NEXTEST SYSTEMS CORP
Form S-1/A
March 02, 2006
Table of Contents

As filed with the Securities and Exchange Commission March 2, 2006

Registration No. 333-130100

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

to

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

NEXTEST SYSTEMS CORPORATION

(Exact Name of Corporation as Specified in Its Charter)

California	**3825**	**77-0470150**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

Nextest Systems Corporation

1901 Monterey Road, San Jose, CA 95112, (408) 817-7200

(Address, including zip code and telephone number, including area code, of Registrant s principal executive offices)

Robin Adler

Chief Executive Officer

Nextest Systems Corporation

1901 Monterey Road, San Jose, CA 95112, (408) 817-7200

(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 following the effectiveness 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. ¨

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

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: ¨

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: ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the 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 is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus dated March 2, 2006

PROSPECTUS

5,400,000 Shares

Common Stock

This is Nextest Systems Corporation s initial public offering of its common stock. We are offering 4,000,000 shares and the selling stockholders are offering 1,400,000 shares. We will not receive any proceeds from the sale of the shares of our common stock by the selling stockholders. We expect the public offering price to be between $14.00 and $16.00 per share.

Currently, no public market exists for the shares. After pricing of the offering, we expect the shares will be quoted on the Nasdaq National Market under the symbol NEXT .

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Nextest Systems Corporation	$	$

Proceeds, before expenses, to the Selling Stockholders	$	$

The underwriters may also purchase up to an additional 600,000 shares from us and 210,000 shares from selling stockholders at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2006.

Merrill Lynch & Co.

Cowen & Company

Needham & Company, LLC

The date of this prospectus is , 2006.

Table of Contents

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	7
Use of Proceeds	21
Dividend Policy	21
Capitalization	22
Dilution	23
Selected Consolidated Financial Data	25
Management s Discussion and Analysis of Financial Condition and Results of Operations	27
Business	46
Management	59
Related Party Transactions	69
Principal and Selling Stockholders	71
Description of Capital Stock	73
Shares Eligible for Future Sale	76
Underwriting	78
Legal Matters	81
Experts	81
Where You Can Find Additional Information	82
Index to Consolidated Financial Statements	F-1

You should rely only on the information contained in this prospectus. We have not, and the selling stockholders and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the selling stockholders and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus is complete and accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

We have registered Nextest as our trademark with the U.S. Patent and Trademark Office, and we have applied to register Maverick as our trademark. All other trademarks, service marks and tradenames appearing in this prospectus are the property of their respective owners.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including our financial statements and related notes and the risks of investing in our common stock discussed under Risk Factors before making an investment decision. References to we , us and our refer to Nextest Systems Corporation.

Nextest Systems Corporation

We design, develop, manufacture, sell and service low-cost, high throughput automated test equipment, or ATE, systems for the semiconductor industry. We address rapidly growing, high volume segments within the semiconductor industry such as the flash memory and flash-based system-on-chip markets. Our ATE systems are also used to test other high growth, high volume integrated circuits, or ICs, such as microcontrollers, smart cards, and field programmable logic devices, or FPGAs. In addition to their use in high volume manufacturing, our highly flexible ATE systems are used by engineers to validate and characterize the performance of ICs during the design process. Our systems are predominantly used by our customers to test semiconductors that are used in a wide range of high growth consumer products, including flash-based portable music players, cellular phones, digital cameras and USB flash drives.

The process of designing and manufacturing ICs for applications such as flash memory is complex and capital-intensive, involving multiple steps. Test is required throughout this process, from research and development, or R&D, through manufacturing to quality assurance. At each step, test is often performed more than once. Testing is a critical component of the cost of manufacturing ICs. According to Gartner, an independent research firm, the market for ATE was $4.8 billion in 2004 and is forecast to grow to $7.1 billion in 2008. This represents a compound annual growth rate of 10.4%.

According to Gartner, the flash memory market is expected to grow from 82.1 billion megabytes in 2004 to 6,510.9 billion megabytes in 2010. This represents a compound annual growth rate of 107.3% for this period. We believe, flash memory megabyte growth is a good indicator of future demand for flash ATE, and a better indicator than flash memory growth measured in either dollar or unit terms, because the number of ATE systems required for flash memory test depends most directly on the number of megabytes produced. Consequently, as the number of flash megabytes continues to grow, the time required to test these increasing megabytes grows proportionately, resulting in an increase in the amount of ATE required. There is not, however, a one-to-one correlation between flash bit growth and ATE demand. Flash memory is available in two types NAND and NOR, with NAND flash memory expected to have the higher growth rate. Our products are used to test both the NAND and NOR types of flash memory. We believe that our recent historical net revenues have been heavily dependent on the faster growing NAND type.

Growth in the flash memory market is driven by the increasing proliferation of flash-intensive consumer digital products such as portable music players, cellular phones, digital cameras, notebooks and USB flash drives. The rapid growth in flash-intensive consumer digital products has in turn been enabled by rapid advances in flash memory technology that has resulted in large increases in memory size coupled with a dramatic reduction in manufacturing costs.

We are headquartered in San Jose, California and have built a global presence, supporting customers from sites in the U.S., Europe and Asia. Since we shipped our first product in 1998, we have grown our business, expanded our products and services and broadened our customer base through internal growth. As of December 31, 2005, we have shipped over 1,500 systems to more than 60 semiconductor companies worldwide that include leading integrated device manufacturers, or IDMs; fabless semiconductor companies; package, assembly and test companies, or PATs; and wafer fabrication foundries. We rely on a small number of customers for a significant portion of our revenues. For the six months ended December 31, 2005, we had net revenue of $36.6 million and net income of $3.3 million compared with net revenue of $27.5 million and net income of $1.7 million for the six months ended December 31, 2004. For the fiscal year ended June 30, 2005, we reported net revenue of $48.4 million and a net loss of $0.3 million compared with net revenue of $44.5 million and net income of $6.3 million for the fiscal year ended June 30, 2004.

Table of Contents

Our Solution

We believe our ATE systems provide an optimal combination of cost and performance to a wide segment of the IC marketplace, but particularly for the testing of flash memory and other ICs used in consumer digital products. The key aspects of our solution are:

Optimized flash memory testing capabilities. Our ATE architecture and its implementation provide for optimal flash memory testing. The architecture optimizes parallel test performance by providing multiple independent test resources, including central processing units, or CPUs, pattern generators and timing and voltage sources, to each device under test. Our newest generation of ATE systems, the Magnum product, furthers our flash memory test capabilities, providing higher speed testing and lower cost per pin.

Reduced IC test costs. A significant number of ICs, particularly those used in consumer digital products, do not need the highest performance test capabilities. Rather, the test requirements for this end market are increasingly moving toward low-cost, high throughput, flexible systems capable of testing ICs that often contain integrated memory, logic and analog elements. Our ATE systems are highly flexible, scalable and easy to maintain and program, further contributing to our low-cost solution.

Highly flexible systems. Our ATE systems are equally capable as memory or logic testers. By comparison, many competing systems focus on either logic or memory testing and provide reduced testing capability for the other function. Additionally, our Maverick II system with the Lightning option provides enhanced analog and mixed-signal testing capabilities.

Scalability. Our ATE architecture efficiently scales from personal systems with as few as 16 pins to production systems with as many as 5,120 pins. Our scalable architecture enables us to provide multiple system sizes configured with the number of pins that our customers require.

Reduced time to market. The architecture of our Magnum system enables us to provide low-cost test systems tailored for both engineering and production applications in a single product family. These low-cost systems allow our customers to afford the number of R&D systems they need, enhancing the efficiencies of the design process. Also, with a single product family spanning engineering and production activities, the same test programs can be used in engineering and production.

Our Strategy

Our objective is to be a leading supplier of ATE systems for flash memory and other high volume, low-cost IC markets. Key elements of our strategy include:

Target high volume IC markets such as flash memory. Our ATE systems are optimized for the test challenges of high volume IC markets such as flash memory. We currently focus on ICs used in fast growing consumer products, including portable music players, cellular phones, digital cameras and USB flash drives.

Focus on lowering the cost of test. We strive to provide the lowest overall cost of test for semiconductor manufacturers within our target market segments. We focus on offering appropriate test performance levels, as opposed to maximized performance levels, thereby allowing customers to avoid paying for excessive test capabilities. We believe that our ability to provide a lower cost test solution is the key differentiating factor in our strategy. Our cost and performance capabilities allow us to effectively target the high-volume low-cost ICs typically used in consumer digital products.

Further penetrate current and new customer base. We intend to continue to build close working relationships with IDMs, fabless semiconductor companies, PATs and wafer fabrication foundries. We have had particular success with customers who use our ATE in their R&D process, and we plan to leverage this installed base in R&D by migrating these customers to production ATE systems. Similarly, we believe that there is a significant opportunity to penetrate new customers as the IC industry becomes increasingly focused on cost and flexibility over maximized performance.

While we believe that we compete favorably in the markets we serve, we face a variety of challenges. The substantial competition we face in the flash memory ATE market, and in other areas where we seek to grow, represents the greatest challenge we face in increasing our market share. Most of our competitors have substantially greater financial and marketing resources than we have and have long-standing relationships with the companies from whom we intend to win business. To achieve our objective of becoming a leading provider of ATE for flash memory and other high volume, low-cost IC markets, we intend to leverage our advantages, including our focus on low cost as the IC industry is increasingly driven by low-cost consumer products; the flexibility, scalability, and throughput of our product architecture; and the relationships we have with our R&D-only customers by migrating them to also use our ATE for production testing. Our business is subject to numerous risks which are more fully described in the section entitled Risk Factors , including the cyclical nature of the semiconductor industry, our reliance on a limited number of customers and the potential delays in development of new products.

Company Information

We were incorporated in the State of California on November 7, 1997. We plan to reincorporate in the State of Delaware prior to completion of this offering. Our principal executive offices are located at 1901 Monterey Road, San Jose, California 95112, and our telephone number is (408) 817-7200. We maintain a website at www.nextest.com. The information on our website is not part of this prospectus.

Table of Contents

The Offering

Common stock offered by:	
Nextest Systems Corporation	4,000,000 shares
Selling stockholders	1,400,000 shares
Total	5,400,000 shares
Common stock to be outstanding after this offering	16,886,928 shares
Overallotment option	810,000 shares
Use of proceeds	We intend to use the net proceeds of this offering received by us for general corporate purposes, including working capital and capital expenditures. We will not receive any proceeds from the shares of common stock sold by the selling stockholders. See the discussion of Use of Proceeds for a more detailed description.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Proposed Nasdaq National Market symbol	NEXT

The number of shares of our common stock outstanding after this offering is based on 12,886,928 pro forma shares outstanding on December 31, 2005 (after giving effect to the conversion of our Series A convertible preferred stock and Series B mandatorily redeemable convertible stock as described below) and does not take into account:

- 2,031,750 shares issuable upon exercise of outstanding options to purchase our common stock at a weighted average exercise price of $3.84 per share;
- 1,344,059 shares available for future issuance under our stock option plans;
- 500,000 shares reserved for issuance under our employee stock purchase plan; and
- a 30-day option by the underwriters to purchase up to 600,000 additional shares from us and 210,000 shares from the selling stockholders to cover overallotments.

Unless otherwise indicated, all information in this prospectus:

- is based on a 1 for 2 reverse split of our common stock authorized by our Board of Directors on February 14, 2006, to become effective prior to completion of this offering;

- assumes our reincorporation in Delaware prior to completion of this offering;

- assumes no exercise of the underwriters overallotment option to purchase up to 810,000 shares; and

- reflects the conversion of all outstanding shares of our Series A convertible preferred stock and Series B mandatorily redeemable convertible stock into 4,262,750 shares of our common stock upon the completion of this offering.

We report results of our operations on the basis of 52 or 53 week periods, ending on the last Saturday in June of each year. Fiscal years 2003, 2004 and 2005 ended on June 28, 2003, June 26, 2004 and June 25, 2005. Fiscal years 2003, 2004 and 2005 were each comprised of 52 weeks. For presentation purposes, we refer in this prospectus and the accompanying financial information to a fiscal year end for each year of June 30. Similarly, for the quarterly reporting periods, we have used for presentation purposes calendar quarter ends.

Table of Contents

NEXTEST SYSTEMS CORPORATION

Summary Consolidated Financial Data

The following table summarizes the consolidated financial data for our business. You should read this table along with our consolidated financial statements and related notes and our Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. We derived the summary consolidated statements of operations data for the fiscal years ended June 30, 2003, 2004 and 2005 from our audited consolidated financial statements included elsewhere in this prospectus.

The consolidated statements of operations data for the six months ended December 31, 2005 and December 31, 2004 and the consolidated balance sheet data as of December 31, 2005 are derived from our interim unaudited consolidated financial statements included elsewhere in this prospectus. This information has been prepared on the same basis as our annual consolidated financial statements. In the opinion of our management, this quarterly information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the information for the periods presented. Past results of operations are not necessarily indicative of future results.

On February 14, 2006, the Board of Directors authorized a 1 for 2 reverse split of our common stock to become effective prior to completion of this offering. Basic and diluted net income (loss) per share and all shares used in calculating such amounts reflect this reverse stock split for all periods presented.

Pro forma basic and diluted net income (loss) per share has been calculated assuming the conversion of all our Series A convertible preferred stock and Series B mandatorily redeemable convertible preferred stock outstanding as of December 31, 2005 into common stock, as if all such shares had converted as of the date of original issuance.

The pro forma consolidated balance sheet data reflects the conversion of all preferred stock outstanding into common stock upon the closing of this offering. The pro forma as adjusted consolidated balance sheet data reflects the conversion of all preferred stock outstanding into common stock upon the closing of this offering, the issuance and sale by us of 4,000,000 shares in this offering at an assumed initial public offering price of $15.00 per share, and the receipt of the related net proceeds, after deducting underwriting discounts and commissions and estimated offering expenses, as if these events occurred as of December 31, 2005.

