FORMFACTOR INC
Form S-1
October 20, 2003

Table of Contents

As filed with the Securities and Exchange Commission on October 17, 2003
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

FORMFACTOR, INC.

(Exact name of Registrant as specified in its charter)

Delaware	3825	13-3711155
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number)	(I.R.S. employer identification no.)

FormFactor, Inc.

2140 Research Drive
Livermore, California 94550
(925) 294-4300
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Jens Meyerhoff

Chief Financial Officer and Senior Vice President of Operations
FormFactor, Inc.
2140 Research Drive
Livermore, California 94550
(925) 294-4300
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o _____

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act of 1933, please check the following box. o _____

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common stock, $.001 par value per share	5,750,000 shares	$25.52	$146,740,000	$11,871

(1) Includes 750,000 shares that the underwriters have the option to purchase to cover over-allotments, if any.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, and based on the average of the high and low prices of the common stock reported on the Nasdaq National Market on October 17, 2003.

(3) A fee of $7,214 was previously paid by the Registrant and such fee is credited against the registration fee for this Registration Statement pursuant to Rule 457 under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay the effective date of this Registration Statement until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
Issued October 17, 2003

5,000,000 Shares

COMMON STOCK

FormFactor, Inc. is offering 1,499,866 shares of its common stock and the selling stockholders are offering 3,500,134 shares. FormFactor will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our common stock is quoted on the Nasdaq National Market under the symbol FORM. The last reported sale price of our common stock on October 17, 2003 was $25.47 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 8.

	PRICE $ A SHARE			
	Price to Public	**Underwriting Discounts and Commissions**	**Proceeds to FormFactor**	**Proceeds to Selling Stockholders**
Per Share	*$*	*$*	*$*	*$*
Total	*$*	*$*	*$*	*$*

FormFactor, Inc. has granted the underwriters the right to purchase up to an additional 750,000 shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares to purchasers on , 2003.

MORGAN STANLEY

GOLDMAN, SACHS & CO.

, 2003

TABLE OF CONTENTS

Table of Contents

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus. Neither we nor the selling stockholders have authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

For investors outside the United States: Neither we, the selling stockholders nor any of the underwriters have done anything that would permit this offering, or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

Table of Contents

PROSPECTUS SUMMARY

You should read the following summary together with the entire prospectus, including the more detailed information in our consolidated financial statements and related notes appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in Risk Factors.

FORMFACTOR, INC.

We design, develop, manufacture, sell and support precision, high performance advanced semiconductor wafer probe cards. In 2002, we were the leader in the advanced wafer probe card market in terms of revenues. Our products are based on our proprietary MicroSpring™ interconnect technology, which includes resilient spring-like contacts that we manufacture using precision micro-machining and scalable semiconductor-like wafer fabrication processes. Our technology enables us to produce wafer probe cards for test applications that require reliability, speed, precision and signal integrity.

The semiconductor industry has historically separated the manufacture of chips into two distinct parts: the front-end wafer fabrication process and the back-end assembly, packaging and final test process. Test is a critical and expensive part of semiconductor manufacturing and is performed in both the front-end and back-end processes. In the front-end, wafer probe test is performed on the whole wafer using wafer probe cards, and in the back-end, final test is performed on the individual packaged chip.

The semiconductor industry is experiencing a critical technology evolution driven by movement to smaller chip geometries, migration to 300 mm wafers, transition to copper interconnects and introduction of new insulating materials such as low-k and super low-k dielectrics. This evolution is pushing conventional wafer probe card technologies to their practical performance limits due to one or more factors, including: the inability to test in parallel many chips on a wafer; poor signal integrity; the inability to make precise contact with shrinking bond pad sizes and pitches; the inability to test accurately over a wide range of temperatures; and the inability to contact the wafer without damaging the chips on the wafer. While conventional wafer probe cards address some of these performance limitations, no conventional technology solves all of them.

Our MicroSpring interconnect technology and our proprietary design tools and technologies solve the limitations of conventional wafer probe cards by providing:

- a high degree of parallelism that enables our customers to test a significant number of chips at the same time in a single touchdown, which reduces total wafer test time and the overall cost of test;
- superior signal integrity, enabling customers to improve yields;
- micro-machining and semiconductor-like wafer fabrication processes that enable us to scale our products to shrinking semiconductor geometries;
- thermal compensation to permit wafer probe testing over a wide range of temperatures; and
- low contact force to permit testing without damage to the chips, particularly those incorporating fragile next-generation materials, such as low-k and super low-k dielectrics.

The current evolution of the semiconductor manufacturing process is driving a substantial increase in the cost of building new manufacturing capacity, with the cost of a leading edge 300 mm wafer manufacturing facility now approaching or exceeding $3.0 billion. With ever increasing capital investments, semiconductor manufacturers are focusing on ways to accelerate their return on investment by increasing volumes and yields, decreasing the overall costs of manufacturing and improving the time to market of their products. One area of focus is test because it provides vital feedback to the design and wafer fabrication processes.

In addition to addressing the shortcomings of conventional wafer probe cards, we believe that our customers will be able to use our technology to perform more advanced test functions on devices at the wafer-level in the front-end, rather than on individual devices in the back-end. This will enable them to optimize their manufacturing pipeline, from initial device design and fabrication through assembly, packaging and final test. As

Table of Contents

a result, manufacturers will be able to accelerate their return on investment by improving time to market, yield and volume.

Our objectives are to enhance our position as the leading supplier of advanced wafer probe card solutions and to apply our core MicroSpring interconnect technology to drive wafer-level economies of scale in semiconductor test. The principal elements of our strategy include: enhancing our market leadership in the dynamic random access memory, or DRAM, industry; expanding our presence in the flash memory market; increasing our penetration into the logic market; enabling migration of elements of final test to the wafer level; extending our technology leadership position; and continuing to build on our strategic relationships.

We introduced our first wafer probe card based on our MicroSpring interconnect technology in 1995, and, by the end of 2000, we were the leading supplier of advanced wafer probe cards, based on revenues. Our customers include the top 10 DRAM manufacturers, the world s largest microprocessor company, and four of the top 10 flash memory manufacturers, and, combined, these identified groups of our customers account for substantially all of our revenues. We focus our research and development activities on expanding our products into new markets and expanding applications for our MicroSpring interconnect technology. We manufacture our wafer probe cards in Livermore, California, and sell and support our products worldwide through our direct sales force, a distributor and independent sales representatives.

We were incorporated in Delaware in April 1993. Our principal executive offices are located at 2140 Research Drive, Livermore, California 94550, and our telephone number at that address is (925) 294-4300. Our Web site address is formfactor.com. The information on our Web site does not constitute part of this prospectus.

FormFactor, the FormFactor logo, MicroSpring, MicroForce, MicroLign and MOST are trademarks of FormFactor in the United States and other countries. All other trademarks, trade names or service marks appearing in this prospectus are the property of their respective owners.

Table of Contents

THE OFFERING

Common stock offered:	
By FormFactor	1,499,866 shares
By the selling stockholders	3,500,134 shares
Total	5,000,000 shares
Common stock to be outstanding after this offering	35,791,828 shares
Use of proceeds	We anticipate using the net proceeds to us from this offering for general corporate purposes and working capital requirements. We may also use a portion of the net proceeds to fund possible investments in, or acquisitions of, complementary businesses, products or technologies or establishing joint ventures. We will not receive any proceeds from the sale of common stock by the selling stockholders in this offering. See Use of Proceeds.
Nasdaq National Market symbol	FORM

The number of shares of our common stock to be outstanding immediately after this offering is based on 34,264,333 shares of our common stock outstanding on September 27, 2003. The number of shares of our common stock that will be outstanding immediately after this offering also includes 27,629 shares of common stock issuable upon exercise of options outstanding at September 27, 2003 with a weighted average exercise price of $5.71 per share. These options will be exercised by four selling stockholders, and the shares purchased through these exercises will be sold in this offering.

Unless otherwise indicated, all information in this prospectus assumes that the underwriters do not exercise their over-allotment option.

The number of shares of our common stock that will be outstanding immediately after this offering excludes:

7,050,111 shares of common stock issuable upon exercise of options outstanding at September 27, 2003 with a weighted average exercise price of $8.25 per share, which amount includes 27,629 shares of common stock subject to options that will be exercised by four selling stockholders in this offering. We have included the 27,629 shares in our calculation of our shares outstanding after this offering;

118,227 shares of common stock issuable upon exercise of warrants outstanding at September 27, 2003 with a weighted average exercise price of $5.25 per share;

2,210,881 shares of common stock available for issuance under our equity incentive plan at September 27, 2003; and

1,500,000 shares of common stock available for issuance under our employee stock purchase plan at September 27, 2003.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables provide summary consolidated financial data and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	Fiscal Year Ended					Nine Months Ended	
	Dec. 26, 1998	Dec. 25, 1999	Dec. 30, 2000	Dec. 29, 2001	Dec. 28, 2002	Sept. 28, 2002	Sept. 27, 2003
							(unaudited)
	(in thousands, except per share data)						
Consolidated Statement of Operations Data:							
Revenues	$19,329	$35,722	$56,406	$73,433	$78,684	$56,527	$66,839
Cost of revenues	10,763	20,420	28,243	38,385	39,456	28,540	34,482
Gross margin	8,566	15,302	28,163	35,048	39,228	27,987	32,357
Total operating expenses	14,698	20,827	27,688	34,968	32,636	23,835	25,893
Operating income (loss)	(6,132)	(5,525)	475	80	6,592	4,152	6,464
Interest and other income (expense), net	157	(119)	1,719	477	642	404	780
Net income (loss)	$ (5,975)	$ (5,644)	$ 2,079	$ 250	$10,359	$ 8,770	$ 4,491
Net income (loss) per share:							
Basic	$ (3.60)	$ (2.16)	$ .61	$ .06	$ 2.33	$ 1.98	$ .27
Diluted	$ (3.60)	$ (2.16)	$ .08	$ .01	$ .35	$ .30	$ .14
Weighted-average number of shares used in per share calculations:							
Basic	1,659	2,609	3,408	4,029	4,448	4,436	16,669
Diluted	1,659	2,609	26,821	28,654	29,554	29,287	32,932

The as adjusted column of the consolidated balance sheet data reflects (i) the sale of 1,499,866 shares of common stock offered by us at an assumed public offering price of $25.47 per share, after deducting estimated underwriting discounts and commissions and estimated offering costs payable by us, and (ii) the proceeds from the exercise of options to purchase 27,629 shares of common stock by four selling stockholders in this offering.

	September 27, 2003	
	Actual	As Adjusted
	(unaudited) (in thousands)	
Consolidated Balance Sheet Data:		
Cash, cash equivalents and short-term investments	$101,084	$137,724
Working capital	110,465	147,105
Total assets	170,254	206,894
Deferred stock-based compensation, net	(12,007)	(12,007)
Total stockholders equity	150,444	187,084

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this prospectus, before deciding whether to invest in shares of our common stock. If any of the following risks actually occurs, our business, financial condition and results of operations would suffer. In this case, the trading price of our common stock would likely decline and you might lose all or part of your investment in our common stock. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

Risks Related to Our Business and Industry

Our operating results are likely to fluctuate, which could cause us to miss expectations about these results and cause the trading price of our common stock to decline.

Our operating results are likely to fluctuate. As a result, we believe that you should not rely on period-to-period comparisons of our financial results as an indication of our future performance. Factors that are likely to cause our revenues and operating results to fluctuate include those discussed in the risk factors below. If our revenues or operating results fall below the expectations of market analysts or investors, the market price of our common stock could decline substantially.

