FSI INTERNATIONAL INC
Form 10-Q
July 09, 2001
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended **May 26, 2001**

or

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

For the transition period from ______ to ______

Commission File Number: **0-17276**

FSI INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

MINNESOTA	**41-1223238**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
322 Lake Hazeltine Drive, Chaska, Minnesota	**55318**
(Address of principal executive offices)	(Zip Code)

952-448-5440

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

YES **NO**

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practical date:

Common Stock, No Par Value 25,734,615 shares outstanding as of June 29, 2001

1

TABLE OF CONTENTS

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

PART I.	FINANCIAL INFORMATION	PAGE NO.

Table of Contents

PART I. Item 1. FINANCIAL INFORMATION

FSI INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
MAY 26, 2001 AND AUGUST 26, 2000

ASSETS
(Unaudited)

	May 26, 2001	**August 26, 2000**
Current assets:		
Cash and cash equivalents	$40,592,326	$34,637,974
Marketable securities	5,189,119	7,565,222
Trade accounts receivable, net of allowance for doubtful accounts of $2,104,000 and $3,229,000, respectively	23,429,086	25,054,782
Trade accounts receivable from affiliates	25,037,313	30,421,899

Inventories	64,922,603	50,809,885
Prepaid expenses and other current assets	5,016,092	4,703,050
Total current assets	164,186,539	153,192,812
Property, plant and equipment, at cost	127,075,199	123,509,375
Less accumulated depreciation and amortization	(70,491,305)	(64,019,948)
	56,583,894	59,489,427
Investment in affiliates	22,129,720	19,628,072
Intangibles, net	15,882,948	19,604,070
Deposits and other assets	3,569,344	4,023,087
	$262,352,445	$255,937,468

See accompanying notes to consolidated condensed financial statements.

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS
MAY 26, 2001 AND AUGUST 26, 2000
(continued)

LIABILITIES AND STOCKHOLDERS EQUITY
(Unaudited)

	May 26, 2001	August 26, 2000
Current liabilities:		

Current maturities of long-term debt	$	$18,997
Trade accounts payable	13,042,411	18,974,502
Accrued expenses	21,833,256	24,902,722
Deferred revenue	11,825,706	10,211,208
Total current liabilities	46,701,373	54,107,429
Long-term debt, less current maturities		41,344
Stockholders equity:		
Preferred stock, no par value; 9,700,000 shares authorized; none issued and outstanding		
Series A Junior Participating Preferred Stock, no par value; 300,000 shares authorized; none issued and outstanding		
Common stock, no par value; 50,000,000 shares authorized; 25,710,951 and 25,375,332 shares issued and outstanding, at May 26, 2001 and August 26, 2000, respectively	191,954,597	190,253,307
Retained earnings	25,409,521	12,194,209
Cumulative translation adjustment	(1,713,046)	(658,821)
Total stockholders equity	215,651,072	201,788,695
	$262,352,445	$255,937,468

See accompanying notes to consolidated condensed financial statements.

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
FOR THE QUARTERS ENDED MAY 26, 2001 AND MAY 27, 2000
(Unaudited)

	May 26, 2001	May 27, 2000
Sales (including sales to affiliates of $24,194,000 and $35,175,000, respectively)	$ 55,635,386	$ 67,747,432

Cost of goods sold
34,141,85441,694,598

Gross profit
21,493,53226,052,834

Selling, general and administrative expenses
12,805,18213,238,123

Research and development expenses
10,927,5459,434,063

Operating (loss) income
(2,239,195)3,380,648

Interest expense
(23,851)(21,869)

Interest income
459,534502,834

Other income, net
84,09937,043

(Loss) income before income taxes
(1,719,413)3,898,656

Income taxes
200,000

(Loss) income before equity in earnings (loss) of affiliates	(1,919,413)	3,898,656
Equity in earnings (loss) of affiliates	893,161	(204,012)
Net (loss) income	$(1,026,252)	$3,694,644
Net (loss) income per common share Basic	$(0.04)	$0.15
Net (loss) income per common share Diluted	$(0.04)	$0.14
Weighted average common shares	25,677,869	25,121,546
Weighted average common and potential common shares	25,677,869	26,374,790

See accompanying notes to consolidated condensed financial statements.

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED MAY 26, 2001 AND MAY 27, 2000

(Unaudited)

	May 26, 2001	**May 27, 2000**
	$ 199,919,998	$ 144,451,929

Sales (including sales to affiliates of $94,819,000 and $68,430,000, respectively)
Cost of goods sold
121,091,43091,144,045

Gross profit
78,828,56853,307,884

Selling, general and administrative expenses
39,434,71335,783,554
In-process research and development write-off
6,370,000
Research and development expenses
31,272,95826,682,735

Operating income (loss)
8,120,897(15,528,405)

Gain on sale of investment in affiliates
5,409,744
Interest expense
(72,376)(343,092)
Interest income
1,880,3651,856,114
Other income, net
130,553116,002

Income (loss) before income taxes
10,059,439(8,489,637)

Income taxes
400,000

Income (loss) before equity in loss of affiliates
9,659,439(8,489,637)

Equity in earnings (loss) of affiliates
3,285,894(1,127,334)

Net income (loss) from continuing operations	12,945,333	(9,616,971)
Discontinued operations:		
Income (loss) from operations		(400,000)
Net income (loss)	$12,945,333	$(10,016,971)
Net income (loss) per common share Basic:		
Continuing operations	$0.51	$(0.39)
Discontinued operations		(0.02)
Net income (loss)	$0.51	$(0.41)
Net income (loss) per common share Diluted:		
Continuing operations	$0.50	$(0.39)
Discontinued operations		(0.02)
Net income (loss)	$0.50	$(0.41)
Weighted average common shares	25,496,123	24,659,444
Weighted average common and potential common shares	25,923,244	24,659,444

See accompanying notes to consolidated condensed financial statements.

6

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MAY 26, 2001 AND MAY 27, 2000
(Unaudited)

	May 26, 2001	May 27, 2000

OPERATING ACTIVITIES:
Net income (loss)
$12,945,333$(10,016,971)Adjustments
to reconcile net income (loss) to net
cash
provided by (used in) operating
activities:
Gain on sale of investment in
affiliates
(5,409,744)
Loss from discontinued operations
400,000
Write-off of in-process research and
development
6,370,000
Depreciation
8,802,6859,389,073
Amortization
4,055,7593,199,382
Provision for allowance for doubtful
accounts
(276,186)1,069,764
Write-off of accounts receivable
(848,550)(149,797)
Provision for inventory reserves
2,350,3923,049,624
Disposal of inventory
(4,607,680)(4,880,942)
Equity in (earnings) loss of affiliates
(3,285,894)1,127,334
Changes in operating assets and
liabilities:
Trade accounts receivable
8,135,018(21,360,894)
Inventories
(11,733,208)(13,527,689)
Refundable income taxes
160,915
Prepaid expenses and other current
assets
(313,042)(6,009,640)
Trade accounts payable
(5,932,091)4,279,240
Accrued expenses

	(2,392,777)	6,926,009
Customer deposits		(453,198)
Deferred revenue	1,614,498	3,141,224
Net cash provided by (used in) operating activities	8,514,257	(22,696,310)
INVESTING ACTIVITIES:		
Proceeds from sale of investment in affiliates		7,398,621
Acquisition of property, plant and equipment	(6,696,063)	(6,362,753)
Investment in YieldUP, net of cash		(6,522,515)
Purchase of marketable securities	(10,164,068)	(5,960,624)
Maturities of marketable securities	12,540,171	22,824,529
Decrease (increase) in deposits and other assets	119,106	(1,274,638)
Proceeds from sale of equipment		622,438
Net cash (used in) provided by investing activities	(4,200,854)	10,725,058
FINANCING ACTIVITIES:		
Principal payments on long-term debt	(60,341)	(30,336,224)
Net proceeds from issuance of common stock	1,701,290	3,187,280
Net cash provided by (used in) financing activities	1,640,949	(27,148,944)
Increase (decrease) in cash and cash equivalents	5,954,352	(39,120,196)
Cash and cash equivalents at beginning of period	34,637,974	62,326,355

Cash and cash equivalents at end of period	$40,592,326	$23,206,159

See accompanying notes to consolidated condensed financial statements.

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(1) Consolidated condensed financial statements

The accompanying consolidated condensed financial statements have been prepared by the Company without audit and reflect all adjustments (consisting only of normal and recurring adjustments) which are, in the opinion of management, necessary to present a fair statement of the results for the interim periods presented. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission but omit certain information and footnote disclosures necessary to present the statements in accordance with accounting principles generally accepted in the United States of America. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full fiscal year. These consolidated condensed financial statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in the Company s Annual 10-K Report for the fiscal year ended August 26, 2000, previously filed with the Securities and Exchange Commission.