	Fiscal years ended June 30,			**Six months ended December 31,**	
	2003	**2004**	**2005**	**2004**	**2005**
Consolidated Statements of Operations Data:					
(in thousands, except per share amounts)					
Net revenue	$ 15,598	$ 44,450	$ 48,447	$ 27,450	$ 36,630
Gross profit	4,705	23,331	22,920	13,674	18,250
Income (loss) from operations	(7,797)	3,863	(804)	2,557	4,729
Net income (loss)	(6,773)	6,251	(312)	1,725	3,301
Net income (loss) available to common stockholders	$ (8,373)	$ 2,114	$ (4,655)	$ (782)	$ 255

Basic and diluted net income (loss) per share available to common stockholders:					
Net income (loss) per share basic	$ (1.07)	$ 0.25	$ (0.54)	$ (0.09)	$ 0.03
Net income (loss) per share diluted	$ (1.07)	$ 0.22	$ (0.54)	$ (0.09)	$ 0.03
Shares used in per share calculation basic	7,816	8,312	8,663	8,630	8,649
Shares used in per share calculation diluted	7,816	9,457	8,663	8,630	9,486

Table of Contents

	Fiscal year ended June 30, 2005	Six months ended December 31, 2005
Unaudited pro forma net income (loss) per share:		
Pro forma net income (loss) per share basic	$ (0.02)	$ 0.26
Pro forma net income (loss) per share diluted	$ (0.02)	$ 0.24
Pro forma shares used in per share calculation basic	12,926	12,912
Pro forma shares used in per share calculation diluted	12,926	13,748

	As of December 31, 2005		
	Actual	**Pro Forma**	**Pro Forma As Adjusted**
Consolidated Balance Sheet Data:			
(in thousands)			
Cash and cash equivalents	$ 16,896	$ 16,896	$ 71,511
Working capital	32,439	32,439	87,054
Total assets	57,557	57,557	112,172
Series B mandatorily redeemable convertible preferred stock	33,785		
Stockholders equity	$ 4,361	$ 38,146	$ 92,761

6

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and all information contained in this prospectus before making an investment decision. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

Risks Related to Our Business

Our business and operating results could be harmed by the highly cyclical nature of the semiconductor industry and general economic slowdowns.

Our business and operating results depend in significant part upon capital expenditures of manufacturers of semiconductors, which in turn depend upon the current and anticipated market demand for ICs. Historically, the semiconductor industry has been highly cyclical with recurring periods of over-supply, which have often had a severe negative effect on demand for ATE systems, including systems developed and marketed by us. During these periods, we experienced significant reductions and delays in customer orders, which had a material adverse effect on our business and operating results.

Downturns in the semiconductor industry have significant effects on the market for ATE. The impact of downturns on our financial performance is magnified due to the high proportion of fixed costs in our business, including significant R&D, manufacturing and sales costs, which limit our ability to reduce expenses quickly in response to decreases of orders and revenues. If the worldwide economies do not grow, we expect that the growth we have recently experienced may not be sustainable and that our business may be harmed.

Our quarterly revenue and operating results may fluctuate significantly from period to period, and this may cause our stock price to decline.

In the past we have experienced, and in the future we expect to continue to experience, fluctuations in revenue and operating results from quarter to quarter. These fluctuations occur for a variety of reasons, including:

- demand for and market acceptance of our products as a result of the cyclical nature of the ATE industry or otherwise, often resulting in reduced ATE systems sales during industry downturns and increased sales during periods of industry recovery;
- fluctuations in demand for flash memory;
- order cancellations by customers;
- changes in the timing and terms of product orders by customers;

variations in order patterns due to seasonal or annual budget effects;

the loss of a significant customer or reduced orders by that customer;

delays in acceptance of products by our customers as a result of our failure to meet the customers specification;

changes in the mix of products that we offer, as well as the relative mix of our product and service offerings, thereby affecting our margins in a particular quarter;

delays or problems in the planned introduction of new products;

competitive pressures resulting in lower selling prices in our industry;

reduced margins as a result of attempts to gain market share by lowering the prices that we charge for our products;

Table of Contents

adverse changes in the semiconductor and consumer digital products industries, on which we are particularly dependent, which would likely reduce overall demand for ATE, including our products;

our competitors announcements of new products, services or technological innovations, which can, among other things, render our products less competitive due to the rapid technological change in our industry;

disruptions in our manufacturing or in the supply of components to us causing us to delay shipment of products; and

provisions to write-off excess or obsolete inventory.

As a result of these factors, we believe that quarter-to-quarter comparisons of our net revenue and operating results may not be meaningful and that these comparisons may not be an accurate indicator of our future performance. Also, sales of a relatively limited number of systems may account for a substantial portion of our orders or net revenue in any particular quarter. Thus, changes in the timing or terms of a small number of transactions could disproportionately affect our operating results in any particular quarter. Moreover, because of the factors listed above and because a significant portion of our expenses are fixed and independent of net revenue in any particular period, it is difficult for us to accurately predict our net revenue and operating results, which may cause our net revenue and operating results in one or more future quarters to be below the expectations of securities analysts or investors. If this occurs, we could experience an immediate and potentially significant decline in the trading price of our stock.

We rely on a small number of customers for a significant portion of our revenues, and the termination of any of these relationships would materially adversely affect our business.

Atmel Corp. accounted for 17% in fiscal 2003, 21% in fiscal 2004, 34% in fiscal 2005 and 7% in the six months ended December 31, 2005 of our net revenue. SanDisk Corp. accounted for 39% in 2003, 26% in 2004, 16% in fiscal 2005 and 26% in the six months ended December 31, 2005 of our net revenue. Further, Hynix accounted for 40% and Samsung for 11% of our net revenue in the six months ended December 31, 2005. Atmel made significant capacity additions of our equipment in the first half of our fiscal year 2005, and at a reduced rate in the second half of fiscal 2005 and the six months ended December 31, 2005. SanDisk was our largest customer in fiscal years 2003 and 2004, and has continued to purchase our products in fiscal 2005 and the six months ended December 31, 2005 at levels comparable to their past orders. The growth in our net revenue since fiscal 2003 has resulted in a lower share of our total net revenue being generated from sales to SanDisk. Our customers are generally not obligated by long-term contracts to purchase our systems, and they frequently evaluate competitive products prior to placing new orders with us. Our customers can cancel or delay orders without any penalties, and because of our reliance on a small number of large customers we cannot effectively require them to pay cancellation charges when canceling or rescheduling their orders with us. The semiconductor industry is highly concentrated, and a small number of companies account for a substantial portion of the purchases of ATE systems generally, including our ATE systems. Consequently, our business and operating results would be materially adversely affected by the loss of, or any reduction in orders by, any of our significant customers, particularly if we were not able to replace that lost revenue with additional orders from new or existing customers.

If demand for flash memory does not continue to rise, our business may be harmed.

The sales of our ATE systems depend significantly on the demand for products incorporating flash memory ICs, such as portable music players, cellular phones, digital cameras, notebooks and USB flash drives. If these markets begin to experience slower growth rates, demand for our products will decline, and we will be increasingly dependent on the development of new markets. There can be no assurance that new markets will develop and grow fast enough, or that our ATE will be competitive in the new markets that develop. In addition, the semiconductor industry may develop alternative technologies that may make the use of flash memory less prevalent. A reduction in the demand for flash memory would likely result in a reduction in the demand for our products and could harm our business.

Table of Contents

Delays in our ability to obtain customer acceptance for our products would delay the recognition of revenue by us.

Customer purchase orders for our ATE products may require; (1) customer acceptance and/or (2) us to meet customer-specific criteria before the system is accepted by the customer. When a customer purchase order includes obtaining customer acceptance and/or meeting customer-specific criteria, revenue is deferred and recognized only when customer acceptance has been received and/or we have a history of satisfactory customer acceptance and we test the product to customer-specific criteria before delivery. While purchase orders for any of our products may contain such criteria, the likelihood that they will be included is higher when a product is new to the marketplace, or when an existing product is sold for the first time to a new customer. If we are not able to meet customer acceptance criteria in a timely manner, the recognition of revenue from these sales would be delayed.

If our Magnum system does not continue to achieve market acceptance, our revenue growth and profitability will be limited.

Our future financial performance is highly dependent on our ability to sell our Magnum system to new customers as well as our ability to increase sales to existing customers. Customer expense in transitioning to a new ATE system can be significant. Certain prospective customers may be unwilling, or unable, to bear the increased costs of transitioning to a new ATE system. This may make it difficult for us to market and sell Magnum. Furthermore, the competition we face frequently changes as new competitive product offerings are brought to market. We may not be able to transition new customers to our Magnum system or to compete successfully against the future offerings of our competitors.

In addition, if Magnum has actual or perceived reliability, quality, functionality or other problems, we may suffer reduced orders, higher manufacturing costs, inability to recognize revenue, delays in collecting accounts receivable and higher service, support and warranty expenses or inventory write-offs, among other effects. We believe that the acceptance, volume production, timely delivery and customer satisfaction of Magnum is of significant importance to our future financial results. As a result, any inability to correct any technical, reliability, parts shortages or other difficulties or to manufacture and ship Magnum or any future product on a timely basis meeting customer requirements could damage our relationships with current and prospective customers and would materially adversely affect our business, financial condition and results of operations.

If we do not develop and maintain new customer relationships, our ability to generate revenue growth will be adversely affected.

Our ability to increase our sales will depend in part upon our ability to obtain orders from new customers. Obtaining orders from new customers is difficult because some semiconductor manufacturers select one vendor s systems for testing an entire generation of ICs and make substantial investments to develop related test program software and interfaces. Once these semiconductor manufacturers have selected an ATE system vendor, they are likely to continue to purchase test systems from that vendor. Further, some of our target customers may prefer larger, more established vendors. If we are unable to obtain new customers that adopt and implement our products and technology, our business will be harmed.

We face additional difficulties in our efforts to develop new customer relationships abroad. Nationalistic buying practices could favor local competitors or non-local competitors with larger presence in local economies than we have. As a result, we may be forced to partner with local companies in order to compete for business and such arrangements, if available, may negatively impact our financial performance.

We face substantial competition which, among other things, may lead to price pressure and adversely affect our sales and results of operation.

We face substantial competition throughout the world. Our direct competitors include Advantest Corporation, Agilent Technologies Inc., Yokogawa Electric Corporation, Credence Systems Corporation, Eagle

Table of Contents

Test Systems, Inc., LTX Corporation, and Teradyne, Inc. Most of our competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer support capabilities than we do. Our relatively small size gives us less leverage with component and service vendors than our larger competitors have. Also, some of our larger competitors, having greater resources, may be more willing or able than we are to put capital at risk to win business, for example, by loaning or providing equipment at no charge to customers. We expect our competitors to continue to improve the performance of their current products and to introduce new products, technologies or services that could adversely affect sales of our current and future products and services. Furthermore, some of our competitors have a greater presence abroad than us, which makes it more difficult for us to compete for foreign customers.

In order to gain market share, we may be required to reduce the price of our products, and we may not be able to offset the effect of lower prices through improved absorption of indirect manufacturing costs or reduced direct product costs. This would result in a lower gross profit as a percent of net revenue.

Our competitors may also elect to reduce the price of their products leading to a reduction in average selling prices throughout our industry. Alternatively, our competitors could introduce competing low-cost ATE systems and sell them at a loss. The overall demand for production test equipment is not likely to substantially increase as prices are reduced. Accordingly, price reductions by our competitors may force us to lower our prices, as demand for ATE stays the same. This may limit our opportunities for growth and negatively impact our financial performance.

Some of our competitors provide a bundled solution to the customer, which includes an ATE system and other components of the test platform. In addition, some components of the test platform provided by our competitors may be incompatible with our ATE system or unavailable for sale with our products. We may not be able to compete effectively with these competitors.

Variations in the amount of time it takes for us to sell our systems may cause fluctuations in our net revenue and operating results.

Variations in the length of our sales cycles could cause our net revenue, and therefore our business, financial condition, operating results and cash flows, to fluctuate widely from period to period. These variations often are based upon factors partially or completely outside our control. The factors that affect the length of time it takes for us to complete a sale depend upon many elements including:

- customer-specific acceptance criteria that customers may place upon our products;
- the complexity of the customer s fabrication processes;
- the willingness of customers to adopt new product platforms or products;
- the internal technical capabilities and sophistication of the customer; and
- the capital expenditures of our customers.

As a result of these and a number of other factors influencing our sales cycles with particular customers, the period between our initial contact with a potential customer and the time when we recognize revenue from that customer, if ever, varies widely. Our product sales cycles typically can range from six to 12 months. Sometimes our sales cycles can be much longer, particularly when the sales cycle involves developing new applications for our systems, new technology or the introduction of new products. During these cycles, we commit substantial resources to our sales efforts before receiving any revenue, and we may never receive any revenue from a customer despite these efforts.

Our dependence on subcontractors and single and sole source suppliers may prevent us from delivering an acceptable product on a timely basis.

We rely on subcontractors to manufacture certain subassemblies for our products, and we rely on single source suppliers, some of whom are relatively small in size, for many of the components we use in our products. Many of our products contain some components from sole source suppliers, and some of the parts we use are not readily available from alternate suppliers due to their unique design. For example, we rely on one small supplier with limited operating history for an electronic component used in our Magnum product. If this supplier cannot provide this component on a timely basis, at the same price or at all, our ability to manufacture the Magnum system will suffer.

Should any of our single and sole source suppliers cease manufacture of any of the components that we use in our design and manufacturing, we would have to identify and qualify acceptable replacements from alternative sources of supply, or manufacture these components internally or redesign our products to eliminate the unavailable component. Since the manufacturing of certain components and subassemblies is an extremely complex process, the process of qualifying new subcontractors and new suppliers, or initiating manufacturing internally for these complex components, is a lengthy process and could also materially adversely affect our business, financial condition and results of operations.

In addition to discontinuing parts, suppliers may also extend lead time or increase prices due to capacity constraints or other factors. In order to secure components for the production of products, we may enter into non-cancelable purchase commitments with vendors, or at times make advance payments to suppliers, which could impact our ability to adjust our inventory to declining market demands. Prior commitments of this type may result in an excess of parts as demand for our products decreases. Our reliance on subcontractors gives us less control over the manufacturing process and exposes us to significant risks, especially inadequate capacity, late delivery, substandard quality and high costs. Additionally, we do not have written supply agreements with our subcontractors and suppliers and generally they are under no obligation to provide us with material for as long as our requirements may exist. As a result, the loss or failure to perform by any of these providers could adversely affect our business and operating results.

Continued advances in IC technology may render our products and services uncompetitive.

The IC industry into which we sell our products is characterized by rapid technological changes, frequent new product introductions and evolving industry standards. The success of our product and service offerings will depend on several factors, including our ability to:

- properly identify customer needs and anticipate technological advances and industry trends;
- innovate, develop and commercialize new technologies and applications in a timely manner;
- adjust to changing market conditions; and
- differentiate our offerings from those of our competitors.

