less accumulated depreciation and amortization	13,756	17,353
Net property, plant and equipment	$ 16,057	$ 25,484

Depreciation expense relating to property, plant and equipment for the years ended May 31, 2000, 2001 and 2002 was $2,129,000, $3,477,000 and $3,745,000, respectively.

4. LONG-TERM INVESTMENTS

The Company's long-term investments were as follows:

	May 31,	
	2001	2002
	(Dollars in thousands)	
MAP	$ 25	$ 14
AST	929	

	May 31,	
Abeto GmbH	699	
Long-term investments	$ 1,653	$ 14

Metron Technology (United Kingdom) Ltd., a wholly owned subsidiary of the Company, and WS Atkins Plc. own a 50/50 joint venture, Metron Atkins Partnership Limited ("MAP"). MAP was founded to provide services to the semiconductor industry, including but not limited to design and engineering of manufacturing facilities, facilities management and comprehensive technical support, but it is not currently active.

During May 2000, the Company acquired an approximately 16% interest in Abeto GmbH. Abeto was established in September 1999 as a spin-off from Infineon Technologies AG to provide outsource services in the reclaim and refurbishment of packaging materials for the semiconductor industry. During fiscal 2002, the Company assessed Abeto's ability to continue as a going concern without additional financial support. As a result of its assessment, the Company recorded an impairment loss of $699,000.

During August 2000, the Company acquired an approximately 20% interest in Advanced Stainless Technologies, Inc. ("AST"). During fiscal 2002, we recorded a loss of $538,000 against our investment in AST. Of this loss, we recognized the estimated "other than temporary" impairment in the value of our investment of $401,000. In April 2002, we acquired certain assets and assumed certain liabilities of AST. The transaction was accounted for as a purchase, and our equity interest was contributed as part of the acquisition. (See Note 2)

5. BORROWINGS AND DEBT

Short-term borrowings consist of the following:

	May 31,	
	2001	**2002**
	(Dollars in thousands)	
Lines of credit	$ 14,652	$ 9,184
Short-term credit facilities	4,489	10,212
Current portion of long-term debt	366	836
Short-term borrowings and current portion of long-term debt	$ 19,507	$ 20,232

One of the Company's subsidiaries has a line of credit facility with a bank that provides for borrowings not to exceed $10,000,000. Specific assets of the subsidiary collateralize the line of credit that expires on October 1, 2002. The interest rate for the line of credit is 2% above LIBOR and was 3.84% at May 31, 2002. The line of credit is also subject to the maintenance of certain financial ratios and minimum levels of tangible net worth. The Company has guaranteed the credit facility.

As of May 31, 2002, the Company had $19.9 million of cash and cash equivalents and $20.2 million of short-term borrowings under its various lines of credit. In June 2002, the Company's Singapore subsidiary obtained an additional $2,500,000 revolving credit facility with an interest rate based on the bank prime rate plus 0.25%. Management believes these funds, combined with available lines of credit and expected cash flows from operations, will be sufficient to meet the Company's cash needs for fiscal 2003 at current operating levels. The Company intends to renew its various lines of credit as they expire, and will be seeking additional financing during the next twelve months to meet its cash requirements for fiscal 2003 if the Company's quarterly revenues increase significantly and for fiscal 2004. However, there can be no assurance that the Company will be able to renew existing financing or obtain new financing on terms favorable to the Company, or at all. Failure to renew existing financing or raise additional funds through public or private debt or equity financing or other sources may result in the Company not achieving its longer-term business objectives.

Weighted average interest rates on the outstanding facilities for fiscal years 2001 and 2002 were 4.6% and 4.5%, respectively. Certain assets of subsidiaries of the Company collateralize the facilities. At May 31, 2002, the total amount available and unutilized under the

Company's short-term borrowings was approximately $3,301,000. The Company and its subsidiaries have guaranteed certain short-term credit facilities.

At May 31, 2002, the Company was in violation of covenants to maintain a specified interest coverage ratio on a building mortgage and a $2,100,000 credit facility of which $1,200,000 was outstanding at year end. In June 2002, the Company repaid the building mortgage. The Company was unable to obtain a waiver from the provider of a credit facility in the Netherlands, and by agreement with the lender, the Company subsequently reduced the level of borrowings to meet a new lower limit on the facility of approximately $1,000,000. The credit facility has an interest coverage covenant that the Company does not expect to meet at August 31, 2002.

Long-term debt consists of the following:

	May 31,	
	2001	2002
	(Dollars in thousands)	
Note payable to an individual in conjunction with the acquisition of AST with an interest rate based on a bank prime rate determined quarterly (4.75% at May 31, 2002). Quarterly payments of interest only commence September 2002 through June 2004. Quarterly payments of principal and interest commence September 2004 until paid in June 2006	$	$ 1,500
Building mortgage with The Royal Bank of Scotland plc with an interest rate at LIBOR plus 1.5% per annum until maturity (7.7% at May 31, 2002). Principal and interest are payable quarterly through April 2006. The mortgage was repaid in its entirety in June 2002.	$ 624	$ 524
Note payable to shareholder for purchase of retired treasury shares. The note has an interest rate of 6.65%, payable in annual installments until July 2002.	124	62
Various notes maturing through August 2006; interest rates range from 2.6% to 8.6%	659	603
	1,407	2,689
Less current portions:		
Note payable to shareholder	62	62
Long-term debt	366	836
Long-term debt	$ 979	$ 1,791

Future fiscal year ("FY") annual maturities of long-term debt are as follows: FY2003, $898,000; FY2004, $145,000; FY2005, $671,000, FY2006, $788,000 and FY2007, $187,000.

6. MODIFICATION OF DISTRIBUTION AGREEMENT

On January 8, 2001, the Company and Entegris, Inc. ("Entegris"), one of the Company's principals and shareholders, entered into an agreement to modify their existing distribution relationship. On February 13, 2001, the Company entered into a transition agreement 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. The Company received revenue for orders received before the above dates and shipped within the 90 days following these dates. In addition, on March 1, 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 will be in effect until August 31, 2005. Revenue from products distributed for the Microelectronics Group under

the previous distribution agreement for the years ended May 31, 2000, 2001 and 2002 were $51,420,000, $75,245,000 and $4,273,000, respectively.