(2) Inventories

Inventories are summarized as follows:

	May 26, 2001	August 26, 2000
Finished products	$6,519,424	$6,702,005
Work-in-process	22,478,421	17,896,233
Subassemblies	5,295,822	3,880,125
Raw materials and purchased parts	30,628,936	22,331,522
	$64,922,603	$50,809,885

(3) Supplementary cash flow information

	Nine Months Ended	
	May 26, 2001	**May 27, 2000**

Schedule of interest and income taxes paid (received):
Interest
$72,376$748,259

Income taxes
$901,400($23,576)

Table of Contents

(4) Reconciliation of earnings and share amounts used in EPS calculation

For the Quarters Ended	Net Income (Loss)	Income (Loss) Available to Common Stockholders Basic Income(Loss) Per Share	Effect of Dilutive Securities* Stock Options	Income (Loss)Available to Common Stockholders Dilutive Income (Loss) Per Share

May 26, 2001
Loss
($1,026,252)($1,026,252) ($1,026,252)
Shares
25,677,869 25,677,869
Per share amount
$(0.04) $(0.04)

May 27, 2000
Income
$3,694,644$3,694,644 $3,694,644
Shares
25,121,5461,253,24426,374,790
Per share amount
0.15(0.01)$0.14

For the Nine Months Ended

May 26, 2001
Income
$12,945,333$12,945,333 $12,945,333
Shares
25,496,123427,12125,923,244
Per share amount
0.51(0.01)$0.50

May 27, 2000
Loss
($10,016,971)($10,016,971) ($10,016,971)
Shares
24,659,444 24,659,444
Per share amount
$(0.41) $(0.41)

* The effect of stock options were not included in the calculation of dilutive earnings per share for the three months ended May 26, 2001 and the nine months ended May 27, 2000 because their inclusion would have been anti-dilutive.

(5) Comprehensive income (loss)

Other comprehensive income (loss) pertains to revenues, expenses, gains and losses that are not included in the net income (loss) but rather are recorded directly in stockholders equity. For the quarters and nine months ended May 26, 2001 and May 27, 2000, the only item of other comprehensive income (loss) is related to foreign currency translation adjustments. For the quarters and nine months ended May 26, 2001 and May 27, 2000 net income (loss), items of other comprehensive income (loss) and comprehensive income (loss) are as follows:

	May 26, 2001	May 27, 2000
For the Quarters Ended:		
Net (loss) income	($1,026,252)	$3,694,644
Items of other comprehensive income (loss):		
Foreign currency translation	(198,839)	(55,337)
Comprehensive (loss) income	($1,225,091)	$3,639,307
For the Nine Months Ended:		
Net income (loss)	$12,945,333	($10,016,971)
Items of other comprehensive income (loss):		
Foreign currency translation	(1,054,225)	818,170
Comprehensive income (loss)		

$11,891,108($9,198,801)

Table of Contents

(6) Acquisition of YieldUP

On October 20, 1999 the Company acquired YieldUP International Corporation (renamed SCD Mountain View, Inc.) by paying approximately $6,083,000 in cash and issuing 1,303,000 shares of common stock to YieldUP shareholders. The Company also issued options covering 209,278 shares of company common stock in substitution for previously outstanding options to acquire shares of YieldUP s common stock. The acquisition was accounted for under the purchase method of accounting. FSI incurred an in-process R&D write-off of $6,370,000 in the first quarter of fiscal 2000 related to the acquisition.

Prior to the acquisition, two patent infringement lawsuits were filed against YieldUP, which if resolved unfavorably could have a material adverse impact on the Company. The probability of loss and any related amount of loss cannot be presently estimated. For a discussion of the litigation, see Part II, Item 1.

(7) Sale of investment in affiliate

During the first quarter of fiscal 2000, the Company sold approximately 612,000 shares of its investment in Metron Technology N.V. (Metron) stock as part of Metron s initial public offering. As a result of the sale, the Company received proceeds of $7,398,621 and recognized a gain of $5,409,744. As of May 26, 2001 the Company owns approximately 2,690,000 shares or 21.1 percent of Metron Technology, N.V. with a total cost basis of approximately $17,276,000. Based on the closing stock price of Metron of $7.98 per share on May 25, 2001, the fair value of our investment in Metron was approximately $21.5 million. The stock price of Metron ranged from $6.63 to $36.00 per share during fiscal 2000 and from $3.13 to $14.00 per share during the first nine months of fiscal 2001.

(8) Realignment Costs

During the third quarter of fiscal 2001, due to the industry slowdown, the Company announced the implementation of a cost reduction plan. The plan included a 16 percent reduction in the Company s overall workforce or approximately 156 positions. In the third quarter the Company recorded a $1.6 million realignment charge for the reduction in its workforce that was allocated as follows: $310,000 to cost of goods sold, $916,000 to SG&A and $374,000 to research and development expense. Additionally, the Company implemented a delay in a merit increase for executives, executive salary cuts of ten percent and a reduction in other discretionary spending. Accruals of $462,000 related to severance costs remained at May 26, 2001 and are expected to be paid or utilized by the end of fiscal 2002.

During the fourth quarter of fiscal 2000, the Company announced a realignment program closing its Mountain View and Fremont, California facilities and the discontinuance of the nickel iron-plating product. The Company recorded realignment charges of approximately $4,100,000 consisting of approximately $1,000,000 of expense in a reduction in its workforce which included $500,000 related to the assembled workforce intangible asset established at the time of the YieldUP acquisition. Additionally the realignment charges also included approximately $1,400,000 for consolidation of facilities, approximately $1,300,000 for liabilities associated with the discontinuance of a product and approximately $400,000 for additional inventory reserves.

The fiscal 2000 realignment charge is summarized as follows:

	Amount Charged 2000	Amount Paid Or Utilized Through May 26, 2001	Accrual at May 26, 2001
Severance costs	$ 1,000,000	$ 1,000,000	$
Facility costs			

1,400,0001,210,000190,000

Product discontinuance	1,300,000	1,300,000	
Inventory reserves	400,000	400,000	
	$4,100,000	$3,910,000	$190,000

The accruals of $190,000 remaining at May 26, 2001 are expected to be paid or utilized in the fourth quarter of fiscal 2001.

Table of Contents

(9) New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements of all public registrants. As a result of SAB 101, the Company will be recognizing equipment revenue upon acceptance for all new products, new customers and new applications. The Company will recognize equipment revenue upon shipment where the Company has previously supplied equipment with the same specifications to the customer and will defer service revenue related to installation until the completion of the installation. The Company will recognize equipment revenue upon shipment to its distributors as the distributors are responsible for post-shipment activities, including installation, labor, warranty, customer service, among other things. Changes in our revenue recognition policy resulting from the interpretation of SAB 101 will be effective in the fourth quarter of fiscal 2001. During the third quarter, the Company continued its assessment of the impact of SAB 101 and has concluded that the impact of the adoption of SAB 101 will require a significant amount of the Company s net sales to be deferred, which could be partially or totally offset by the recognition of new sales for products shipped in prior periods, as required by SAB 101. The change in the Company s revenue recognition policy resulting from the implementation of SAB 101 will be reported as a change in accounting principle in the year ending August 25, 2001 with a restatement of prior quarters in fiscal 2001 to reflect the effect of the change. The cumulative effect of the change in accounting principle will have a significant effect on shareholders equity as of August 27, 2000. Management believes that SAB 101 will not affect the underlying strength or weakness of our business operations as measured by the dollar value of our cash flows.*

(10) Subsequent Event

On June 8, 2001, in response to the continuing weakness in the industry, the Company announced the implementation of additional cost reduction actions which included a 12% reduction in the Company s overall workforce, or approximately 95 positions. This is in addition to the cost reductions announced March 13, 2001, which included a 16 percent reduction in force, a merit increase delay for executives, executive salary cuts of 10 percent and a reduction in other discretionary spending costs. The Company s headcount will be approximately 715 after the workforce reduction. In the fourth quarter, the Company will record a $1.0 million realignment charge associated with the June reduction in its workforce that will be allocated as follows: $302,000 to cost of goods sold, $538,000 to SG&A and $160,000 to research and development expense.

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIRD QUARTER AND FIRST NINE MONTHS OF FISCAL 2001 COMPARED WITH THE THIRD QUARTER AND FIRST NINE MONTHS OF FISCAL 2000.