Our products are used by our customers to develop, test and manufacture their new, as well as current, products. We therefore must anticipate industry trends and develop products in advance of the commercialization of our customers products. Development of new products generally requires a substantial investment before we can determine the commercial viability of these innovations. In addition, new methods of testing ICs such as built in self-test, design for test, or structural test initiatives could create the need for a different ATE system or system architecture than we have developed and render our products uncompetitive or obsolete. Any of these factors could materially adversely affect our business, financial condition and results of operations.

If we fail to adequately predict our customers needs and technological advances, we may invest heavily in R&D of products and services that do not lead to significant revenue, or we may fail to invest in technology

Table of Contents

necessary to meet changing customer demands. Without the timely introduction of new products, services and enhancements that reflect these changes, our products and services would likely become technologically obsolete, and our net revenue and operating results would suffer.

Third parties may claim we are infringing their intellectual property and we could suffer significant litigation or licensing expenses or be prevented from selling our products or services.

Third parties may claim that we are infringing their intellectual property rights. Any litigation regarding patents or other intellectual property could be costly and time-consuming and divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. However, there is no assurance we will be able to obtain royalty or license agreements on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against development and sale of certain of our products and services.

Third parties may infringe our intellectual property and we may expend significant resources enforcing our rights or suffer competitive injury.

Our success depends, in part, on our ability to protect our proprietary rights and technology. We rely on a combination of copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our business and operating results.

We currently have one United States patent issued, seven patent applications filed in the United States and 11 foreign patent applications pending. Our pending patent applications may not be allowed or competitors may challenge the validity or scope of these patent applications. In addition, our patents may not provide us with a significant competitive advantage.

We may be required to spend significant resources to monitor and protect our intellectual property rights. Monitoring the unauthorized use of our products or intellectual property is difficult and litigation may be necessary in the future to enforce our intellectual property rights. Regardless of the merits of any claim, litigation is expensive and time-consuming and could divert our management s attention from our business operations. We may not be successful in any litigation or in our actions to enforce our intellectual property rights, may not be able to detect any infringement and, as a result, may lose competitive position in the market. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share in those countries. Accordingly, we may not able to protect against unauthorized use of our technology by third parties, which could materially harm our business.

If we fail to manage our growth, our business will suffer.

The addition of Magnum to our product offering has required significant expansion to address growth and diversification in our customer base and market opportunities, particularly with large internationally based customers. In order to serve this expanded customer base, we have added to our organizations in Asia and will need to make further additions to these organizations in the future. This expansion may place a strain on our operational and financial resources. Furthermore, some of our officers or senior management personnel have no prior senior management experience at public companies. Additionally, we need to properly implement and maintain our financial and managerial controls, reporting systems and procedures, including the increased internal reporting controls and procedures required by the Sarbanes-Oxley Act of 2002 which we will need to begin complying with once we become a public company. These complexities could disrupt our business, distract our management and employees or increase our costs. If we are unable to manage growth effectively, our business, financial condition and results of operations would be affected adversely.

Table of Contents

Failure to plan the production of products accurately or failure to estimate our customers demand could adversely affect our inventory levels and our income.

Given the cyclical nature of the markets in which we participate, we cannot reliably predict future revenue or profitability. Delivery expectations of our customers are significantly shorter than the time required to purchase components and assemble products. Accordingly, we must order components and build some inventory before we actually receive a purchase order. Our income could be harmed if we are unable to adjust our purchases to market fluctuations, including those caused by the seasonal or cyclical nature of the semiconductor market in which we operate. The sales of our products are dependent, to a large degree, on customers who are subject to cyclical trends in the demand for their products. During a market upturn, our results could be materially and adversely impacted if we do not correctly anticipate demand from our customers, or if we cannot increase our purchases of components parts and services quickly enough to meet increasing demand for our products.

In addition, purchase orders we receive from our customers may be cancelled or postponed, generally without penalty to the customer. If we do not obtain orders as we anticipate, we could have excess inventory that we would not be able to sell, likely resulting in inventory write-downs, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, if we do not successfully manage the introduction of our new products, our backlog and our inventory of existing products may be affected as our customers switch to our new products. If demand for our new products is higher than we anticipated, we might have insufficient quantities for sale of the product that customers want to buy. If demand is less than we expect, we may experience excess inventories of our new products. In addition, if some of our customers cancel their current orders for our old products in anticipation of our new products, we may have additional excess and obsolete inventories and be forced to incur additional charges.

Backlog is not necessarily indicative of our results in any future period.

At December 31, 2005, our backlog of unfilled orders for all products and services was $16.2 million, compared with $10.9 million at December 31, 2004. While backlog is calculated on the basis of purchase orders, orders may be subject to cancellation or delay by the customer with limited or no penalty. Our backlog at any particular date, therefore, is not necessarily indicative of actual sales which may be generated for any succeeding period. Historically, our backlog levels have fluctuated based upon the ordering patterns of our customers and changes in our manufacturing capacity. Furthermore, our backlog may be affected by our limited visibility in the semiconductor capital equipment industry and potential delays of delivery dates by our customers. These potential delays or cancellations by our customers may have a materially negative effect on our results of operations.

Products that do not meet customer specifications or contain defects that harm our customers could damage our reputation and cause us to lose customers and revenue.

The complexity and on-going development of our products could lead to design or manufacturing problems. Our ATE systems may fail to meet our customers technical requirements, or may contain defects, which cause damage to our customers production lines or facilities. Any of these problems may harm our customers businesses. If any of our products fail to meet specifications or have reliability or quality problems, our reputation could be damaged significantly and customers might be reluctant to buy our products, which could result in a decline in net revenue, an increase in product returns and the loss of existing customers or failure to attract new customers. In addition, if any of our products fail to accurately test our customers products, it may result in our customers shipping faulty ICs. Besides damaging our reputation, our customers may sue us for any consequential damages they incur as a result of such problems in our ATE systems. These problems may adversely affect customer relationships, as well as our business, financial condition and results of operations.

13

Table of Contents

Economic, political and other risks associated with international sales and operations, particularly in Asia, could adversely affect our sales.

Since we sell our products and services worldwide, our business is subject to risks associated with doing business internationally. Our revenue originating outside of North America, including export sales from our United States manufacturing facilities to foreign locations, as a percentage of our total net revenue, was 62.7% in fiscal year 2003, 61.7% in fiscal year 2004, 58.5% in fiscal year 2005 and 85.5% in the six months ended December 31, 2005. These international sales will continue to be subject to certain risks, including:

- changes in regulatory requirements;
- tariffs, trade protection measures, import or export licensing requirements and other barriers;
- political and economic instability;
- the adverse effect of fears surrounding outbreaks of Avian flu, recurrence of severe acute respiratory syndrome, or SARS, or other diseases, on our business and sales and that of our customers and suppliers, especially in Asia;
- natural disasters affecting the regions in which we sell products;
- foreign currency exchange rate fluctuations and their impact on the delivered costs of our U.S. dollar denominated products to foreign customers;
- effective management of our foreign subsidiaries and operations;
- potential adverse tax expenses;
- collection of our accounts receivable; and
- protection of our intellectual property rights.

In particular, many international economies have been highly volatile in the past, resulting in significant fluctuations in local currencies and other instabilities. Several countries in which we sell products in Asia have been affected by the occurrence of Avian flu, SARS and other diseases. These instabilities continue and may occur again in the future. Our exposure to the business risks presented by the economies of Asia will increase to the extent that we continue to expand our operations in that region. An outbreak of Avian flu, SARS or other diseases could result in delay in customer acceptance of our products or prevent us from installing or servicing our products sold in the affected region.

We are also subject to the risks associated with the imposition of domestic and foreign legislation, regulations and currency restrictions relating to the import or export of semiconductor manufacturing equipment and software products. We cannot predict whether the import and export of our products will be adversely affected by changes in, or enactment of new quotas, duties, taxes or other charges or restrictions imposed by the

United States or any other country in the future. Any of these factors or the adoption of restrictive policies could have a material adverse effect on our business, financial condition or results of operations.

Furthermore, international turmoil, exacerbated by the situations in Iraq, Iran and North Korea, tensions in Israel and civil war in the Philippines have contributed to an uncertain political and economic climate, both in the United States and globally, which may affect our ability to generate revenue on a predictable basis. In addition, terrorist attacks and the threat of future terrorist attacks, both domestically and internationally, have negatively impacted worldwide economies. As we sell products both in the United States and internationally, the threat of future terrorist attacks may adversely affect our business. These conditions make it difficult for us and for our customers to accurately forecast and plan future business activities and could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

The semiconductor labor market is very competitive and our business will suffer if we are not able to hire and retain key personnel.

Our business is dependent on technology expertise which only a very limited number of engineers possess. The loss of any of our key employees, including Robin Adler, our Chief Executive Officer, Tim Moriarty, our Vice President of Sales and Marketing, or Craig Foster, our Vice President of Engineering, or a broader loss of any of our employees who are highly-skilled in our specialized sector of IC test technology, would materially adversely affect our business, financial condition and results of operations. Because of our small size, it is more difficult for us to hire and retain qualified personnel. In addition, competition for qualified personnel in the technology and public company financial reporting areas is intense and we operate in several geographic locations where labor markets are particularly competitive, including the San Francisco Bay Area region where our headquarters and central R&D laboratories are located.

If our facilities were to experience catastrophic loss, including natural disasters, our operations would be seriously harmed.

Our operations and those of our customers, suppliers and subcontractors are vulnerable to interruptions by fire, flood, earthquake, power loss, terrorist attack, outbreak of infectious diseases, war and other events beyond our control. Our facilities could be subject to a catastrophic loss caused by natural disasters, including fires and earthquakes. In particular, we have significant facilities in areas with above average seismic activity, such as our production facilities and headquarters in California. We have one facility in San Jose, California, where we perform important components of our manufacturing process, and all final assembly and test prior to customer shipment. We have no back up location for this facility. If this facility were to experience a catastrophic loss, it could disrupt our operations, delay production and shipments, reduce revenue and result in large expenses to repair or replace the facility. We do not carry insurance or financial reserves for interruptions or potential losses arising from earthquakes or terrorism. A catastrophic event that results in the destruction of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and as a result, our business and future operating results could be adversely affected.

We may incur a variety of costs to engage in future acquisitions of companies, products or technologies and the anticipated benefits of those acquisitions may never be realized.

We may make acquisitions of, or significant investments in, complementary companies, products or technologies, although no acquisition or investments are currently pending. Any future acquisitions would be accompanied by risks such as:

- difficulties in assimilating the operations and personnel of acquired companies;
- diversion of our management s attention from on-going business concerns;
- our potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- additional expense associated with amortization of acquired assets;
- maintenance of uniform standards, controls, procedures and policies;

- impairment of existing relationships with employees, suppliers and customers as a result of the integration of new management personnel;
- dilution to our stockholders in the event we issue stock as consideration to finance an acquisition; and
- increased leverage if we incur debt to finance an acquisition.

To date, we have limited experience effecting or managing the integration of acquisitions and investments. As a result, we may not be able to successfully integrate any business, products, technologies or personnel that we might acquire in the future and our failure to do so could harm our business.

Table of Contents

Failure to raise additional capital on favorable terms, or at all, may prohibit us from expanding our operations and investing in new products.

We anticipate that our existing capital resources will enable us to meet our current operating cash needs for the next 12 months. However, our future capital requirements will depend on many factors, including working capital needs, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, the cost to ensure access to adequate manufacturing capacity and the market acceptance of our products. To the extent that existing cash and cash equivalents, together with any cash from operations, are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financings.

Our Series B Preferred Stock (the Series B Preferred) has a mandatory redemption provision. The estimated redemption value of the Series B Preferred, as determined on December 31, 2005, is $41.2 million (unaudited). The Series B Preferred stockholders had an option to redeem upon a majority of the stockholders making such an election 60 days prior to November 29, 2005. On December 22, 2004, the Series B Preferred stockholders agreed to change the date of the redemption option from November 29, 2005 to November 29, 2006. Each share of the outstanding preferred stock will automatically convert to common stock if this offering is consummated and such offering is at least $25 million and $10.00 per share. If this offering is not consummated, we will either need to obtain a modification of the redemption date from the Series B Preferred stockholders or otherwise raise additional capital.

Future equity financings could be dilutive to the existing holders of our common stock. Future debt financings could involve restrictive covenants. We may not be able to obtain financing with favorable interest rates. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products and services, take advantage of future opportunities, grow our business or respond to competitive pressures or unanticipated requirements, which could materially adversely affect our business, financial condition and results of operations.

Risks Related to the Offering

Our securities have no prior trading history and we cannot assure you that our stock price will not decline after the offering.

Before this offering, there has not been a public market for our common stock and an active public market for our common stock may not develop or be sustained after this offering. The market price of our common stock could be subject to significant fluctuations after this offering. Among the factors that could affect our stock price are:

- quarterly variations in our operating results;
- our ability to continue to successfully sell Magnum, to develop and introduce other new products, and to manage new product transitions;
- fluctuations in demand for flash memory;

changes in net revenue or earnings estimates or publication of research reports by analysts;

strategic actions by us or our competitors, such as acquisitions or restructurings;

loss of any major customer;

actions by our competitors that result in us losing business;

announcements relating to any of our key customers, significant suppliers or the semiconductor manufacturing and capital equipment industry generally;

Table of Contents

- loss of key employees;
- general market conditions and the cyclical nature of the semiconductor industry;
- domestic and international factors unrelated to our performance; and
- any of the other risk factors described in this section.

The stock markets in general, and the markets for technology stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In particular, you may not be able to resell your shares at or above the initial public offering price, which will be determined by negotiations between representatives of the underwriters and us.

Our officers, directors and principal stockholders will control 51.6% of our common stock after this offering and will be able to significantly influence corporate actions.

After this offering, our officers, directors and principal stockholders will control approximately 51.6% of our common stock. As a result, these stockholders, acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. The interests of this group of stockholders may not always coincide with our interests or the interests of other stockholders. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. In addition, this significant concentration of share ownership may adversely affect the trading price of our common stock because investors often perceive disadvantages to owning stock in companies with controlling stockholders.

Securities analysts may not initiate coverage of our common stock or may issue negative reports and this may have a negative impact on our common stock s market price.

