UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended July 2, 2005

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ______ to ______

Commission file number 0-13470

NANOMETRICS INCORPORATED

(Exact name of registrant as specified in its charter)

California	**94-2276314**
(State or other jurisdiction of incorporation or organization)	**(I. R. S. Employer Identification No.)**
1550 Buckeye Drive, Milpitas, CA	**95035**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (408) 435-9600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES ¨ NO x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ¨ No x

As of July 21, 2005 there were 12,798,207 shares of common stock, no par value, issued and outstanding.

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EXPLANATORY NOTE

On October 26, 2005, the Company s Audit Committee, acting on a recommendation from the Company s management, determined that the Company s audited financial statements for the fiscal year ended January 1, 2005, and its unaudited quarterly financial statements for the periods ended April 2, 2005 and July 2, 2005, respectively, should be restated to revise the accounting for certain post-sale warranty services and other items. The restatement impacts the comparable three- and six-month periods ended July 2, 2005 and July 3, 2004 presented herein and is further discussed in Note 2 to the condensed consolidated financial statements included herein.

This amendment to the Company s Quarterly Report on Form 10-Q/A is being filed for the purpose of amending and restating Items 1, 2 and 4 of Part I and Item 6 of Part II of the Form 10-Q originally filed solely to the extent necessary (i) to reflect the restatement of the Company s condensed consolidated financial statements as of and for the periods ended July 2, 2005 and July 3, 2004 as described in Note 2 to the condensed consolidated financial statements and (ii) to make revisions to Management s Discussion and Analysis of Financial Condition and Results of Operations as warranted by the restatement, (iii) to make revisions to Item 4 of Part I to reflect our evaluation of controls and procedures as of the date of filing this amended Quarterly Report on Form 10-Q/A, (iv) to include the certifications required by the Sarbanes-Oxley Act of 2002 and (v) to update the exhibits. The Company has made no further changes to the originally filed Form 10-Q. All other information in this amended Quarterly Report on Form 10-Q/A is as of the date the Quarterly Report on Form 10-Q was originally filed and does not reflect any subsequent information or events other than those reflected in the restatement.

The Company has filed an Amendment No. 2 to its Annual Report on Form 10-K/A (the Form 10-K/A) to the Company s Annual report on Form 10-K for the year ended January 1, 2005 to reflect restatements of the Company s consolidated balance sheet as of January 1, 2005 and the Company s consolidated statements of operations, cash flows and stockholders equity for the year ended January 1, 2005 and interim period information. The Company has also filed an Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the quarter ended April 2, 2005 to reflect restatements of the Company s consolidated balance sheet as of April 2, 2005 and the Company s consolidated statements of operations and cash flows for the three-month periods ended April 2, 2005 and April 3, 2004.

As stated above, the Company has filed an Amendment No. 2 to its Annual Report on Form 10-K/A for the year ended January 1, 2005 and as such, the unaudited quarterly financial statements in the Quarterly Reports on Form 10-Q for the periods ended April 3, 2004, July 3, 2004 and October 2, 2004, should no longer be relied upon. The Company has not amended and does not intend to amend its previously filed Quarterly Reports on Form 10-Q for the periods affected by the restatement prior to January 1, 2005 as the 2004 restatement information will be reflected in the Quarterly Reports on Form 10-Q/A for the three-month periods ended April 2, 2005 and July 2, 2005 and in the Quarterly Report on Form 10-Q for the three-month period ended October 1, 2005 with the statement of operations information included in the Form 10-K/A.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NANOMETRICS INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except share amounts)

(Unaudited)

	July 2, 2005	January 1, 2005
	As restated	*As restated*
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26,319	$ 15,949
Short-term investments	18,848	17,919
Accounts receivable, net of allowances of $596 and $603, respectively	24,499	22,222
Inventories	25,421	25,494
Prepaid expenses and other	877	944
Total current assets	95,964	82,528
Property, plant and equipment, net	45,236	49,035
Intangible assets	771	924
Other assets	1,410	1,282
Total assets	$ 143,381	$ 133,769
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Revolving line of credit	$ 1,789	$
Accounts payable	2,991	3,146
Accrued payroll and related expenses	2,975	2,512
Deferred revenue	3,791	3,506
Other current liabilities	4,017	2,097
Income taxes payable	1,106	1,515
Current portion of debt obligations	459	1,164
Total current liabilities	17,128	13,940
Deferred income taxes and other long-term liabilities	118	930
Debt obligations - Non-current portion	1,668	2,070
Total liabilities	18,914	16,940

Contingency		
Shareholders Equity:		
Common stock, no par value; 50,000,000 shares authorized; 12,762,007 and 12,566,636, respectively, outstanding	105,494	104,191
Retained earnings	17,679	10,707
Accumulated other comprehensive income	1,294	1,931
Total shareholders equity	124,467	116,829
Total liabilities and shareholders equity	$ 143,381	$ 133,769