Cyclicality in the semiconductor industry historically has affected our sales and might do so in the future, and as a result we could experience reduced revenues or operating results.

The semiconductor industry has historically been cyclical and is characterized by wide fluctuations in product supply and demand. From time to time, this industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product and technology cycles, excess inventories and declines in general economic conditions. This cyclicality could cause our operating results to decline dramatically from one period to the next. For example, our revenues in the three months ended September 29, 2001 declined by 25.5% compared to our revenues in the three months ended June 30, 2001, and our revenues in the three months ended March 29, 2003 declined by 15.7% compared to our revenues in the three months ended December 28, 2002. Our business depends heavily upon the development of new semiconductors and semiconductor designs, the volume of production by semiconductor manufacturers and the overall financial strength of our customers, which, in turn, depend upon the current and anticipated market demand for semiconductors and products, such as personal computers, that use semiconductors. Semiconductor manufacturers generally sharply curtail their spending during industry downturns and historically have lowered their spending disproportionately more than the decline in their revenues. As a result, if we are unable to adjust our levels of manufacturing and human resources or manage our costs and deliveries from suppliers in response to lower spending by semiconductor manufacturers, our gross margin might decline and cause us to experience operating losses.

If we do not keep pace with technological developments in the semiconductor industry, our products might not be competitive and our revenues and operating results could suffer.

We must continue to invest in research and development to improve our competitive position and to meet the needs of our customers. Our future growth depends, in significant part, upon our ability to work effectively with and anticipate the testing needs of our customers, and on our ability to develop and support new products and product enhancements to meet these needs on a timely and cost-effective basis. Our customers testing needs are becoming more challenging as the semiconductor industry continues to experience rapid technological change driven by the demand for complex circuits that are shrinking in size and at the same time are increasing in speed and functionality and becoming less expensive to produce. Examples of recent trends driving demand for technological research and development include semiconductor manufacturers transitions to 110 nanometer and 90 nanometer technology nodes, to 512 megabit density devices and to Double Date Rate II, or DDR II, architecture devices. Our customers expect that they will be able to integrate our wafer probe cards into any manufacturing process as soon as it is deployed. Therefore, to meet these expectations and remain competitive, we must continually design, develop and introduce on a timely basis new products and product enhancements

Table of Contents

with improved features. Successful product design, development and introduction on a timely basis require that we:

design innovative and performance-enhancing features that differentiate our products from those of our competitors;

transition our products to new manufacturing technologies;

identify emerging technological trends in our target markets;

maintain effective marketing strategies;

respond effectively to technological changes or product announcements by others; and

adjust to changing market conditions quickly and cost-effectively.

We must devote significant research and development resources to keep up with the rapidly evolving technologies used in semiconductor manufacturing processes. Not only do we need the technical expertise to implement the changes necessary to keep our technologies current, but we must also rely heavily on the judgment of our management to anticipate future market trends. If we are unable to timely predict industry changes, or if we are unable to modify our products on a timely basis, we might lose customers or market share. In addition, we might not be able to recover our research and development expenditures, which could harm our operating results.

If semiconductor memory device manufacturers do not convert to 300 mm wafers, our growth could be impeded.

The growth of our business for the foreseeable future depends in large part upon sales of our wafer probe cards to manufacturers of dynamic random access memory, or DRAM, and flash memory devices. The recent downturn in the semiconductor industry caused various chip manufacturers to readdress their respective strategies for converting existing 200 mm wafer fabrication facilities to 300 mm wafer fabrication, or for building new 300 mm wafer fabrication facilities. Some manufacturers have delayed, cancelled or postponed previously announced plans to convert to 300 mm wafer fabrication. We believe that the decision to convert to a 300 mm wafer fabrication facility is made by each manufacturer based upon both internal and external factors, such as:

current and projected chip prices;

projected price erosion for the manufacturer s particular chips;

supply and demand issues;

overall manufacturing capability within the manufacturer s target market(s);

the availability of funds to the manufacturer;

the technology roadmap of the manufacturer; and

the price and availability of equipment needed within the 300 mm facility.

One or more of these internal and external factors, as well as other factors, including factors that a manufacturer may choose to not publicly disclose, can impact the decision to maintain a 300 mm conversion schedule, to delay the conversion schedule for a period of time, or to cancel the conversion. It is also possible that the conversion to 300 mm wafers will occur on different schedules for DRAM chip manufacturers and flash memory chip manufacturers. We have invested significant resources to develop technology that addresses the market for 300 mm wafers. If manufacturers of memory devices delay or discontinue the transition to 300 mm wafers, or make the transition more slowly than we currently expect, our growth and profitability could be impeded. In addition, any delay in large-scale adoption of manufacturing based upon 300 mm wafers would provide time for other companies to develop and market products that compete with ours, which could harm our competitive position.

Table of Contents

We are subject to general economic and market conditions.

Our business is subject to the effects of general economic conditions in the United States and worldwide, and to market conditions in the semiconductor industry in particular. For example, in fiscal 2001, our operating results were adversely affected by unfavorable global economic conditions and reduced capital spending by semiconductor manufacturers. These adverse conditions resulted in a decrease in the demand for semiconductors and products using semiconductors, and in a sharp reduction in the development of new semiconductors and semiconductor designs. As a result, we experienced a decrease in the demand for our wafer probe cards. If the economic conditions in the United States and worldwide do not improve, or if they worsen from current levels, we could experience material negative effects on our business.

We depend upon the sale of our wafer probe cards for substantially all of our revenues, and a downturn in demand for our products could have a more disproportionate impact on our revenues than if we derived revenues from a more diversified product offering.

Historically, we have derived substantially all of our revenues from the sale of our wafer probe cards. We anticipate that sales of our wafer probe cards will represent a substantial majority of our revenues for the foreseeable future. Our business depends in large part upon continued demand in current markets for, and adoption in new markets of, current and future generations of our wafer probe cards. Large-scale market adoption depends upon our ability to increase customer awareness of the benefits of our wafer probe cards and to prove their reliability, ability to increase yields and cost effectiveness. We may be unable to sell our wafer probe cards to certain potential customers unless those customers change their device test strategies, change their wafer probe card and capital equipment buying strategies, or change or upgrade their existing test equipment. We might not be able to sustain or increase our revenues from sales of our wafer probe cards, particularly if conditions in the semiconductor market deteriorate or do not improve or if the market enters into another downturn in the future. Any decrease in revenues from sales of our wafer probe cards could harm our business more than it would if we offered a more diversified line of products.

If demand for our products in the memory device and flip chip logic markets declines or fails to grow as we anticipate, our revenues could decline.

We derive substantially all of our revenues from wafer probe cards that we sell to manufacturers of DRAM memory and flash memory devices and manufacturers of microprocessor, chipset and other logic devices. In the microprocessor, chipset and other logic device markets, our products are primarily used for devices employing flip chip packaging, which devices are commonly referred to as flip chip logic devices. In the nine months ended September 27, 2003, sales to manufacturers of DRAM devices accounted for 58.0% of our revenues, sales to manufacturers of flip chip logic devices accounted for 20.3% of our revenues, and sales to manufacturers of flash memory devices accounted for 21.1% of our revenues. For fiscal 2002, sales to manufacturers of DRAM devices accounted for 69.6% of our revenues, sales to manufacturers of flip chip logic devices accounted for 17.4% of our revenues, and sales to manufacturers of flash memory devices accounted for 11.7% of our revenues. Therefore, our success depends in part upon the continued acceptance of our products within these markets and our ability to continue to develop and introduce new products on a timely basis for these markets. For example, the market might not accept an increasingly high parallelism wafer test solution.

A substantial portion of these semiconductor devices is sold to manufacturers of personal computers and computer-related products. The personal computer market has historically been characterized by significant fluctuations in demand and continuous efforts to reduce costs, which in turn have affected the demand for and price of DRAM devices and microprocessors. The personal computer market might not grow in the future at historical rates or at all and design activity in the personal computer market might decrease, which could negatively affect our revenues and operating results.

The markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The wafer probe card market is highly competitive. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. In the past, increased competition has resulted in price

Table of Contents

reductions, reduced gross margins or loss of market share, and could do so in the future. Competitors might introduce new competitive products for the same markets that our products currently serve. These products may have better performance, lower prices and broader acceptance than our products. In addition, for products such as wafer probe cards, semiconductor manufacturers typically qualify more than one source, to avoid dependence on a single source of supply. As a result, our customers will likely purchase products from our competitors. Current and potential competitors include AMST Co., Ltd., Cascade Microtech, Inc., ESJ Corporation, Feinmetall GmbH, Japan Electronic Materials Corporation, Kulicke and Soffa Industries, Inc., Micronics Japan Co., Ltd., MicroProbe, Inc., NanoNexus Inc., Phicom Corporation, SCS Hightech, Inc., Tokyo Cathode Laboratory Co., Ltd. and Wentworth Laboratories, Inc., among others. Many of our current and potential competitors have greater name recognition, larger customer bases, more established customer relationships or greater financial, technical, manufacturing, marketing and other resources than we do. As a result, they might be able to respond more quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the development, promotion, sale and support of their products, and reduce prices to increase market share. Some of our competitors also supply other types of test equipment, or offer both advanced wafer probe cards and needle probe cards. Those competitors that offer both advanced wafer probe cards and needle probe cards might have strong, existing relationships with our customers or with potential customers. Because we do not offer a needle probe card or other conventional technology wafer probe card for less advanced applications, it may be difficult for us to introduce our advanced wafer probe cards to these customers and potential customers for certain wafer test applications. It is possible that existing or new competitors, including test equipment manufacturers, may offer new technologies that reduce the value of our wafer probe cards. The wafer probe card market has historically been fragmented with many local suppliers serving individual customers.

However, recent consolidation has reduced the number of competitors. For example, in late 2000, Kulicke and Soffa Industries, Inc. acquired Probe Technology Corporation and Cerprobe Corporation. These and other combinations might result in a competitor gaining a significant advantage over us by enabling it to expand its product offerings and service capabilities to meet a broader range of customer needs.

We derive a substantial portion of our revenues from a small number of customers, and our revenues could decline significantly if any major customer cancels, reduces or delays a purchase of our products.

A relatively small number of customers has accounted for a significant portion of our revenues in any particular period. In the nine months ended September 27, 2003, four customers accounted for 69.6% of our revenues. In fiscal 2002, four customers accounted for 77.2% of our revenues. Our ten largest customers accounted for 94.9% of our revenues in the nine months ended September 27, 2003 and 97.4% of our revenues in fiscal 2002. We anticipate that sales of our products to a relatively small number of customers will continue to account for a significant portion of our revenues. The cancellation or deferral of even a small number of purchases of our products could cause our revenues to decline in any particular quarter. A number of factors could cause customers to cancel or defer orders, including manufacturing delays, interruptions to our customers operations due to fire, natural disasters or other events or a downturn in the semiconductor industry. Our agreements with our customers do not contain minimum purchase commitments, and our customers could cease purchasing our products with short or no notice to us or fail to pay all or part of an invoice. In some situations, our customers might be able to cancel orders without a significant penalty. In addition, the continuing trend toward consolidation in the semiconductor industry, particularly among manufacturers of DRAMs, could reduce our customer base and lead to lost or delayed sales and reduced demand for our wafer probe cards. Industry consolidation also could result in pricing pressures as larger DRAM manufacturers could have sufficient bargaining power to demand reduced prices and favorable nonstandard terms. Additionally, certain customers may not want to rely entirely or substantially on a single wafer probe card supplier and, as a result, such customers could reduce their purchases of our wafer probe cards.