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. If securities analysts do not cover our common stock after the completion of this offering because of our small size, the lack of research coverage may adversely affect our common stock s market price. If one or more of the analysts who cover us downgrades our stock, our stock price would likely decline rapidly. If one or more of these analysts ceases coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline. In addition, rules mandated by the Sarbanes-Oxley Act of 2002 and a global settlement reached in 2003 between the SEC, other regulatory agencies and a number of investment banks, will lead to a number of fundamental changes in how analysts are reviewed and compensated. In particular, investment banking firms may contract with independent financial analysts for their stock research. It may be difficult for companies with smaller market capitalizations, such as ours, to attract independent financial analysts that will cover our common stock. This could have a negative effect on our market price.

A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market following this offering could harm the market price of our common stock. As additional shares of our common stock become available for resale in the public market, the supply of shares of our common stock will increase, which could decrease the price. There will be approximately 11.4 million additional shares of our common stock eligible for sale beginning 180 days after the effective date of this prospectus, as lock-up arrangements between our stockholders and the underwriters expire. This number includes approximately eight million shares of common stock that are subject to registration rights.

Table of Contents

The underwriters may have a conflict of interest in connection with this offering.

Affiliates of Needham & Company, LLC; Cowen & Co., LLC and Merrill Lynch & Co., which are acting as underwriters in this offering, are beneficial owners, as determined under SEC rules, of an aggregate of 2,400,000 shares, or 28.2%, 1,028,000 shares, or 12.1%, and 800,000 shares, or 9.4%, respectively, of our outstanding preferred stock. Beneficial ownership under SEC rules includes the right to vote or dispose of a security. As a result, the underwriters may have a conflict of interest in connection with this offering. In determining conflict of interest issues, the Conduct Rules of the National Association of Securities Dealers, Inc. (the NASD) requires consideration of only those shares in which there is an economic or pecuniary interest to the underwriter, as compared to having the right to vote or dispose of a security. As determined by the Conduct Rules of the NASD, affiliates of Needham & Company, LLC and Merrill Lynch & Co., have an economic interest in approximately 2.0% and 9.4%, respectively, of our outstanding preferred stock; however, entities affiliated with Cowen & Co., LLC have an economic interest in an aggregate of approximately 11.3% of our outstanding preferred stock. Needham & Company, LLC s and Cowen & Co., LLC s economic interest in our preferred stock is lower than their beneficial ownership as determined by SEC rules because of the structure of their holdings through limited partnerships. Because Cowen & Co., LLC has an economic interest in more than 10% of our outstanding preferred stock, it may be deemed to have a conflict of interest with us pursuant to Rule 2720(b)(7) of the Conduct Rules of the NASD. The circumstances described above may present a conflict of interest because certain of the underwriters participating in this offering may have an interest in the successful completion of this offering in addition to the underwriting discounts and commissions they expect to receive, potentially resulting in a higher public offering price. Accordingly, we are conducting this offering pursuant to the applicable provisions of Rule 2720 of the Conduct Rules of the NASD. Rule 2720 of the Conduct Rules of the NASD provides that, among other things, when a NASD member firm participates in an offering of securities of a company of which the member is an affiliate or with which the member has a conflict of interest, the initial public offering price can be no higher than that recommended by a qualified independent underwriter. Needham & Company, LLC, who beneficially owns less than 5% of our outstanding preferred stock as determined by the Conduct Rules of the NASD, is serving as the qualified independent underwriter in this offering and will recommend a price in compliance with the requirements of Rule 2720(c)(3)(A) of the Conduct Rules of the NASD. The initial public offering price for our shares of common stock to be sold in this offering will be no higher than the price recommended by Needham & Company, LLC, in its capacity as the qualified independent underwriter with respect to this offering.

We may incur increased costs as a result of recently enacted and proposed changes in laws and regulations.

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC and the Nasdaq Stock Market, will result in increased costs to us. Because of our size, this additional cost is significant as a percentage of our total net revenue. The new rules could make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. The estimates we have made of the additional costs related to these new rules and regulations or the timing of such costs could be wrong, and we could be forced to spend more than we have estimated.

Changes in or interpretations of accounting rules and regulations, such as expensing of stock options, could result in unfavorable accounting charges or require us to change our compensation policies.

Accounting methods and policies of semiconductor capital equipment manufacturing companies are subject to review, interpretation and guidance from relevant accounting authorities, including the SEC. For example, the Financial Accounting Standards Board or, FASB, has issued Statement of Financial Accounting Standard 123 (revised 2004), or SFAS 123(R) that is effective for us for our interim period beginning January 1, 2006. SFAS 123(R) requires us to expense on the date of grant the fair value of stock options. This will result in an increase in our operating expenses. As a result, we may choose to reduce our reliance on stock options as a compensation tool. If we reduce our use of stock options and do not adopt other forms of compensation, it may be more difficult for us to attract and retain qualified employees. If we do not reduce our reliance on stock options, our operating expenses would increase. For a company of our relatively small size to stay competitive in the San Francisco Bay Area region, we rely on stock options to retain existing employees and attract new employees. Although we believe that our accounting practices are consistent with current accounting pronouncements, changes to or interpretations of accounting methods or policies in the future may require us to adversely revise how our financial statements are prepared.

If we fail to maintain adequate internal control over financial reporting, if we are unable to timely complete our assessment of the effectiveness of our internal control over financial reporting, or if our independent registered public accounting firm cannot attest to our assessment of our internal control over financial reporting we could be subject to regulatory sanctions and a loss of public confidence and the trading price of our stock could be negatively impacted.

Effective internal reporting controls are necessary for us to provide reliable financial reports and effectively detect and prevent fraud. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required beginning with our fiscal year ending June 30, 2007 to include in our annual report our assessment of the effectiveness of our internal control over financial reporting. Furthermore, our registered independent public accounting firm will be required to report on our assessment of the effectiveness of our internal control over financial reporting and separately report on the effectiveness of our internal control over financial reporting. We have not yet completed our assessment of the effectiveness of our internal control over financial reporting. If we fail to timely complete this assessment, or if our independent registered public accounting firm cannot attest to our assessment, we could be subject to regulatory sanctions and a loss of public confidence. Also, the lack of effective internal control over financial reporting may adversely impact our ability to prepare timely and accurate financial statements.

Anti-takeover provisions in our charter, bylaws and under Delaware law may make an acquisition of us or a change in our management more difficult, even if an acquisition or a management change would be beneficial to our stockholders.

Provisions in our charter and bylaws in effect as of the initial closing of this offering may delay or prevent a change in our management. Some of these provisions allow us to issue preferred stock without any vote or further action by the stockholders and require advance notification of stockholder proposals and nominations of candidates for election as directors. Our bylaws provide that special meetings of the stockholders may be called only by our Chairman, President, the board of directors or holders of not less than 20% of our common stock. These provisions may prevent or delay a change in our board of directors or our management, which is appointed by our board of directors. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law. Section 203 may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our charter, bylaws and under Delaware law could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

We may spend a substantial portion of the net proceeds of this offering in ways that do not yield a favorable return.

We have broad discretion to allocate the net proceeds from this offering. As a result, investors in this offering will be relying upon our judgment with only limited information about our specific intentions regarding

19

Table of Contents

the use of proceeds. We cannot assure you that the proceeds will be applied in a manner that yields a favorable return. Furthermore, if we are successful in our business, we may require additional cash due to working capital and other needs sooner than anticipated. Such additional cash may not be available on favorable terms, or at all.

New investors will experience immediate and substantial dilution in the value of their common stock following this offering.

The assumed initial public offering price is substantially higher than the tangible book value per share of our common stock. Investors purchasing common stock in this offering will, therefore, incur immediate dilution of $9.51 in net tangible book value per share of common stock, based on an assumed initial public offering price of $15.00 per share. Investors will also incur additional dilution upon the exercise of outstanding stock options. As a result of this dilution, investors purchasing stock in this offering may receive significantly less than the full purchase price that they paid for the shares purchased in this offering in the event of liquidation. You will also incur dilution to the extent that the underwriters exercise their overallotment option. See Dilution for a more complete description of the dilution that you will incur.

Special Note Regarding Forward-Looking Statements

This prospectus contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled Prospectus Summary , Risk Factors , Use of Proceeds , Management s Discussion and Analysis of Financial Condition and Results of Operations and Business . These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our estimated use of the proceeds of this offering;
- our estimates for future performance;
- our estimates for market acceptance of Magnum and other new products;
- the demand for flash memory;
- our estimates regarding the growth of the semiconductor and ATE markets; and
- our estimates regarding our capital requirements and our needs for additional financing.

In some cases, you can identify forward-looking statements by terms such as anticipates , believes , could , estimates , expects , may , plans potential , predicts , projects , should , will , would and similar expressions intended to identify forward-looking statements. Forward-lookin statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. We discuss many of these risks in this prospectus in greater detail under the heading Risk Factors . Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update such forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in such forward-looking statements, even if new information becomes available in the future.

Table of Contents

USE OF PROCEEDS

At an assumed initial public offering price of $15.00 per share, we will receive $54.6 million from our sale of shares of common stock in this offering, after deducting estimated offering expenses of approximately $1.2 million, that includes $0.3 million of offering expenses paid by us on behalf of the selling shareholders, and the underwriting discount. At an assumed initial public offering price of $15.00 per share, the selling stockholders will receive $19.5 million from their sale of 1,400,000 shares of common stock in this offering, after deducting the underwriting discount. We will not receive any portion of the net proceeds received by the selling stockholders from the sale of their shares. None of the net proceeds to us will be paid to our affiliates. If the underwriters exercise their overallotment option in full, we will receive an additional $8.4 million in net proceeds at an assumed public offering price of $15.00 per share.

The principal purposes of this offering are to create a public market for our common stock, to facilitate our future access to the public capital markets and to provide us with flexibility in the future, including the flexibility to acquire additional businesses, products or technologies either with the net proceeds from this offering or through the publicly traded common stock we create through this offering. We have no present intention to acquire any such businesses, products or technologies. We intend to use the net proceeds of this offering for general corporate purposes, including working capital and capital expenditures. Capital expenditures may include the expansion of our facilities. Prior to using the net proceeds from this offering for these purposes, we intend to invest the funds in liquid, interest bearing, investment grade securities.

Management s plans for the proceeds of this offering are subject to change due to unforeseen cash requirements. We cannot specify with certainty the particular uses for the net proceeds to be received upon completion of this offering. Accordingly, our management team will have broad discretion in using the net proceeds of this offering.

DIVIDEND POLICY

Since our incorporation, we have not declared or paid any cash dividends on our common stock and do not expect to do so in the foreseeable future. We currently intend to retain all available funds for use in the operation and expansion of our business.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2005 on an actual, pro forma and pro forma as adjusted basis. This table does not include:

2,031,750 shares issuable upon exercise of outstanding options to purchase our common stock at a weighted average exercise price of $3.84 per share;

1,344,059 shares available for future issuance under our stock option plans; and

500,000 shares reserved for issuance under our employee stock purchase plan.

The pro forma information assumes the automatic conversion of all our outstanding shares of Series A convertible preferred stock and Series B mandatorily redeemable convertible preferred stock into 4,262,750 shares of common stock upon the completion of this offering.

The pro forma as adjusted information gives effect to the sale in this offering of 4,000,000 shares of common stock at an assumed initial public offering price of $15.00 per share, less underwriting discounts and commissions and estimated offering expenses payable by us of $1.2 million that includes $0.3 million of offering expenses paid by us on behalf of the selling shareholders. The pro forma as adjusted information also assumes the automatic conversion of all our outstanding shares of Series A convertible preferred stock and Series B mandatorily redeemable convertible preferred stock into 4,262,750 shares of common stock upon the completion of this offering.

This table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operation and the financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2005		
	Actual	Pro Forma	Pro Forma As Adjusted
		($ in thousands)	
Series B mandatorily redeemable convertible preferred stock: $2.50 par value; authorized: 8,000,000 shares actual, no shares pro forma or pro forma as adjusted; issued and outstanding: 8,000,000 shares actual, no shares pro forma or pro forma as adjusted	$ 33,785	$	$
Stockholders equity:			
Series A convertible preferred stock, $3.00 par value; authorized: 500,000 shares actual, no shares pro forma or pro forma as adjusted; issued and outstanding: 500,000 shares actual, no shares pro forma or pro forma as adjusted	1,490		
Common stock:			
$0.001 par value; authorized: 140,000,000 shares actual, pro forma and pro forma as adjusted; issued and outstanding: 8,624,178 shares actual, 12,886,928 shares pro forma and 16,886,928 shares pro forma as adjusted	9	13	17
Additional paid in capital	4,739	40,010	94,965

Deferred stock-based compensation	(1,877)	(1,877)	(1,877)
Retained earnings (deficit)			(344)
Total stockholders equity	4,361	38,146	92,761
Total capitalization	$ 38,146	$ 38,146	$ 92,761

Table of Contents

DILUTION

The pro forma net tangible book value of our common stock as of December 31, 2005 was $38.1 million, or approximately $2.96 per share. Pro forma net tangible book value per share represents our total tangible assets less our total liabilities divided by the pro forma number of shares of our common stock outstanding on a pro forma basis to give effect to the automatic conversion of all outstanding shares of our convertible preferred stock into common stock upon the closing of this offering.

After giving effect to the sale by us of 4,000,000 shares of our common stock in this offering at an assumed initial public offering price of $15.00 per share, less the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of December 31, 2005 would have been $92.8 million, or approximately $5.49 per share. This represents an immediate increase in pro forma net tangible book value of $2.53 per share to existing stockholders and an immediate dilution of $9.51 per share to new investors purchasing our common stock in this offering.

The following table illustrates the per share dilution to new investors:

Assumed initial public offering price per share		$ 15.00
Pro forma net tangible book value per share as of December 31, 2005	$ 2.96	
Increase in pro forma net tangible book value per share attributable to this offering	2.53	
Adjusted pro forma net tangible book value per share after this offering		5.49
Dilution in per share to new investors in this offering		$ 9.51

After this offering and assuming the exercise in full of all options outstanding and exercisable as of December 31, 2005, our adjusted pro forma net tangible book value per share as of December 31, 2005 would be $5.32 per share, representing an immediate increase in net tangible book value of $2.36 per share to existing stockholders and an immediate dilution in net tangible book value of $9.68 per share to new investors.