See Notes to Condensed Consolidated Financial Statements

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NANOMETRICS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
	As restated	*As restated*	*As restated*	*As restated*
Net revenues:				
Product sales	$ 16,535	$ 13,972	$ 37,545	$ 25,443
Service	2,201	2,037	4,541	4,045
Total net revenues	18,736	16,009	42,086	29,488
Costs and expenses:				
Cost of product sales	8,463	5,889	18,195	11,428
Cost of service	2,608	1,648	5,181	3,259
Research and development	3,656	2,670	6,835	6,159
Selling	2,851	3,129	5,994	6,337
General and administrative	2,400	1,363	4,398	2,658
Asset impairment	2,232		2,232	
Merger termination fee	(8,300)		(8,300)	
Total costs and expenses	13,910	14,699	34,535	29,841
Income (loss) from operations	4,826	1,310	7,551	(353)
Other income (expense):				
Interest income	193	49	323	105
Interest expense	(17)	(21)	(35)	(50)
Other, net	(206)	(182)	(476)	(185)
Total other income (expense), net	(30)	(154)	(188)	(130)
Income (loss) before income taxes	4,796	1,156	7,363	(483)
Provision for income taxes	308	61	391	104
Net income (loss)	$ 4,488	$ 1,095	$ 6,972	$ (587)
Net income (loss) per share:				
Basic	$ 0.36	$ 0.09	$ 0.55	$ (0.05)
Diluted	$ 0.34	$ 0.08	$ 0.52	$ (0.05)

Shares used in per share computation:				
Basic	12,629	12,262	12,602	12,226
Diluted	13,374	13,292	13,414	12,226

See Notes to Condensed Consolidated Financial Statements.

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NANOMETRICS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended	
	July 2, 2005	July 3, 2004
	As restated	*As restated*
Cash flows from operating activities:		
Net income (loss)	$ 6,972	$ (587)
Reconciliation of net income to net cash used in operating activities:		
Depreciation and amortization	1,246	1,317
Asset impairment	2,232	
Gain on disposal of asset	(6)	
Deferred income taxes		
Changes in assets and liabilities:		
Accounts receivable	(3,360)	(4,344)
Inventories, net	(184)	(3,772)
Prepaid expenses and other	(119)	(142)
Accounts payable, accrued and other current liabilities	2,322	1,465
Deferred revenue	388	1,414
Income taxes payable	(394)	(132)
Net cash provided by (used in) operating activities	9,097	(4,781)
Cash flows from investing activities:		
Proceeds from sale of asset	30	
Purchase of short-term investments	(18,929)	
Sales/maturities of short-term investments	18,000	21,943
Purchases of property, plant and equipment	(47)	(464)
Net cash provided by (used in) investing activities	(946)	21,479
Cash flows from financing activities:		
Proceeds from issuance of debt obligations	1,789	1,361
Repayments of debt obligations	(881)	(353)
Sale of shares under employee stock option plan and purchase plan	1,304	1,155
Net cash provided by financing activities	2,212	2,163
Effect of exchange rate changes on cash and cash equivalents	7	75
Net increase in cash and cash equivalents	10,370	18,936
Cash and cash equivalents, beginning of period	15,949	7,949

Cash and cash equivalents, end of period	$ 26,319	$ 26,885
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 37	$ 50
Cash paid for income taxes	$ 747	$ 33

See Notes to Condensed Consolidated Financial Statements.

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NANOMETRICS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Condensed Consolidated Financial Statements

In the opinion of management, the accompanying Unaudited Condensed Consolidated Interim Financial Statements (financial statements) of Nanometrics Incorporated and its wholly-owned subsidiaries (collectively, Nanometrics or the Company) have been prepared on a consistent basis with the January 1, 2005 audited consolidated financial statements (as restated) and include all adjustments, consisting of only normal recurring adjustments (except for the adjustments to restate these financial statements discussed in Note 2) necessary to fairly present the information set forth therein. The financial statements have been prepared in accordance with the regulations of the U.S. Securities and Exchange Commission (SEC), and, therefore, omit certain information and footnote disclosure necessary to present the statements in accordance with accounting principles generally accepted in the United States of America. The operating results for interim periods are not necessarily indicative of the operating results that may be expected for the entire year. These financial statements should be read in conjunction with the audited consolidated financial statements (as restated) and notes thereto for the year ended January 1, 2005, which were included in the Company s Annual Report on Form 10-K/Amendment No. 2, which was filed with the SEC on February 22, 2006.

Fiscal Period Nanometrics uses a 52/53 week fiscal year ending on the Saturday nearest to December 31. All references to the quarter refer to Nanometrics fiscal quarter. The fiscal quarters presented herein include 13 weeks.