If our relationships with our customers and companies that manufacture semiconductor test equipment deteriorate, our product development activities could be harmed.

The success of our product development efforts depends upon our ability to anticipate market trends and to collaborate closely with our customers and with companies that manufacture semiconductor test equipment. Our

Table of Contents

relationships with these customers and companies provide us with access to valuable information regarding manufacturing and process technology trends in the semiconductor industry, which enables us to better plan our product development activities. These relationships also provide us with opportunities to understand the performance and functionality requirements of our customers, which improve our ability to customize our products to fulfill their needs. Our relationships with test equipment companies are important to us because test equipment companies can design our wafer probe cards into their equipment and provide us with the insight into their product plans that allows us to offer wafer probe cards for use with their products when they are introduced to the market. Our relationships with our customers and test equipment companies could deteriorate if they:

become concerned about our ability to protect their intellectual property;

develop their own solutions to address the need for testing improvement;

regard us as a competitor;

establish relationships with others in our industry; or

attempt to restrict our ability to enter into relationships with their competitors.

Many of our customers and the test equipment companies we work with are large companies. The consequences of a deterioration in our relationship with any of these companies could be exacerbated due to the significant influence these companies can exert in our markets. If our current relationships with our customers and test equipment companies deteriorate, or if we are unable to develop similar collaborative relationships with important customers and test equipment companies in the future, our long-term ability to produce commercially successful products could be impaired.

Because we generally do not have a sufficient backlog of unfilled orders to meet our quarterly revenue targets, revenues in any quarter are substantially dependent upon customer orders received and fulfilled in that quarter.

Our revenues are difficult to forecast because we generally do not have a sufficient backlog of unfilled orders to meet our quarterly revenue targets at the beginning of a quarter. Rather, a majority of our revenues in any quarter depends upon customer orders for our wafer probe cards that we receive and fulfill in that quarter. Because our expense levels are based in part on our expectations as to future revenues and to a large extent are fixed in the short term, we might be unable to adjust spending in time to compensate for any unexpected shortfall in revenues. Accordingly, any significant shortfall of revenues in relation to our expectations could hurt our operating results.

We rely upon a distributor for a substantial portion of our revenues, and a disruption in our relationship with our distributor could have a negative impact on our revenues.

We rely on Spirox Corporation, our distributor in Taiwan, Singapore and China, for a substantial portion of our revenues. Sales to Spirox accounted for 15.1% of our revenues in the nine months ended September 27, 2003 and 20.9% of our revenues in fiscal 2002. Spirox also provides customer support. A reduction in the sales or service efforts or financial viability of our distributor, or deterioration in, or termination of, our relationship with our distributor could harm our revenues, our operating results and our ability to support our customers in the distributor s territory. In addition, establishing alternative sales channels in the region could consume substantial time and resources, decrease our revenues and increase our expenses.

If our relationships with our independent sales representatives change, our business could be harmed.

We currently rely on independent sales representatives to assist us in the sale of our products in various geographic regions. If we make the business decision to terminate or modify our relationships with one or more of our independent sales representatives, or if an independent sales representative decides to disengage from us, and we do not effectively and efficiently manage such a change, we could lose sales to existing customers and fail to obtain new customers.

Table of Contents

If semiconductor manufacturers do not migrate elements of final test to wafer probe test, market acceptance of other applications of our technology could be delayed.

We intend to work with our customers to migrate elements of final test from the device level to the wafer level. This migration will involve a change in semiconductor test strategies from concentrating final test at the individual device level to increasing the amount of test at the wafer level. Semiconductor manufacturers typically take time to qualify new strategies that affect their testing operations. As a result, general acceptance of wafer-level final test might not occur in the near term or at all. In addition, semiconductor manufacturers might not accept and use wafer-level final test in a way that uses our technology. If the migration of elements of final test to wafer probe test does not grow as we anticipate, or if semiconductor manufacturers do not adopt our technology for their wafer probe test requirements, market acceptance of other applications for our technology could be delayed.

Changes in test strategies, equipment and processes could cause us to lose revenues.

The demand for wafer probe cards depends in large part upon the number of semiconductor designs and the overall semiconductor unit volume. The time it takes to test a wafer depends upon the number of devices being tested, the complexity of these devices, the test software program and the test equipment itself. As test programs become increasingly effective and test throughput increases, the number of wafer probe cards required to test a given volume of devices declines. Therefore, advances in the test process could cause us to lose sales.

If semiconductor manufacturers implement chip designs that include built-in self-test capabilities, or similar functions or methodologies that increase test throughput, it could negatively impact our sales or the migration of elements of final test to the wafer level. Additionally, if new chip designs or types of chips are implemented that require less, or even no, test using wafer probe cards, our revenues could be impacted. Further, if new chip designs are implemented which we are unable to test, or which we are unable to test efficiently and provide our customers with an acceptably low overall cost of test, our revenues could be negatively impacted.

We incur significant research and development expenses in conjunction with the introduction of new product platforms. Often, we time our product introductions to the introduction of new test equipment platforms. Because our customers require both test equipment and wafer probe cards, any delay or disruption of the introduction of new test equipment platforms would negatively affect our growth.

We manufacture all of our products at a single facility, and any disruption in the operations of that facility could adversely impact our business and operating results.

Our processes for manufacturing our wafer probe cards require sophisticated and costly equipment and a specially designed facility, including a semiconductor clean room. We manufacture all of our wafer probe cards at one facility located in Livermore, California. Any disruption in the operation of that facility, whether due to technical or labor difficulties, destruction or damage from fire or earthquake, infrastructure failures such as power or water shortage or any other reason, could interrupt our manufacturing operations, impair critical systems, disrupt communications with our customers and suppliers and cause us to write off inventory and to lose sales. In addition, if the recent energy crises in California that resulted in disruptions in power supply and increases in utility costs were to recur, we might experience power interruptions and shortages, which could disrupt our manufacturing operations. This could subject us to loss of revenues as well as significantly higher costs of energy. Further, current and potential customers might not purchase our products if they perceive our lack of an alternate manufacturing facility to be a risk to their continuing source of supply.

The transition to our new manufacturing facilities could cause a decline in our operating results.

We plan to move our manufacturing operations into a new facility in Livermore in 2004. The costs of starting up our new manufacturing facility, including capital costs such as equipment and fixed costs such as rent, will be substantial. We might not be able to shift from our current production facility to the new production facility efficiently or effectively. The transition will require us to have both our existing and new manufacturing facilities operational for several quarters. This will cause us to incur significant costs due to redundancy of infrastructure at both sites. Furthermore, the qualification of the new manufacturing facility will require us to use

Table of Contents

materials and build product and product components that will not be sold to our customers, causing higher than normal material spending. The transition might also lead to manufacturing interruptions, which could mean delayed deliveries or lost sales. Some or all of our customers could require a full qualification of our new facility. Any qualification process could take longer than we anticipate. Any difficulties with the transition or with bringing the new manufacturing facility to full capacity and volume production could increase our costs, disrupt our production process and cause delays in product delivery and lost sales, which would harm our operating results.

If we are unable to manufacture our products efficiently, our operating results could suffer.

We must continuously modify our manufacturing processes in an effort to improve yields and product performance, lower our costs and reduce the time it takes us to design and produce our products. We will incur significant start-up costs associated with implementing new manufacturing technologies, methods and processes and purchasing new equipment, which could negatively impact our gross margin. We could experience manufacturing delays and inefficiencies as we refine new manufacturing technologies, methods and processes, implement them in volume production and qualify them with customers, which could cause our operating results to decline. The risk of encountering delays or difficulties increases as we manufacture more complex products. In addition, if demand for our products increases, we will need to expand our operations to manufacture sufficient quantities of products without increasing our production times or our unit costs. As a result of such expansion, we could be required to purchase new equipment, upgrade existing equipment, develop and implement new manufacturing processes and hire additional technical personnel. Further, new or expanded manufacturing facilities could be subject to qualification by our customers. In the past, we have experienced difficulties in expanding our operations to manufacture our products in volume on time and at acceptable cost. Any difficulties in expanding our manufacturing operations could cause product delivery delays and lost sales. If demand for our products decreases, we could have excess manufacturing capacity. The fixed costs associated with excess manufacturing capacity could cause our operating results to decline. If we are unable to achieve further manufacturing efficiencies and cost reductions, particularly if we are experiencing pricing pressures in the marketplace, our operating results could suffer.

If we are unable to continue to reduce the time it takes for us to design and produce a wafer probe card, our growth could be impeded.

Our customers continuously seek to reduce the time it takes them to introduce new products to market. The cyclicality of the semiconductor industry, coupled with changing demands for semiconductor devices, requires our customers to be flexible and highly adaptable to changes in the volume and mix of products they must produce. Each of those changes requires a new design and each new design requires a new wafer probe card. For some existing semiconductor devices, the manufacturers volume and mix of product requirements are such that we are unable to design, manufacture and ship products to meet such manufacturers relatively short cycle time requirements. If we are unable to reduce the time it takes for us to design, manufacture and ship our products in response to the needs of our customers, our competitive position could be harmed. If we are unable to meet a customer s schedule for wafer probe cards for a particular design, our customer might purchase wafer probe cards from a competitor and we might lose sales.

We obtain some of the components and materials we use in our products from a single or sole source or a limited group of suppliers, and the partial or complete loss of one of these suppliers could cause production delays and a substantial loss of revenues.

We obtain some of the components and materials used in our products, such as printed circuit board assemblies, plating materials and ceramic substrates, from a single or sole source or a limited group of suppliers. Alternative sources are not currently available for sole source components and materials. Because we rely on purchase orders rather than long-term contracts with the majority of our suppliers, we cannot predict with certainty our ability to obtain components and materials in the longer term. A sole or limited source supplier could increase prices, which could lead to a decline in our gross margin. Our dependence upon sole or limited source suppliers exposes us to several other risks, including a potential inability to obtain an adequate supply of

Table of Contents

materials, late deliveries and poor component quality. Disruption or termination of the supply of components or materials could delay shipments of our products, damage our customer relationships and reduce our revenues. For example, if we were unable to obtain an adequate supply of a component or material, we might have to use a substitute component or material, which could require us to make changes in our manufacturing process. From time to time in the past, we have experienced difficulties in receiving shipments from one or more of our suppliers, especially during periods of high demand for our products. If we cannot obtain an adequate supply of the components and materials we require, or do not receive them in a timely manner, we might be required to identify new suppliers. We might not be able to identify new suppliers on a timely basis or at all. Our customers and we would also need to qualify any new suppliers. The lead-time required to identify and qualify new suppliers could affect our ability to timely ship our products and cause our operating results to suffer. Further, a sole or limited source supplier could require us to enter into non-cancelable purchase commitments or pay in advance to ensure our source of supply. In an industry downturn, commitments of this type could result in charges for excess inventory of parts. If we are unable to predict our component and materials needs accurately, or if our supply is disrupted, we might miss market opportunities by not being able to meet the demand for our products.

Wafer probe cards that do not meet specifications or that contain defects could damage our reputation, decrease market acceptance of our technology, cause us to lose customers and revenues, and result in liability to us.