As consideration for modifying the existing distribution agreement, Entegris transferred 1,125,000 shares of the Metron common shares that it owned to Metron, and agreed to make cash payments totaling $1,750,000 over a 15-month period. As a result of the modification, Metron will record a total gain of $8,365,000 in other operating income on a straight-line basis from the date of the modification, February 13, 2001 until August 31, 2002, the remaining effective term of the original agreement. The common shares transferred by Entegris represented $6,615,000 of the gain, which was equal to their fair market value on February 13, 2001.

7. RESTRUCTURING AND MERGER COSTS

Restructuring costs of $1,083,000 incurred during fiscal 2002 comprise termination costs of $651,000 and abandonment of a lease amounting to $432,000. During fiscal 2002, we incurred $651,000 in termination costs for a reduction in headcount totaling 56 employees, 27 of whom worked in the equipment division, 17 in the materials division and 12 in finance and administration.

Restructuring costs of $432,000 incurred during fiscal 2002 represent the costs of an abandoned leasehold in the United States. This cost represents the estimated difference between the total discounted future sublease income and our lease commitments relating to this space. The charge is an estimate and may be adjusted if we obtain a sublease for the space and the actual sublease income is significantly different from the estimate. If we are not successful in subleasing our unused office space, we may be required to take an additional charge for the balance of the future lease cost. At May 31, 2002, no liability remained for the termination costs, and the liability pertaining to the abandoned leasehold was approximately $404,000.

8. RELATED PARTIES

Two of Metron's shareholders, FSI International, Inc. ("FSI") and Entegris, own approximately 20.7%, and 12.0%, respectively of the outstanding shares of the Company. 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 years ended May 31, 2000, 2001 and 2002 such purchases totaled approximately $103,700,000, $191,358,000 and $24,433,000, respectively. At May 31, 2001 and 2002, amounts payable to these affiliates were $28,913,000 and $5,788,000, respectively. At May 31, 2001 and 2002, amounts receivable from these affiliates were $561,000 and $164,000, 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 $270,000 as of May 31, 2002. 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 an allowance of $160,000 against these advances. Repayment of a portion of the advances is required beginning with the first sale of shares owned by the officer/director.

In conjunction with the acquisition of T.A. Kyser Co., the Company assumed a note from a shareholder for purchase of retired treasury shares. The note had a remaining balance of $62,000 at May 31, 2002, an annual interest rate of 6.65% and was paid in July 2002.

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9. INCOME TAXES

The domestic and foreign components of income (loss) before taxes for each year ended May 31 are as follows:

	Years ended May 31,		
	2000	**2001**	**2002**
		(Dollars in thousands)	
The Netherlands	$ 1,791	$ 531	$ 154
Other countries:			
Hong Kong	716	231	2,619
Singapore	2,045	4,580	1,401

	Years ended May 31,		
Israel	16	932	1,274
Germany	845	7,449	537
Italy	1,870	2,811	(63)
France	2,090	2,258	(1,234)
United Kingdom	1,304	760	(2,808)
United States	1,809	2,634	(5,082)
All other countries	10	492	(862)
Income (loss) before income taxes	$ 12,496	$ 22,678	$ (4,064)

The components of income tax expense (benefit) for each year ended May 31 are as follows:

	Years ended May 31,		
	2000	2001	2002
	(Dollars in thousands)		
Current:			
The Netherlands	$ 617	$ 278	$ 365
Other countries:			
Israel	501	296	1,074
Singapore	730	1,370	
Taiwan	293	441	61
Germany	(30)	3,010	34
Italy	762	1,372	(11)
United Kingdom	538	852	(13)
France	812	1,029	(600)
United States	751	1,650	(1,587)
All other countries	59	139	134
Current tax	5,033	10,437	(543)
Deferred:			
The Netherlands		(78)	62
Other countries:			
Singapore	(276)	(189)	398
Germany	796	585	243
France	(459)	(140)	219
Taiwan	(16)	(253)	(230)
United States	89	(535)	(300)
United Kingdom		(274)	(534)
Israel	(495)	51	(612)
All other countries	72	99	1
Deferred tax	(289)	(734)	(753)

	Years ended May 31,		
Total income taxes	$ 4,744	$ 9,703	$ (1,296)

Significant components of the Company's deferred tax assets and liabilities are set forth below.

	May 31,	
	2001	2002
	(Dollars in thousands)	
Deferred tax assets (included in Other current assets and Other assets):		
Deferred revenue for installation and warranty	$ 602	$ 421
Deferred income	1,185	320
Account receivable and inventory provisions	1,330	1,281
Accruals deductible when paid	2,180	2,108
Net operating loss carryforwards and other items	1,407	3,191
	6,704	7,321
Less valuation allowance	1,893	1,795
	4,811	5,526
Deferred tax liabilities primarily depreciation of property, plant, and equipment	208	261
Net deferred tax assets recorded in consolidated balance sheets	$ 4,603	$ 5,265

At May 31, 2002, the Company had $6,923,000 in net operating loss carryforwards, primarily in Korea, which represented approximately $3,191,000 of tax benefit. Some of these benefits will begin to expire in 2007, others, depending on jurisdiction, will carryforward indefinitely.

Management has established a valuation allowance for the portion of deferred tax assets for which realization is uncertain. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize net deferred tax assets. The net change in the valuation allowance for the years ended May 31, 2000, 2001, and 2002 was an increase (decrease) of ($833,000), $220,000 and $(98,000) respectively.