The following table summarizes, on a pro forma as adjusted basis as of December 31, 2005, the differences between the number of shares of common stock purchased from us, the total price and the average price per share paid by existing stockholders and by the new investors, before deducting the underwriting discounts and commissions and estimated offering expenses payable by us, at an assumed initial public offering price of $15.00 per share. (In thousands, except percentages):

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing common and preferred stockholders	12,887	76%	$ 21,800	27%	$ 1.69
New investors	4,000	24	60,000	73	15.00
Total	16,887	100%	$ 81,800	100%	$ 4.84

The existing stockholder amounts in the table above have been calculated on a pro forma basis, which includes shares outstanding as of December 31, 2005 (after giving effect to the conversion of all outstanding shares of our convertible preferred stock into common stock upon the closing of this offering), but excludes:

- 2,031,750 shares issuable upon exercise of outstanding options to purchase our common stock at a weighted average exercise price of $3.84 per share;

- 1,344,059 shares available for future issuance under our stock option plans; and

- 500,000 shares reserved under our employee stock purchase plan.

Table of Contents

As of December 31, 2005, assuming (a) the conversion of all outstanding shares of convertible preferred stock into 4,262,750 shares of common stock and (b) the exercise and payment of all outstanding options with a weighted average exercise per share of $3.84 after giving effect to this offering, net tangible book value would have been approximately $100.6 million, representing an immediate dilution of $9.68 per share to new investors. The table below assumes the exercise of all options to purchase our common stock outstanding at December 31, 2005. (In thousands, except percentages):

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing common and preferred stockholders	12,887	68%	$ 21,800	24%	$ 1.69
Shares subject to options	2,032	11	7,802	9	3.84
Subtotal	14,919	79	29,602	33	1.98
New investors	4,000	21	60,000	67	15.00
Total	18,919	100%	$ 89,602	100%	$ 4.74

If the underwriters overallotment is exercised in full and assuming no exercise of any such outstanding stock options to purchase our common stock, the number of shares of common stock held by existing stockholders will be reduced to 74% of the total number of shares of common stock to be outstanding after this offering; and the number of shares of common stock held by new investors will be increased to 4,600,000 shares or 26% of the total number of shares of common stock outstanding after this offering. Additionally, as a result of the exercise of the overallotment option, an increase in net tangible book value per share to existing stockholders would be approximately $8.4 million, resulting in immediate dilution per share to new investors of $9.22.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes and the overview, as well as the balance of our Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

The consolidated statements of operations data for the years ended June 30, 2003, 2004, and 2005 and the consolidated balance sheet data as of June 30, 2004 and 2005 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated statement of operations data for the years ended June 30, 2001 and June 30, 2002 and the consolidated balance sheet data as of June 30, 2001, 2002 and 2003 are derived from our audited financial statements not included in this prospectus.

The consolidated statements of operations data for the six months ended December 31, 2005 and December 31, 2004 and the consolidated balance sheet data as of December 31, 2005 are derived from our interim unaudited consolidated financial statements included elsewhere in this prospectus. The information as of and for the six month period ended December 31, 2005 and 2004 has been prepared on the same basis as our annual consolidated financial statements. In the opinion of our management, this quarterly information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the information for the periods presented. Past results of operations are not necessarily indicative of future results.

On February 14, 2006, the Board of Directors authorized a 1 for 2 reverse split of our common stock to become effective prior to completion of this offering. Basic and diluted net income (loss) per share and all shares used in calculating such amounts reflect this reverse stock split for all periods presented.

Pro forma basic and diluted net income (loss) per share have been calculated assuming the automatic conversion of all our Series A convertible preferred stock and Series B mandatorily redeemable convertible preferred stock outstanding as of December 31, 2005 into common stock, as if all such shares had converted as of the date of original issuance.

	Fiscal years ended June 30,					Six Months Ended December 31,	
	2001	2002	2003	2004	2005	2004	2005
Consolidated Statements of Operations Data:							
(in thousands, except per share amounts)							
Net revenue	$ 58,523	$ 14,542	$ 15,598	$ 44,450	$ 48,447	$ 27,450	$ 36,630
Gross profit	28,876	5,244	4,705	23,331	22,920	13,674	18,250
Income (loss) from operations	15,714	(4,800)	(7,797)	3,863	(804)	2,557	4,729
Net income (loss)	9,366	(2,773)	(6,773)	6,251	(312)	1,725	3,301
Net income (loss) available to common stockholders	$ 9,366	$ (3,706)	$ (8,373)	$ 2,114	$ (4,655)	$ (782)	$ 255
Basic and diluted net income (loss) per share available to common stockholders:							
Net income (loss) per share basic	$ 1.40	$ (0.50)	$ (1.07)	$ 0.25	$ (0.54)	$ (0.09)	$ 0.03

Net income (loss) per share diluted	$ 1.05	$ (0.50)	$ (1.07)	$ 0.22	$ (0.54)	$ (0.09)	$ 0.03
Shares used in per share calculation basic	6,676	7,356	7,816	8,312	8,663	8,630	8,649
Shares used in per share calculation diluted	8,886	7,356	7,816	9,457	8,663	8,630	9,486
Pro forma net income (loss) per share:							
Pro forma net income (loss) per share basic					$ (0.02)		$ 0.26
Pro forma net income (loss) per share diluted					$ (0.02)		$ 0.24
Pro forma shares used in per share calculation basic					12,926		12,912
Pro forma shares used in per share calculation diluted					12,926		13,748

Table of Contents

	June 30,					December 31,
	2001	2002	2003	2004	2005	2005
Consolidated Balance Sheet Data:						
(in thousands)						
Cash, cash equivalents and short-term investments	$ 4,860	$ 16,546	$ 15,576	$ 10,027	$ 10,474	$ 16,896
Working capital	12,443	29,998	23,850	28,529	28,223	32,439
Total assets	23,765	37,141	34,477	49,142	45,815	57,557
Series B mandatorily redeemable convertible preferred stock		20,794	22,394	26,441	30,784	33,785
Stockholders equity	$ 15,465	$ 11,988	$ 3,630	$ 6,860	$ 3,042	$ 4,361

26

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of financial condition and results of operations 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 service low-cost, high throughput ATE systems for the semiconductor industry. We target rapidly growing, high volume segments within the semiconductor industry such as the flash memory and flash-based system-on-chip markets. Our customers include IDMs, PATs, wafer fabrication foundries and fabless semiconductor companies. Since we introduced our first products in 1998, we have shipped over 1,500 systems to more than 60 semiconductor companies worldwide.

We provide direct sales and customer support to the major semiconductor manufacturing markets through sales personnel in the U.S., the Philippines, Thailand, Korea, Japan, the United Kingdom, France and Italy. Many of our sales and marketing employees are applications engineers, who work as part of the sales team to assist customers in the application of the ATE. Our direct sales force earns commissions based on the sales they generate. We also use a network of independent sales representatives in China, Korea, Taiwan, Malaysia, Singapore, Germany, Belgium and Israel. Independent sales representatives work on commission and place customers orders directly with us. A majority of our net revenue is generated by our direct sales force and we expect this trend to continue as we expand our sales organization in the future.

Historically, a significant portion of our net revenue in each quarter has been derived from sales to relatively few customers. While we seek to expand and diversify our customer base, we expect our net revenue to continue to be derived from a small number of customers. In addition, we do not have purchase contracts that require our customers to continue to purchase our products. A delay in product orders or customer acceptances or cancellations could cause our quarterly net revenue to vary significantly. Additionally, our backlog is subject to order cancellations, accelerations, changes and delays, and is not necessarily indicative of future customer purchases or revenue streams. We derive a significant percentage of our net revenue from outside of the United States, or U.S. In particular, we expect the Asia/Pacific region to continue to be a major source of revenue for us as we continue to further penetrate the major flash memory manufacturers located in that region. All of our net revenue to date has been denominated in U.S. dollars.

We assemble and ship our products from our facility in San Jose, California. We outsource all of our circuit board assembly and a large portion of our mechanical assembly, utilizing several contract manufacturers. We employ a rationalized strategy for manufacturing outsourcing whereby parts procurement is not included in the outsource process. Parts procurement is an important factor in responding quickly to changes in market demand, and we believe that we are able to respond more quickly by maintaining direct control over this key element. Our outsource partners provide labor, facilities, capital equipment and know-how to assemble circuit boards and mechanical items from kits of components that we procure and provide to them. This strategy enables us to rapidly increase our production volume when there is a surge in market demand and to efficiently decrease our production as market demand weakens. In addition, this strategy enables us to moderate our capital expenditure and lower our cost structure in periods of reduced demand.

We share production forecasts with our key suppliers, and quickly update them as forecasts change. Certain of our key suppliers use these forecasts to pre-position stocks of components in the supply chain so they

Table of Contents

are rapidly available to us when required. We generally do not enter into long-term contracts that commit us to specific levels of business over a longer duration than that covered by the individual purchase orders.

The semiconductor industry is highly cyclical. Consequently, our business is subject to significant demand variations and our net revenue is difficult to predict. Although our net revenue has risen from $4.4 million in our fiscal year ended June 30, 1999 to $48.4 million in our fiscal year ended June 30, 2005, it has experienced dramatic fluctuations in the interim periods. Additionally, our net income has fluctuated in tandem with net revenue. These circumstances are likely to continue in the future, and therefore, we cannot be certain that we will be able to maintain or exceed our current level of business. In the past, we have implemented various initiatives during downturn periods to reduce our cost structure including reducing salaries, shortening our manufacturing work week, reducing outside contractor costs and performing various assembly functions internally.

Fiscal Year. We report results of our operations on the basis of 52 or 53 week periods, ending on the last Saturday in June of each year. Fiscal 2003, 2004 and 2005 ended on June 28, 2003, June 26, 2004 and June 25, 2005, respectively. Fiscal years 2003, 2004 and 2005 were each comprised of 52 weeks. For presentation purposes, we refer in this prospectus and the accompanying financial information to a fiscal year end for each year of June 30. Similarly, for the quarterly reporting periods, we have used for presentation purposes calendar quarter ends.

The following describes certain line items set forth in our statements of operations:

Net Revenue. Net revenue is derived from the sale of products and services and is adjusted for estimated sales returns and allowances, which historically have been insignificant. We derive the majority of our net revenue from product sales. Revenue from our customers is subject to both quarterly and annual fluctuations, as a result of the cyclical nature of the semiconductor industry, and therefore past performance may not be indicative of future results. While we have shipped our systems to over 60 semiconductor companies, we derive the majority of our net revenue from a small number of customers. We expect that sales to a limited number of customers will continue to account for a significant portion of our future net revenue. We generally have limited backlog, and rely on orders that are booked and shipped in the same quarter for a significant portion of our net revenue.

Gross Profit. Gross profit is net revenue less cost of revenue which primarily consists of costs related to material, direct labor, manufacturing overhead, estimated warranty costs and provisions for excess and obsolete inventory. Cost of revenue also includes costs of field service support and spare parts consumed in service activities and amortization of deferred stock-based compensation cost as well as the impact of any benefits from sales of previously written-down inventory.

Research and Development. Research and Development, or R&D, expense includes costs related to engineering personnel, expensed material, outside contractors and other product development related costs. R&D is expensed as incurred. We intend to continue to invest a significant amount in R&D to develop new products. We expect these costs to increase in absolute dollars in the future. Our R&D expense tends to fluctuate from period to period, depending on requirements at the various stages of our product development cycles. In any given time period, our R&D expense may increase in absolute dollars and/or as a percentage of net revenue as we continue to invest in product development, expand our product lines, and as our net revenue fluctuates. R&D expense also includes amortization of stock-based compensation cost.

Sales, General and Administrative. Sales, general and administrative, or SG&A, expense includes costs related to sales and marketing personnel, applications engineering personnel, sales commissions paid to internal and outside sales representatives, outside contractor expense and other sales and marketing activities, as well as salaries and related expense for administrative, finance, human resources and executive personnel. We expect that general and administrative cost will increase in absolute dollars to support future operations as well as from additional costs incurred as a result of being a publicly traded company. Sales and marketing expense may

Table of Contents

also increase in absolute dollars as we continue to develop our global selling and marketing capabilities. Commissions paid to internal and external sales representatives are based on net sales and vary based on customer and customer location. Generally, our commission expense is higher for revenues from foreign locations. Therefore, the commission expense included in SG&A can fluctuate with changes in revenue and changes in customer and customer location mix comprising revenue in a particular period. SG&A expense also includes amortization of stock-based compensation cost.

Interest and Other Income, net. Interest and other income, net primarily represents interest earned on cash and investment balances, interest expense and gains and/or losses on assets, liabilities, and transactions denominated in foreign currencies, which historically has not been material.

Income Tax (Provision) Benefit. We account for income taxes under the asset and liability method whereby the expected future tax consequences of temporary differences between the book value and the tax basis of assets and liabilities are recognized as deferred tax assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to be recognized. A valuation allowance is provided if management cannot conclude that it is more likely than not that our deferred tax assets will be realized.

Accretion of Series B Preferred Stock Redemption Value. Our Series B mandatorily redeemable convertible preferred stock (the Series B Preferred) has a mandatory redemption provision. We accrete an amount in each quarterly and annual period that is necessary to adjust the recorded balance of our Series B Preferred to an amount equal to its estimated redemption value at its redemption date using the effective interest method. The redemption value is the greater of the par value of the Series B Preferred plus any dividends declared and unpaid or its estimated fair value using the effective interest method. The estimated redemption value of the Series B Preferred as determined on December 31, 2005 was $41.2 million. The Series B Preferred stockholders originally had an option to redeem upon a majority of the stockholders making such an election on November 29, 2005. On December 22, 2004, the Series B Preferred stockholders agreed to change the redemption option to November 29, 2006. Each share of the outstanding preferred stock will automatically convert to common stock if this offering is consummated and such offering is at least $25 million and $10.00 per share, and this accretion will cease upon such conversion. If this offering is not consummated for at least $25 million and $10.00 per share, we will either need to obtain a modification of the redemption date from the Series B Preferred stockholders or otherwise raise additional capital.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates, assumptions and judgments that affect the amounts reported in our financial statements and the accompanying notes. We base our estimates on historical experience and various other assumptions that we believe to be reasonable. Although these estimates are based on our present best knowledge of the future impact on the company of current events and actions, actual results may differ from these estimates, assumptions and judgments.

We consider critical those accounting policies that require our most subjective or complex judgments, which often result from a need to make estimates about the effect of matters that are inherently uncertain, and that are among the most important of our accounting policies in the portrayal of our financial condition and results of operations. These critical accounting policies are: revenue recognition, valuation of excess and obsolete inventory, deferred income tax assets and liabilities, accrued warranty obligations, allowance for doubtful accounts receivable and stock-based compensation.