The complexity and ongoing development of our wafer probe card manufacturing process, combined with increases in wafer probe card production volumes, have in the past and could in the future lead to design or manufacturing problems. For example, the presence of contaminants in our plating baths has caused a decrease in our manufacturing yields or has resulted in unanticipated stress-related failures when our wafer probe cards are being used in the manufacturing test environment. Manufacturing design errors such as the miswiring of a wafer probe card or the incorrect placement of probe contact elements have caused us to repeat manufacturing design steps. In addition to these examples, problems might result from a number of factors, including design defects, materials failures, contamination in the manufacturing environment, impurities in the materials used, unknown sensitivities to process conditions, such as temperature and humidity, and equipment failures. As a result, our products have in the past contained and might in the future contain undetected errors or defects. Any errors or defects could:

cause lower than anticipated yields and lengthening of delivery schedules;

cause delays in product shipments;

cause delays in new product introductions;

cause us to incur warranty expenses;

result in increased costs and diversion of development resources;

cause us to incur increased charges due to unusable inventory;

require design modifications; or

decrease market acceptance or customer satisfaction with these products.

The occurrence of any one or more of these events could hurt our operating results.

In addition, if any of our products fails to meet specifications or has reliability, quality or compatibility problems, our reputation could be damaged significantly and customers might be reluctant to buy our products, which could result in a decline in revenues, an increase in product returns or warranty costs and the loss of existing customers or the failure to attract new customers. Our customers use our products with test equipment and software in their manufacturing facilities. Our products must be compatible with the customers equipment and software to form an integrated system. If the system does not function properly, we could be required to provide field application engineers to locate the problem, which can take time and resources. If the problem relates to our wafer probe cards, we might have to invest significant capital, manufacturing capacity and other resources to correct it. Our current or potential customers also might seek to recover from us any losses resulting

Table of Contents

from defects or failures in our products. Liability claims could require us to spend significant time and money in litigation or to pay significant damages.

If we fail to forecast demand for our products accurately, we could incur inventory losses.

Each semiconductor chip design requires a custom wafer probe card. Because our products are design-specific, demand for our products is difficult to forecast. Due to our customers short delivery time requirements, we often design, and at times produce, our products in anticipation of demand for our products rather than in response to an order. Due to the uncertainty inherent in forecasts, we are and expect to continue to be subject to inventory risk. If we do not obtain orders as we anticipate, we could have excess inventory for a specific customer design that we would not be able to sell to any other customer, which would likely result in inventory write-offs.

If we fail to effectively manage our regional service centers, our business might be harmed.

In 2002, we opened a regional repair and service center in Seoul, South Korea, and in 2003, we opened a regional repair and service center in Dresden, Germany. These regional service centers are part of our strategy to, among other things, provide our customers with more efficient service and repair of our wafer probe cards. If we are unable to effectively manage our regional service centers, or if the work undertaken in the regional service centers is not equivalent to the level and quality provided by repairs and services performed by our North American repair and service operations, which are part of our manufacturing facility in Livermore, California, we could incur higher wafer probe card repair and service costs, which could harm our operating results.

If we do not effectively manage changes in our business, these changes could place a significant strain on our management and operations and, as a result, our business might not succeed.

Our ability to grow successfully requires an effective planning and management process. We plan to increase the scope of our operations and the size of our direct sales force domestically and internationally. For example, we have leased a new facility in Livermore, California and plan to move our corporate headquarters and manufacturing operations into this facility in 2004. Our growth could place a significant strain on our management systems, infrastructure and other resources. To manage our growth effectively, we must invest the necessary capital and continue to improve and expand our systems and infrastructure in a timely and efficient manner. Those resources might not be available when we need them, which would limit our growth. Our officers have limited experience in managing large or rapidly growing businesses. In addition, the majority of our management has no experience in managing a public company or communicating with securities analysts and public company investors. Our controls, systems and procedures might not be adequate to support a growing public company. If our management fails to respond effectively to changes in our business, our business might not succeed.

If we fail to attract and retain qualified personnel, our business might be harmed.

Our future success depends largely upon the continued service of our key management, technical, and sales and marketing personnel, and on our continued ability to hire, integrate and retain qualified individuals, particularly engineers and sales and marketing personnel in order to increase market awareness of our products and to increase revenues. For example, in the future, we might need technical personnel experienced in competencies that we do not currently have or require. Competition for these employees may be intense, and we might not be successful in attracting or retaining these personnel. The loss of any key employee, the failure of any key employee to perform in his or her current position or our inability to attract and retain skilled employees as needed could impair our ability to meet customer and technological demands. All of our key personnel in the United States are employees at-will. We have no employment contracts with any of our personnel in the United States.

Table of Contents

We may make acquisitions, which could put a strain on our resources, cause ownership dilution to our stockholders and adversely affect our financial results.

While we have made no acquisitions of businesses, products or technologies in the past, we may make acquisitions of complementary businesses, products or technologies in the future. Integrating newly acquired businesses, products or technologies into our company could put a strain on our resources, could be expensive and time consuming, and might not be successful. Future acquisitions could divert our management s attention from other business concerns and expose our business to unforeseen liabilities or risks associated with entering new markets. In addition, we might lose key employees while integrating new organizations. Consequently, we might not be successful in integrating any acquired businesses, products or technologies, and might not achieve anticipated revenues and cost benefits. In addition, future acquisitions could result in customer dissatisfaction, performance problems with an acquired company, potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities, possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could harm our business.

As part of our sales process, we could incur substantial sales and engineering expenses that do not result in revenues, which would harm our operating results.

Our customers generally expend significant efforts evaluating and qualifying our products prior to placing an order. The time that our customers require to evaluate and qualify our wafer probe cards is typically between three and 12 months and sometimes longer. While our customers are evaluating our products, we might incur substantial sales, marketing, and research and development expenses. For example, we typically expend significant resources educating our prospective customers regarding the uses and benefits of our wafer probe cards and developing wafer probe cards customized to the potential customer s needs, for which we might not be reimbursed. Although we commit substantial resources to our sales efforts, we might never receive any revenues from a customer. For example, many semiconductor designs never reach production, including designs for which we have expended design effort and expense. In addition, prospective customers might decide not to use our wafer probe cards. The length of time that it takes for the evaluation process and for us to make a sale depends upon many factors including:

the efforts of our sales force and our distributor and independent sales representatives;

the complexity of the customer s fabrication processes;

the internal technical capabilities of the customer; and

the customer s budgetary constraints and, in particular, the customer s ability to devote resources to the evaluation process.

In addition, product purchases are frequently subject to delays, particularly with respect to large customers for which our products may represent a small percentage of their overall purchases. As a result, our sales cycles are unpredictable. If we incur substantial sales and engineering expenses without generating revenues, our operating results could be harmed.

From time to time, we might be subject to claims of infringement of other parties proprietary rights, or to claims that our intellectual property rights are invalid or unenforceable, which could result in significant expense and loss of intellectual property rights.

In the future, we might receive claims that we are infringing intellectual property rights of others, or claims that our patents or other intellectual property rights are invalid or unenforceable. We have received in the past, and may receive in the future, communications from third parties inquiring about our interest in licensing certain of their intellectual property or more generally identifying intellectual property that may be of interest to us. For example, we received such a communication from Microelectronics and Computer Technology Corporation in October 2001, with a follow-up letter in January 2002, inquiring about our interest in acquiring a license to certain of their patents and technology, and from IBM Corporation in February 2002, with a follow-up letter in August 2003, inquiring about our interest and need to acquire a license to IBM patents and technology related to high density integrated probes. We have not engaged in a dialog with Microelectronics and Computer Technology

Table of Contents

Corporation; we presently anticipate that we will engage in a dialog with IBM Corporation regarding our companies respective intellectual property portfolios. In August 2002, subsequent to our initiating correspondence with Japan Electronic Materials Corporation regarding the scope of our intellectual property rights and the potential applicability of those rights to certain of its wafer probe cards, Japan Electronic Materials Corporation offered that precedent technologies exist as to one of our foreign patents that we had identified, and also referenced a U.S. patent in which it stated we might take interest. For the inquiries we have received to date, we do not believe we infringe any of the identified patents and technology. The semiconductor industry is characterized by uncertain and conflicting intellectual property claims and vigorous protection and pursuit of these rights. The resolution of any claims of this nature, with or without merit, could be time consuming, result in costly litigation or cause product shipment delays. In the event of an adverse ruling, we might be required to pay substantial damages, cease the use or sale of infringing products, spend significant resources to develop non-infringing technology, discontinue the use of certain technology or enter into license agreements. License agreements, if required, might not be available on terms acceptable to us or at all. The loss of access to any of our intellectual property or the ability to use any of our technology could harm our business.

If we fail to protect our proprietary rights, our competitors might gain access to our technology, which could adversely affect our ability to compete successfully in our markets and harm our operating results.

If we fail to protect our proprietary rights adequately, our competitors might gain access to our technology. Unauthorized parties might attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Others might independently develop similar or competing technologies or methods or design around our patents. In addition, the laws of many foreign countries in which we or our customers do business do not protect our intellectual property rights to the same extent as the laws of the United States. As a result, our competitors might offer similar products and we might not be able to compete successfully. We also cannot assure that:

- our means of protecting our proprietary rights will be adequate;
- patents will be issued from our currently pending or future applications;
- our existing patents or any new patents will be sufficient in scope or strength to provide any meaningful protection or commercial advantage to us;
- any patent, trademark or other intellectual property right that we own will not be invalidated, circumvented or challenged in the United States or foreign countries; or
- others will not misappropriate our proprietary technologies or independently develop similar technology, duplicate our products or design around any patent or other intellectual property rights that we own.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We presently believe that it is likely that one or more of our competitors are using methodologies or have implemented structures into certain of their products that are covered by one or more of our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. If we threaten or initiate litigation, we may be subject to claims by third parties against which we must defend. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel. In addition, many of our customer contracts contain provisions that require us to indemnify our customers for third party intellectual property infringement claims, which would increase the cost to us of an adverse ruling in such a claim. An adverse determination could also prevent us from licensing our technologies and methods to others.

Our failure to comply with environmental laws and regulations could subject us to significant fines and liabilities, and new laws and regulations or changes in regulatory interpretation or enforcement could make compliance more difficult and costly.

We are subject to various and frequently changing U.S. federal, state and local, and foreign governmental laws and regulations relating to the protection of the environment, including those governing the discharge of

Table of Contents

pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites and the maintenance of a safe workplace. We could incur substantial costs, including cleanup costs, civil or criminal fines or sanctions and third-party claims for property damage or personal injury, as a result of violations of or liabilities under environmental laws and regulations or non-compliance with the environmental permits required at our facilities. For instance, in May 2003, we received a Notice of Violation from the Bay Area Air Quality Management District regarding our record keeping relating to our usage of wipe cleaning solvent. We introduced corrective action to prevent any continued or recurrent record keeping violation, and we resolved the Notice of Violation with a monetary payment which was not significant. It is possible that in the future, we may receive environmental violation notices, and that final resolution of the violations identified by these notices could harm our operating results.

These laws, regulations and permits also could require the installation of costly pollution control equipment or operational changes to limit pollution emissions or decrease the likelihood of accidental releases of hazardous substances. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination at our or others sites or the imposition of new cleanup requirements could require us to curtail our operations, restrict our future expansion, subject us to liability and cause us to incur future costs that would have a negative effect on our operating results and cash flow.

Because we conduct some of our business internationally, we are subject to operational, economic, financial and political risks abroad.