Differences between the statutory income tax rate of The Netherlands and the Company's effective income tax rate are reconciled as follows:

	Years ended May 31,		
	2000	2001	2002
Statutory income tax rate	35.0%	35.0%	(35.0)%
Increase (decrease) in taxes resulting from:			
Tax rate differential in other countries	(3.2)	2.8	(6.8)
Current year net operating losses for which no benefit is recognized	4.5	1.8	(0.6)
Utilization of prior year net operating losses for which no benefit was previously recognized	(6.0)	(0.3)	7.7
Prior year taxes assessed in current year	2.6	(0.3)	(2.7)
Amortization of goodwill	1.9	1.4	5.6

	Years ended May 31,		
All other	3.2	2.4	(0.1)
Effective income tax rate	38.0%	42.8%	(31.9)%

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10. CAPITAL STOCK

Treasury Shares

In July 1998 and May 1999, two former employees exercised certain of their put rights, which required the Company to repurchase 265,801 common shares for approximately $1,152,000. In February 2001, as partial consideration for modifying the then existing distribution agreement, Entegris transferred 1,125,000 shares of the Metron common shares it owned to Metron. The fair market value on February 13, 2001 of the common shares transferred by Entegris was $6,615,000. (See Note 6)

Stock Option Plans

In fiscal 1996, the Company established an Employee Stock Option Plan to award options to managing directors and employees, and in fiscal 1997 established a Supervisory Directors' Stock Option Plan to award options to supervisory directors. In fiscal 2001 and 2002, the shareholders approved the amendment of the Employee Stock Option Plan to increase the aggregate number of common shares authorized for issuance by 1,000,000 shares for each year; the two plans are now authorized to grant options to purchase up to 4,975,000 common shares (4,750,000 shares for Managing Directors and employees and 225,000 for Supervisory Directors). The plans require that the exercise price of options be not less than the fair value of the common shares at the grant date. Options generally vest over a four-year period and are exercisable in installments beginning one year after the grant date and expire after 10 years if not exercised.

There were approximately 907,625 and 82,500 shares available for future employee awards and Supervisory Director awards, respectively, at May 31, 2002. The following table summarizes award activity for the fiscal years listed:

	2000		2001		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,944,348	$ 5.41	2,283,369	$ 8.43	2,369,719	$ 8.65
Stock options granted	693,000	$ 15.73	550,250	$ 8.74	1,440,572	$ 7.24
Stock options exercised	(222,127)	$ 4.99	(171,363)	$ 3.28	(159,559)	$ 3.88
Awards canceled	(131,852)	$ 8.15	(292,537)	$ 10.12	(266,106)	$ 9.14
Outstanding, end of year	2,283,369	$ 8.43	2,369,719	$ 8.65	3,384,626	$ 8.24
Options exercisable at end of year	1,206,699	$ 4.44	1,303,667	$ 6.35	1,512,487	$ 7.71

Summary information concerning outstanding and exercisable options as of May 31, 2002 was as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.78 $2.78	499,948	3.1 yrs	$ 2.78	499,948	$ 2.78
$6.06 $8.88	2,128,241	7.7 yrs	$ 7.22	669,659	$ 7.43

Range of Exercise Prices		Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$10.37	$12.00	290,187	8.0 yrs	$ 10.81	92,784	$ 10.93
$15.94	$19.00	426,250	6.7 yrs	$ 16.01	230,096	$ 16.01
$19.01	$29.63	40,000	7.8 yrs	$ 29.63	20,000	$ 29.63
		3,384,626			1,512,487	

All options issued during the past three years have an exercise price equal to the fair value of the common shares on the date of grant. The following weighted average fair values of options granted have been determined using the Black-Scholes option valuation method.

	Years Ended May 31,		
	2000	2001	2002
Options granted	693,000	550,250	1,440,572
Weighted average exercise price	$ 15.73	$ 8.74	$ 7.24
Weighted average fair value, stock options	$ 10.41	$ 6.06	$ 4.10
Weighted average fair value, ESPP	$ 4.95	$ 2.98	$ 2.14

The Company has an employee stock purchase plan ("ESPP") for the benefit of U.S. and international employees. The U.S. plan is qualified under Section 423 of the Internal Revenue Code. Under the ESPP, substantially all employees may purchase the Company's common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value at the beginning or end of each six-month offering period. Stock purchases under the ESPP are limited to 5 percent of an employee's eligible compensation, in any plan year. Shares issued under the ESPP were approximately 79,000 and 76,000 for fiscal 2001 and 2002, respectively. At May 31, 2002, there were approximately 145,000 shares reserved for future issuance under the ESPP.

The following pro-forma information has been prepared as if the Company had accounted for its stock options and 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.

	Years Ended May 31,		
	2000	2001	2002
	(Dollars in thousands, except per share data)		
Net income (loss):			
As reported	$ 7,752	$ 11,510	$ (2,768)
Pro forma(a) (b)	$ 5,755	$ 8,446	$ (5,570)
Earnings (loss) per common share			
Basic			
As reported	$ 0.66	$ 0.87	$ (0.22)
Pro forma	$ 0.49	$ 0.64	$ (0.43)
Diluted			
As reported	$ 0.60	$ 0.83	$ (0.22)
Pro forma	$ 0.45	$ 0.61	$ (0.43)

(a)

Based on the following assumptions for stock option grants in fiscal years 2000, 2001, and 2002: risk-free weighted average interest rates of 6.49%, 5.82% and 4.50%, respectively; weighted average expected option lives of 6.4 years, 5.0 years and 5.0 years, respectively; and no dividend yield in each year. The minimum value method was used for grants prior to the filing of the Company's initial public offering in November 1999. For grants subsequent to the filing a volatility of 80%, 80% and 62% has been used for fiscal years ended May 31, 2000, 2001 and 2002, respectively.

(b)

Based on the following assumptions for the ESPP in fiscal years 2000, 2001, and 2002: risk-free weighted average interest rates of 5.44%, 6.24% and 2.73%, respectively; weighted average

expected option lives of 6 months; and no dividend yield in each year. A volatility of 80%, 80% and 62% has been used for fiscal years ended May 31, 2000, 2001 and 2002, respectively.

11. EMPLOYEE BENEFITS

Most employees of the Company are covered by one of several defined contribution retirement plans. Contributions are generally based on the participant's compensation. The amount of pension expense charged to operating expenses for defined contribution plans was $862,000 in fiscal 2000, $1,070,000 in fiscal 2001 and $1,096,000 in fiscal 2002.