Revenue Recognition. Consistent with the Securities and Exchange Commission s Staff Accounting Bulletin No. 104, or SAB 104 , we recognize revenue from product sales when persuasive evidence of an arrangement exists, title has passed, the price is fixed or determinable, the product has been delivered and collection of the resulting receivable is reasonably assured. Additionally, when the arrangement with the

Table of Contents

customer includes future obligations or is contingent on obtaining customer acceptance (generally a new customer or a new product to an existing customer), we do not recognize revenue until those obligations have been met or customer acceptance has been received. Delivery generally occurs when the product is delivered to a common carrier. Our revenue consists primarily of the sale of equipment. If we provide services (primarily extended warranty or maintenance service) which are considered as multiple deliverables, such services are accounted for separately in accordance with EITF 00-21, Revenue Arrangements with Multiple Deliverables. For arrangements with multiple deliverables, we recognize revenue for the delivered items if the delivered items have value to the customer on a stand-alone basis and the fair value of undelivered items can be reliably determined. We allocate total consideration, which is fixed and determinable, to separate deliverables, consisting of separate units of accounting based on the fair values of these units of accounting as determined by reference to the ordinary selling price of these units when they are sold on a stand-alone basis. Thereafter, depending on the nature of the deliverables comprising a unit of accounting, and the corresponding revenue recognition conventions, we recognize revenue when all revenue recognition criteria are met.

We defer revenue allocated to extended warranty obligations and recognize the revenue over the extended warranty period as earned. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts. We recognize revenue for out-of-warranty repairs when the repaired product is delivered and all other recognition criteria have been satisfied.

Valuation of Excess and Obsolete Inventory. Inventory is stated at the lower of standard cost (which approximates actual cost on a first-in first-out basis), or market. Due to changing market conditions, estimated future requirements, age of the inventories on-hand and our introduction of new products, we regularly review inventory quantities on-hand and record a provision to write-down excess and obsolete inventory to its estimated net realizable value. A significant increase in the demand for our product could result in a short-term increase of inventory purchases while a significant decrease in demand could result in an increase in provision for excess inventory quantities on-hand. In addition, our industry is subject to technological change, new product development and product technological obsolescence that could result in an increase in the amount of obsolete inventory quantities on-hand. Therefore, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and reported operating results. When we record provisions for excess and obsolete inventory, we create a new cost basis for the inventory. Recoveries of previously written-down inventory are recognized only when the related inventory is sold and revenue has been recognized.

Income Taxes. We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for the future tax consequences attributable to operating loss and tax credit carryforwards. In assessing the recoverability of deferred tax assets, we consider whether it is more likely than not, that all or some portion of the deferred tax assets will be realized. The ultimate realization of certain deferred tax assets is dependent upon the generation of future taxable income during the periods in which the related temporary differences become deductible. If we obtain information that causes our forecast of future taxable income to change or if taxable income differs from our forecast, we may have to revise the carrying value of our deferred tax assets, or establish a valuation allowance, which would affect our net income in the period in which the change occurs. The ultimate realization of certain other deferred tax assets is dependent on our ability to carry forward losses and tax credits. If changes in the tax laws occur that inhibit our ability to carry forward or back operating losses or tax credits, we will recognize the effect on our deferred tax assets in the results of operations of the period that includes the enactment date of the change. Furthermore, we measure our deferred tax assets and liabilities using the enacted tax laws expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. If tax laws change, we will recognize the effect on our deferred tax assets and liabilities in the results of operations of the period that includes the enactment date of the change. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We are subject to income tax audits in all of the jurisdictions in which we operate and,

Table of Contents

as a result, must also assess exposures to any potential issues arising from tax audits of current and prior year s tax returns. Accordingly, we must assess potential exposures and, where necessary, provide accruals for the estimated amount to settle those exposures. To the extent that we establish accruals, our provision for income taxes would be increased. We will reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary or record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than required.

Accrued Warranty Obligation. We generally offer a one-year warranty covering parts and labor on all our products, with the option to purchase extended warranties. We are also subject to laws and regulations in the various countries in which we sell regarding vendor obligations to ensure product performance. At the time we recognize product revenue, we determine the accrued warranty expense for the future cost of meeting our obligations under the standard warranties and product performance laws and regulations by considering our historical experience with the costs of meeting these obligations. If the future costs of meeting these obligations differ from our historical experience, additional accruals for warranty obligations may be required. The provision for future warranty costs is included in cost of revenue in our statement of operations.

Allowance for Doubtful Accounts. We determine our allowance for doubtful accounts by making our best estimate considering our historical accounts receivable collection experience, changes in customer payment terms and other recent information that we have concerning the current status of our accounts receivable. If future conditions cause our collections experience to change or if we later obtain different information about the status of any or all of our accounts receivable, additional allowances or recoveries of allowances may be required. We record provisions or recoveries for doubtful accounts receivable in SG&A expenses in our statement of operations.

Stock-Based Compensation. In connection with the grant of stock options to employees and directors in fiscal 2004 and the six months ended December 31, 2005, we recorded an aggregate of $4.6 million in deferred stock-based compensation with respect to stock options granted through December 31, 2005. These options are considered compensatory because the fair value of our stock on the date of grant as determined for financial reporting purposes is greater than the exercise price. In total, we have amortized $2.7 million through December 31, 2005. Effective January 1, 2006, we adopted FAS No. 123R. See Note 1 of our consolidated financial statements.

As a private company, the fair value of our common stock is determined by the Board of Directors. In determining the fair value of our common stock, the Board of Directors considers a number of factors, including:

- recent transactions in our common stock with third parties, if any,
- contemporaneous or retrospective valuations performed by valuation specialists. With respect to options granted in the twelve month period ended December 31, 2005, the Board of Directors obtained contemporaneous valuations performed by valuation specialists for all options granted except for those granted in January and April 2005 and certain options granted in September 2005. As a result of the modification discussed in Note 7 of the consolidated financial statements, substantially all options granted in September 2005 were remeasured based on the fair value of the Company s common stock at the date of the modification (December 2005) based upon a contemporaneous valuation performed by valuation specialists. In determining the fair value of the Company s common stock for all other options granted in the twelve month period ended December 31, 2005, the Board of Directors used a contemporaneous valuation prepared by management which followed substantially the same methodology used by the valuation specialists,
- key milestones achieved in our business, including forecasted revenues and cash flows, product development and market acceptance,

values ascribed to comparable publicly traded companies in our industry,

Table of Contents

current and long-term prospects for the semiconductor equipment industry, including forecasted capital expenditures by our significant customers,

other economic and business factors.

Determining the fair value of our stock requires making complex and subjective judgment and estimates. There is inherent uncertainty in making these estimates.

Significant Factors, Assumptions, and Methodologies Used in Determining Fair Value When a Contemporaneous Valuation By a Valuation Specialist Was Not Obtained. To value our common stock, the Board of Directors obtains a contemporaneous valuation prepared by management which follows substantially the same methodology used by the valuation specialists. The procedures performed to determine the fair value of our common stock were based on a probability-weighted combination of the market multiple approach and income approach to estimate the aggregate equity value of our company at specific stock option grant dates.

The income approach involves applying appropriate discount rates to estimated debt-free cash flows that are based on forecasts of our revenue and costs. The projections used for each valuation date were based on the expected outlook on our operating performance through the forecast periods. The assumptions underlying the estimates were consistent with our business plan. The future debt-free cash flows were determined by subtracting taxes, future capital spending and future changes in working capital and adding future depreciation and amortization to earnings before interest and taxes, or EBITDA. The interim debt-free cash flows and resulting terminal value were then discounted at a rate based on the weighted average cost of capital of comparable companies, as adjusted for our specific risk profile. There is inherent uncertainty in these estimates. If different discount rates had been used, the valuations would have been different.

The market multiple approach was based on EBITDA and net income considered to be representative of our future performance, and multiplying these figures by a range of appropriate risk-adjusted multiples. The market multiples were obtained through the market comparison method, where companies having their stock traded in the public market were selected for comparison purposes and used as a basis for choosing reasonable market multiples for us. For the market multiple approach, we used our projected fiscal year s revenue, EBITDA and earnings. Revenue, EBITDA and earnings multiples were derived from publicly traded companies deemed to be comparable to us.

After estimating our average value based on the income and market approaches, we then utilized a probability-weighted expected return method. Under the probability-weighted expected return method, the value of the common stock was estimated based upon an analysis of values for us assuming various outcomes (i.e., initial public offering, merger or sale, liquidation, and remaining private) and the estimated probability of each outcome assuming that all preferred stock is converted into common stock.

The following table presents the intrinsic value of all options outstanding at December 31, 2005 based on the assumed initial public offering price of $15.00 (in thousands):

	Number of Options Outstanding	**Intrinsic Value**
Vested options	876	$ 10,852

Unvested options	1,156	11,821
Total	2,032	$ 22,673

Although it is reasonable to expect that the completion of the IPO will add value to the shares because they will have increased liquidity and marketability, the amount of additional value can be measured with neither precision nor certainty.

Table of Contents

Results of Operations

Our operating results have fluctuated significantly from period to period in the past and are likely to do so in the future. The following table sets forth certain operating data as a percentage of net revenue for the periods indicated:

	Years Ended June 30,			Six Months Ended December 31,	
	2003	2004	2005	2004	2005
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	69.8	47.5	52.7	50.2	50.2
Gross profit	30.2	52.5	47.3	49.8	49.8
Operating expenses:					
Research and development	28.6	14.3	13.7	11.6	10.2
Sales, general and administrative	51.6	29.5	35.2	28.9	26.7
Total operating expenses	80.2	43.8	48.9	40.5	36.9
Income (loss) from operations	(50.0)	8.7	(1.6)	9.3	12.9
Interest and other income, net	0.7	0.4	0.3	0.3	0.5
Income (loss) before income taxes	(49.3)	9.1	(1.3)	9.6	13.4
Income tax (provision) benefit	5.9	5.0	0.7	(3.3)	(4.4)
Net income (loss)	(43.4)	14.1	(0.6)	6.3	9.0
Accretion of Series B preferred stock redemption value	(10.3)	(9.1)	(9.0)	(9.1)	(8.2)
Amount allocated to Series A participating preferred stockholders	(0.0)	(0.2)	(0.0)	(0.0)	(0.1)
Net income (loss) available to common stockholders	(53.7)%	4.8%	(9.6)%	(2.8)%	0.7%

Comparison of the Six-Months Ended December 31, 2005 and 2004

Net Revenue. Net revenue was $36.6 million for the six months ended December 31, 2005 and $27.5 million for the six months ended December 31, 2004, an increase of $9.2 million, or 33.4%. Product revenue for the six months ended December 2005 was $34.8 million compared to $26.1 million for the six months ended December 2004, an increase of $8.7 million or 33.3%. The increase in product revenue was primarily due to increased shipments of our Magnum systems to flash memory manufacturers which grew from approximately 40% of our product revenue for the six months ended December 2004 to approximately 80% of our product revenue for the six months ended December 31, 2005. We believe the Magnum product will continue to provide the majority of our product revenue in the near term. The overall increase in product revenue for the six months ended December 31, 2005 resulted from a significant increase in the average testing capacity per system sold, particularly, Magnum systems, offset by an approximately 50% decrease in the number of systems sold in the six months ended December 31, 2005. The average price per system sold in the six months ended December 31, 2005 increased approximately 160% due to a higher mix of larger capacity systems sold in the six months ended December 31, 2005 as compared to the six months ended December 31, 2004. Service revenue for the six months ended December 31, 2005 accounted for $1.8 million, or 4.9% of net revenue, and $1.3 million, or 4.8% of net revenue for the six months ended December 31, 2004. The increase in service revenue reflects an overall increase in the proportion of our installed base that is no longer under warranty.

In the six months ended December 31, 2005, Hynix Semiconductor Inc. accounted for 40% of our net revenue, SanDisk Corp. accounted for 26% of our net revenue and Samsung Electronics Co., Ltd. accounted for 11% of our net revenue. In the six months ended December 31, 2004, Atmel Corp. accounted for 51% of our net revenue and SanDisk Corp. accounted for 17% of our net revenue. The Hynix Semiconductor Inc., SanDisk Corp. and Samsung Electronics Co., Ltd. revenue was primarily generated from sales of our Magnum systems in the six months ended December 31, 2005. In the six months ended December 31, 2004, all of our SanDisk Corp. revenue was generated from sales of our Maverick product. The composition of customer mix can vary significantly from period to period due to timing of and need for customers to add ATE capacity. For example, in the six months ended December 31, 2004 Atmel Corp. was adding significant new Magnum capacity while in the six months ended December 31, 2005 they were only making limited additions to their Magnum capacity.

Net revenue by geographic region is based upon the ship to or first in-use destination and during the six months ended December 31, 2005 and December 31, 2004 was as follows:

	Six Months Ended December 31,			
Net Revenue by Geographic Region:	**2004**		**2005**	
	(dollars in thousands)			
North America, primarily United States	$ 15,189	55.3%	$ 5,334	14.5%
Asia/Pacific	9,143	33.3	30,756	84.0
EMEA (Europe, Middle East and Africa)	3,118	11.4	540	1.5
Total	$ 27,450	100.0%	$ 36,630	100.0%

Net revenue from the Asia/Pacific region increased significantly in the six months ended December 31, 2005 as compared to the six months ended December 31, 2004 due to increased sales of our Magnum product to flash memory manufacturers in that region, as discussed above. North America and EMEA revenue decreased largely due to the reduction in Atmel Corp. revenue for shipments to its global locations. Revenue by geographies will vary due to the timing of capacity additions by particular customers and the customer locations that the capacity is being added. We believe the Asia/Pacific region will continue to be a major geographic source of our revenue.

Gross Profit. Gross profit was $18.3 million, or 49.8% of net revenue in the six months ended December 2005 and $13.7 million, or 49.8% of net revenue in the six months ended December 2004, an increase of $4.6 million, or 33.5%. The $4.6 million increase in gross profit was due to the increase in net revenue. Gross profit was benefited by the sale of previously written down inventory by $0.3 million in the six months ended December 31, 2005 and $0.2 million in the six months ended December 31, 2004. Gross profit as a percent of net revenue will vary depending upon the mix of customers and average capacity of systems in a particular period. We believe that as we attempt to win more market share for our testers we may experience pricing pressures that we may not be able to offset by improved absorption or reduced material cost resulting in lower gross profit percentages.