Sales of our products to customers outside the United States have accounted for an important part of our revenues. Our international sales as a percentage of our revenues were 43.5% for the nine months ended September 27, 2003 and 44.4% for fiscal 2002. In the future, we expect international sales, particularly into Europe, Japan, South Korea and Taiwan, to continue to account for a significant percentage of our revenues. Accordingly, we will be subject to risks and challenges that we would not otherwise face if we conducted our business only in the United States. These risks and challenges include:

compliance with a wide variety of foreign laws and regulations;

legal uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;

political and economic instability in, or foreign conflicts that involve or affect, the countries of our customers;

difficulties in collecting accounts receivable and longer accounts receivable payment cycles;

difficulties in staffing and managing personnel, distributors and representatives;

reduced protection for intellectual property rights in some countries;

currency exchange rate fluctuations, which could affect the value of our assets denominated in local currency, as well as the price of our products relative to locally produced products;

seasonal fluctuations in purchasing patterns in other countries; and

fluctuations in freight rates and transportation disruptions.

Any of these factors could harm our existing international operations and business or impair our ability to continue expanding into international markets.

An outbreak of SARS and its spread could harm sales of our products.

If an outbreak of severe acute respiratory syndrome, or SARS, that began in China, Hong Kong, Singapore and Vietnam recurs, it may have a negative impact on our business. Our business may be impacted by a number of SARS-related factors, including, but not limited to, disruptions in the operations of our customers and their partners, reduced sales in certain end-markets, such as DRAM devices, and increased costs to conduct our business abroad. If the number of cases of SARS rises or spreads, our sales could potentially be harmed.

Table of Contents

We might require additional capital to support business growth, and such capital might not be available.

We intend to continue to make investments to support business growth and may require additional funds to respond to business challenges, which include the need to develop new products or enhance existing products, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financing to secure additional funds. Equity and debt financing, however, might not be available when needed or, if available, might not be available on terms satisfactory to us. If we are unable to obtain adequate financing or financing on terms satisfactory to us, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Recently enacted and proposed changes in securities laws and regulations are likely to increase our costs.

The Sarbanes-Oxley Act of 2002 that became law in July 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission, have required changes to some of our corporate governance practices. The Act also requires the Securities and Exchange Commission to promulgate additional new rules on a variety of subjects. In addition to final rules and rule proposals already made by the Securities and Exchange Commission, Nasdaq has proposed revisions to its requirements for companies, such as us, that are Nasdaq-listed. We expect these new rules and regulations to increase our legal and financial compliance costs, and to make some activities more difficult, time consuming and/or costly. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

Risks Related to this Offering

The trading price of our common stock is likely to be volatile, and you might not be able to sell your shares at or above the public offering price for this offering.

The trading prices of the securities of technology companies have been highly volatile. Accordingly, the trading price of our common stock is likely to be subject to wide fluctuations. Further, our securities have a limited trading history. Factors affecting the trading price of our common stock include:

- variations in our operating results;
- announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;
- the gain or loss of significant orders or customers;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock; and
- market conditions in our industry, the industries of our customers and the economy as a whole.

In addition, if the market for technology stocks or the stock market in general experiences continued or greater loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to

Table of Contents

our business, operating results or financial condition. The trading price of our common stock also might decline in reaction to events that affect other companies in our industry even if these events do not directly affect us.

If securities analysts do not publish research or reports about our business, our stock price could decline.

The trading market for our common stock will rely in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. If one or more of the analysts who cover us downgrade our stock, our stock price would likely decline rapidly. If one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

The concentration of our capital stock ownership with insiders upon the completion of this offering will likely limit your ability to influence corporate matters.

We anticipate that our executive officers, directors, current 5% or greater stockholders and entities affiliated with any of them will together beneficially own approximately 44.6% of our common stock outstanding after this offering. As a result, these stockholders, acting together, will have substantial influence over all matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. As a result, corporate actions might be taken even if other stockholders, including those who purchase shares in this offering, oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

Our management will have broad discretion over the use of the proceeds to us from this offering and might not apply the proceeds of this offering in ways that increase the value of your investment.

Our management will have broad discretion to use the net proceeds to us from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. We intend to use a portion of the net proceeds to us from this offering for leasehold improvements at our new corporate headquarters and manufacturing facility. Although we expect our management to use the remaining net proceeds from this offering for general corporate purposes, including working capital and for potential strategic investments or acquisitions, we have not allocated these net proceeds for specific purposes. Our management might not be able to yield a significant return, if any, on any investment of these net proceeds.

Future sales of shares by existing stockholders could cause our stock price to decline.

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the contractual lock-ups and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline below the public offering price for this offering. Based on the shares outstanding as of September 27, 2003, and assuming 5,000,000 shares are sold in this offering, upon completion of this offering we will have outstanding approximately 35,791,828 shares of common stock. Of these shares, 11,900,000 shares are freely tradeable, without restriction, in the public market, except for any shares that are held by our affiliates. An additional 436,000 shares of our common stock are eligible for sale in the public market; however, if any of these shares are not sold by November 15, 2003, they will be subject to contractual lock-up restrictions with us and lock-up agreements with Morgan Stanley & Co. Incorporated which expire at the close of business on December 8, 2003, after which time such unsold shares will be eligible for sale in the public market. Morgan Stanley & Co. Incorporated has also released 766,165 shares of our common stock from lock-up agreements; however, these shares remain subject to the contractual lock-up restrictions with us, and will not be eligible for sale in the public market until after December 8, 2003. An additional 12,129,134 shares of our common stock will also become eligible for sale in the public market after December 8, 2003 when the contractual lock-up restrictions with us and lock-up agreements with Morgan Stanley & Co. Incorporated expire. Of the remaining 11,316,616 shares of our common stock subject to lock-up agreements with Morgan Stanley & Co. Incorporated, 5,658,308 shares will become eligible for sale in the public market on February 15, 2004, and 5,658,308 shares will become eligible for sale in the public market on March 15, 2004. Upon the expiration of, or release from, the lock-up restrictions, the shares will be eligible for sale in the

Table of Contents

public market only to the extent permitted by the provisions of various vesting agreements, and Rules 144 and 701 under the Securities Act.

In addition, the 118,227 shares subject to outstanding warrants and the 10,760,992 shares subject to outstanding options and reserved for future issuance under our stock option and purchase plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements and Rules 144 and 701 under the Securities Act. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline. See Shares Eligible for Future Sale for more information regarding shares of our common stock that existing stockholders may sell after this offering.

You will experience immediate and substantial dilution in the net tangible book value of the shares you purchase in this offering.

The public offering price of our common stock in this offering is substantially higher than the book value per share of the outstanding common stock after this offering. Therefore, based on an assumed public offering price of $25.47 per share, if you purchase our common stock in this offering, you will suffer immediate and substantial dilution of approximately $20.24 per share. If the underwriters exercise their over-allotment option, or if outstanding options and warrants to purchase our common stock are exercised, you will experience additional dilution.

Provisions of our certificate of incorporation and bylaws or Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Delaware corporate law and our certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- provide that directors may only be removed for cause and only with the approval of 66 2/3% of our stockholders;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of blank check preferred stock that our board could issue to increase the number of outstanding shares and to discourage a takeover attempt;
- limit the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business and in other sections of this prospectus that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, could, should, expect, plan, anticipate, belie predict, potential or continue, the negative or plural of these words and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, include statements concerning, among other things, our business strategy, anticipated trends or developments in our business and the markets in which we operate, revenues, gross margin, operating expenses, research and development programs, sales and marketing initiatives, and competition. These statements are only predictions based on our current expectations and projections about future events. You should not place undue reliance on these forward-looking statements. We undertake no obligation to update any of these statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these statements. These factors include the matters discussed under the caption entitled Risk Factors. You should carefully consider the numerous risks and uncertainties described under Risk Factors.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement on Form S-1, of which this prospectus is a part, that we have filed with the Securities and Exchange Commission, completely and with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds we will receive from this offering will be approximately $36.5 million, at an assumed public offering price of $25.47 per share, after deducting estimated underwriting discounts and commissions and estimated offering costs. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately $54.7 million. The selling stockholders will receive aggregate net proceeds of approximately $85.1 million, after deducting estimated underwriting discounts and commissions. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

We intend to use the net proceeds to us from this offering for general corporate purposes and working capital requirements. We may also use a portion of the net proceeds to us to fund possible investments in, or acquisitions of, complementary businesses, products or technologies or establishing joint ventures. We have no current agreements or commitments with respect to any investment, acquisition or joint venture, and we currently are not engaged in negotiations with respect to any investment, acquisition or joint venture. Pending their ultimate use, we intend to invest the net proceeds to us from this offering in short-term, interest-bearing, investment grade securities.

The amount and timing of what we actually spend for these purposes may vary significantly and will depend on a number of factors, including our future revenues and cash generated by operations and the other factors described in Risk Factors. Therefore, we will have broad discretion in the way we use the net proceeds to us from this offering.

PRICE RANGE OF COMMON STOCK

Our common stock has been quoted on the Nasdaq National Market under the symbol FORM since June 12, 2003. Prior to this time, there was no public market for our common stock. The following table sets forth, for the periods indicated in fiscal 2003, the high and low sale prices per share for our common stock as reported on the Nasdaq National Market.

	Common Stock Price	
	High	**Low**
Second Quarter (from June 12, 2003)	$21.00	$16.21
Third Quarter	23.07	17.00
Fourth Quarter (through October 17, 2003)	27.45	20.00

On October 17, 2003, the last reported sales price for our common stock on the Nasdaq National Market was $25.47 per share. As of September 27, 2003, there were approximately 312 holders of record of our common stock.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently expect to retain all available funds and any future earnings for use in the operation and development of our business. Accordingly, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. In addition, the terms of our loan and security agreement prohibit us from paying cash dividends without the prior consent of the bank.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of September 27, 2003. Our capitalization is presented on an actual basis and on an as adjusted basis to reflect the sale of 1,499,866 shares of our common stock offered by us at an assumed public offering price of $25.47 per share, after deducting estimated underwriting discounts and commissions and estimated offering costs payable by us, and the proceeds from the exercise of options to purchase 27,629 shares of common stock by four selling stockholders in this offering. This capitalization table should be read together with Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	September 27, 2003	
	Actual	As Adjusted
	(in thousands, except share and per share data)	
Stockholders equity:		
Preferred stock, $.001 par value; 10,000,000 shares authorized, no shares issued or outstanding, actual; 10,000,000 shares authorized, no shares issued or outstanding, as adjusted	$	$
Common stock, $.001 par value; 250,000,000 shares authorized, 34,264,333 shares issued and outstanding, actual; 250,000,000 shares authorized, 35,791,828 shares issued and outstanding, as adjusted	34	35
Additional paid-in capital	168,698	205,337
Notes receivable from stockholders	(1,389)	(1,389)
Deferred stock-based compensation, net	(12,007)	(12,007)
Accumulated other comprehensive loss	(18)	(18)
Accumulated deficit	(4,874)	(4,874)
Total stockholders equity	150,444	187,084
Total capitalization	$150,444	$187,084

The number of shares of our common stock shown as issued and outstanding in the table above excludes:

7,050,111 shares of common stock issuable upon exercise of options outstanding at September 27, 2003 with a weighted average exercise price of $8.25 per share, which amount includes 27,629 shares of common stock subject to options that will be exercised by four selling stockholders in this offering. We have included the 27,629 shares in our calculation of our shares outstanding after this offering;

118,227 shares of common stock issuable upon exercise of warrants outstanding at September 27, 2003 with a weighted average exercise price of $5.25 per share;

2,210,881 shares of common stock available for issuance under our equity incentive plan at September 27, 2003; and

1,500,000 shares of common stock available for issuance under our employee stock purchase plan at September 27, 2003.