Kyser previously had an employee stock ownership plan ("ESOP") for its employees. Upon the acquisition of Kyser, all Kyser shares held by the ESOP were exchanged for shares of the Company. In July 2001, the IRS approved the dissolution of the ESOP, and in October and November 2001, Kyser distributed the shares held by the ESOP to their beneficial owners.

12. FINANCIAL INSTRUMENTS

The carrying value of the Company's financial instruments approximate fair value. At May 31, 2002, the Company 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 US $000	Expiration Date
Euro	5,619	1,667	0.91	$ 109	October 2002
Israeli Shekel		4,572	4.27	711	June 2002
Japanese Yen	7,769		123.67	65	February 2003
Singapore Dollar	1,261		1.78	(3)	June 2002
				$ 882	

13. COMMITMENTS

At May 31, 2002, Metron was committed to spend approximately $39,177,000, principally to purchase equipment, materials and spare parts for resale.

The Company and its subsidiaries lease certain facilities and equipment under various operating lease agreements. Future minimum payments under operating leases that have initial or remaining noncancelable lease terms of one year or more consisted of the following at May 31, 2002.

Fiscal Year	(Dollars in thousands)
2003	$ 5,154
2004	3,759
2005	2,552

Fiscal Year	(Dollars in thousands)
2006	1,939
2007	1,265
Thereafter	2,682
Total minimum lease payments	$ 17,351

The Company's rental expense for operating leases for the fiscal years ended May 31, 2000, 2001 and 2002, was $3,107,000, $4,276,000 and, $5,025,000, respectively.

14. ADDITIONAL SALES INFORMATION AND CONCENTRATION OF RISK

In fiscal 2001 and 2002, no individual customer represented sales of 10% or more of net revenue. In fiscal 2000, sales to one customer represented 10.5% of net revenues.

A large portion of the Company's sales is made to a number of major publicly owned corporations. There is a concentration of credit risk in accounts receivable from these customers. Metron performs ongoing credit evaluations of its customers and generally does not require collateral. Credit risk associated with nonpayment from these customers is affected by conditions or occurrences within their industry. The Company believes that there is no significant credit risk with respect to these receivables.

15. SEGMENT AND GEOGRAPHIC DATA

The Company 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. Reportable segments are the equipment division, which includes certain specialized process chemicals, spare part sales, equipment and parts cleaning service; the materials division, which includes components used in construction and maintenance; and other, which includes finance, administration and corporate functions.

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

Segment information

	Equipment Division	Materials Division	Other	Total
	(Dollars in thousands)			
Year ended May 31, 2000				
Net revenue	$ 169,388	$ 168,163	$	$ 337,551
Depreciation and amortization expense	$ 547	$ 744	$ 838	$ 2,129

	Equipment Division	Materials Division	Other	Total
Interest income	$	$	$ 1,008	$ 1,008
Interest expense	$	$	$ 1,760	$ 1,760
Income (loss) before income taxes	$ 11,872	$ 16,890	$ (16,266)	$ 12,496
Total assets	$ 94,894	$ 69,254	$ 17,221	$ 181,369
Capital expenditures	$ 1,252	$ 1,013	$ 1,195	$ 3,460
Year ended May 31, 2001				
Net revenues	$ 262,220	$ 255,221	$	$ 517,441
Depreciation and amortization expense	$ 1,788	$ 740	$ 949	$ 3,477
Interest income	$	$	$ 867	$ 867
Interest expense	$	$	$ 1,341	$ 1,341
Income (loss) before income taxes	$ 14,910	$ 25,872	$ (18,104)	$ 22,678
Total assets	$ 80,542	$ 89,699	$ 43,258	$ 213,499
Capital expenditures	$ 3,804	$ 1,418	$ 4,376	$ 9,598
Year ended May 31, 2002				
Net revenues	$ 107,611	$ 124,629	$	$ 232,240
Depreciation and amortization expense	$ 2,909	$ 1,031	$ 1,118	$ 5,058
Interest income	$	$	$ 397	$ 397
Interest expense	$	$	$ 1,323	$ 1,323
Income (loss) before income taxes	$ 4,193	$ 4,001	$ (12,258)	$ (4,064)
Total assets	$ 67,492	$ 71,017	$ 25,127	$ 163,636
Capital expenditures	$ 3,215	$ 2,504	$ 6,517	$ 12,236

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Geographic information

	Year ended May 31,		
	2000	2001	2002
	(Dollars in thousands)		
Net revenue:			
United States	$ 74,622	$ 116,984	$ 58,878
Germany	38,997	88,396	32,020
Singapore	50,955	58,786	28,016
United Kingdom	37,321	68,573	27,906
Israel	11,226	28,292	22,203
France	37,076	44,311	21,467
Hong Kong	39,967	45,061	13,014
The Netherlands	16,794	28,787	9,093
Other nations	30,593	38,251	19,643
Geographic totals	$ 337,551	$ 517,441	$ 232,240

May 31,	
2001	2002

	May 31,	
	(Dollars in thousands)	
Fixed assets:		
The Netherlands	$ 2,950	$ 10,723
United Kingdom	4,704	5,023
Singapore	3,476	2,816
United States	1,452	2,735
Other nations	3,475	4,187
Geographic totals	$ 16,057	$ 25,484

16. SUPPLEMENTAL FINANCIAL INFORMATION

	May 31,	
	2001	2002
	(Dollars in thousands)	
Other current liabilities:		
Customer prepayments	$ 1,289	$ 1,242
Accrued taxes including income taxes	9,059	4,391
Other	4,603	4,741
Total other current liabilities	$ 14,951	$ 10,374

	Year ended May 31,		
	2000	2001	2002
	(Dollars in thousands)		
Net revenue:			
Product revenue	$ 320,843	$ 492,806	$ 202,897
Service revenues	16,708	24,635	29,343
Net revenue	$ 337,551	$ 517,441	$ 232,240