Research and Development. R&D expense was $3.8 million, or 10.2% of net revenue in the six months ended December 2005 and $3.2 million, or 11.6% of net revenue in the six months ended December 2004, or an increase of $0.6 million. The increase in R&D expense was due to a $0.3 million increase in compensation expense related to the addition of five engineers and $0.2 million increase in stock based compensation expense primarily related to a re-measurement charge for modification of options in December 2005 that were granted in September 2005. We believe that we will continue to increase our R&D spending in future periods to support ongoing enhancements and increased engineering activities for new products.

Sales, General and Administrative. SG&A expense was $9.8 million, or 26.7% of net revenue in the six months ended December 2005 and $7.9 million, or 28.9% of net revenue in the six months ended December 2004, an increase of $1.9 million, or 23.3%. The increase in sales, general and administrative expense was due to an increase of $0.6 million of commission expense related to the increase in net revenue, particularly the increase in our Asia/Pacific sales. In addition, compensation expense increased $0.4 million due to the addition of 13 sales support employees and one employee to our finance organization and increased executive bonus expense; stock based compensation expense increased $0.3 million primarily related to a re-measurement charge for modification of options in December 2005 that were granted in September 2005; travel expense increased $0.2

Table of Contents

million due to increased international travel to support the growth in our international customer base; professional services expense increased $0.2 million; and facility expenses increased $0.1 million as a result of expanding our international locations. We expect SG&A expense will increase in future periods as we continue our international expansion, grow our administrative capabilities and incur additional outside costs required of a public company. The mix of the source of revenue and its implication on commission expense may either add to, or reduce those additional expected costs.

Income Tax (Provision) Benefit. Our income tax provision was $1.6 million, a 32.7% effective tax rate in the six months ended December 2005 and $0.9 million, a 34.4% effective tax rate, in the six months ended December 31, 2004, an increase of $0.7 million, or 76.9%. The primary reason for the lower effective tax rate in the 2005 period is a higher percentage of qualifying export revenue due to the geographic mix of revenue.

Accretion of Series B Preferred Stock Redemption Value. We recorded accretion of $3.0 million in the six months ended December 31, 2005 and $2.5 million in the six months ended December 2004, an increase of $0.5 million, or 19.7%. The increase in accretion in the six months ended December 31, 2005 compared to the six months ended December 31, 2004 resulted from an increase in the estimated redemption fair value of our Series B Preferred, partially offset by the extension of the optional redemption date from November 2005 to November 2006.

Comparison of Fiscal Years Ended June 30, 2005 and 2004

Net Revenue. Net revenue was $48.4 million for the fiscal year ended June 30, 2005 and $44.5 million for the fiscal year ended June 30, 2004, an increase of $4.0 million, or 9.0%. Product revenue was $45.5 million in the fiscal year ended June 30, 2005 and $42.1 million in the fiscal year ended June 30, 2004, an increase of $3.4 million, or 8.1%. The increase in product revenue was primarily attributable to the increased sales of our Magnum product, which was introduced in the September 2004 quarter and that represented 0% of our product revenue in the year ended June 30, 2004 and was approximately 50% of our product revenue in the year ended June 30, 2005. The increase in product revenue was due to a substantial increase in the testing capacity of systems sold during the year, offset in part by approximately a 30% decrease in the number of systems sold due to the composition of higher testing capacity system sales in the year ended June 30, 2005 compared to the year ended June 30, 2004. The average price of systems sold increased by approximately 50% in the year ended June 30, 2005 as compared to the year ended June 30, 2004 due to an increase in the average testing capacity per system sold. Service revenue for the fiscal year ended June 30, 2005 accounted for $3.0 million, or 6.1% of net revenue, and $2.4 million, or 5.3% of net revenue for the fiscal year ended June 30, 2004. The increase in service revenue is due to the increase in our installed base that is no longer under warranty.

In our fiscal year ended June 30, 2005, net revenue from Atmel Corp. and Samsung Electronics Co. Ltd., increased by 90.5% over net revenue from the same customers in fiscal year ended June 30, 2004. The increase in net revenue from Atmel Corp. is largely due to capacity additions and for which they choose our Magnum product as their ATE solution. The increased net revenue from Samsung Electronics Co., Ltd. resulted primarily from their adoption of the Magnum product in their flash memory production facilities. These increases were partially offset by decreases in net revenue from Amkor Technology, Inc., our largest PAT customer, and from SanDisk Corp. in fiscal year ended June 30, 2005 compared to net revenue from them in fiscal year ended June 30, 2004. Amkor Technology, Inc. added significant test capacity in fiscal year ended June 30, 2004 in response to increased demand which fell off late in our fiscal year ended June 30,2004. SanDisk Corp. was our largest customer in fiscal year ended June 30, 2004. They adopted our ATE systems for testing of their flash memory devices and although they continued to add capacity they did so at a reduced level in fiscal year ended June 30, 2005.

Table of Contents

Net revenue by geographic region is based upon the ship to or first in-use destination during fiscal 2005 and fiscal 2004 was as follows:

	Years Ended June 30,			
Net Revenue by Geographic Region:	**2004**		**2005**	
	(dollars in thousands)			
North America, primarily United States	$ 17,043	38.3%	$ 20,107	41.5%
Asia/Pacific	24,806	55.8	23,673	48.9
EMEA	2,601	5.9	4,667	9.6
Total	$ 44,450	100.0%	$ 48,447	100.0%

Net revenue from North America and EMEA as a percent of total net revenue increased due to increased sales to a major multinational customer with facilities in those regions.

Gross Profit. Gross profit was $22.9 million, or 47.3% of net revenue in the fiscal year ended June 30, 2005 and $23.3 million, or 52.5% of net revenue in the fiscal year ended June 30, 2004, a decrease of $0.4 million, or 1.8%. The decrease in gross profit as a percentage of net revenue was primarily due to an increase of $1.4 million in inventory provisions and a decrease of $0.9 million in the benefit from the sale of previously written-down inventory, partially offset by more favorable absorption of fixed manufacturing costs due to the increase in revenue in the fiscal year ended June 30, 2005 compared to the fiscal year ended June 30, 2004.

Research and Development. R&D expense was $6.7 million, or 13.7% of net revenue in the fiscal year ended June 30, 2005 and $6.4 million, or 14.3% of net revenue in the fiscal year ended June 30, 2004, an increase of $0.3 million, or 4.8%. Total spending in research and development increased primarily due to an increase in payroll of $0.5 million partially offset by a decrease of $0.3 million in outside contractor expense. The increase in payroll was the result of increasing headcount by two employees and salary increases in fiscal year ended June 30, 2005. The decrease in outside contractors resulted because of the headcount increase and reduced need for outside engineering support for the Magnum product development that was completed in fiscal year ended June 30, 2004.

Sales, General and Administrative. SG&A expense was $17.1 million, or 35.2% of net revenue, in the fiscal year ended June 30, 2005 and $13.1 million, or 29.5% of net revenue in the fiscal year ended June 30, 2004, an increase of $4.0 million, or 30.1%. The increase in SG&A expense was primarily due to increases of $1.3 million in compensation expense due to the addition of 8 international employees and 2 general and administrative employees during the fiscal year ended June 30, 2005 and the full year impact of SG&A employee additions in the fiscal year ended June 30, 2004; $0.9 million of cost related to our original 2004 proposed initial public offering which was withdrawn; and a $1.2 million increase in sales and marketing activities related to the introduction of the Magnum product.

Income Tax (Provision) Benefit. Our income tax benefit was $0.3 million, a 52.1% effective tax rate, in the fiscal year ended June 30, 2005 and a $2.2 million benefit, or a 53.9% effective tax rate, in the fiscal year ended June 30, 2004, a decrease of $1.9 million. In December 2002, we established a full valuation allowance covering all our deferred tax assets. In December 2003 (fiscal 2004) we reversed the valuation allowance ($3.5 million) of our deferred tax assets established in December 2002 (fiscal 2003) because we believed it was more likely than not that our deferred tax assets will be realized primarily based on our profitability in the quarter ended September 30, 2003 and our forecasted future earnings. This reversal resulted in a tax benefit (versus a provision) for the year and increased the effective benefit rate by 86.0%. Our tax benefit in the year ended June 30, 2005 exceeded our statutory rate due to the impact of state research and development credit partially offset by stock-based compensation related to tax qualified incentive stock options.

Accretion of Series B Preferred Stock Redemption Value. We recorded accretion of $4.3 million in the fiscal year ended June 30, 2005 and $4.0 million in the fiscal year ended June 30, 2004, an increase of $0.3 million,

Table of Contents

or 7.3%. The increase was due to an increase in the estimated fair value of our Series B Preferred from the fair value it was previously being accreted to in the fiscal year ended June 30, 2004, partially offset by the extension of the redemption date by the Series B Preferred stockholders from November 2005 to November 2006.

Comparison of Fiscal Years Ended June 30, 2004 and 2003

Net Revenue. Net revenue was $44.5 million in the fiscal year ended June 30, 2004 and $15.6 million in the fiscal year ended June 30, 2003, an increase of $28.9 million, or 185.0%. Product revenue was $42.1 million in the fiscal year ended June 30, 2004 and $13.4 in the fiscal year ended June 30, 2003, an increase of $28.7 million, or 214.3%. The significant increase was due primarily to an increase in net revenue from Atmel Corp. who experienced an increase in business resulting in the need for more ATE capacity; an increase from SanDisk Corp., our largest customer for the period, who adopted our ATE systems for testing of their flash memory devices; an increase from Amkor Technology, Inc., our largest PAT customer, who also experienced an increase in business; and an increase from Samsung Electronics Co., Ltd., who ordered Maverick products. The increase in revenue was due to an increase in ATE capital spending by semiconductor manufacturers. Service revenue in the fiscal year ended June 30, 2004 was $2.4 million, or 5.3% of net revenue, and $2.2 million, or 14.2% of net revenue in the fiscal year ended June 30, 2003.

The number of systems sold increased over threefold while the average testing capacity of systems sold decreased slightly in the year ended June 30, 2004 as compared to the year ended June 30, 2003. The average price of systems sold decreased approximately 11% due primarily to lower average testing capacity and overall customer mix in the year ended June 30, 2004 as compared to the year ended June 30, 2003.

Net revenue by geographic region is based upon the ship to or first in-use destination during fiscal 2004 and fiscal 2003 was as follows:

	Years Ended June 30,			
Net Revenue by Geographic Region:	**2003**		**2004**	
	(dollars in thousands)			
North America, primarily United States	$ 5,819	37.3%	$ 17,043	38.3%
Asia/Pacific	9,400	60.3	24,806	55.8
EMEA	379	2.4	2,601	5.9
Total	$ 15,598	100.0%	$ 44,450	100.0%

Driven by strong capital spending on test equipment by semiconductor manufacturers worldwide, we experienced significant year over year net revenue growth across all geographic segments.

Gross Profit. Gross profit was $23.3 million, or 52.5% of net revenue, in the fiscal year ended June 30, 2004 and $4.7 million, or 30.2% of net revenue in the fiscal year ended June 30, 2003, an increase of $18.6 million, or 395.9%. The increase in gross profit was primarily due to higher revenue; a decrease of $1.1 million in provisions for excess and obsolete inventory and benefit from the sale of $1.5 million of previously written-down inventory; and more favorable absorption of fixed manufacturing costs due to the increased revenue in the fiscal year ended June 30, 2004 than in the fiscal year ended June 30, 2003.

Research and Development. R&D expense was $6.4 million, or 14.3% of net revenue, in the fiscal year ended June 30, 2004 and $4.5 million, or 28.6% of net revenue in the fiscal year ended June 30, 2003, an increase of $1.9 million, or 42.5%. The increase was primarily due to an increase in payroll of $1.0 million, an increase of $0.2 million in outside contractor expense and a $0.4 million increase in materials costs related to the development of the Magnum product. The increase in payroll expense was primarily due to a return to full salary for our engineering group effective July 2003, after a 10% salary cut enacted in early fiscal 2002 and in place in most of fiscal year 2003 in order to reduce our costs.

Table of Contents

Sales, General and Administrative. SG&A expense was $13.1 million, or 29.5% of net revenue, in the fiscal year ended June 30, 2004 and $8.0 million, or 51.6% of net revenue in the fiscal year ended June 30, 2003, an increase of $5.1 million, or 63.0%. The increase in sales, general and administrative expense was primarily due to an increase of $1.9 million in compensation due to employees returning to full salary in the fiscal year ended June 30, 2004 from individual salary reductions ranging from 10% to almost 30% in fiscal 2003 and growth of our international sales and service organization; an increase of $1.3 million in sales commissions as a result of increased net revenue; an increase of $0.7 million in costs for legal and accounting; an increase of $0.6 million of stock-based compensation; and an increase of $0.5 million for travel, entertainment and trade shows related to international expansion.

Income Tax (Provision) Benefit. Our income tax benefit was $2.2 million, a 53.9% effective tax rate, in the fiscal year ended June 30, 2004 and $0.9 million benefit, a 12.0% effective tax rate, in year ended June 30, 2003, an increase of $1.3 million, or 138.0%. In December 2002 (fiscal 2003) we established a full valuation allowance covering all our deferred tax assets. In December 2003 (fiscal 2004) we reversed the valuation allowance ($3.5 million) we previously recorded against our deferred tax assets because we believed it was more likely than not that our deferred tax assets would be realized based on our forecasted future taxable income, including profitability in the quarter ended September 30, 2003. The recording of the valuation allowance in fiscal 2003 reduced our effective tax benefit rate for fiscal 2003 by 45.4%. Reversal of this valuation allowance in fiscal 2004 resulted in a tax benefit (versus a provision) for the year and increased the effective tax benefit rate in fiscal 2004 by 86.0%.

Accretion of Series B Preferred Stock Redemption Value. We recorded accretion of $4.0 million in the period ended June 30, 2004 and $1.6 million in year ended June 30, 2003, an increase of $2.4 million, or 152.9%. The increase in accretion in the fiscal year ended June 30, 2004 compared to the fiscal year ended June 30, 2003 resulted from an increase in the estimated redemption fair value of our Series B Preferred.

Table of Contents

Quarterly Results of Operations

The table below sets forth summary consolidated financial information for the periods indicated.