Note 2. Restatement of Condensed Consolidated Financial Results

On October 26, 2005, the Company s Audit Committee, acting on a recommendation from the Company s management, determined that the Company s audited financial statements for the fiscal year ended January 1, 2005, and its unaudited quarterly financial statements for the periods ended April 2, 2005 and July 2, 2005, respectively, should be restated to revise the accounting for certain post-sale warranty services and other items. Accordingly, the Company is restating its consolidated financial statements for its fiscal year 2004 and the first two quarters of 2005. This Form 10-Q/A includes restated unaudited results for the three- and six-month periods ended July 3, 2004. Included in the results of operations and cash flows for the six-month period ended July 2, 2005 and July 3, 2004 are the unaudited restated results of operations and cash flows for the three-month periods ended April 2, 2005 and April 3, 2004.

This Form 10-Q/A reflects adjustments to net revenues and operating expenses related to the restatement of our financial results. Below is a description of the significant adjustments impacting the financial results for the periods presented and relates to the Company s (i) deferral of revenue associated with extended warranty contracts purchased by certain customers at the time of equipment sale, (ii) alignment of the warranty accrual with the actual warranty periods for certain customers and (iii) accrual of certain foreign sales commission expenses into the appropriate period.

Revenue Deferral Associated with Extended Warranty

The effect of the restatement is to defer revenue associated with extended warranty provisions of certain customer supply arrangements. Nanometrics generally sells the majority of its products with a twelve month repair or replacement warranty. The Company identified certain transactions whereby the terms of the product sale included a separately priced extended warranty provision beyond the standard twelve month warranty. These identified transactions occurred in all periods presented. In accordance with Financial Accounting Standards Board Technical Bulletin 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts,* revenue for separately priced extended warranty contracts should be deferred and recognized ratably over the term of the extended warranty contract. The Company is restating its financial statements to recognize such deferred revenue on a straight-line basis over the contract period. The restatement adjustments resulted in a decrease to product sales, previously reported in the Company s Form 10-Q, for the three- and six-month periods ended July 2, 2005 of $0.1 million and $0.3 million, respectively, and in a decrease to product sales for the three- and six-month periods ended July 3, 2004 of $0.2 million and $0.4 million, respectively.

The following table sets forth the expected increase in service revenue for future periods related to the revenue deferred as a result of this restatement:

Three Months Ending:	
July 2, 2005 (actual)	$ 59
October 1, 2005	115
December 31, 2005	155
Remainder of fiscal 2005	$ 329
April 1, 2006	$ 191
July 1, 2006	192
September 30, 2006	144
December 30, 2006	105
Fiscal 2006	$ 632
March 31, 2007	$ 54
June 30, 2007	9
Fiscal 2007	$ 63

Alignment of Warranty Accrual with Actual Warranty Periods

The Company provides a warranty accrual at the time of revenue recognition. As a result of the additional procedures performed by management, the Company discovered that, in certain instances, the warranty periods used in determining the warranty accrual did not coincide with the actual warranty periods for products under warranty coverage. Accordingly, adjustments were recorded to the warranty accrual and related costs of product sales in fiscal years 2005 and 2004. The restatement adjustments resulted in an increase to the warranty expense, previously reported in our Form 10-Q, for each of the three- and six-month periods ended July 2, 2005 of $0.1 million. The restatement adjustments resulted in an decrease to warranty expense for the three-month period ended July 3, 2004 of less than $0.1 million and an increase in warranty expense for the six-month period ended July 3, 2004 of $0.1 million.

Accrual of Unpaid Sales Commission

As part of its overall compensation strategy, the Company pays a commission to its field sales personnel for their services in selling its products and obtaining customer orders. The sales commissions are paid to the field sales personnel only after the customer has fully paid for the equipment or services received. Customer payment is often received a number of months after revenue is recognized. At one of its foreign locations, the Company erroneously recorded the expense upon payment of the sales commissions to its field sales personnel rather than when the related revenue and other associated costs of revenues were recognized. Accordingly, adjustments were recorded to reflect the sales commission expense in the periods in which the Company recognized the related revenue. The restatement adjustments resulted in an increase to selling expense previously reported in our Form 10-Q for each of the three- and six-month periods ended July 2, 2005 of less than $0.1 million and an increase for the three- and six-month periods ended July 3, 2004 of less than $0.1 million and $0.2 million, respectively.

Effect of Restatement Upon Previously Reported Balances

The condensed consolidated balance sheet as of January 1, 2005 and the condensed consolidated financial statements for the three- and six-month periods ended July 2, 2005 and July 3, 2004 contained herein have been restated to incorporate all of these adjustments and the related tax effects as described herein. The restatement adjustments described herein required a number of significant accounting judgments by the Company. The following table sets forth selected consolidated financial data for the Company, showing previously reported and restated amounts at July 2, 2005 and January 1, 2005 (in thousands):