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	Year ended May 31,		
	2000	2001	2002
	(Dollars in thousands)		
Other income (expense):			
Foreign exchange gain (loss)	$ 443	$ (877)	$ (197)
Interest income	1,008	867	397
Interest expense	(1,760)	(1,341)	(1,323)
Miscellaneous income	574	468	269

	Year ended May 31,		
Other income (expense)	$ 265	$ (883)	$ (854)

	Years ended May 31,		
	2000	2001	2002
	(Dollars in thousands)		
Supplemental cash flow information:			
Cash payments for:			
Interest	$ 1,742	$ 1,331	$ 1,317
Income taxes	$ 906	$ 5,558	$ 5,010
Noncash transactions:			
Common stock issued for purchase of Intec	$	$ 3,938	$
Treasury stock received from Entegris on modification of distribution agreement	$	$ 6,615	$
Contribution of residual equity interest for the acquisition of AST assets	$	$	$ 404

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Amounts have been restated for the first, second, and third quarters for the year ended May 31, 2001 due to the retroactive application of SAB 101.

	First	Second	Third	Fourth
	(Dollars in thousands)			
Year ended May 31, 2001				
Net revenue	$ 119,038	$ 139,492	$ 138,133	$ 120,780
Operating income	$ 4,161	$ 6,874	$ 8,019	$ 4,692
Cumulative effect of change in accounting principle	$ 1,465	$	$	$
Net income	$ 885	$ 3,799	$ 4,302	$ 2,524
Basic earnings per common share				
Before cumulative effect of change in accounting principle	$ 0.18	$ 0.28	$ 0.32	$ 0.20
Cumulative effect of change in accounting principle	$ (0.11)	$	$	$
Basic earnings per common share	$ 0.07	$ 0.28	$ 0.32	$ 0.20
Diluted earnings per common share				
Before cumulative effect of change in accounting principle	$ 0.17	$ 0.27	$ 0.31	$ 0.19
Cumulative effect of change in accounting principle	$ (0.11)	$	$	$
Diluted earnings per common share	$ 0.06	$ 0.27	$ 0.31	$ 0.19
Year ended May 31, 2002				
Net revenue	$ 74,373	$ 55,165	$ 46,733	$ 55,969
Operating income (loss)	$ 1,165	$ (1,504)	$ (1,722)	$ 63
Net income (loss)	$ 702	$ (1,550)	$ (928)	$ (992)
Basic earnings (loss) per share	$ 0.05	$ (0.12)	$ (0.07)	$ (0.08)
Diluted earnings (loss) per share	$ 0.05	$ (0.12)	$ (0.07)	$ (0.08)

18. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies the

criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 141 notes, however, that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142.

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

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends APB No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Division of a Business. SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale and requires the measurement to be at the lower of book value or fair value, less the cost to sell the assets. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The provisions of SFAS No. 144 are not expected to have a significant impact on the Company's financial position or operating results.

In June 2002, the FASB issued SFAS 146, *Accounting for Exit or Disposal Activities*. SFAS 146 addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for under EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 also includes costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 and early application is encouraged. SFAS 146 will be adopted during the third quarter ending February 28, 2003. The provisions of EITF No. 94-3 will continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF No. 94-3 prior to the adoption of SFAS 146. The effect on adoption of SFAS 146 will change on a prospective basis the timing of when restructuring charges are recorded from a commitment date approach to when the liability is incurred.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Our Current Report on Form 8-K filed with the Commission on September 14, 2001 is incorporated herein by reference.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Supervisory and Managing Directors

The following tables set forth, as of May 31, 2002, certain information with respect to the Supervisory Directors and Managing Directors of Metron:

Supervisory Board

Name	Age	Position
Robert R. Anderson	64	Supervisory Director

Name	Age	Position
James E. Dauwalter	50	Supervisory Director
Joel A. Elftmann	62	Supervisory Director
Bruce M. Jaffe	58	Supervisory Director
Sho Nakanuma	70	Supervisory Director

The general meeting of shareholders appoints the Supervisory Directors and at all times has the power to suspend or dismiss any Supervisory Director. Under Netherlands law, current employees of the Company cannot serve as Supervisory Directors. A resolution to appoint a Supervisory Director can only be passed upon recommendation by the Supervisory Board. Under the Metron articles, each member of the Supervisory Board holds office for a one-year term following that member's election as a member of the Supervisory Board, or until that member's earlier resignation, death or removal by a decision of a general meeting. However, a member of the Supervisory Board elected not at the general meeting of shareholders but at an extraordinary meeting of shareholders serves until the next general meeting of shareholders or until that member's earlier resignation, death or removal by a decision of the general meeting. Each member of the Supervisory Board holds office until that member's resignation, death or removal by a decision of a general meeting of shareholders. In addition, each Supervisory Director is required to resign as of the date of the general meeting of shareholders held in the year in which that director reaches the age of 72. A shareholders' resolution to suspend or dismiss a Supervisory Director must be adopted by a two-thirds majority of the valid votes cast representing more than half of the issued share capital.

Robert R. Anderson has been a Supervisory Director of Metron since November 1995. From October 1998 through October 2000, Mr. Anderson was Chairman of the Board and from October 1998 through April 2000 Chief Executive Officer of Yield Dynamics, Inc., (YDI) a semiconductor yield management software company. Mr. Anderson was Chairman of the Board of Silicon Valley Research, a semiconductor design automation software company, from January 1994 and served as Chief Executive Officer from April 1994 until July 1995 and from December 1996 until October 1997 and as Chief Financial Officer from September 1994 to November 1995. Mr. Anderson co-founded KLA Instruments Corporation, now KLA-Tencor Corporation, a supplier of equipment for semiconductor process control, in 1975 and, until his retirement in 1999, served in various capacities including Chief Operating Officer, Chief Financial Officer, Vice Chairman and Chairman. Mr. Anderson also serves as a director of MKS Instruments, Inc., a manufacturer of systems components for the semiconductor industry, Trikon Technologies, Inc., a manufacturer of semiconductor process equipment, and Aehr Test Systems, Inc., a manufacturer of semiconductor test and burn-in equipment. Mr. Anderson is a member of the Board of Trustees of Bentley College.