The information in this Management s Discussion and Analysis of Financial Condition and Results of Operations, except for the historical information contained herein, contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the safe harbor created by that statute. Such statements, including, but not limited to, anticipated fiscal 2001 revenues and the amount of fiscal 2001 fourth quarter sales, are subject to various risks and uncertainties, both known and unknown that could cause actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include, but are not limited to, the length and extent of the current industry softening; additional order delays or cancellations; savings from our cost-cutting measures may be less than anticipated; we may incur unexpected additional costs as part of our cost cutting measures; general economic conditions; changes in customer capacity requirements and the demand for semiconductors; the extent of demand for our products and our ability to meet demand; global trade policies, worldwide political stability, particularly in Asia; the demand and price for semiconductors; the Company s successful execution of internal performance plans; the cyclical nature of the Company s business; volatility of the market for certain products; performance issues with key suppliers and subcontractors; the transition to 300mm products; the level of new orders; the timing and success of current and future product and process development programs; the success of the Company s affiliated distributors; and legal proceeding; as well as other factors listed from time to time in the Company s SEC reports including, but not limited to, the Company s Annual Report on Form 10K for the 2000 fiscal year. Readers also are cautioned not to place undue reliance on these forward-looking statements as actual results could differ materially. FSI assumes no obligation to publicly release any revisions or updates to these forward-looking statements to reflect future events or unanticipated occurrences. Such forward-looking statements are marked with an asterisk (*).

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and footnotes thereto appearing elsewhere in this report.

Industry Update

Industry conditions have deteriorated rapidly over the past six months for both semiconductor and semiconductor equipment manufacturers. Companies and analysts have lowered their expectations for 2001 and 2002 based upon their views of when a sustained recovery will begin. Many companies have implemented cost control measures in response to the weak industry conditions.

Higher energy prices and the slowing of economic growth have contributed to the slowdown in the microelectronics industry. Semiconductor manufacturers inventory turns remain low as a result of the weak demand for PC s and wireless products. It is now expected that industry conditions will remain weak through calendar 2001 and a sustainable recovery is not anticipated until global economic conditions stabilize and start to improve.*

Our customers are reporting factory utilization rates of approximately 60 percent, with some foundry manufacturers reporting utilization rates as low as 30 to 40 percent. Industry analysts are forecasting worldwide semiconductor sales to decrease 15 to 20 percent in calendar 2001, as compared to the prior year.* However, a number of industry analysts recently forecasted 15 plus percent semiconductor growth in calendar 2002.*

North American semiconductor equipment companies reported April orders of $713 million and sales of $1.7 billion, representing a 0.42 book-to-bill ratio. Only six months earlier, in October 2000, orders were $3.0 billion with sales of $2.6 billion, for a 1.16 book-to-bill ratio. Calendar 2001 capital spending plans are being reviewed and adjusted regularly by semiconductor manufacturers. Calendar 2001 spending levels are now expected to

Table of Contents

decrease 30 percent or more from 2000 levels.*

With monthly North American equipment orders well below $1 billion, we believe that the bottom is clearly in sight.* Unfortunately, the industry may bounce along the bottom for a few more quarters before a sustainable recovery begins. We do not believe that the recovery will occur until general economic conditions improve.* Any sustainable recovery would be driven by 300mm, .13 micron process, and copper interconnect spending.

As a result, like many of our peers we have experienced a significant sequential reduction in incoming orders the past two fiscal quarters.* Our book-to-bill ratio in the third quarter was well below 1.0, but generally in line with our industry peers. However, our backlog remained strong at above $100 million at the end of the third quarter.

Even with the strong backlog, we do not believe we will sustain our current $50-plus million quarterly revenue run rate for the next few quarters. In the fourth quarter of fiscal 2001 in response to the continuing weakness in the industry, the Company announced the implementation of additional cost reductions. The plan includes a 12 percent reduction in the Company s overall workforce or approximately 95 positions. This is in addition to the cost reductions announced March 13, 2001, which included a 16 percent reduction in force, a merit increase delay for executives, executive salary cuts of 10 percent and a reduction in other discretionary spending costs. The Company s headcount will be approximately 715 after the workforce reduction. In the fourth quarter the Company will record a $1.0 million realignment charge associated with the June reduction in its workforce that will be allocated as follows: $302,000 to cost of goods sold, $538,000 to SG&A and $160,000 to research and development expense.

The following table sets forth on a consolidated basis, for the fiscal period indicated, certain income and expense items from continuing operations as a percent of total sales.

	Percent of Sales Quarter Ended		**Percent of Sales Nine Months Ended**	
	May 26, 2001	**May 27, 2000**	**May 26, 2001**	**May 27, 2000**
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	61.4	61.5	60.6	63.1
Gross profit	38.6	38.5	39.4	36.9
Selling, general and administrative	23.0	19.6	19.7	24.8
In-process research and development				4.4
Research and development	19.6	13.9	15.7	18.5
Operating income (loss)	(4.0)	5.0	4.0	(10.8)
Other income, net	0.9	0.8	1.0	4.9
Income (loss) before income taxes	(3.1)	5.8	5.0	(5.9)
Income taxes	0.3		0.2	
Equity in earnings (losses) of affiliates	1.6	(0.3)	1.7	(0.8)
Net income (loss) from continuing operations	(1.8)	5.5	6.5	(6.7)
Discontinued operations:				
Net loss from discontinued operations				(0.3)

Net income (loss)	(1.8)%5.5 %6.5%(7.0)%

Table of Contents

Sales

Sales were $55.6 million for the third quarter of fiscal 2001 as compared to $67.7 million for the third quarter of fiscal 2000 and $73.9 million for the second quarter of fiscal 2001. The decrease in sales occurred in Surface Conditioning products and in spare parts and service sales offset by an increase in sales of Microlithography products. Sales were $199.9 million for the first nine months of fiscal 2001 as compared to $144.5 million for the first nine months of fiscal 2000. Both the Microlithography and Surface Conditioning Divisions experienced sales increases for the nine month period.

International sales were $25.8 million and $43.7 million for the third quarter of fiscal 2001 and 2000, respectively, and represented approximately 46% and 65%, respectively, of sales during these periods. International sales were $107.9 million and $76.2 million for the first nine months of fiscal 2001 and 2000, respectively, and represented 54% and 53%, respectively, of sales during these periods. Sales to customers in Europe and the United States increased year-over-year for both the third quarter and first nine months, while we experienced a significant decline in sales to the heavily foundry weighted Asia Pacific region.

Sales in the fourth quarter of fiscal 2001 are expected to be approximately $44 to $50 million.* All revenue expectations are stated before the impact of the adoption of Staff Accounting Bulletin No. 101, which will occur in the fourth quarter of fiscal 2001.

Gross profit

Gross profit as a percentage of sales for the third quarter of fiscal 2001 was 38.6% as compared to 38.5% for the third quarter of fiscal 2000. Gross profit as a percentage of sales for the first nine months of fiscal 2001 was 39.4% as compared to 36.9% for the first nine months of fiscal 2000. The improvement in gross profit margins is due primarily to cost reduction activities partially offset by the lower levels of capacity utilization and a higher mix of lower margin products.

FSI s gross profit margin does fluctuate due to a number of factors, including the mix of products sold, as some products have higher margins than others, the proportion of international sales, as international sales generally have lower margins, OEM system content, competitive pricing pressures and utilization of manufacturing capacity.

We expect gross margin percentages to be lower in the fourth quarter of fiscal 2001 as compared to the third quarter due to lower revenue levels.*

Selling, general and administrative expenses

Selling, general and administrative expenses decreased to $12.8 million for the third quarter of fiscal 2001 as compared to $13.2 million for the third quarter of fiscal 2000. Selling, general and administrative expenses increased to $39.4 million for the first nine months of fiscal 2001 as compared to $35.8 million for the same period in fiscal 2000. The decrease in SG&A expense for the third quarter of fiscal 2001 as compared to third quarter 2000 is due to cost reductions implemented in March 2001, including the reduction in force. In addition, there was a decrease in commission expense due to lower sales and order levels. The increase in SG&A for the first nine months of fiscal 2001 as compared to the first nine months of fiscal 2000 is due primarily to increased service expenses offset by cost reduction efforts.

FSI expects the amount of SG&A expenses in the fourth quarter of fiscal 2001 to decrease from the third quarter level. However, as a result of the lower sales level, as a percent of sales, SG&A expenses are expected to increase.*

Table of Contents

Research and development expenses

Research and development expenses increased to $10.9 million for the third quarter of fiscal 2001 as compared to $9.4 million for the same period in fiscal 2000. Research and development expenses increased to $31.3 million for the first nine months of fiscal 2001 as compared to $26.7 million for the same period in fiscal 2000. The increases relate primarily to costs associated with the immersion cleaning product development, our reduced footprint ZETA® program and continued engineering and process qualification activities associated with our 300 mm products. Also in the first quarter of fiscal 2000, FSI recorded a $6.4 million in-process R&D write-off relating to the acquisition of YieldUP International Corporation.

R&D expenses in the fourth quarter of fiscal 2001 are expected to decrease as compared to the third quarter. However, R&D expenses are expected to increase as a percentage of sales in the fourth quarter as compared to the third quarter level.*

Other income, net

Other income (expense), net was approximately $520,000 and $1,939,000 for the third quarter and first nine months of fiscal 2001, respectively, as compared to $518,000 and $7,039,000 for the third quarter and first nine months of fiscal 2000, respectively. The decrease for the first nine months of fiscal 2001 is primarily due to the $5.4 million gain recognized on the sale of approximately 612,000 shares of Metron Technology s (our affiliate) stock in its initial public offering during the first quarter of fiscal 2000.