	July 2, 2005			January 1, 2005		
	As Previously Reported	As Restated	Inc (Dec)	As Previously Reported	As Restated	Inc (Dec)
Accrued payroll and related expenses	$ 2,644	$ 2,975	$ 331 C	$ 2,206	$ 2,512	$ 306 C
Deferred revenue	$ 2,798	$ 3,791	$ 993 A	$ 2,742	$ 3,506	$ 764 A
Other current liabilities	$ 3,649	$ 4,017	$ 368 B	$ 1,840	$ 2,097	$ 257 B
Total current liabilities	$ 15,436	$ 17,128	$ 1,692	$ 12,613	$ 13,940	$ 1,327
Retained earnings	$ 19,371	$ 17,679	$ (1,692)	$ 12,034	$ 10,707	$ (1,327)

A Adjustment relates to revenue deferral associated with extended warranty contracts
B Adjustment relates to the alignment of warranty accrual with actual warranty periods

c Adjustment relates to accrual of unpaid sales commission

The impact of all adjustments discussed herein to the condensed consolidated statement of operations was to decrease the Company s previously reported net income per diluted share for the three- and six-month periods ended July 2, 2005 by $0.01 and $0.03, respectively. The following table sets forth selected consolidated financial data for the Company, showing

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previously reported and restated amounts for the three- and six-month periods ended July 2, 2005 (in thousands, except per share amounts):

	Three Months Ended July 2, 2005			Six Months Ended July 2, 2005		
	As Previously Reported	As Restated	Inc (Dec)	As Previously Reported	As Restated	Inc (Dec)
Net revenues						
Product sales	$ 16,654	$ 16,535	$ (119)[A]	$ 37,820	$ 37,545	$ (275)[A]
Service	$ 2,170	$ 2,201	$ 31	$ 4,495	$ 4,541	$ 46
Cost of product sales	$ 8,334	$ 8,463	$ 129[B]	$ 18,084	$ 18,195	$ 111[B]
Selling expenses	$ 2,824	$ 2,851	$ 27[C]	$ 5,969	$ 5,994	$ 25[C]
Income from operations	$ 5,070	$ 4,826	$ (244)	$ 7,916	$ 7,551	$ (365)
Provision for income taxes	$ 308	$ 308	$	$ 391	$ 391	$
Net income	$ 4,732	$ 4,488	$ (244)	$ 7,337	$ 6,972	$ (365)
Net income per share:						
Basic	$ 0.37	$ 0.36	$ (0.01)	$ 0.58	$ 0.55	$ (0.03)
Diluted	$ 0.35	$ 0.34	$ (0.01)	$ 0.55	$ 0.52	$ (0.03)

[A] Adjustment relates to revenue deferral associated with extended warranty contracts

[B] Adjustment relates to the alignment of warranty accrual with actual warranty periods

[C] Adjustment relates to accrual of unpaid sales commission

The impact of all adjustments discussed herein to the condensed consolidated statement of operations was to decrease the Company s previously reported net income per diluted share for the three- and six-month periods ended July 3, 2004 by $0.02 and $0.06, respectively. The following table sets forth selected consolidated financial data for the Company, showing previously reported and restated amounts for the three- and six-month periods ended July 3, 2004 (in thousands, except per share amounts):

	Three Months Ended July 3, 2004			Six Months Ended July 3, 2004		
	As Previously Reported	As Restated	Inc (Dec)	As Previously Reported	As Restated	Inc (Dec)
Net revenues						
Product sales	$ 14,174	$ 13,972	$ (202)[A]	$ 25,837	$ 25,443	$ (394)[A]
Service	$ 2,037	$ 2,037	$	$ 4,045	$ 4,045	$
Cost of product sales	$ 5,922	$ 5,889	$ (33)[B]	$ 11,325	$ 11,428	$ 103[B]
Selling expenses	$ 3,091	$ 3,129	$ 38[C]	$ 6,157	$ 6,337	$ 180[C]
Income (loss) from operations	$ 1,517	$ 1,310	$ (207)	$ 324	$ (353)	$ (677)
Provision for income taxes	$ 61	$ 61	$	$ 104	$ 104	$
Net income (loss)	$ 1,302	$ 1,095	$ (207)	$ 90	$ (587)	$ (677)
Net income (loss) per share:						
Basic	$ 0.11	$ 0.09	$ (0.02)	$ 0.01	$ (0.05)	$ (0.06)
Diluted	$ 0.10	$ 0.08	$ (0.02)	$ 0.01	$ (0.05)	$ (0.06)

[A] Adjustment relates to revenue deferral associated with extended warranty contracts
[B] Adjustment relates to the alignment of warranty accrual with actual warranty periods
[C] Adjustment relates to accrual of unpaid sales commission

The Company has determined the cumulative effect of these errors was approximately $0.4 million as of January 3, 2004. The effect was not material to any relevant prior period and had the amounts been recorded correctly in the prior periods, there would have been no significant effect on reported net loss, comprehensive loss or total stockholder s equity. To correct this misstatement, the Company recorded the cumulative $0.4 million in the condensed consolidated statement of operations in the three-month period ended April 3, 2004.