James E. Dauwalter has been a Supervisory Director of Metron since November 1995 and was a Managing Director from June 1979 until November 1995. Mr. Dauwalter is the Chief Executive Officer of Entegris, Inc. which is a principal and a large minority shareholder of Metron. Mr. Dauwalter joined Fluoroware Inc., now part of Entegris, in 1973. Mr. Dauwalter also serves as a director of Nippon

Fluoroware K.K., Fluoroware-Valqua Japan K.K., Fluoroware Southeast Asia PTE Ltd., and the Community Bank of Chaska.

Joel A. Elftmann, a co-founder of Metron, has been a Supervisory Director since November 1995 and was a Managing Director from October 1975 until November 1995. He currently serves as President of I-Tech Products LLC, a custom manufacturer of components and sub assemblies for the semiconductor industry. Mr. Elftmann was previously the Chairman of the Board of FSI International, Inc., a principal and a large minority shareholder of Metron. Mr. Elftmann was a co-founder of FSI and served as a director of FSI from 1973 until January 2002. During that period he served at various times as President, CEO and Chairman of the Board. Mr. Elftmann also serves as a director of Veeco, Inc. Mr. Elftmann is a Director Emeritus and past Chairman of the Board of Directors of Semiconductor Equipment & Materials International, a trade association for suppliers to the semiconductor industry.

Bruce M. Jaffe has been a Supervisory Director of Metron since November 2000. Mr. Jaffe is currently a private investor and consultant, and has been a director of Pemstar, Inc., a Minnesota-based global contract electronics manufacturer, since August 2000. Mr. Jaffe served as Senior Vice President and Chief Financial Officer of Bell Microproducts, Inc., a California-based distributor of mass storage and computer products, from 1997 to 1999. From 1967 to 1996, Mr. Jaffe was employed by Bell Industries, a California-based distributor of electronic components, where he held several management positions, most recently as President, Chief Operating Officer and a member of the Board of Directors. From 1965 to 1967, Mr. Jaffe was employed as an accountant by Price Waterhouse & Co. (now PricewaterhouseCoopers LLP). Mr. Jaffe holds a B.S. degree in Business from the University of Southern California and is a certified public accountant. Mr. Jaffe currently serves on the board of advisors for the University of Southern California School of Business.

Sho Nakanuma has been a Supervisory Director of Metron since November 1999. From 1997 to 2001, Mr. Nakanuma served as Chairman of the Board of Directors of Ando Electric Company in Japan. From 1988 to 1997, Mr. Nakanuma served as President of Ando Electric Company. From 1984 to 1986, Mr. Nakanuma served as President of NEC Electronics Inc. in the United States. From 1985 to 1988, Mr. Nakanuma served as a member of the Board of Directors of NEC Corporation in Japan. Mr. Nakanuma is a member of the Board of

Directors of Semiconductor Equipment and Materials International in the United States. Mr. Nakanuma holds a B.S. degree in Chemical Engineering from Kyoto University and a Ph.D. in Engineering from Tokyo University.

Managing Board

Name	Age	Position
Edward D. Segal	62	Chief Executive Officer and Managing Director
Dennis R. Riccio	51	President, Chief Operating Officer and Managing Director (designate)
Gregory M. Claeys	52	Vice President, Materials Division and Managing Director
Peter V. Leigh	57	Vice President, Finance, Chief Financial Officer and Managing Director
Keith E. Reidy	45	Vice President, Global Fab Solutions and Equipment and Managing Director

Edward D. Segal has been a Managing Director of Metron since November 1995. He joined Metron as President and Chief Executive Officer in July 1995. Prior to joining Metron, Mr. Segal served as President and Chief Executive Officer of Transpacific Technology Corporation, a company that he founded in 1982. Mr. Segal is a member of the Board of Directors of Semiconductor

Equipment & Materials International, a trade association for suppliers to the semiconductor industry. Mr. Segal was a recipient of SEMI's prestigious Bob Graham Award in 2002, given for marketing contributions to the semiconductor materials and equipment industry. Mr. Segal holds a B.S. degree in Metallurgical Engineering from Rensselaer Polytechnic Institute.

Dennis R. Riccio has served as President and Chief Operating Officer since January 2002. Mr. Riccio served as Senior Vice President, Global Customer Operations, for Asyst Technologies, Inc from August 1998 to December 2001. From January 1997 to August 1998, he served as President of USA Operations of Novellus Systems, Inc., a semiconductor equipment manufacturer. From 1989 to January 1997, he held various senior management positions at Applied Materials, Inc. Mr. Riccio holds a B.S. degree in Public Administration from the University of Arizona. Mr. Riccio will be nominated for election as a Managing Director at the October 2002 General Meeting of Shareholders.

Gregory M. Claeys has been a Managing Director and served as Vice President, Materials Division of Metron since November 2000. He joined Metron as the Company's Vice President, Fluid Handling Products, in July 1998 as a result of the merger between Metron and T.A. Kyser Co. ("Kyser"). From 1993 to 1998, Mr. Claeys served as President of Kyser. Mr. Claeys holds a B.A. degree in Marketing from Texas A&M University.

Peter V. Leigh has served as Vice President, Finance and Chief Financial Officer of Metron since November 1995 and has been a Managing Director of Metron since November 1996. From 1992 to 1995 Mr. Leigh served as Vice President, Finance and Chief Financial Officer of Sequus Pharmaceuticals, a publicly traded bio-pharmaceutical firm. From 1982 until 1992, Mr. Leigh served as Corporate Controller of Bio-Rad Laboratories, a publicly traded multi-national manufacturer and marketer of analytical chemistry, diagnostic and semiconductor metrology equipment and materials. Mr. Leigh holds a B.A. degree from the University of Oxford and an M.B.A. degree from the Harvard Business School.