Other income, net is expected to continue to run between $500,000 and $600,000 per quarter, depending on the amount of cash invested and interest rate for the period.*

Income tax expense (benefit)

Income tax expense for the third quarter and first nine months of fiscal 2001 was $200,000 and $400,000, respectively. FSI recorded no tax benefit or expense related to its operating losses for the third quarter and first nine months of fiscal 2000.

FSI s deferred tax assets on the balance sheet as of May 26, 2001 have been fully reserved for with a valuation allowance. We will not be significantly reducing our valuation allowance in the future until we are consistently profitable on a quarterly basis. We anticipate that we will record approximately $200,000 of tax expense in the fourth quarter of fiscal 2001 as we utilize the YieldUP net operating loss (NOL) carryforward. Although the YieldUP NOL asset was reserved for with a valuation allowance, the reduction of the valuation allowance will be offset to goodwill.

Overall, FSI has net operating loss carryforwards for federal income tax purposes of approximately $18,500,000, which will begin to expire in fiscal year 2011 if not utilized. Of this amount, approximately $17,700,000 is subject to Internal Revenue Code Section 382 limitations on utilization. This limitation is approximately $1,400,000 per year.

Equity in (loss) earnings of affiliates

The equity in earnings (losses) of affiliates was approximately $893,000 of income for the third quarter of fiscal 2001 compared to approximately a $204,000 loss for the third quarter of fiscal 2000. The equity in earnings (losses) of affiliates was approximately $3,286,000 of income for the first nine months of fiscal 2001 compared to a $1,127,000 of loss for the first nine months of fiscal 2000. The improvement in 2001 is due to improved operations at both Metron and m-FSI.

We expect equity in earnings of affiliates to be between $700,000 and $800,000 for fourth quarter, with an increase in the contribution from m-FSI as compared to previous quarters.*

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

The Company s cash and cash equivalents and marketable securities were approximately $45.8 million as of May 26, 2001, an increase of $3.6 million from the end of fiscal 2000. The increase in cash, cash equivalents and marketable securities is due to cash provided by operations of $8.5 million, offset by $6.7 million of property, plant and equipment acquisitions. Based on our current fiscal year forecast, we believe that we can generate approximately $10.0 million in positive cash flow in fiscal 2001.*

The Company s accounts receivable decreased by approximately 12.6% or $7.0 million from the end of fiscal 2000 including a decrease in accounts receivable from affiliates of $5.4 million. The decrease in accounts receivable is primarily due to lower sales revenues.

The Company s inventory increased approximately $14.1 million to $64.9 million at May 26, 2001 compared to $50.8 million at the end of fiscal 2000. The increase in inventory was primarily in work-in-process and raw materials as a result of FSI s backlog and the impact that customer requested pushouts and cancellations have had on FSI.

As of May 26 2001, the Company s current ratio of current assets to current liabilities was 3.5 to 1.0 and working capital was $117.5 million.

The Company had acquisitions of property, plant and equipment of approximately $6.7 million and $6.4 million for the first nine months of fiscal 2001 and 2000, respectively. It is anticipated FSI will invest approximately $8.0 to $9.0 million in fiscal 2001 in property, plant and equipment.*

The Company believes that with existing cash, cash equivalents, marketable securities and internally generated funds, there will be sufficient funds to meet FSI s current projected working capital and other cash requirements through at least fiscal 2002.*

FSI believes that success in its industry requires substantial capital to maintain the flexibility to take advantage of opportunities as they arise. One of FSI s strategic objectives is, as market and business conditions warrant, to consider divestitures, investments or acquisitions of businesses, products or technologies particularly those that are complementary to our surface conditioning business.* FSI may fund such activities with additional equity or debt financings.* The sale of additional equity or debt securities could result in additional dilution to our stockholders.*

NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements of all public registrants. As a result of SAB 101, the Company will be recognizing equipment revenue upon acceptance for all new products, new customers and new applications. The Company will recognize equipment revenue upon shipment where the Company has previously supplied equipment with the same specifications to the customer and will defer service revenue related to installation until the completion of the installation. The Company will recognize equipment revenue upon shipment to its distributors as the distributors are responsible for post-shipment activities, including installation, labor, warranty, customer service, among other things. Changes in our revenue recognition policy resulting from the interpretation of SAB 101 will be effective in the fourth quarter of fiscal 2001. During the third quarter, the Company continued its assessment of the impact of SAB 101 and has concluded that the impact of the adoption of SAB 101 will require a significant amount of the Company s net sales to be deferred, which could be partially or totally offset by the recognition of new sales for products shipped in prior periods, as required by SAB 101. The change in the Company s revenue recognition policy resulting from the implementation of SAB 101 will be reported as a change in accounting principle in the year ending August 25, 2001 with a restatement of prior quarters in fiscal 2001 to reflect the effect of the change. The cumulative effect of the change in accounting principle will have a significant effect on shareholders equity as of August 27, 2000. Management believes that SAB 101 will not affect the

Table of Contents

underlying strength or weakness of our business operations as measured by the dollar value of our cash flows.*

RISK FACTORS

Due to the nature of business and the industry in which we operate the following risk factors should be considered in addition to others described above. Our business faces significant risks. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently believe are immaterial. If any of the events or circumstances described in the following risks occurs, our business, operating results or financial condition could be materially adversely affected. These risks should be read in conjunction with the other information set forth in this report.

Because our business depends on the amount that manufacturers of microelectronics spend on capital equipment, downturns in the microelectronics industry may adversely affect our results.

The microelectronics industry experiences periodic slowdowns, which may have a negative effect on our sales and operating results. Our business depends on the amount that manufacturers of microelectronics spend on capital equipment. The amount they spend on capital equipment depends on the existing and expected demand for semiconductor devices and products that use semiconductor devices. The microelectronics industry has experienced alternating upturns and downturns in business activity. When this occurs, some semiconductor manufacturers experience lower demand and increased pricing pressure for their products. As a result, they are likely to purchase less semiconductor processing equipment and have sometimes delayed making decisions to purchase capital equipment. In some cases, semiconductor manufacturers have cancelled or delayed orders for our products and over the past six months there has been an increase in the amount of order delays or order cancellations. The semiconductor industry experienced a downturn in 1998 and 1999, which seriously harmed our operating results during that period. Typically, the semiconductor equipment industry has experienced more pronounced decreases in net sales than the semiconductor industry as a whole. Our net sales decreased from $162.9 million in fiscal 1997 and $161.7 million in fiscal 1998 to $113.5 million in fiscal 1999 and rebounded to $220.0 million in fiscal 2000.

We, along with others in the industry, have recently experienced a significant slowdown in orders for new equipment as well as delays in or cancellations of existing orders. The extent and length of the current slowdown cannot be predicted. Although there are some indications that the semiconductor industry may begin to recover from the current slowdown later in fiscal 2002, the rate of improvement, if any, is expected to be much lower than in fiscal 2000. However:

- the semiconductor industry may experience other, possibly more severe and prolonged, downturns in the future;
- any future recovery of the semiconductor industry may not result in an increased demand by semiconductor manufacturers for capital equipment or our products; and
- the semiconductor industry may not improve in the near future.

If we do not continue to develop new products, we will not be able to compete effectively.

Our business and results of operations could decline if we do not develop and successfully introduce new or improved products that the market accepts. The technology used in microelectronics manufacturing equipment and processes changes rapidly. Industry standards change constantly and equipment manufacturers frequently introduce new products. We believe that microelectronics manufacturers increasingly rely on equipment manufacturers like us to:

- Design and develop more efficient manufacturing equipment;
- Design and implement improved processes for microelectronics manufacturers to use; and
- Make their equipment compatible with equipment made by other equipment manufacturers.

To compete, we must continue to develop, manufacture, and market new or improved products that meet changing industry standards. To do this successfully, we must:

- Select appropriate products;
- Design and develop our products efficiently and quickly;
- Implement our manufacturing and assembly processes efficiently and on time;
- Make products that perform well for our customers;
- Market and sell our products effectively; and
- Introduce our new products in a way that does not reduce sales of our existing products.

Failure of our products to gain market acceptance would adversely affect our financial condition.

We believe that our growth prospects depend upon our ability to gain customer acceptance of our products and technology, particularly 300 mm products. Market acceptance of products depends upon numerous factors, including compatibility with existing manufacturing processes and products, perceived advantages over competing products and the level of customer service available to support such products. Moreover, manufacturers often rely on a limited number of equipment vendors to meet their manufacturing equipment needs. As a result, market acceptance of our products may be adversely affected to the extent potential customers utilize a competitor s manufacturing equipment. There can be no assurance that sales of new products will remain constant or grow or that we will be successful in obtaining broad market acceptance of our systems and technology.