Note 3. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment* , (SFAS No. 123(R)). This statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation* , amends SFAS No. 95, *Statement of Cash Flows* and supersedes Accounting

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Principles Board (APB) Opinion No. 25 *Accounting for Stock Issued to Employees* (APB No. 25). SFAS No. 123(R) requires companies to apply a fair-value based measurement method in accounting for share-based payment transactions with employees and to record compensation expense for all stock awards granted, and to awards modified, repurchased or cancelled after the required effective date. In addition, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS No. 123(R) will be effective for fiscal years beginning after June 15, 2005, which is the Company s fiscal 2006. This statement will have a significant impact on the Company s results of operations as the Company will be required to record compensation expense rather than disclose the impact on the Company s results of operations within its footnotes (see Note 4 below).

In March 2005, the SEC staff issued guidance on SFAS No. 123(R). Staff Accounting Bulletin (SAB) No. 107 (SAB No. 107) was issued to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R) while enhancing the information that investors receive. SAB No. 107 creates a framework that is premised on two overarching themes: (a) considerable judgment will be required by preparers to successfully implement SFAS No. 123(R), specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Key topics covered by SAB No. 107 include: (a) valuation models SAB No. 107 reinforces the flexibility allowed by SFAS No. 123(R) to choose an option-pricing model that meets the standard s fair value measurement objective; (b) expected volatility SAB No. 107 provides guidance on when it would be appropriate to rely exclusively on either historical or implied volatility in estimating expected volatility; and (c) expected term the new guidance includes examples and some simplified approaches to determining the expected term under certain circumstances. The Company will apply the principles of SAB No. 107 in conjunction with its adoption of SFAS No. 123(R).

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on recognition and measurement guidance under EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* which clarifies the meaning of other-than-temporary impairment and its application to investments in debt and equity securities. In particular, investments within the scope of SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities,* and investments accounted for under the cost method are addressed. In September 2004, the FASB indefinitely delayed the requirements to record impairment losses under EITF 03-1 until the January 1, 2005 effective date. The Company adopted this consensus and the adoption did not have a material affect on its consolidated results of operations.

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In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, An Amendment of ARB No. 43, Chapter 4.* This Statement amends ARB No. 43, Chapter 4, to clarify that abnormal amount of idle facility, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The provisions of SFAS No. 151 should be applied prospectively. The Company does not believe SFAS No. 151 will have a material impact on its financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154) which replaces APB 20 *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion.* 28. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted in the first fiscal quarter of 2006. The Company does not anticipate any impact on its consolidated results of operations and financial condition upon adoption of SFAS 154.

Note 4. Merger Termination

On January 21, 2005, Nanometrics and August Technology Corporation entered into a definitive merger agreement. On June 28, 2005, August Technology Corporation and the Company announced the termination of the merger agreement. In accordance with the terms of the merger agreement, August Technology paid Nanometrics a merger termination fee of $8.3 million on June 28, 2005. Also in accordance with the terms of the merger agreement, August Technology paid to the Company approximately $2.6 million as reimbursement of the Company s expenses associated with the merger agreement on the same date.

Note 5. Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements using the intrinsic-value-based method in accordance with the provisions of APB No. 25, as interpreted by FASB Interpretation (FIN) No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, and complies with the disclosure provisions of SFAS No. 148, *Accounting for Stock-based Compensation Transition and Disclosure*, an amendment of SFAS No. 123.

The following table illustrates the effect on net income (loss) and net income (loss) per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to employee stock option plans including shares issued under the Company s Employee Stock Purchase Plan, collectively called options for all periods presented. For purposes of pro forma disclosures, the estimated fair value of the options is assumed to be amortized to expense over the options vesting periods. Pro forma information follows (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004

	As restated	As restated	As restated	As restated
Net income (loss):				
As reported	$ 4,488	$ 1,095	$ 6,972	$ (587)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,139)	(1,121)	(2,094)	(2,355)
Pro forma net income (loss)	$ 3,349	$ (26)	$ 4,878	$ (2,942)
Basic net income (loss) per share:				
As reported	$ 0.36	$ 0.09	$ 0.55	$ (0.05)
Pro forma	$ 0.27	$ (0.00)	$ 0.39	$ (0.24)
Diluted net income (loss) per share:				
As reported	$ 0.34	$ 0.08	$ 0.52	$ (0.05)
Pro forma	$ 0.25	$ (0.00)	$ 0.36	$ (0.24)

SFAS No. 123 requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option pricing model, used by the Company, was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the option s expected life and the price volatility of the underlying stock. Because the Company s options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable measure of the fair value of the Company s options.