Keith E. Reidy has served as Vice President, Global Fab Solutions and Equipment since April 2002. He had served as Vice-President Marketing since March 1999 and has been a Managing Director of Metron since April 1999. Mr. Reidy has also served as Director, Product Development and Director, U.S. Representative Organization. Prior to joining Metron in July 1995, Mr. Reidy served as Vice President, Sales of Transpacific Technology. Mr. Reidy holds a B.S. degree in engineering from the University of California, Davis and a M.S. in engineering from Purdue University.

There is no family relationship among any of the Company's directors and executive officers.

There are no pending or contemplated legal proceedings adverse to the Company on the part of any of the Company's directors or its executive officers.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act") requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Shares and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended May 31, 2002, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Supervisory Directors

Each Supervisory Director of the Company receives a per meeting fee of $1,000 (plus $500 for each committee meeting attended by committee members on a separate day). The members of the Supervisory Board of Directors are also eligible for reimbursement for expenses incurred in connection with attendance at Board meetings in accordance with Company policy. In the fiscal year ended May 31, 2002, the total compensation and expenses paid to non-employee Supervisory Directors was $38,781.71.

Each Supervisory Director of the Company also receives stock option grants under the 1997 Supervisory Directors' Stock Option Plan (the "Directors' Plan"). Only non-employee Supervisory Directors of the Company or affiliates of such directors (as defined in the Internal Revenue Code, as amended, the "Code") are eligible to receive options under the Directors' Plan. Options granted under the Directors' Plan are intended by the Company not to qualify as incentive stock options under the Code.

Option grants under the Directors' Plan are non-discretionary. On April 13, 1997, each Supervisory Director then in office was automatically granted an option to purchase 15,000 Common Shares from the Directors' Plan. Subsequently, each person elected or appointed for the first time to serve as a Supervisory Director is granted an option to purchase 15,000 Common Shares from the Directors' Plan. In addition, on the date of each Annual Meeting, each member of the Company's Supervisory Board of Directors who has served as a director for at least six months and who is reelected at such Annual Meeting is automatically granted an option to purchase 3,750 Common Shares under the Directors' Plan. The exercise price of options granted under the Directors' Plan is 100% of the fair market value of the Common Shares subject to the option on the date of the option grant. Options granted under the Directors' Plan may not be exercised until the date upon which such optionee, or the affiliate of such optionee, has provided one year of continuous service as a director following the date of such option grant. Options vest at a rate of 25% one year after grant date and 25% each year thereafter in accordance with the terms of the grant. The term of options granted under the Directors' Plan is ten years. In the event of a merger of the Company with or into another corporation or a consolidation, acquisition of assets or other change-in-control transaction involving the Company, the vesting of each option will accelerate and the option will terminate if not exercised prior to the consummation of the transaction, unless the Company is the surviving entity or, if the Company is not the surviving entity, the option is assumed or an equivalent option is substituted by the successor corporation.

During the fiscal year 2002, the Company granted options covering 18,750 shares to the Supervisory Directors of the Company, at an exercise price per share of $6.84. The fair market value of such Common Shares on the date of grant was $6.84 per share (based on the closing sales price reported on the Nasdaq National Market for the date of grant). As of June 30, 2002, no options had been exercised under the Directors' Plan.

Compensation of Managing Directors

The following table shows for the fiscal years ended May 31, 2000, 2001 and 2002 compensation awarded or paid to, or earned by, the Company's Chief Executive Officer and its other four most highly compensated Managing Directors (the "Named Executive Officers"):

Summary Compensation Table

Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation($)	All Other Compensation($)
	Annual Compensation				
Edward D. Segal	2002	286,533			129,832(1)
Chief Executive Officer and Managing	2001	307,000	199,032		6,078(1)
Director	2000	298,380	198,550		2,701(1)
Dennis R. Riccio	2002	101,285			425(2)
President, Chief Operating Officer and					
Managing Director (designate)					
Gregory M. Claeys	2002	172,667		4,893(2)	2,880(3)
Vice President, Materials Division and	2001	185,000	126,240	3,354(2)	2,880(3)
Managing Director	2000	179,000		3,598(2)	30,000(4)
Peter V. Leigh	2002	182,000		1,179(2)	3,150(3)
Vice President, Finance, Chief Financial	2001	195,000	119,991		4,090(5)
Officer and Managing Director	2000	182,583	145,950		563(2)
Keith E. Reidy	2002	191,373			10,947(6)
Vice President, Marketing and Managing	2001	208,000	148,944		10,457(6)
Director	2000	205,000	109,300		7,081(6)

(1) For 2002, represents $3,150 in payments to a defined contribution plan, $1,611 in car allowances, $1,277 in insurance premiums, $80,307 in interest on shareholder receivables, and $43,487 in tax services. For 2001, represents $3,150 in payments to a defined contribution plan, $1,836 in car allowances and $1,092 in insurance premiums. For 2000, represents $2,044 in car allowances and $657 in insurance premiums.

(2) Represents insurance premiums.

(3) Represents payments to a defined contribution plan.

(4) Represents deferred bonus payouts.

(5) Represents $940 in insurance premiums and $3,150 in payments to a defined contribution plan.

(6) For 2002, represents $1,197 in insurance premiums, $6,600 in car allowances, and $3,150 in payments to a defined contribution plan. For 2001, represents $3,150 in payments to a defined contribution plan, $6,350 in car allowances, and $957 in insurance premiums. For 2000, represents $6,000 in car allowances, $624 in insurance premiums and $457 in commissions.

Stock Option Grants And Exercises

The Company grants options to its executive officers under its Amended and Restated Employee Stock Option Plan. As of July 31, 2002, options to purchase a total of 3,832,119 shares were

outstanding under the Option Plan and options to purchase 300,632 shares remained available for grant thereunder.