We expect to spend a significant amount of time and resources to develop new systems and refine existing systems. In light of the long product development cycles inherent in our industry, these expenditures will be made well in advance of the prospect of deriving revenue from the sale of any new systems. Our ability to commercially introduce and successfully market any new systems is subject to a wide variety of challenges during this development cycle, including start-up bugs, design defects and other matters that could delay introduction of these systems to the marketplace. In addition, since our customers are not obligated by long-term contracts to purchase our systems, our anticipated product orders may not materialize, or orders that do materialize may be cancelled. As a result, if we do not achieve market acceptance of new products, we may not be able to realize sufficient sales of our systems in order to recoup research and development expenditures. The failure of any of our new products to achieve market acceptance would harm our business, financial condition, and results of operation and cash flows.

Future acquisitions may dilute our stockholders ownership interests and have other adverse consequences.

Because of consolidations in the semiconductor equipment industry served by us and other competitive factors, our management will seek to acquire additional product lines, technologies, and businesses if suitable opportunities develop. Acquisitions may result in the issuance of our stock, which may dilute our stockholders ownership interests and reduce earnings per share. Acquisitions may also increase debt levels and related goodwill and other intangible assets, which could have a significant negative effect on our financial condition and operating results. In addition, acquisitions involve numerous risks, including:

- Difficulties in absorbing the new business, product line, or technology;
- Diversion of management s attention from other business concerns;
- Entering new markets in which we have little or no experience; and
- Possible loss of key employees of the acquired business.

Because of the volatility of our stock price, the ability to trade FSI shares may be adversely affected and our ability to raise capital through future equity financing may be reduced.

The price of our stock has been volatile in the past and may continue to be so in the future. In the 2000 fiscal year, for example, our stock price ranged from $6.19 to $24.00 per share and for the first nine months of fiscal 2001 our stock price has ranged from $7.75 to $18.50 per share.

Table of Contents

The trading price of our common shares is subject to wide fluctuations in response to various factors, some of which are beyond our control, including factors discussed elsewhere in this report and the following:

- Failure to meet the published expectations of securities analysts for a given quarterly period;
- Changes in financial estimates by securities analysts;
- Press releases or announcements by or changes in market values of comparable companies;
- Stock market price and volume fluctuations, which is 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
- Involvement in or adverse results from litigation.

The prices of technology stocks, including ours, have been particularly affected by extreme fluctuations in price and volume in the stock market generally. These fluctuations have often been unrelated to the operating performance of the companies whose stock is traded. These broad stock market fluctuations may have a negative effect on our future stock price.

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. To date we have not been subject to such claims, however we may in the future be the target of this type of litigation. Securities litigation may result in substantial costs and divert management s attention and resources, which can seriously harm our business.

Because our quarterly operating results are volatile, our stock price could decrease.

In the past, our operating results have fluctuated from quarter to quarter and are likely to do so in the future. These fluctuations may have a significant impact on our stock price. The reasons for the fluctuations in our operating results, such as sales, gross profits, and net income, include:

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 New Product and Service Announcements by Us or Our Competitors. New product announcements by us and our competitors could cause our customers to delay a purchase or to decide to purchase products of one of our 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 among or within different product lines, this can adversely affect our results of operations. If we fail to sell those products, which generate higher margins, our average gross margins may be lower than expected. If we fail to sell our new product lines, our revenue may be lower than expected.

General Global Economic Conditions or Economic Conditions in a Particular Region. When economic conditions in a region or worldwide worsen, customers may delay or cancel their orders. There may also be an increase in the time it takes to collect from our customers or even outright defaults in payments. This can negatively affect our cash flow and our results.

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. An unanticipated decline in revenue for a particular quarter may disproportionately affect our net income in that quarter. If our revenue is below our

Table of Contents

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.

Because international sales are important to us, and because most of our international sales are through our affiliated distributors, reductions in the sales efforts of these affiliates could adversely affect our results.

The profits or losses of our affiliated distributors, Metron Technology B.V. and m-FSI Ltd., can also significantly affect our financial results. We make most of our international sales through these affiliated distributors. As of May 26, 2001 we have a 21.1% ownership interest in Metron and a 49% interest in m-FSI. Fiscal 2000 sales through m-FSI were $11.1 million or 5.1% of our total sales. Fiscal 2000 sales through Metron were $89.7 million or 40.8% of our total sales. In addition, these affiliates also provide service and support to many of our international customers. Metron and m-FSI also distribute or sell products for companies other than us. It could have a negative effect on our operating results if either of these affiliates reduced its sales efforts, lost the business of a significant company for which it distributes or sells products, lost a significant customer, or otherwise became less financially viable.

We cannot guarantee that Metron or m-FSI will continue to successfully distribute our products or the products of other companies. The failure of Metron or m-FSI to do so could have a significant negative effect on our results of operations.

Changes in demand caused by fluctuations in interest and currency exchange rates may reduce our international sales.

Almost all of our direct international sales are denominated in U.S. dollars. Nonetheless, changes in demand caused by fluctuations in interest and currency exchange rates may affect our international sales. Most of our international sales, however, are through our affiliated distributors. Metron s sales of our products and other companies products are primarily denominated in U.S. dollars, but its expenses are generally denominated in foreign currencies. Accordingly, fluctuations in interest and currency exchange rates may affect Metron s financial results. Sales for m-FSI are denominated in yen. As a result, U.S. dollar/yen exchange rates may affect our equity interest in m-FSI s earnings.

Metron and m-FSI sometimes engage in so-called hedging or risk-reducing transactions to try to limit the negative effects that the devaluation of foreign currencies relative to the U.S. dollar could have on operating results. They will do so if a sale denominated in a foreign currency is sufficiently large to justify the costs of hedging. To hedge a sale, Metron or m-FSI will typically commit to buy U.S. dollars and sell the foreign currency at a given price at a future date. If the customer cancels the sale, Metron or m-FSI may be forced to buy U.S. dollars and sell the foreign currency at market rates to meet its hedging obligations and may incur a loss in doing so. To date, the hedging activities of Metron and m-FSI have not had any significant negative effect on us. The adoption of SFAS 133 by Metron and m-FSI may cause more volatility in our equity in earnings of affiliates.*

Because of the need to meet and comply with numerous foreign regulations and policies, the possible changes of the political and economic environments in foreign jurisdictions and the difficulty of managing business overseas, we may not be able to sustain our historical level of international sales.

We and our affiliates operate in a global market. In fiscal 2000, approximately 53% of our sales revenue derived from sales outside the United States. In fiscal 1999, this figure was 29%, and in fiscal 1998 it was 39%. These figures include sales through Metron and m-FSI, which accounted for 87% of international sales in 2000, 92% in 1999 and 95% in 1998. We expect that international sales will continue to represent a significant portion of total sales. Sales to customers outside the United States involve a number of risks, including the following:

- Imposition of government controls;
- Compliance with U.S. export laws and foreign laws;
- Political and economic instability;
- Trade restrictions;

- Changes in taxes and tariffs;
- Longer payment cycles;
- Difficulty of administering business overseas; and
- General economic conditions.

In particular, the Japanese and Asia Pacific markets are extremely competitive. The semiconductor device manufacturers located there are very aggressive in seeking price concessions from suppliers, including equipment manufacturers like us. In fiscal 2000, approximately 25% of our international sales were attributable to these markets.

We seek to meet technical standards imposed by foreign regulatory bodies. However, we cannot guarantee that we will be able to comply with those standards in the future. Any failure by us to design products to comply with foreign standards could have a significant negative impact on us.

Because of the significant financial resources needed to offer a broad range of products, to maintain customer service and support and to invest in research and development, we may be unable to compete with larger, better established competitors.

The microelectronics equipment industry is highly competitive. We face substantial competition throughout the world. We believe that to remain competitive, we will need significant financial resources to offer a broad range of products, to maintain customer service and support, and to invest in research and development. We believe that the microelectronics industry is becoming increasingly dominated by large manufacturers who have the resources to support customers on a worldwide basis. Some of our competitors have substantially greater financial, marketing, and customer-support capabilities than us. Large equipment manufacturers may enter the market areas in which we compete. In addition, smaller, emerging microelectronics equipment companies provide innovative technology. We expect that our competitors will continue to improve the design and performance of their existing products and processes. We also expect them to introduce new products and processes with better performance and perhaps better pricing. We cannot guarantee that we will continue to compete effectively in the United States or elsewhere.

Because we do not have long-term sales commitments with our customers, if these customers decide to reduce, delay or cancel orders or choose to deal with our competitors, then our results will be adversely affected.

If our significant customers, including IBM, Texas Instruments, STMicroelectronics, 1st Silicon or Seagate Technology, reduce, delay, or cancel orders, then our operating results could suffer. Our largest customers have changed from year to year. Sales to FSI s top five customers accounted for approximately 45%, 49% and 41% of total sales in fiscal 2000, 1999 and 1998, respectively. STMicroelectronics represented 11% of revenues in fiscal 2000. Texas Instruments accounted for 15% of revenues in fiscal 2000 and 13% of revenues during fiscal 1999. IBM accounted for 24% of revenues during fiscal 1999 and 14% of revenues during fiscal 1998. National Semiconductor accounted for 12% of revenues in fiscal 1998. We currently have no long-term sales commitments with any of our customers. Instead, we generally make sales under purchase orders.