The fair value of options granted for the period presented below under the 1991, 2000 and 2002 Option Plans and the 1991 and 2000 Directors Plans were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Stock Option Plans:				
Expected life	3.3 years	3.5 years	3.3 years	3.4 years
Volatility	77.0%	90.0%	77.8%	90.0%
Risk free interest rate	3.86%	2.81%	3.72%	2.70%
Dividends				
Employee Stock Purchase Plan:				
Expected life	0.5 years	0.5 years	0.5 years	0.5 years
Volatility	53.0%	90.0%	56.7%	90.0%
Risk free interest rate	1.70%	1.10%	1.53%	1.10%
Dividends				

Note 6. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following (in thousands):

	July 2, 2005	January 1, 2005
Raw materials and subassemblies	$ 13,240	$ 14,391
Work in process	7,268	4,330
Finished goods	4,913	6,773
Total inventories	$ 25,421	$ 25,494

Note 7. Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization. Intangible assets as of July 2, 2005 and January 1, 2005 consist of (in thousands):

July 2, 2005	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Technology	$ 1,790	$ 1,023	$ 767
Other	250	246	4
Total	$ 2,040	$ 1,269	$ 771

January 1, 2005	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Technology	$ 2,290	$ 1,395	$ 895
Other	250	221	29
Total	$ 2,540	$ 1,616	$ 924

Amortization expense for the three month and six month periods ended July 2, 2005 and July 3, 2004 was $0.1 million and $0.2 million, respectively.

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The estimated future amortization expense as of July 2, 2005 is as follows (in thousands):

Fiscal Years	
2005 (remaining six months)	$ 132
2006	256
2007	256
2008	127
Total amortization	$ 771

Note 8. Line of Credit

During the second quarter 2005, the Company renewed a revolving line of credit with a Japanese bank. This revolver is an unsecured line of credit, and the Company may borrow up to ¥400 million through June 2006. Borrowings under the Line of Credit bear interest at a rate of 1.5%. There are no restrictive covenants under the line of credit agreement. As of July 2, 2005, outstanding borrowings were ¥200 million, or approximately $1.79 million translated at the spot rate effective as of July 2, 2005. As of January 1, 2005, there were no amounts drawn under the previous line of credit arrangement with the same bank.

Note 9. Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	July 2, 2005	**January 1, 2005**
	As restated	***As restated***
Accrued warranty	$ 1,237	$ 1,055
Accrued professional services	932	235
Customer deposits	1,087	169
Other	761	638
Total other current liabilities	$ 4,017	$ 2,097

Note 10. Shareholders Equity

Net Income (Loss) Per Share - Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income per share gives effect to all potentially dilutive common shares outstanding during the period, which include certain stock options, calculated using the treasury stock method. A reconciliation of the share denominator of the basic and diluted net income (loss) per share computations is as follows (in thousands):

	Three Months Ended		**Six Months Ended**	
	July 2, 2005	**July 3, 2004**	**July 2, 2005**	**July 3, 2004**
Weighted average common shares outstanding-shares used in basic net income (loss) per share computation	12,629	12,262	12,602	12,226
Potentially dilutive common stock equivalents, using the treasury stock method	745	1,030	812	
Shares used in diluted net income (loss) per share computation	13,374	13,292	13,414	12,226

At July 2, 2005 and July 3, 2004, respectively, diluted net income per share excludes common equivalent shares outstanding of 1.1 million and 0.8 million, respectively, as their effect was anti-dilutive.

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Note 11. Comprehensive Income

The Company s comprehensive income was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
	As restated	*As restated*	*As restated*	*As restated*
Net income (loss)	$ 4,488	$ 1,095	$ 6,972	$ (587)
Foreign currency translation adjustment, net of tax	(377)	(469)	(637)	151
Total comprehensive income (loss)	$ 4,111	$ 626	$ 6,335	$ (436)

Substantially all of the accumulated other comprehensive income reflected as a separate component of shareholders equity consists of accumulated foreign currency translation adjustment for all periods presented.

Note 12. Guarantees

Product Warranty - Nanometrics sells the majority of its products with a one-year repair or replacement warranty from the date of shipment. The Company provides an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales. The estimated future warranty obligations related to product sales are recorded in the period in which the related revenue is recognized. The estimated future warranty obligations are affected by the warranty periods, sales volumes, product failure rates, material usage, labor and replacement costs incurred in correcting a product failure. If actual product failure rates, material usage, labor or replacement costs differ from the Company s estimates, revisions to the estimated warranty obligations would be required. For new product introductions, where limited or no historical information exists, the Company may use warranty information from other previous product introductions to guide it in estimating its warranty accrual. The warranty accrual represents the best estimate of the amount necessary to settle future and existing claims on products sold as of the balance sheet date. The Company periodically assesses the adequacy of its reported warranty reserve and adjusts the amounts in accordance with changes in these factors. Components of the warranty accrual, which was included in the accompanying consolidated balance sheets with other current liabilities, were as follows (in thousands):

	Six Months Ended	
	July 2, 2005	July 3, 2004
	Restated	*Restated*
Balance as of beginning of period	$ 1,055	$ 513
Actual warranty costs	(556)	(274)

Provision for warranty	738	463
Balance as of end of period	$ 1,237	$ 702

Intellectual Property Indemnification Obligations - In addition to product warranties, the Company will, from time to time, in the normal course of business, indemnify certain customers with whom it enters into contractual relationships. The Company has agreed to hold these customers harmless against third party claims that Nanometrics products, when used for their intended purpose(s), infringe the intellectual property rights of such third parties or other claims made against the customer. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim. Historically, the Company has not made payments under these obligations and believes that the estimated fair value of these agreements is minimal. Accordingly, no liabilities have been recorded for these obligations on the condensed consolidated balance sheets as of July 2, 2005 and January 1, 2005.