Table of Contents

DILUTION

Our net tangible book value as of September 27, 2003 was approximately $150.4 million, or $4.39 per share of our common stock. Our net tangible book value per share represents our total tangible assets less total liabilities divided by the number of shares of our common stock outstanding on September 27, 2003.

After giving effect to the sale of 1,499,866 shares of common stock offered by us in this offering at an assumed public offering price of $25.47 per share, after deducting estimated underwriting discounts and commissions and estimated offering costs payable by us, and the proceeds from the exercise of options to purchase 27,629 shares of common stock by four selling stockholders in this offering, our net tangible book value as of September 27, 2003 would have been approximately $187.1 million, or $5.23 per share of our common stock. This amount represents an immediate increase in net tangible book value of $0.84 per share to our existing stockholders and an immediate dilution in net tangible book value of $20.24 per share to new investors purchasing shares in this offering. The following table illustrates the dilution in net tangible book value per share to new investors.

Assumed public offering price per share		$25.47
Net tangible book value per share as of September 27, 2003	$4.39	
Increase per share attributable to new investors	.84	
Net tangible book value per share after this offering		5.23
Dilution in net tangible book value per share to new investors		$20.24

If all of our then outstanding options and warrants were exercised, the net tangible book value as of September 27, 2003 would have been $245.9 million and the net tangible book value after this offering would have been $5.72 per share, causing dilution to new investors of $0.50 per share.

The following table summarizes, as of September 27, 2003 on the basis described above, the number of shares of our common stock purchased from us, the total consideration paid to us, and the average price per share paid to us by existing stockholders and to be paid by new investors purchasing shares of our common stock in this offering at an assumed public offering price of $25.47 per share, before deducting estimated underwriting discounts and commissions and estimated offering costs payable by us.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	34,264,333	95.7%	$153,801,000	80.0%	$ 4.49
New investors	1,527,495	4.3	38,359,476	20.0	25.11
Total	35,791,828	100.0%	$192,160,476	100.0%	

The above information excludes:

7,050,111 shares of common stock issuable upon exercise of options outstanding at September 27, 2003 with a weighted average exercise price of $8.25 per share, which amount includes 27,629 shares of common stock subject to options that will be exercised by four selling stockholders in this offering. For purposes of calculating dilution, however, we have considered the 27,629 shares to be outstanding after this offering;

118,227 shares of common stock issuable upon exercise of warrants outstanding at September 27, 2003 with a weighted average exercise price of $5.25 per share;

2,210,881 shares of common stock available for issuance under our equity incentive plan at September 27, 2003; and

1,500,000 shares of common stock available for issuance under our employee stock purchase plan at September 27, 2003.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing elsewhere in this prospectus. The consolidated statement of operations data for the fiscal years ended December 30, 2000, December 29, 2001 and December 28, 2002, and the consolidated balance sheet data as of December 29, 2001 and December 28, 2002, are derived from our audited consolidated financial statements appearing elsewhere in this prospectus. The consolidated statement of operations data for the fiscal years ended December 26, 1998 and December 25, 1999 and the consolidated balance sheet data as of December 26, 1998, December 25, 1999 and December 30, 2000, are derived from our audited consolidated financial statements that are not included in this prospectus. The consolidated statement of operations data for the nine months ended September 28, 2002 and September 27, 2003, and the consolidated balance sheet data as of September 27, 2003, are derived from our unaudited consolidated financial statements appearing elsewhere in this prospectus. We have prepared the unaudited information on the same basis as the audited consolidated financial statements and have included, in our opinion, all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. The historical results are not necessarily indicative of the results to be expected in any future period.

	Fiscal Year Ended					Nine Months Ended	
	Dec. 26, 1998	Dec. 25, 1999	Dec. 30, 2000	Dec. 29, 2001	Dec. 28, 2002	Sept. 28, 2002	Sept. 27, 2003
	(in thousands, except per share data)						
Consolidated Statement of Operations Data:							
Revenues	$19,329	$35,722	$56,406	$73,433	$78,684	$56,527	$66,839
Cost of revenues	10,763	20,420	28,243	38,385	39,456	28,540	34,482
Gross margin	8,566	15,302	28,163	35,048	39,228	27,987	32,357
Operating expenses:							
Research and development	7,486	9,466	11,995	14,619	14,592	10,656	11,322
Selling, general and administrative	7,212	11,020	15,434	18,500	17,005	12,429	13,471
Stock-based compensation		341	259	469	1,039	750	1,100
Restructuring charges				1,380			
Total operating expenses	14,698	20,827	27,688	34,968	32,636	23,835	25,893
Operating income (loss)	(6,132)	(5,525)	475	80	6,592	4,152	6,464
Interest and other income (expense), net	157	(119)	1,719	477	642	404	780
Income (loss) before income taxes	(5,975)	(5,644)	2,194	557	7,234	4,556	7,244
Benefit (provision) for income taxes			(115)	(307)	3,125	4,214	(2,753)
Net income (loss)	$ (5,975)	$ (5,644)	$ 2,079	$ 250	$10,359	$ 8,770	$ 4,491
Net income (loss) per share:							
Basic	$ (3.60)	$ (2.16)	$ .61	$ .06	$ 2.33	$ 1.98	$ .27
Diluted	$ (3.60)	$ (2.16)	$ .08	$ .01	$ .35	$ .30	$ .14
Weighted-average number of shares used in per share calculations:							
Basic	1,659	2,609	3,408	4,029	4,448	4,436	16,669
Diluted	1,659	2,609	26,821	28,654	29,554	29,287	32,932

	As of					
	Dec. 26, 1998	Dec. 25, 1999	Dec. 30, 2000	Dec. 29, 2001	Dec. 28, 2002	Sept. 27, 2003

						(unaudited)
			(in thousands)			
Consolidated Balance Sheet Data:						
Cash, cash equivalents and short-term investments	$ 10,449	$ 19,248	$ 16,897	$ 27,576	$ 34,343	$ 101,084
Working capital	8,032	17,694	23,391	31,074	40,536	110,465
Total assets	22,532	38,332	47,499	62,264	77,518	170,254
Long-term debt, less current portion	2,834	2,183	521	1,167	625	
Redeemable convertible preferred stock and warrants	27,963	47,913	55,129	65,201	65,201	
Deferred stock-based compensation, net		(184)	(184)	(4,071)	(12,294)	(12,007)
Total stockholders equity (deficit)	(15,889)	(21,286)	(18,586)	(17,582)	(5,037)	150,444

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and the related notes included elsewhere in this prospectus. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under Risk Factors and elsewhere in this prospectus.

Overview

We design, develop, manufacture, sell and support precision, high performance advanced semiconductor wafer probe cards. At the core of our product offering is our proprietary MicroSpring interconnect technology. Our MicroSpring interconnect technology includes a resilient contact element manufactured at our production facilities in Livermore, California. To date, we have derived our revenues primarily from the sale of wafer probe cards incorporating our MicroSpring interconnect technology.

We were formed in 1993 and in 1995 introduced our first commercial product. During 1996, we introduced the industry s first memory wafer probe card capable of testing up to 32 devices in parallel. Our revenues increased from $1.1 million in fiscal 1995 to $78.7 million in fiscal 2002.

We work closely with our customers to design, develop and manufacture custom wafer probe cards. Each wafer probe card is a custom product that is specific to the chip and wafer designs of the customer. As a result, our revenue growth is driven by the number of new semiconductor designs, technology transitions and increased semiconductor production volumes.

While the majority of our sales are directly to semiconductor manufacturers, we also have significant sales to our distributor in Taiwan. Sales to our distributors were 15.1% of revenues in the nine months ended September 27, 2003, 22.6% of revenues in fiscal 2002, 32.9% of revenues in fiscal 2001 and 40.6% of revenues in fiscal 2000. We sold our products in Japan to a distributor until March 31, 2002, when we began to sell directly in Japan. Currently, we have one distributor, Spirox Corporation, which serves Taiwan, Singapore and China. We also have the ability to sell our products directly to customers in that region.

Because our products serve the highly cyclical semiconductor industry, our business is subject to demand fluctuations that have resulted in significant variations of revenues, expenses and results of operations in the periods presented. Fluctuations are likely to continue in future periods. Due to a high concentration of large customers in the semiconductor industry, we believe that sales to a limited number of customers will continue to account for a substantial part of our business. We generally have limited backlog and therefore we rely upon orders that are booked and shipped in the same quarter for a majority of our revenues.

Fiscal Year. Our fiscal year ends on the last Saturday in December. The fiscal year ended December 28, 2002 had 52 weeks, the fiscal year ended December 29, 2001 had 52 weeks, and the fiscal year ended December 30, 2000 had 53 weeks.

Revenues. We derive our revenues from product sales, license and development fees and royalties. To date, wafer probe card sales have comprised substantially all of our revenues. Wafer probe card sales accounted for 99.8% of our revenues in the nine months ended September 27, 2003, 99.9% of our revenues in fiscal 2002, 99.2% of our revenues in fiscal 2001 and 97.8% of our revenues in fiscal 2000. Revenues from license and development fees and royalties have historically not been significant. Increases in revenues have resulted from increased demand for our existing products, the introduction of new, more complex products and the penetration of new markets. Revenues from our customers are subject to both quarterly and annual fluctuations due to design cycles, technology adoption rates and cyclicality of the different end markets into which our customers products are sold. We expect that revenues from the sale of wafer probe cards will continue to account for substantially all of our revenues for the foreseeable future.

Table of Contents

Cost of Revenues. Cost of revenues consists primarily of manufacturing materials, payroll and manufacturing-related overhead. Our manufacturing operations rely upon a limited number of suppliers to provide key components and materials for our products, some of which are sole source. We order materials and supplies based on backlog and forecasted customer orders. Tooling and setup costs related to changing manufacturing lots at our suppliers are also included in the cost of revenues. We expense all warranty costs and inventory reserves or write-offs as cost of revenues.

We design, manufacture and sell a fully custom product into a market that has been subject to cyclicality and significant demand fluctuations. Wafer probe cards are complex products, custom to a specific chip design and have to be delivered on lead-times shorter than most manufacturers cycle times. It is therefore common to start production and to acquire production materials ahead of the receipt of an actual purchase order. Wafer probe cards are manufactured in low volumes, therefore, material purchases are often subject to minimum purchase order quantities in excess of our actual demand. Inventory valuation adjustments for these factors are considered a normal component of cost of revenues.

Research and Development. Research and development expenses include expenses related to product development, engineering and material costs. All research and development costs are expensed as incurred. We plan to invest a significant amount in research and development activities to develop new technologies for current and new markets and new applications in the future. We expect research and development expenses to increase in absolute dollars, but to decline as a percentage of revenues.

Selling, General and Administrative. Selling, general and administrative expenses include expenses related to sales, marketing and administrative personnel, internal and outside sales representatives commissions, market research and consulting, and other marketing and sales activities. We expect that selling expenses will increase as revenues increase, and we expect that general and administrative expenses will increase in absolute dollars to support future operations, as well as from the additional costs of being a publicly traded company. We expect selling, general and administrative expenses to decline as a percentage of revenues.