Our backlog may not result in future net sales.

We schedule the production of our systems based in part upon order backlog. Due to possible customer changes in delivery schedules and cancellations of orders, our backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. In addition, while we evaluate each customer order on a case by case basis to determine qualification for inclusion in backlog, there can be no assurance that amounts included in backlog will ultimately result in future sales. A reduction in backlog during any particular period, or the failure of our backlog to result in future sales, could harm our business.

Our backlog at May 26, 2001 was above $100 million of which 57% was comprised of orders from three customers. All orders are subject to cancellation or delay by the customer.

Table of Contents

Because we retained certain liabilities from the divestiture of the Chemical Management Division and agreed to indemnify BOC with respect to specified obligations and liabilities, we may experience charges in excess of the reserves established at the time of the divestiture which could negatively impact results from operations.

In connection with the divestiture of the Chemical Management Division in July 1999, we retained certain liabilities and agreed to indemnify BOC with respect to certain specified obligations and liabilities. In fiscal 2000, FSI completed the negotiations of the final closing balance sheet for the CMD divestiture to BOC. As a result, FSI established an additional $400,000 accrual for expected costs associated with completing two projects that were in process when BOC purchased the division. If we experience liabilities or charges in excess of established reserves and it is ultimately determined that an adjustment in favor of BOC is warranted, our results of operations could be adversely impacted due to additional costs associated with those reserves or the request to return to BOC a portion of the purchase price because of such adjustments.

It may be difficult for us to compete with stronger competitors resulting from industry consolidation.

In the past several years, we have seen a trend toward consolidation in the microelectronics equipment industry. We expect the trend toward consolidation to continue as companies seek to strengthen or maintain their market positions in a rapidly changing industry. We believe that industry consolidations may result in competitors that are better able to compete. This could have a significant negative impact on our business, operating results, and financial condition.

Because we depend upon our management and technical personnel for our success, the loss of key personnel could place us at a competitive disadvantage.

Our success depends to a significant extent upon our management and technical personnel. The loss of a number of these key persons could have a negative effect on our operations. Competition is high for such personnel in our industry in all locations. We periodically review our compensation and benefit packages to ensure that they are competitive in the marketplace and make adjustments or implement new programs for that purpose, as appropriate. We cannot guarantee that we will continue to attract and retain the personnel we require to continue to grow and operate profitably.

Our employment costs in the short-term are to a large extent fixed, and therefore any unexpected 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. Accordingly, we may be unable to reduce employment costs in a timely manner to compensate for any unexpected revenue or gross margin shortfall, which could have a material adverse effect on our operating results.

Because our intellectual property is important to our success, the loss or diminution of our intellectual property rights through legal challenge by others or from independent development by others, could adversely affect our business.

We attempt to protect our intellectual property rights through patents, copyrights, trade secrets, and other measures. However, we believe that our financial performance will depend more upon the innovation, technological expertise, and marketing abilities of our employees than on such protection. In connection with our intellectual property rights, we face the following risks:

- Our pending patent applications may not be issued or may be issued with more narrow claims;
- Patents issued to us may be challenged, invalidated, or circumvented;
- Rights granted under issued patents may not provide competitive advantages to us;
- Foreign laws may not protect our intellectual property rights; and
- Others may independently develop similar products, duplicate our products, or design around our patents.

As is typical in the semiconductor industry, we occasionally receive notices from others alleging infringement

claims. We have been involved in patent infringement litigation in the past and SCD Mountain View is currently involved in such litigation. We could become involved in similar lawsuits or other patent infringement claims in the future. We cannot guarantee the outcome of such lawsuits or claims, which may have a significant negative effect on our business or operating results.

Our sales cycle 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 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. We believe that the length of the sales cycle may increase as some current and potential customers 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 do not intend to pay dividends.

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

Adoption of the common European currency may adversely affect us and our affiliated distributors by requiring systems modifications and possibly increasing their currency exchange risks.

We continue to analyze the issues raised by the introduction of the common European currency unit, the Euro. The use of the Euro began on January 1, 1999 and will be phased-in through January 1, 2002. We do not expect the cost of any necessary systems modification to be material and do not anticipate that the introduction and use of the Euro will materially affect our results. Our affiliate distributor is implementing a new operations management information system designed to accommodate the transition from legacy currencies to the Euro. If the new system is not successfully installed on a timely basis, this could have a material adverse effect on our affiliated distributors business. We do not expect the Euro to have a material effect on the currency exchange risks of our affiliated distributors businesses. Our management will continue to monitor the effect of the implementation of the Euro.

Changes to financial accounting standards may affect the Company s reported results of operations.

The Company prepares its financial statements to conform with accounting principles generally accepted in the United States of America (GAAP). GAAP are subject to interpretation by the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on the Company s reported results and may even affect its reporting of transactions completed before a change is announced.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101), entitled Revenue Recognition in Financial Statements. The Company will implement the provisions of SAB 101 beginning in the fourth quarter of fiscal 2001. The Company currently recognizes revenue from the sales of its products generally upon shipment, which usually precedes installation and final customer acceptance, provided that final customer acceptance and collection of the related receivable are considered at the time probable.

Effective in the fourth quarter of fiscal 2001, the Company will change its method of accounting for product sales to recognize equipment revenue upon acceptance for all new products, new customers and new applications. The Company will recognize equipment revenue upon shipment where the Company has previously supplied equipment with the same specifications to the customer and will defer service revenue related to installation until the completion of the installation. The Company will recognize equipment revenue upon shipment to its distributors as the distributors are responsible for post-shipment activities, including installation, labor, warranty, customer service, among other things. Changes in our revenue recognition policy resulting from the interpretation of SAB 101 will be effective in the fourth quarter of fiscal 2001. During the third quarter, the Company continued its assessment of the impact of SAB 101 and has concluded that the impact of the adoption of SAB 101 will require a significant amount of the Company s net sales to be deferred, which could be partially or totally offset by the recognition of new sales for products shipped in prior periods, as required by SAB 101. The change in the Company s revenue recognition policy resulting from the implementation of SAB 101 will be reported as a change

23

Table of Contents

in accounting principle in the year ending August 25, 2001 with a restatement of prior quarters in fiscal 2001 to reflect the effect of the change. The cumulative effect of the change in accounting principle will have a significant effect on shareholders equity as of August 27, 2000. Management believes that SAB 101 will not affect the underlying strength or weakness of our business operations as measured by the dollar value of our cash flows.*

Accounting policies affecting many other aspects of our business, including rules relating to purchase and pooling-of-interests accounting for business combinations, revenue recognition, in-process research and development charges, employee stock purchase plans and stock option grants, have recently been revised or are under review. Changes to those rules or the questioning of the Company s current accounting practices may have a material adverse effect on the Company s reported financial results or on the way it conducts business. In addition, the Company s preparation of financial statements in accordance with GAAP requires that it make estimates and assumptions that affect the recorded amounts of assets and liabilities, disclosure of those assets and liabilities at the date of the financial statements and the recorded amounts of expenses during the reporting period. A change in the facts and circumstances surrounding those estimates could result in a change to the Company s estimates and could impact its future operating results.

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, Business and elsewhere in this report are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our, or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. These factors are listed under Risk Factors and elsewhere in this report.

In some cases, you can identify forward-looking statements by terminology such as expects, anticipates, intends, may, should, plans, beli 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 or accurately predict the level of future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our cash flows and earnings are subject to fluctuations in foreign exchange rates due to investments in foreign-based affiliates. As of May 26, 2001 our investments in affiliates include a 21.1% interest in Metron Technology B.V. (Metron) and a 49% interest in m-FSI Ltd. Metron operates mainly in Europe, Asia Pacific and the United States. m-FSI Ltd. operates in Japan. Approximately 89% of fiscal 2000 and 87% of the first nine months of fiscal 2001 sales to affiliates were to Metron. We denominate all U.S. export sales in U.S. dollars.

Metron attempts to limit its exposure to changing foreign currency exchange rates through operational and financial market actions. Products are sold in a number of countries throughout the world resulting in a diverse portfolio of transactions denominated in foreign currencies. Certain short-term foreign currency exposures are managed by the purchase of forward contracts to offset the earnings and cash flow impact of non-functional currency denominated receivables and payables.

We do not have significant exposure to changing interest rates as all material outstanding debt was repaid on September 3, 1999 and all marketable securities consist of debt instruments, all of which mature within one year. As of May 26, 2001, amortized cost approximates market value for all outstanding marketable securities. We do not undertake any specific actions to cover our exposure to interest rate risk and we are not party to any interest rate risk management transactions. The impact of a 1% change in short-term interest rates would be approximately a $400,000 annual change in investment income based on cash, cash equivalents and marketable security balances as of August 26, 2000.