Note 13. Income Taxes

Income tax provisions for interim periods are based on the Company s estimated annual income tax rate. The effective tax rates of 6% and 5% for the three- and six-months ended July 2, 2005, respectively, primarily reflect the Company s obligation for foreign taxes and U.S. Federal alternative minimum taxes. The estimated annual tax rate differs from the combined U.S. Federal and state statutory tax rates of 40% primarily due to the utilization of net operating loss carryforwards and the release of the related valuation allowance. We have established significant valuation allowances for our deferred tax assets arising from out tax net operating losses. We will continue to assess the realizability of our deferred tax assets particularly if we establish a pattern of profitability in future quarters.

Note 14. Asset Impairment

During the three-month period ended July 2, 2005, Nanometrics recorded an asset impairment charge of $2.2 million related to certain assets in our Japanese operations. Under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company should assess the recoverability of assets when events become known which would indicate potential impairment. The Company evaluated the estimated future cash flows of certain assets groups in our Japanese operations and determined the undiscounted estimated future cash flows would be insufficient to recover the carrying value of those assets. The impairment charge was measured based on the excess carrying value of the asset group in excess of the associated discounted future cash flows. Accordingly, we recorded an asset impairment charge during the second quarter of fiscal 2005.

Note 15. Contingencies

On March 9, 2005, Nova Measuring Instruments Ltd. (Nova) filed suit against Nanometrics. The complaint alleges certain Company products infringe a Nova patent and seeks a preliminary and permanent injunction against their sale and unspecified damages. The Company does not believe any of its products infringe any valid claim of the Nova patent. Nanometrics intends to vigorously and aggressively defend itself in the litigation. While the results of such litigation matters and claims cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse impact on its financial position or results operations.

In August 2005, Nanometrics was served with a complaint alleging that certain Company products infringe the intellectual property of a third party. The complaint seeks a preliminary and permanent injunction against the sale of these products and unspecified damages. The Company does not believe any of its products infringe any intellectual property of a third party and intends to vigorously and aggressively defend itself in the litigation.

Note 16. Geographic and Significant Customer Information

Nanometrics has operations in four primary geographic operating locations: the United States, Japan, South Korea and Taiwan. All such operating locations have similar economic characteristics, as defined in SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, and accordingly, Nanometrics operates in one reportable segment: the sale, design, manufacture, marketing and support of thin film, optical critical dimension and overlay dimension metrology systems. The following table summarizes total net revenues and long-lived assets attributed to significant countries (in thousands):

	Three Months Ended		**Six Months Ended**	
	July 2, 2005	**July 3, 2004**	**July 2, 2005**	**July 3, 2004**
	Restated	***Restated***	***Restated***	***Restated***
Total net revenues:				
United States	$ 4,115	$ 4,531	$ 9,526	$ 10,267

Japan	4,801	5,008	9,968	8,216
South Korea	3,935	5,087	14,109	6,663
Taiwan	5,202	736	6,832	1,501
All other	683	647	1,651	2,841
Total net revenues*	$ 18,736	$ 16,009	$ 42,086	$ 29,488

* Net revenues are attributed to countries based on the deployment and service locations of systems.

	July 2, 2005	**January 1, 2005**
Long-lived assets:		
United States	$ 38,210	$ 39,005
Japan	4,365	7,409
South Korea	4,045	3,870
Taiwan	26	33
Total long-lived assets**	$ 46,646	$ 50,317

** Long-lived assets include tangible assets only.

At July 2, 2005, three customers each accounted for 10% or more of total accounts receivable. At January 1, 2005, only one customer did so, accounting for 11% of total accounts receivable.

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

This Quarterly Report on Form 10-Q/A contains forward-looking statements that involve risks and uncertainties. The statements contained in this document that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding our business, including, but not limited to, the level of our expenditures and savings for various expense items and our liquidity in future periods. We may identify these statements by the use of words such as anticipate, believe, continue, could, estimate, exp intend, may, might, plan, potential, predict, project, should, will, would and other similar expressions. All forward-looking st in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements, except as may otherwise be required by law.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risk factors set forth in the Factors That May Affect Future Operating Results section and elsewhere in this document. In evaluating our business, current and prospective investors should carefully consider these factors in addition to the other information set forth in this document. We believe that it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to predict accurately or over which we have no control. You should be aware that the occurrence of the events described in such risk factors and elsewhere in this report could materially and adversely affect our business, operating results and financial condition. While management believes that the discussion and analysis in this report is adequate for a fair presentation of the information presented, we recommend that you read this discussion and analysis in conjunction with the audited consolidated financial statements and notes thereto for the year ended January 1, 2005, which were included in the Company s Annual Report on Form 10-K/A Amendment No. 2 filed with the Securities Exchange Commission on February 22, 2006.