The following tables show, for the fiscal year ended May 31, 2002, certain information regarding options granted to, exercised by, and held at year-end by, the Named Executive Officers:

OPTION/SAR GRANTS IN FISCAL 2002

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
Name	**Number of Securities Underlying Options/SARs Granted (#)**	**% of Total Options/ SARs Granted to Employees in Fiscal Year (1)**	**Exercise Or Base Price ($/Sh)(2)**	**Expiration Date**	**5% ($)**	**10% ($)**
Edward D. Segal(4)	20,000	1.4%	$ 7.45	June 2011	$ 93,705	$ 237,468
	100,000	7.0%	$ 7.00	December 2011	$ 440,226	$ 1,115,620
Dennis R. Riccio(5)	300,000	21.1%	$ 7.10	January 2012	$ 1,339,546	$ 3,394,671
Gregory M. Claeys(6)	6,250	0.4%	$ 7.45	June 2011	$ 29,283	$ 74,209
	45,000	3.2%	$ 7.00	December 2011	$ 198,102	$ 502,029
Peter V. Leigh(7)	14,063	1.0%	$ 7.45	June 2011	$ 65,889	$ 166,975
	45,000	3.2%	$ 7.00	December 2011	$ 198,102	$ 502,029
Keith E. Reidy(8)	14,063	1.0%	$ 7.45	June 2011	$ 65,889	$ 166,975
	45,000	3.2%	$ 7.00	December 2011	$ 198,102	$ 502,029

(1) Based on options to purchase an aggregate of 1,421,822 shares granted to employees (including employee directors) during the fiscal year ended May 31, 2002. The foregoing total excludes options granted to consultants and non-employee directors.

(2) The exercise price per share of each option was equal to the quoted fair market value of the Common Shares on the date of grant.

(3) The potential realizable value is calculated based on the term of the option at its time of grant. It is calculated by assuming that the stock price on the date of grant appreciates at the indicated annual rate, compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. The 5% and 10% rates represent certain assumed rates of appreciation only, in accordance with the rules of the Securities and Exchange Commission, and do not reflect the Company's estimate or projection of future stock price performance. Actual gains, if any, are dependent on the actual further performance of the Common Shares, and no gain to the optionee is possible unless the stock price increases over the option term.

(4) 6.25% of the shares subject to Mr. Segal's option grants vested on September 1, 2001, and March 11, 2002, respectively, and 6.25% of such shares vest every quarter during the four years thereafter.

(5) 6.25% of the shares subject to Mr. Riccio's option grants vested on April 7, 2002, and 6.25% of such shares vest every quarter during the four years thereafter.

(6) 6.25% of the shares subject to Mr. Claeys's option grants vested on September 1, 2001, and March 11, 2002, respectively, and 6.25% of such shares vest every quarter during the four years thereafter.

(7) 6.25% of the shares subject to Mr. Leigh's option grants vested on September 1, 2001, and March 11, 2002, respectively, and 6.25% of such shares vest every quarter during the four years thereafter.

(8)

6.25% of the shares subject to Mr. Reidy's option grants vested on September 1, 2001, and March 11, 2002, respectively, and 6.25% of such shares vest every quarter during the four years thereafter.

Aggregated Option/SAR Exercises in Last Fiscal Year, and Fiscal Year-End Option/SAR Values

Name	Shares Acquired on Exercise(#)	Value Realized($)(1)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End ($)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Edward D. Segal	20,500	$ 135,490	443,572	183,876	$ 2,463,120	$ 741,400
Dennis R. Riccio			18,750	281,250	$ 45,375	$ 680,625
Gregory M. Claeys			99,607	61,643	$ 149,323	$ 89,389
Peter V. Leigh			89,446	78,617	$ 434,380	$ 361,365
Keith E. Reidy	17,000	$ 127,670	68,446	78,617	$ 292,840	$ 361,365

(1) The value realized is based on the fair market value of the Company's Common Shares on the exercise date minus the exercise price.

(2) The valuations are based on the fair market value of the Company's Common Shares on May 31, 2002 of $9.52, minus the exercise price of the options.

Employment Agreements and Termination of Employment Arrangements

Each of the Named Executive Officers is employed pursuant to an employment contract with a subsidiary of Metron, which is incorporated in his country of residence. As a consequence of the fact that the Company was reporting operating losses, all Named Executive Officers agreed to accept a 10% reduction in their current base salaries effective October 1, 2001 for an indefinite period. The reductions remained in effect as of the end of fiscal year 2002.

Edward D. Segal is employed pursuant to an employment contract entered into in September 1999 with Metron Technology Corporation, a California corporation and wholly-owned subsidiary of the Company ("MTC"), and with the Company. The employment contract provides that Mr. Segal will serve as a Managing Director of the Company and as the Company's President and Chief Executive Officer at an annual salary of not less than $295,000. The agreement also provides for Mr. Segal's participation in an annual incentive compensation plan approved by the Supervisory Board and for other usual and customary benefits. The Company and MTC agreed to indemnify Mr. Segal against any liability to which he may be subject for judgments, settlements, penalties, fees and expenses of defense, including attorney's fees, bonds and costs of investigation, arising out of or in any way related to acts or omissions as a member of the Managing Board, or an executive officer, or in any other capacity in which services are rendered to the Company or MTC and its subsidiaries. However, Mr. Segal would not be entitled to indemnification under this agreement under certain circumstances, including if indemnification is expressly prohibited under applicable law or if indemnification is expressly prohibited by Metron's Articles or MTC's charter. If Mr. Segal's employment is terminated by MTC without cause or by Mr. Segal for good reason or due to disability, in exchange for Mr. Segal's signing a release of all claims, he will continue to receive his base salary for a period of 12 months in addition to other customary benefits.

Dennis R. Riccio is employed pursuant to an employment contract entered into in November 2001 with MTC and with the Company. The employment contract provides that Mr. Riccio will serve as a Managing Director of the Company and as the Company's President and Chief Operating Officer at an annual salary of not less than $280,000. The agreement also provides for Mr. Riccio's participation in an annual incentive compensation plan approved by the Supervisory Board and for other usual and customary benefits. The Company and MTC agreed to indemnify Mr. Riccio against any liability to which he may be subject for claims, damages, judgments, losses, liabilities, fees and expenses of defense, including attorney's fees, bonds and costs of investigation, arising out of or in any way related

to acts or omissions as a member of the Managing Bo