24

Table of Contents

Our investment in our affiliate, Metron, is accounted for by the equity method of accounting and has a carrying value on the balance sheet of approximately $17.3 million. The fair value of Metron is subject to stock market fluctuations. Based on the closing stock price of Metron of $7.98 per share on May 25, 2001, the fair value of our investment in Metron, was approximately $21.5 million. The stock price of Metron ranged from $6.63 to $36.00 per share during fiscal 2000 and from $3.13 to $14.00 per share during the first nine months of fiscal 2001.

25

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We generate minor amounts of liquid and solid hazardous waste and use licensed haulers and disposal facilities to ship and dispose of such waste. In the past, we have received notice from state or federal enforcement agencies that we are a potentially responsible party (PRP) in connection with the investigation of several hazardous waste disposal sites owned and operated by third parties. In each matter, we have elected to participate in settlement offers made to all *de minimis* parties with respect to such sites. The risk of being named a PRP is that if any of the other PRP s are unable to contribute their proportionate share of the liability, if any, associated with the site, those PRP s that are able could be held financially responsible for the shortfall.

Certain of our product lines are intended for use with hazardous chemicals. As a result, we are notified by our customers from time to time of incidents involving our equipment that have resulted in a spill or release of a hazardous chemical. In some cases it may be alleged that we or our equipment are at fault. There can be no assurance that any future litigation resulting from such claims would not have a material adverse effect on our business or financial results.

During the past few years, there has been an increase in litigation regarding patent and other intellectual property rights in the microelectronics industry. Commercialization of new products or further commercialization of our current products could provoke claims of infringement by third parties. In the future, litigation may be necessary to enforce patents issued to us, to protect trade secrets or know-how owned by us or to defend us against claimed infringement of the rights of others and to determine the scope and validity of our intellectual property rights. Any such litigation could result in substantial costs and diversion of effort by us, which by itself could have a material adverse impact on our financial condition and operating results. Further, adverse determinations in such litigation could result in our loss of proprietary rights, subject us to significant liabilities to third parties, require us to seek licenses from third parties or prevent us from manufacturing or selling one or more products, any of which could have a material adverse effect on our financial condition and results of operations.

In October 1996, Eric C. and Angie L. Hsu (the plaintiffs) filed a lawsuit in the Superior Court of California, County of Alameda, Southern Division, against Semiconductor Systems, Inc. (SSI), a wholly-owned subsidiary of FSI that was acquired in April 1996, and the former shareholders of SSI. In the fall of 1995, pursuant to the Employee Stock Purchase and Shareholder Agreement dated November 30, 1990 between Mr. Hsu and SSI (the Shareholder Agreement) and in connection with Mr. Hsu s termination of his employment with SSI in August 1995, the former shareholders of SSI purchased the shares of SSI common stock then held by Mr. Hsu. The plaintiffs claimed, among other things, that such purchase breached the Shareholder Agreement and violated the California Corporations Code, breached the fiduciary duty owed plaintiffs by the individual defendants and constituted fraud.

In September and October of this year, certain of Mr. Hsu s claims were tried to a jury in Alameda County Superior Court in Oakland, California. At the conclusion of the trial, the jury made the following findings. The jury found that SSI breached the Shareholder Agreement between it and Eric Hsu either by allowing the other shareholders to purchase Mr. Hsu s shares or by allowing an untimely purchase of Mr. Hsu s shares and that the damages that resulted were approximately $2.4 million. As a result of this finding, Mr. Hsu is seeking to recover his attorney s fees. In addition, each of the individual defendant

shareholders was found liable for conversion and damages of approximately $4.2 million were awarded. Certain individual defendants were also found to have intentionally interfered with Mr. Hsu s prospective economic advantage and damages of approximately $3.2 million were awarded. Finally, several individual defendants and SSI were found to have violated certain provisions of the California Corporations Code and damages of approximately $2.4 million were awarded. SSI believes the damages awards will be found to be duplicative and not cumulative and that certain of these damages awards may be subject to reduction, including for among other things, on account of the amount paid to Mr. Hsu in connection with the purchase of his shares. However, the judge has yet to rule on the amount of the damages awarded on the various causes of action or how such damages are to be allocated.

As noted above, plaintiffs are seeking to recover their attorney s fees of approximately $2.2 million, costs of approximately $200,000 and to have interest awarded with respect to the jury s findings. Although the judge has not issued a formal ruling on these issues, he has indicated that he intends to award plaintiffs a substantial portion of their attorney s fees and costs and to award interest of 10 percent per annum on the contract claim verdict of $2.4 million, with interest accruing commencing October 1996. Damages, fees and costs have not yet been allocated among the respective defendants and final judgment has not yet been entered. Once a judgment is entered, SSI and the other defendants expect to file post-trial motions seeking reduction in the jury s damage awards and/or a new trial. If those motions are denied, the matter will be appealable and SSI and the individual defendants are likely to appeal the verdict on a variety of grounds. Thus, there is considerable uncertainty as to the ultimate resolution of this matter and the respective liability, if any, of the individual defendants or SSI.

We, on behalf of SSI, have made a claim with respect to the lawsuit under the escrow created at the time of our acquisition of SSI. The escrow was established to secure certain indemnification obligations of the former shareholders of SSI. The escrow consists of an aggregate of 250,000 shares of our Common Stock paid to the former shareholders of SSI as consideration in the acquisition. There is no cash in the escrow. The former shareholders have agreed to hold FSI and SSI harmless from any claim arising out of any securities transactions between SSI and the shareholders or former shareholders of SSI. The indemnification obligations of the individual SSI shareholders are capped at approximately $4.2 million in the aggregate. Any shares in the escrow returned to FSI to satisfy any indemnification obligations will be valued at $12.125 per share, the per-share price of FSI Common Stock at the time of the SSI acquisition. Depending on the ultimate resolution of the case, it is possible that the escrow and indemnity obligations of the individual shareholders may not be sufficient to fully protect SSI against any judgment that may be entered in the matter.

CFM Technologies, Inc. and CFMT, Inc. (collectively CFM) filed a complaint against YieldUP in United States District Court for the District of Delaware in September 1995. The complaint alleged that the drying process incorporated in certain YieldUP products infringes a patent held by CFM. On October 14, 1997, a federal court for the District of Delaware ruled in YieldUP s favor. In a written opinion granting summary judgment for YieldUP, the United States District Court held that CFM had failed to produce evidence on three separate elements of the patent claim. To establish infringement, evidence of all three elements was required. On June 30, 1998, the United States District Court of Delaware granted CFM s petition for re-argument of the summary judgment motion, and the re-argument briefs have been filed by both parties. The judge has not yet ruled as to whether to sustain his earlier ruling. If the original order is overturned, the litigation may proceed to trial, and the litigation and the associated costs may, and an unfavorable adjudication could, have a material adverse impact on FSI.* CFM is asking for monetary damages and an injunction against YieldUP s use of the products at issue. A loss, if any, resulting from an unfavorable adjudication, cannot presently be estimated and the associated costs, and an unfavorable adjudication could have a material adverse impact on FSI.

CFM filed an additional complaint against YieldUP in United States District Court for the District of Delaware on December 30, 1998. The complaint alleged that the cleaning process incorporated in certain of YieldUP s products infringes two patents held by CFM: U.S. Patent Nos. 4,917,123 and 4,778,532. YieldUP plans to vigorously defend its intellectual property rights against any and all claims. FSI believes that the additional CFM patent infringement lawsuit is without merit and that none of YieldUP s technology and products infringes any of the CFM patents asserted in that litigation. FSI believes YieldUP s technology is substantially different from CFM s patented technology. YieldUP has filed an answer to the complaint and a counter claim for non-infringement and invalidity of CFM s patents. CFM is asking for monetary damages and an injunction against YieldUP s use of those products at issue.

On April 4, 2000 the United States District Court for the District of Delaware granted YieldUP s motion for summary judgment that the 123 and 532 patents are invalid. CFM s motion for rehearing has been denied. On July 29, 2000 the issue of whether CFM and its inventors had engaged in inequitable conduct in prosecuting the 123 and 532 patents was tried before the court and in early September of 2000 the parties filed their briefs on the matter of inequitable conduct. On June 6, 2001 the judge issued his opinion finding that the CFM inventors engaged in inequitable conduct during the prosecution of the patent application. On June 7, 2001 the judge ordered that judgment be entered in favor of YieldUP and against CFM on YieldUP s defenses of lack of enablement and inequitable conduct. As a result of the judge s finding, YieldUP will request the court to order CFM to pay YieldUP s attorneys fees in defending this suit and to hold unenforceable CFM s 761 patent at issue in the first lawsuit. No final appealable judgment has been entered in the second lawsuit. A loss, if any, resulting from an unfavorable adjudication, cannot presently be estimated and the associated costs, and an unfavorable adjudication could have a material adverse impact on FSI.