	Quarter Ended									
	Sept. 30, 2003	Dec. 31, 2003	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	Mar. 31, 2005	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005
	(in thousands, except per share data)									
Net revenue	$ 8,390	$ 10,282	$ 12,035	$ 13,743	$ 14,691	$ 12,759	$ 9,012	$ 11,985	$ 17,205	$ 19,425
Cost of revenue	4,206	4,751	5,724	6,438	7,286	6,490	5,235	6,516	8,421	9,959
Gross profit	4,184	5,531	6,311	7,305	7,405	6,269	3,777	5,469	8,784	9,466
Operating expenses:										
Research and development	1,137	1,738	1,705	1,771	1,598	1,596	1,751	1,712	1,733	2,019
Sales, general and administrative	2,406	3,087	3,803	3,821	4,023	3,900	5,177(2)	3,967	4,633	5,136
Total operating expenses	3,543	4,825	5,508	5,592	5,621	5,496	6,928	5,679	6,366	7,155
Income (loss) from operations	641	706	803	1,713	1,784	773	(3,151)	(210)	2,418	2,311
Interest and other income, net	66	58	40	34	28	45	38	42	74	99
Income (loss) before income taxes	707	764	843	1,747	1,812	818	(3,113)	(168)	2,492	2,410
Income tax (provision) benefit	(259)	3,255(1)	(262)	(544)	(668)	(237)	1,186	58	(873)	(728)
Net income (loss)	448	4,019	581	1,203	1,144	581	(1,927)	(110)	1,619	1,682
Accretion of Series B preferred stock redemption value	(400)	(563)	(1,057)	(2,027)	(1,864)	(643)	(659)	(1,177)	(1,224)	(1,777)
Amount allocated to Series A preferred stockholders	(23)	(67)							(45)	
Net income (loss) available to common stockholders	$ 25	$ 3,389	$ (476)	$ (824)	$ (720)	$ (62)	$ (2,586)	$ (1,287)	$ 350	$ (95)
Net income (loss) per share:										
Basic	$ 0.00	$ 0.41	$ (0.06)	$ (0.10)	$ (0.08)	$ (0.01)	$ (0.30)	$ (0.15)	$ 0.04	$ (0.01)
Diluted	$ 0.00	$ 0.30	$ (0.06)	$ (0.10)	$ (0.08)	$ (0.01)	$ (0.30)	$ (0.15)	$ 0.04	$ (0.01)
Shares used in computing earnings (loss) per share:										

Basic	8,154	8,230	8,329	8,538	8,609	8,652	8,683	8,709	8,722	8,577
Diluted	9,187	13,582	8,329	8,538	8,609	8,652	8,683	8,709	9,492	8,577

(1) In the three month period ended December 31, 2003, we determined it was more likely than not that we would have sufficient future taxable income to realize our deferred tax assets and accordingly reversed our valuation allowance of $3.5 million.

(2) In the three month period ended March 31, 2005, we recorded an expense of $0.9 million for the write-off of costs that had been capitalized in connection with our original 2004 initial public offering that was formally withdrawn in January 2005.

Table of Contents

The following table sets forth certain operating data as a percentage of revenue for the periods indicated:

	Quarter Ended									
	Sept. 30, 2003	**Dec. 31, 2003**	**Mar. 31, 2004**	**June 30, 2004**	**Sept. 30, 2004**	**Dec. 31, 2004**	**Mar. 31, 2005**	**June 30, 2005**	**Sept. 30, 2005**	**Dec. 31, 2005**
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	50.1	46.2	47.6	46.8	49.6	50.9	58.1	54.4	48.9	51.3
Gross profit	49.9	53.8	52.4	53.2	50.4	49.1	41.9	45.6	51.1	48.7
Operating expenses:										
Research and development	13.5	16.9	14.2	12.9	10.9	12.5	19.4	14.3	10.1	10.4
Sales, general and administrative	28.8	30.0	31.5	27.8	27.4	30.5	57.5	33.1	26.9	26.4
Total operating expenses	42.3	46.9	45.7	40.7	38.3	43.0	76.9	47.4	37.0	36.8
Income (loss) from operations	7.6	6.9	6.7	12.5	12.1	6.1	(35.0)	(1.8)	14.1	11.9
Interest and other income, net	0.8	0.5	0.3	0.2	0.2	0.3	0.5	0.4	0.4	0.5
Income (loss) before income taxes	8.4	7.4	7.0	12.7	12.3	6.4	(34.5)	(1.4)	14.5	12.4
Income tax (provision) benefit	(3.1)	31.7	(2.2)	(3.9)	(4.5)	(1.8)	13.1	0.5	(5.1)	(3.7)
Net income (loss)	5.3	39.1	4.8	8.8	7.8	4.6	(21.4)	(0.9)	9.4	8.7
Accretion of Series B preferred stock redemption value	(4.7)	(5.5)	(8.8)	(14.8)	(12.7)	(5.1)	(7.3)	(9.8)	(7.1)	(9.2)
Amount allocated to Series A preferred stockholders	(0.3)	(0.6)							(0.3)	
Net income (loss) available to common stockholders	0.3%	33.0%	(4.0)%	(6.0)%	(4.9)%	(0.5)%	(28.7)%	(10.7)%	2.0%	(0.5)%

Net Revenue. Our net revenue fluctuates on a quarterly basis, and increased from $8.4 million in the quarter ended September 30, 2003 to $19.4 million in the quarter ended December 31, 2005 primarily due to increased ATE equipment spending, growth in the flash memory market and the introduction and increased market adoption of our Magnum product. Our financial results have been and will continue to be impacted by capital expenditures of our semiconductor manufacturer customers. For example, we experienced sequential growth in net revenue each quarter in fiscal 2004 and in the quarter ended September 30, 2004. In the quarters ended December 31, 2004 and March 31, 2005 our net revenue declined as semiconductor manufacturers ATE spending declined. In the quarters ended June 30, 2005, September 30, 2005 and December 31, 2005 our net revenue increased driven by increased adoption of our Magnum product with net revenue in the quarter ended December 31, 2005 reaching a new high for the Company.

Gross Profit. Our gross profit margin has varied between 42% and 54% in the last ten quarters. Gross profit varies from quarter to quarter largely depending upon customer and product mix and changes in the level of net revenue and shipments. Such changes can impact our absorption of our indirect manufacturing costs, the need to record additional inventory provisions and/or realize the benefit from the sale of previously written-off inventory.

Table of Contents

Our quarterly results of operations have varied in the past and are likely to do so again in the future. As such, we believe that period-to-period comparisons of our operating results should not be relied upon as an indication of future performance. In future periods, the market price of our common stock could decline if our net revenue and results of operations are below the expectations of analysts and investors. Factors that may cause our revenue and operating results to fluctuate include those discussed in the Risk Factors section of this prospectus.

Liquidity and Capital Resources

Since our inception, we have financed our operations mainly through operating profit and deposits made by customers at the time they place orders with us. In January 2001, we received gross proceeds of $1.5 million from a Series A Preferred Stock financing. During late fiscal 2001 and early fiscal 2002, our revenue started to decline and we determined that raising additional funds was necessary. In November 2001 and December 2001 we raised a total of $20.0 million in gross proceeds from a Series B Preferred financing.

After these financing activities, we had sufficient cash to run operations for several years at reduced revenue levels. We, nonetheless, determined it prudent to reduce costs to preserve our cash position. Commencing in the quarter ended September 30, 2002, we instituted measures to reduce salaries. These salary cuts ranged from 10% for applications and development engineering employees, to almost 30% for the remainder of our employees. Senior management participated in this salary reduction, with certain executives undergoing larger salary reductions for over a year. As business improved in the second half of calendar year 2003, we eliminated salary reductions, returning all employees to their original salary levels.

As of December 31, 2005, we had cash and cash equivalents of $16.9 million and working capital of $32.4 million. As of June 30, 2005 we had cash and cash equivalents of $10.5 million and working capital of $28.2 million. Cash provided by operating activities was $6.4 million in the six month period ended December 31, 2005 and cash used in operating activities was $0.7 million for the six months ended December 31, 2004. The increase in cash provided by operating activities of $7.1 million in the six months ended December 31, 2005 as compared to the six months ended December 31, 2004 resulted primarily because:

- Net income increased to $3.3 million in the six months ended December 31, 2005 as compared to $1.7 million in the six months ended December 31, 2004.

- Non-cash charges included in net income decreased by $1.2 million primarily due to a $0.7 million lower provision for inventory writedowns, and a $0.5 million higher deferred tax benefit offset in part by a $0.5 million larger stock based compensation charge in the six months ended December 31, 2005 as compared to the six months ended December 31, 2004.

- A decrease of $3.5 million in accounts receivable in the six months ended December 31, 2005 as compared to a decrease of $1.4 million in the six months ended December 31, 2004. The larger decrease in the six months ended December 31, 2005 was primarily related to the timing of cash receipts.

- An increase of $9.0 million in inventories in the six months ended December 31, 2005 as compared to an increase of $0.1 million in inventories in the six months ended December 31, 2004. At December 31, 2005, inventory levels were being increased due to growth in customer orders as compared to the December 31, 2004 period when inventory levels were being reduced in response to a drop in customer orders.

An increase in accounts payable and accrued liabilities of $5.4 million in the six months ended December 31, 2005 compared to a decrease in accounts payable and accrued liabilities of $6.0 million in the six months ended December 31, 2004. This $11.4 million change resulted because of the inventory increases noted above and increased operating activities in the six months ended December 31, 2005 due to the increase in revenues and customer orders. In the six months ended December 31, 2004 revenues and customer orders were declining and actions were taken to reduce inventory.

Table of Contents

An increase in income taxes payable of $2.4 million in the six months ended December 31, 2005 compared to a decrease of $0.2 million in the six months ended December 31, 2004, reflective of higher taxable income.

Our inventory turns in the six months ended December 31, 2005 were 2.1 as compared to 1.3 in the six months ended December 31, 2004. Inventory turns in the six months ended December 31, 2004 were lower because we had purchased significant inventory in the fourth quarter of the year ended June 30, 2004 to support the introduction of the Magnum product and also due to the impact of lower sales activity. During the year ended June 30, 2005 we reduced inventory purchases to conserve cash and balance inventory levels to better match expected order activity. We expect that in the next several quarters our inventory turns may erode somewhat as we increase purchase activity, particularly for long-lead time items, to support expected growth in customer orders.

Days sales outstanding in our accounts receivable at December 31, 2005 were 44 days as compared to 65 days at December 31, 2004. We expect days sales outstanding in accounts receivable to continue to vary significantly due to the timing of shipments during the period and changes in deferred product revenue and customer deposits. We continue to monitor outstanding accounts receivable and aggressively pursue cash collections.

In general, our ability to generate positive cash flows from operations is dependent on our ability to generate revenue and related cash on a timely basis, while maintaining an efficient cost structure. As a result, sales volume is the most significant uncertainty in our ability to generate cash flows from operations. However, as sales increase, we will use cash for inventory and accounts receivable before it is converted to cash and cash equivalents, thereby putting pressure on our cash balances during periods of high revenue growth. We believe that our business strategies will allow us to generate future sales that, combined with our existing cash and cash equivalents, will be sufficient to fund our business for the next 12 months.

Cash used in investing activities was less than $0.1 million in the six months ended December 31, 2005 compared to cash provided by investing activities of $1.9 million in the six months ended December 31, 2004. The decrease in cash provided by investing activities in the six months ended December 31, 2005 is due primarily to liquidating our short-term investments in auction rate securities in the six months ended December 31, 2004 and investing our excess cash in cash equivalents.

Cash provided by financing activities was $0.1 million in the six months ended December 31, 2005 compared to cash provided of less than $0.1 million in the six months ended December 31, 2004. Cash provided from financing activities in the six months ended December 31, 2005 was primarily from interest payments on notes receivable from stockholders and proceeds from stock option exercises.

We believe that our current cash balances, combined with future cash flows from operations will be sufficient to meet our anticipated cash needs for operations for the next 12 months. However, a large acquisition of a complementary business, products, or technologies, or a material joint venture, could require us to obtain additional equity or debt financing, which may not be available on acceptable terms, or at all. No such activities are anticipated at this time. We are unaware of any known material trends or uncertainties that may require us to make cash management decisions that will impair our operating capabilities during the next year, except for the Series B Preferred financing described below.

The Series B Preferred are converted automatically into common shares upon completion of an initial public offering of at least $25,000,000 and a price of at least $10.00 per share. However, if the Series B Preferred are not converted to common stock prior to written notice of at least a majority of the holders of Series B Preferred, at any time not less than 60 days prior to November 29, 2006, we must redeem all the Series B Preferred at a price equal to the greater of the fair value of the Series B Preferred, as determined by the Board of Directors, including a director elected by the holders of Series B Preferred, or the original Series B Preferred issue price for each share of Series B Preferred, plus all declared, but unpaid dividends thereon. Therefore, we

Table of Contents

will need to either obtain an extension of the redemption date or otherwise refinance the obligation. At December 31, 2005, the Company recorded cumulative charges to its retained earnings of $13,192,000 and $732,000 to its paid-in capital related to the accretion of the Series B Preferred to its estimated redemption value. If Series B Preferred remains outstanding until its extended redemption date, the estimated redemption fair value, as determined on December 31, 2005, is $41,200,000.

We have not used off-balance sheet financing arrangements, issued or purchased derivative instruments linked to our stock, or used our stock as a form of liquidity. We have a maximum $10,000,000 revolving credit facility based on certain qualifying accounts receivable with a financial institution that expires on April 29, 2007, bearing interest at the bank s prime rate plus 0.25% per annum. The interest rate at December 31, 2005 was 7.25%. The agreement, which is collateralized by our assets, contains a minimum net worth covenant and other restrictions. The commitment fee is $12,500 per annum for the initial $5,000,000 credit facility and an additional $12,500 for the next $5,000,000 credit facility. As of June 30, 2005 and December 31, 2005, there have been no borrowings under the line of credit and we were in compliance with the covenant and other restrictions.

Contractual Obligations

The following table summarizes, as of December 31, 2005, the timing of future cash payments due under certain contractual obligations. Payments due in years are measured from our latest fiscal year ended June 30, 2005.

	Payments Due In				
	Total	**January 2006 to June 2006**	**2-3 years**	**4-5 years**	**More than 5 years**
			(in thousands)		
Operating lease obligations	$ 2,869	$ 721	$ 2,066	$ 82	$
Series B mandatorily redeemable convertible preferred stock	41,200		41,200		