Stock-Based Compensation. In connection with the grant of stock options to employees in fiscal 2001 and fiscal 2002, and in fiscal 2003 through our initial public offering in June 2003, we recorded an aggregate of $14.3 million in deferred stock-based compensation. These options are considered compensatory because the fair value of our stock determined for financial reporting purposes is greater than the fair value determined on the date of the grant. As of September 27, 2003, we had an aggregate of $12.0 million of deferred stock-based compensation remaining to be amortized. This deferred stock-based compensation balance will be amortized as follows: $395,000 during the remainder of fiscal 2003; $2.5 million during fiscal 2004; $4.2 million during fiscal 2005; $3.8 million during fiscal 2006 and $1.1 million during fiscal 2007. We are amortizing the deferred stock-based compensation on a straight line basis over the vesting period of the related options, which is generally four years. For options granted to employees to date, the amount of stock-based compensation amortization to be recognized in future periods could decrease if options for which deferred but unvested compensation has been recorded are forfeited.

Provision for Income Taxes. As of December 28, 2002, we had state net operating loss carryforwards of approximately $825,000. The state net operating loss carryforwards will expire at various dates from 2006 through 2013. We also had research and development tax credit carryforwards of approximately $742,000 and $836,000 for federal and state income tax purposes, respectively. The federal research and development tax credit carryforward will expire at various dates from 2019 through 2022. The state research credit can be carried forward indefinitely. In the third quarter of fiscal 2002, we released our valuation allowance recorded against our deferred tax assets because we believe that it is more likely than not that our deferred tax assets will be realized.

Under the Internal Revenue Code, as amended, and similar state provisions, certain substantial changes in our ownership could result in an annual limitation on the amount of net operating loss and credit carryforwards that can be utilized in future years to offset future taxable income. Annual limitations may result in the expiration of net operating loss and credit carryforwards before they are used.

Use of Estimates. Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles

Table of Contents

generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to uncollectible receivables, inventories, investments, intangible assets, income taxes, financing operations, warranty obligations, excess component and order cancellation costs, restructuring, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For excess component costs, the estimates are dependent on our expected use of such components and the size of the minimum order quantity imposed by the vendor in relation to our inventory requirements. Because this can vary in each situation, actual results may differ from these estimates under different assumptions or conditions.

Results of Operations

The following table presents our historical operating results for the periods indicated as a percentage of revenues:

	Fiscal Year Ended			Nine Months Ended	
	Dec. 30, 2000	Dec. 29, 2001	Dec. 28, 2002	Sept. 28, 2002	Sept. 27, 2003
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	50.1	52.3	50.1	50.5	51.6
Gross margin	49.9	47.7	49.9	49.5	48.4
Operating expenses:					
Research and development	21.3	19.9	18.6	18.9	16.9
Selling, general and administrative	27.4	25.2	21.6	22.0	20.2
Stock-based compensation	0.4	0.6	1.3	1.3	1.6
Restructuring charges		1.9			
Total operating expenses	49.1	47.6	41.5	42.2	38.7
Operating income	0.8	0.1	8.4	7.3	9.7
Interest and other income, net	3.1	0.6	0.8	0.7	1.1
Income before income taxes	3.9	0.7	9.2	8.0	10.8
Benefit (provision) for income taxes	(0.2)	(0.4)	4.0	7.5	(4.1)
Net income	3.7%	0.3%	13.2%	15.5%	6.7%

Nine Months Ended September 27, 2003 and September 28, 2002

Revenues. Revenues for the nine months ended September 27, 2003 were $66.8 million compared with $56.5 million for the nine months ended September 28, 2002, an increase of $10.3 million, or 18.2%. The $10.3 million increase for the first nine months of 2003 was due primarily to an increase of $8.1 million in revenues from manufacturers of flash memory devices and an increase of $2.7 million in revenues from manufacturers of microprocessors and chipsets partially offset by a reduction of $418,000 in revenues from sales to other logic manufacturers.

The majority of revenues for the nine months ended September 27, 2003 was generated by sales of wafer probe cards to manufacturers of DRAM devices. Sales of wafer probe cards to test DRAM devices for the nine months ended September 27, 2003 accounted for $38.8 million, or 58.0% of revenues, compared to $38.9 million, or 68.8% of revenues, for the nine months ended September 28, 2002. An increase in revenues from DDR DRAM device manufacturers was offset by a decreased demand for SDRAM products. Sales of wafer probe cards to test DRAM devices benefited from the continued transition of DRAM manufacturers to 512 megabit devices, to 110 nanometer technology and to 300mm wafer size.

30

Table of Contents

Revenues generated from sales to flash memory device manufacturers for the nine months ended September 27, 2003 were $14.1 million compared with $6.0 million for the nine months ended September 28, 2002. Revenues from flash memory devices increased for the nine months ended September 27, 2003 compared to the nine months ended September 28, 2002 due primarily to increased design and customer wins at manufacturers of flash memory devices.

Revenues from manufacturers of microprocessors and other flip chip devices increased to $13.5 million for the nine months ended September 27, 2003 compared with $10.8 million for the nine months ended September 28, 2002. Revenues for the nine months ended September 27, 2003 benefited from new product introductions, such as our 175 micron pitch MicroSpring contact technology and MicroForce probing technology solutions for flip chip logic applications. These products were introduced in the second quarter of 2003 with production shipments beginning in the quarter ended September 27, 2003.

Revenues by geographic region for the nine months ended September 27, 2003 as a percentage of revenues were 56.5% in North America, 9.1% in Europe, 18.7% in Asia Pacific and 15.7% in Japan. Revenues by geographic region for the nine months ended September 28, 2002 as a percentage of revenues were 58.4% in North America, 14.0% in Europe, 21.7% in Asia Pacific and 5.9% in Japan. For the nine months ended September 27, 2003, revenues for all geographic regions except Europe increased due to strong demand for our products. Revenues for Europe declined due to decreased revenues from a manufacturer of DRAM devices driven by the timing of tooling events at that customer.

The following customers accounted for more than 10% of our revenues for the nine months ended September 28, 2002 or September 27, 2003:

	Nine Months Ended	
	September 28, 2002	**September 27, 2003**
Intel Corporation	27.0%	34.6%
Spirox Corporation	20.8	15.1
Samsung Electronics Industries Co., Ltd.	*	10.8
Infineon Technologies AG	19.9	*
Micron Technologies, Inc.	10.8	*

*Less than 10% of revenues.

Gross Margin. Gross margin as a percentage of revenues was 48.4% for the nine months ended September 27, 2003 compared with 49.5% for the nine months ended September 28, 2002. The decrease in gross margin percentage was primarily due to increased investment in quality systems, manufacturing processes and procedures and the costs necessary to increase capacity. We increased our manufacturing fixed costs in response to continued positive demand for our products and continued design wins. This investment, primarily in headcount, was essential to convert our operations to a 7 day, 24 hour manufacturing shift structure which began in the second quarter of 2003 and was completed in the third quarter of 2003. This manufacturing structure increased our capacity and supports the first steps in establishing the required staffing levels to transfer our manufacturing processes into our new production facility in 2004.

Research and Development. Research and development expenses increased to $11.3 million, or 16.9% of revenues, for the nine months ended September 27, 2003 compared to $10.7 million, or 18.9% of revenues, for the nine months ended September 28, 2002. The increase in absolute dollars was primarily due to increased personnel costs reflecting our commitment to the development of new products and technologies. During the nine months ended September 27, 2003, we continued our development of fine pitch memory and logic products, advanced MicroSpring interconnect technology and new manufacturing process technologies.

Selling, General and Administrative. Selling, general and administrative expenses were $13.5 million for the nine months ended September 27, 2003 compared to $12.4 million for the nine months ended September 28, 2002. Selling, general and administrative expenses as a percentage of revenues were 20.2% and 22.0% for the

Table of Contents

first nine months of 2003 and 2002, respectively. The increase in absolute dollars was mainly due to increased personnel costs, higher sales and marketing spending, in line with higher revenues and new product introductions, and costs associated with being a public company.

Interest and Other Income (Expense), Net. Interest and other income (expense), net for the nine months ended September 27, 2003 was $780,000 compared with $404,000 for the nine months ended September 28, 2002. We generated greater interest income in the first nine months of 2003 due to a larger cash and cash equivalents balance as a result of our initial public offering in the second quarter of 2003. In addition, the increased business in Japan combined with the weaker dollar generated foreign currency gains for the first nine months of fiscal 2003 compared to foreign currency losses for the first nine months of fiscal 2002.

Benefit (Provision) for Income Taxes. Provision for income taxes was $2.8 million for the nine months ended September 27, 2003 compared to a benefit of $4.2 million for the nine months ended September 28, 2002. The provision for the nine month period ended September 27, 2003 reflected an effective tax rate of 38%. The $4.2 million benefit for the nine month period ended September 28, 2002 resulted from the release of the valuation allowance against our deferred tax assets in the amount of $5.9 million in the third quarter of 2002.

Fiscal Years Ended December 28, 2002 and December 29, 2001

Revenues. Revenues were $78.7 million for fiscal 2002 compared with $73.4 million for fiscal 2001, an increase of 7.2%. The $5.3 million increase was due primarily to an increase of $3.7 million in revenues from manufacturers of flash memory devices and an increase of $3.5 million in revenues from a manufacturer of chipsets, offset in part by a reduction of $1.6 million in revenues from DRAM manufacturers.

In fiscal 2001, we introduced our wafer probe cards to manufacturers of flash memory devices. The design wins and penetration at these customers, combined with increased demand for dense flash devices, generated the increased flash memory device related revenues in fiscal 2002.

The industry trend of faster and smaller devices resulting in increased power handling requirements has caused large scale integrated logic devices to migrate from wirebond-based package technologies to flip chip packaging. Our capabilities in flip chip microprocessor wafer probe cards enabled us to qualify and sell our wafer probe cards for chipset device probing applications, such as memory controller integrated circuits, in fiscal 2002. We generated minimal revenue from sales to chipset device manufacturers in fiscal 2001.

Consistent with fiscal 2001, the majority of fiscal 2002 revenues were generated by sales of wafer probe cards to manufacturers of DRAM devices. The decrease in revenues from DRAM manufacturers in fiscal 2002 was due primarily to reduced design activity and weaker bit growth. In addition, sales of Rambus DRAM, or RDRAM, wafer probe cards declined in fiscal 2002 compared to fiscal 2001. During the first two quarters of fiscal 2001, parts of the semiconductor industry adopted RDRAM architecture-based memory devices for higher speed applications. This adoption drove increased design activity and demand for wafer probe cards. During the second half of fiscal 2001, demand for Rambus-based chipsets and RDRAM devices decreased, a trend that persisted through fiscal 2002. This resulted in declining overall sales due to a significant decline in demand for RDRAM wafer probe cards. For fiscal 2002, our sales of RDRAM wafer probe cards decreased by $8.7 million compared to fiscal 2001 while sales of other DRAM wafer probe cards increased by $7.1 million. The increase in our other DRAM wafer probe card revenues was primarily the result of increased sales of our DRAM large area array wafer probe cards and the industry s conversion to DDR based DRAM devices in the second half of fiscal 2002.

Revenues by geographic region for fiscal 2002 as a percentage of total revenues were 55.6% in North America, 15.5% in Europe, 21.8% in Asia Pacific and 7.1% in Japan. Revenues by geographical region for fiscal 2001 as a percentage of total revenues were 52.7% in North America, 13.8% in Europe, 26.6% in Asia Pacific and 6.9% in Japan. The increase in the percentage of revenues in North America was due primarily to increased sales to a manufacturer of flash memory and chipset devices. The decrease in percentage of revenues in Asia Pacific was due primarily to decreased sales to our distributor of DRAM wafer probe cards.