Other than the litigation described above or routine litigation incidental to our business, there is no material litigation to which we are a party or of which any of our property is subject.

ITEM 2. Change in Securities

None

ITEM 3. Defaults upon Senior Securities

None

ITEM 4. Submission of Matters to Vote of Security Holders

None

ITEM 5. Other Information

None

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES

ITEM 6 Exhibits and Reports on Form 8-K

(a)(3) Exhibits

* An asterisk next to a listed Exhibit indicates it is an executive compensation plan or arrangement.

2.0	Agreement and Plan of Reorganization, dated as of January 21, 1999 among FSI International, Inc., BMI International, Inc. and YieldUP International, Corporation. (14)
2.1	License Agreement for Microelectronic Technology between YieldUP International, Corporation and

FSI International, Inc. dated January 21, 1999. (14)

2.2 Agreement and Plan of Reorganization by and Among FSI International, Inc., Spectre Acquisition Corp., and Semiconductor Systems, Inc. (1)

2.3 Asset Purchase Agreement dated as of June 9, 1999 between FSI International, Inc. and The BOC Group, Inc. (15)

3.1 Restated Articles of Incorporation of the Company. (2)

3.2 Restated and Amended By-Laws. (3)

3.5 Articles of Amendment of Restated Articles of Incorporation (16)

4.1 Form of Rights Agreement dated as of May 22, 1997 between FSI International, Inc. and Harris Trust and Savings Bank, National Association, as Rights Agent. (5)

4.2 Amendment dated March 26,

1998 to Rights Agreement dated May 22, 1997 by and between FSI International, Inc. and Harris Trust and Saving Bank, National Association as Rights Agent. (6)

4.3 Amendment dated March 9, 2000 to Rights Agreement dated May 22, 1997, as amended March 26, 1998 by and between FSI International, Inc. and Harris Trust and Savings Bank as Rights Agent. (19)

*10.1 FSI International, Inc. 1997 Omnibus Stock Plan (as amended and restated April 2001). (filed herewith)

*10.2 Split Dollar Insurance Agreement and Collateral Assignment Agreement dated December 28, 1989, between the Company and Joel A. Elftmann. (Similar agreements between the Company and each of Patricia M. Hollister, Luke R. Komarek, Benno G. Sand, Benjamin J.

Sloan, Arnie DeWitt, Mark Ahmann and John Ely have been omitted, but will be filed if requested in writing by the Commission). (7)

10.3 Lease dated June 27, 1985, between the Company and Lake Hazeltine Properties. (3)

10.4 Lease dated September 1, 1985, between the Company and Elftmann, Wyers, Blackwood Partnership. (3)

10.5 Lease dated September 1, 1985, between the Company and Elftmann, Wyers Partnership. (3)

10.6 Amendment No. 1 dated February 11, 1991 to lease between the Company and Elftmann, Wyers, Blackwood Partnership (16)

10.7 Amendment No. 2 dated July 31, 1999 to lease between the Company and Elftmann, Wyers, Blackwood Partnership (16)

*10.8 1989 Stock Option Plan. (4)

*10.9 Amended and Restated Employees

Stock Purchase Plan. (filed herewith)

10.10 Shareholders Agreement among FSI International, Inc. and Mitsui & Co., Ltd. and Chlorine Engineers Corp. Ltd. dated as of August 14, 1991. (7)

10.11 FSI Exclusive Distributorship Agreement dated as of August 14, 1991 between FSI International, Inc. and m-FSI, Ltd. (7)

10.12 FSI Licensing Agreement dated as of August 14, 1991, between FSI International, Inc. and m-FSI, Ltd. (7)

10.13 Amendment to FSI/Metron Distribution Agreement dated July 31, 1999 (17)

10.15 License Agreement, dated October 15, 1991, between the Company and Texas Instruments Incorporated. (8)

10.16 Amendment No. 1, dated April 10, 1992, to the License Agreement, dated October 15, 1991, between the Company and Texas Instruments Incorporated. (8)

Table of Contents

10.17	Amendment effective October 1, 1993 to the License Agreement, dated October 15, 1991 between the Company and Texas Instruments Incorporated. (9)
*10.18	Amended and Restated Directors Nonstatutory Stock Option Plan. (10)
*10.19	Management Agreement between FSI International, Inc. and Donald S. Mitchell, effective as of January 2, 2001 (Similar agreements between the Company and its executive officers have been omitted but will be filed if requested in writing by the Commission.) (21)
*10.20	FSI International, Inc. 1994 Omnibus Stock Plan. (11)
*10.21	FSI International, Inc. 1998 Incentive Plan. (13)
10.22	First Amendment to Lease made and entered into October 31, 1995 by and between Lake Hazeltine Properties and FSI International, Inc. (12)
10.23	Distribution Agreement made and entered into as of March 31, 1998 by and between FSI International, Inc. and Metron Technology B.V. (Exhibits to Agreement omitted). (13)
10.24	Lease dated August 9, 1995 between Skyline Builders, Inc. and FSI International, Inc. (12)
10.25	Lease Rider dated August 9, 1995 between Skyline Builders, Inc. and FSI International, Inc. (12)
*10.26	Summary of Employment Arrangement between the Company and Don Mitchell dated December 12, 1999. (20)
10.27	Distribution Agreement between FSI International, Inc. s Surface Conditioning Division and Metron Technology B.V. effective July 10, 2000. (20)
10.29	Lease Amendment dated November, 1995 between Roland A. Stinski and FSI International, Inc. (Exhibits to Amendment omitted). (12)
*10.30	Employment Agreement entered into as of December 12, 1999 by and between FSI International, Inc. and Donald S. Mitchell. (18)

(1) Filed as an Exhibit to the Company s Registration Statement on Form S-4 (as amended) dated March 21, 1996, SEC File No. 333-1509 and incorporated by reference.

(2) Filed as an Exhibit to the Company s Report on Form 10-Q for the quarter ended February 24, 1990, SEC File No. 0-17276, and incorporated by reference.

(3) Filed as an Exhibit to the Company s Registration Statement on Form S-1, SEC File No. 33-25035, and incorporated by reference.

(4) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 26, 1989, SEC File No. 0-17276, and incorporated by reference.

(5) Filed as an Exhibit to the Company s Report on Form 8-K, filed by the Company on June 5, 1997, SEC File No. 0-17276, and incorporated by reference.

(6) Filed as an Exhibit to the Company s Report on Form 8-A/A-1, filed by the Company on April 16, 1998, SEC File No. 0-17276 and incorporated by reference. (7) Filed as an Exhibit to the Company s Report on Form 10-K for the

(7) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 31, 1991, as amended by Form 8 dated January 7, 1992, SEC File No. 0-17276, and incorporated by reference.

(8) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 29, 1992, File No. 0-17276, and incorporated by reference.

(9) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 28, 1993, SEC File No. 0-17276, and incorporated by reference.

(10) Filed as an Exhibit to the Company s Report on Form 10-Q for the fiscal quarter ended May 28, 1994, SEC File No. 0-17276, and incorporated by reference.

(11) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 27, 1994, SEC File No. 0-17276, and incorporated by reference.

(12) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 26, 1995, SEC File No. 0-17276 and incorporated by reference.

(13) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 29, 1998, SEC File No. 0-17276, and incorporated by reference.

(14) Filed as an Exhibit to the Company s Report on Form 8-K, filed by the Company on January 21, 1999, SEC File No. 0-17276 and incorporated by reference.

(15) Filed as an Exhibit to the Company s Report on Form 8-K, filed by the Company on June 23, 1999,

Table of Contents

SEC File No. 0-17276 and incorporated by reference.

(16) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 28, 1999, SEC File NO. 0-17276, and incorporated by reference.

(17) Filed as an Exhibit to the Company s Report on Form 10-Q for the fiscal quarter ended November 27, 1999, SEC File No. 0-17276 and incorporated by reference.

(18) Filed as an Exhibit to the Company s Report on Form 10-Q for the fiscal quarter ended February 26, 2000, SEC File No. 0-17276 and incorporated by reference.

(19) Filed as an Exhibit to the Company s Report on Form 10-Q for the fiscal quarter ended May 27, 2000, SEC File No. 0-17276, and incorporated by reference.

(20) Filed as an Exhibit to the Company s Report on Form 10-K for the fiscal year ended August 26, 2000, SEC File No. 0-17276, and incorporated by reference.

(21) Filed as an Exhibit to the Company s Report on Form 10-Q for the fiscal quarter ended February 24, 2001, SEC File No. 0-17276 and incorporated by reference.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the third quarter ended May 26, 2001.

Table of Contents

FSI INTERNATIONAL, INC. AND SUBSIDIARIES

SIGNATURE

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

FSI INTERNATIONAL, INC.

[Registrant]

DATE:
July 9, 2001

By:

/s/Patricia M. Hollister
Patricia M. Hollister
Chief Financial Officer
on behalf of the Registrant and as
Principal Financial Officer