Table of Contents

The following customers accounted for 10% or more of our revenues in fiscal 2001 or fiscal 2002:

	Fiscal 2001	Fiscal 2002
Intel Corporation	12.4%	26.9%
Spirox Corporation	26.4	20.9
Infineon Technologies AG	16.1	20.1
Samsung Electronics Industries Co., Ltd.	20.2	*

* Less than 10% of revenues.

The increase in revenues from certain of these customers for fiscal 2002 resulted from increased sales of microprocessor and flash memory wafer probe cards to one of these customers and increased sales of large area array DRAM devices to another one of these customers. In fiscal 2002, sales to certain customers were negatively impacted by an overall decreased demand for DRAM wafer probe cards.

Gross Margin. Gross margin as a percentage of revenues was 49.9% for fiscal 2002 compared with 47.7% for fiscal 2001. The increase in gross margin percentage was primarily due to cost reduction actions associated with our restructuring in the third quarter of fiscal 2001, continued reductions in the cost of materials, and shipments of high complexity products incorporating newer technology. These benefits were partially offset by a generally less favorable pricing environment due to the overall decline in demand. We also experienced an increase in warranty expenses caused primarily by an increase in field failures at one of our customers. Gross margin in absolute dollars and as a percentage of revenues will be subject to fluctuations as we continue to introduce new technologies into our manufacturing processes and to experience cyclicality in our end markets. We expect to continue to invest in new infrastructure, increasing fixed costs, which could have a material adverse impact on our gross margin.

Research and Development. Research and development expenses remained flat at $14.6 million, equivalent to 18.6% of revenues for fiscal 2002 compared to 19.9% of revenues for fiscal 2001. Personnel costs for fiscal 2002 increased by approximately $230,000 from fiscal 2001 and were partially offset by a reduction of approximately $175,000 for development program materials and related costs. During the first half of fiscal 2001, we completed the development of our MicroSpring Contact on Silicon Technology, or MOST technology. During the second half of fiscal 2001, we reduced spending while focusing our research and development efforts on developing wafer probe card products. Through fiscal 2002, we continued our development of new large area array memory products and fine pitch logic products.

Selling, General and Administrative. Selling, general and administrative expenses decreased to $17.0 million, or 21.6% of revenues, for fiscal 2002 compared to $18.5 million, or 25.2% of revenues, for fiscal 2001. The decrease was due primarily to a reduction of approximately $611,000 in personnel and recruiting costs and a reduction of approximately $752,000 in advertising, tradeshow and travel related expenses resulting from cost reduction actions taken in the second half of fiscal 2001.

Restructuring Charges. During the third quarter of fiscal 2001, we recorded a restructuring charge of $1.4 million. We implemented the restructuring plan to better align our infrastructure with the market conditions in the semiconductor industry and to further focus the company on the wafer probe card business. The restructuring charge consisted of $880,000 for headcount reductions covering 14 employees in research and development, 23 employees in operations and 17 employees in selling, general and administrative. The majority of the affected employees were based in Livermore, California. Further, we recorded charges of $223,000 for the consolidation of excess facilities and $277,000 for asset write-offs, primarily for property and equipment. The consolidation of excess facilities included the closure of certain corporate facilities that had been vacated. The charge of $223,000 primarily related to lease termination and noncancelable lease costs. The charge of $277,000 primarily related to the disposal of property and equipment, which primarily consisted of leasehold improvements for the excess facilities. As of December 28, 2002, the restructuring plan had been fully executed.

Interest and Other Income, Net. Interest and other income, net for fiscal 2002 was $642,000 compared to $477,000 for fiscal 2001, reflecting lower currency losses from the revaluation and translation of certain receivables and assets denominated in foreign currencies.

Table of Contents

Benefit (Provision) for Income Taxes. We recorded a benefit for income taxes for fiscal 2002 of $3.1 million compared to the provision of $307,000 for fiscal 2001. The benefit resulted from the release of the valuation allowance recorded against deferred tax assets, partially offset by the provision for income taxes on pre-tax profits. The valuation allowance was released because we believe that it is more likely than not that the deferred tax assets will be realized.

Fiscal Years Ended December 29, 2001 and December 30, 2000

Revenues. Revenues were $73.4 million for fiscal 2001 compared with $56.4 million for fiscal 2000, an increase of 30.2%. The increase was due to strong demand for our wafer probe cards used to test DRAM and flash memory devices. The increase in revenues reflected an increase in unit shipments, which was partially offset by a decline in average selling prices.

The increase of DRAM production, in particular RDRAM, at some of our customers impacted revenue growth favorably through the first six months of fiscal 2001. Revenues for this period also benefited from the introduction of our large area array products that enable a higher level of parallelism for test of memory devices. During fiscal 2001, we introduced our products to manufacturers of flash memory, which also contributed to our revenue growth.

During the second six months of fiscal 2001, our revenues declined compared to the first six months of fiscal 2001 as DRAM manufacturers experienced significant price declines for their products. This decline adversely impacted both the volume and pricing of our products. The effects of this decline were offset in part by increased demand for our products due primarily to technological innovations in the semiconductor industry, such as the migration toward smaller feature sizes of ..15 micron and below.

Revenues by geographic region in fiscal 2001 as a percentage of total revenues were 52.7% in North America, 13.8% in Europe, 26.6% in Asia Pacific and 6.9% in Japan. Revenues by geographic region in fiscal 2000 as a percentage of total revenues were 42.0% in North America, 16.4% in Europe, 33.4% in Asia Pacific and 8.2% in Japan. The year-to-year increase in revenues in North America was primarily due to the increased sales of RDRAMs by one of our major customers.

The following customers accounted for 10% or more of our revenues in fiscal 2000 or fiscal 2001:

	Fiscal 2000	Fiscal 2001
Spirox Corporation	25.4%	26.4%
Samsung Electronics Industries Co., Ltd.	*	20.2
Infineon Technologies AG	21.3	16.1
Intel Corporation	16.5	12.4

* Less than 10% of revenues.

Revenues to our largest customers during fiscal 2001 increased due to the ramp of RDRAM wafer probe products and the continued penetration of new end customers by our distributor Spirox. Revenue percentages declined for some of our customers due to our overall increased revenues during fiscal 2001, while revenues in absolute dollars to such customers remained flat.

Gross Margin. Gross margin as a percentage of revenues was 47.7% for fiscal 2001 compared with 49.9% for fiscal 2000. The decline in gross margin percentage was due to the overall industry downturn in the second half of fiscal 2001, resulting in increased pricing pressure and reduced unit volumes. Furthermore, we continued to incur start-up costs from the transition to a new manufacturing process for our next generation MicroSpring technology, which added new shapes and/or materials for our MicroSpring contacts and increased the amount of wafer fabrication-based processing, during the first six months of fiscal 2001. The start-up costs related to increased materials spending from pre-production lots, as well as reduced yields during the process ramp. Cost of revenues increased in fiscal 2001 due to continued investments in our manufacturing infrastructure, primarily increased personnel expenses, which impacted our gross margin unfavorably.

Table of Contents

Research and Development. Research and development expenses increased to $14.6 million, or 19.9% of revenues, for fiscal 2001 from $12.0 million, or 21.3% of revenues, for fiscal 2000. Of this increase, approximately $1.6 million was due to increases in headcount and approximately $480,000 was due to increased spending on engineering materials. This increased investment resulted in the development of large area array products and process technologies to enhance the manufacturability of various products. We also increased our investment in design capability to address a growing business in Asian markets.

Selling, General and Administrative. Selling, general and administrative expenses increased to $18.5 million, or 25.2% of revenues, for fiscal 2001 from $15.4 million, or 27.4% of revenues, for fiscal 2000. The increase was due to hiring additional personnel in sales, field applications and administrative capacities as well as increases in commissions due to increased revenues.

Restructuring Charges. During the third quarter of fiscal 2001, we recorded a restructuring charge of $1.4 million. We implemented the restructuring plan to better align our infrastructure with the market conditions in the semiconductor industry and to further focus the company on the wafer probe card business. The restructuring charge consisted of $880,000 for headcount reductions covering 14 employees in research and development, 23 employees in operations and 17 employees in selling, general and administrative. The majority of the affected employees were based in Livermore, California. Further, we recorded $223,000 for the consolidation of excess facilities and $277,000 for asset write-offs, primarily for property and equipment. The consolidation of excess facilities included the closure of certain corporate facilities that had been vacated. The charge of $223,000 primarily related to lease termination and noncancelable lease costs. Property and equipment that was disposed of resulted in a charge of $277,000 and primarily consisted of leasehold improvements for the excess facilities. As a result of our restructuring plan, we expect an annual reduction of employee related costs of $3.9 million and facility and related expenses of $266,000. As of December 29, 2001, $441,000 of the $1.4 million restructuring charge remained accrued, primarily relating to ongoing scheduled severance payments and pending lease contract cancellations being executed under the restructuring plan. We substantially completed these restructuring payment obligations as of the end of the third quarter of fiscal 2002.

Interest and Other Income, Net. Interest and other income, net for fiscal 2001 was $477,000 compared with $1.7 million for fiscal 2000. The difference was due to non-recurring other income of $1.3 million recorded in fiscal 2000 from the settlement of a claim against a licensee for an alleged breach of a license agreement.

Provision for Income Taxes. Provision for income taxes was $307,000 for fiscal 2001 compared with $115,000 for fiscal 2000. This increase represented the estimated tax liability for fiscal 2001 arising from both alternative minimum tax and income tax. As of December 29, 2001, our deferred tax asset was $9.1 million, representing prior years operating loss carry forwards and unutilized tax credits, and had been reduced in full by a valuation allowance.

Table of Contents

Quarterly Results of Operations

The following table presents our unaudited quarterly results of operations for the fifteen quarters in the period ended September 27, 2003. You should read the following table in conjunction with the consolidated financial statements and related notes contained elsewhere in this prospectus. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. Operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

	Three Months Ended														
	April 1, 2000	July 1, 2000	Sept. 30, 2000	Dec. 30, 2000	Mar. 31, 2001	June 30, 2001	Sept. 29, 2001	Dec. 29, 2001	Mar. 30, 2002	June 29, 2002	Sept. 28, 2002	Dec. 28, 2002	Mar. 29, 2003	June 28, 2003	Sept. 27, 2003
	(unaudited) (in thousands)														
Revenues	$10,313	$13,028	$15,842	$17,223	$19,849	$21,507	$16,021	$16,056	$17,288	$18,510	$20,729	$22,157	$18,669	$22,094	$26,076
Cost of revenues	5,198	6,159	7,808	9,078	10,410	11,269	8,477	8,229	8,859	9,422	10,259	10,916	9,800	11,469	13,213
Gross margin	5,115	6,869	8,034	8,145	9,439	10,238	7,544	7,827	8,429	9,088	10,470	11,241	8,869	10,625	12,863
Operating expenses:															
Research and development	2,516	2,699	3,247	3,533	4,073	4,323	3,054	3,169	3,249	3,579	3,828	3,936	3,525	3,831	3,966
Selling, general and administrative	2,904	3,500	4,431	4,599	4,730	5,230	4,344	4,196	3,992	4,172	4,265	4,576	4,013	4,478	4,980
Stock-based compensation	67	68	63	61	58	102									