Overview

We are an innovator in the field of metrology systems for the semiconductor and flat panel display manufacturing industries. Our systems are designed to precisely monitor film thickness and critical dimensions that are necessary to control the manufacturing process and provide increased production yields and performance.

Capital expenditures by manufacturers of semiconductors, especially in Asia, and their suppliers are critical to our success. The demand by these manufacturers and suppliers is driven by the expected market demand for new products and new applications. The increasing complexity of the 300mm manufacturing processes for semiconductors and larger flat panel displays is an important factor in the demand for our innovative metrology systems. The incorporation of smaller features sizes, copper interconnect technology and optical critical dimension technology are expected to result in increased demand. Our strategy is to continue to innovate organically as well to evaluate strategic acquisitions in order to address business challenges and opportunities.

Our revenues are derived from product sales and customer service, which include sales of accessories and service for the installed base of our products. For the year ended January 1, 2005, we derived 88.9% of our total net revenues from product sales and 11.1% of our total net revenues from services.

Important Themes and Significant Trends

The semiconductor equipment industry is characterized by cyclical growth. Recently, the industry emerged from an exceptionally long, cyclical downturn. Changing trends in the semiconductor manufacturing industry are increasing the need for metrology as a major component of manufacturing systems. These trends include:

Conversion to 300mm Wafer Size. Semiconductor manufacturers are converting to 300mm wafers to achieve better production efficiencies. Most facilities are incorporating this wafer size, and our newest products are well-positioned to serve these facilities. It is important that we are successful in product evaluations with these new 300mm facilities in order to continue to gain market share.

Incorporation of Optical Critical Dimension Metrology in the Patterning Process. Our customers use phototlithographic processes to create patterns on wafers. Critical dimensions must be carefully controlled during this process. Our proprietary optical critical dimension systems can provide the critical process control of these circuit dimensions that is necessary for successful manufacturing of these state of the art devices.

Copper Interconnect Technology. The need for ever increasing device circuit speed coupled with lower power consumption has pushed semiconductor device manufacturers to begin the replacement of the subtractive

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aluminum interconnect process with copper damascene technology. This new copper processing technology has driven the need for new metrology techniques such as non-destructive laser profiling and the use of optical critical dimension (OCD) technology for control of the copper process.

Incorporation of 65nm and 45nm Feature Sizes. In an effort to reduce costs and increase device performance, semiconductor manufacturers are decreasing both the dye size and feature size. Monitoring the increased tolerance requirements on smaller features sizes requires increased use of metrology systems. Our thin film and critical dimension metrology systems are well suited and are being adopted for these next generation processes.

Reduced Number of Customers. Because of the escalating cost of 300mm manufacturing facilities, fewer semiconductor manufacturers can afford the significant investment in these next generation facilities. Therefore, fewer opportunities for semiconductors equipment companies exist. Given that the available number of potential customers is decreasing, previous customer relationships, product positioning and critical mass take on greater importance.

Adoption of New Types of Thin Film Materials. Manufacturers are adopting new processes and technologies that increase the importance and utilization of thin film metrology systems. To achieve greater semiconductor device speed, manufacturers are utilizing copper and new, low dielectric constant (low k) insulating materials. Our advanced metrology solutions are required in the manufacturing process to characterize these materials.

Need for Improved Process Control to Drive Process Efficiencies. Competitive forces influencing semiconductor device manufacturers, such as price-cutting and shorter product life cycles, place pressure on manufacturers to rapidly achieve production efficiency. Device manufacturers are using our integrated and standalone metrology systems throughout the fab to ensure that manufacturing processes scale rapidly, are accurate and can be repeated on a consistent basis.

Critical Accounting Policies

The preparation of our financial statements conforms with accounting principles generally accepted in the United States of America, which requires management to make estimates and judgments in applying our accounting policies that have an important impact on our reported amounts of assets, liabilities, revenue, expenses and related disclosures at the date of our financial statements. On an on-going basis, management evaluates its estimates including those related to bad debts, inventory valuations, warranty obligations and income taxes. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from management s estimates. We believe that the application of the following accounting policies requires significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including those discussed below, see Note 1 to The Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the SEC on March 23, 2005.

Revenue Recognition Nanometrics recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller s price is fixed or determinable, and collectibility is reasonably assured. Product revenue includes hardware and software that is incidental to the products. For product sales to existing customers, revenue recognition generally occurs at the time of shipment, as our terms are FOB shipping point, if we have met defined customer acceptance experience levels with both the customer and the specific type of equipment. All other product revenues are recognized upon customer acceptance. In Japan, where risk of loss and title transfer to the customer upon initial customer acceptance, revenue is fully recognized upon initial customer acceptance.

All of our products are assembled prior to shipment to our customers. We often perform limited installation for our customers; such installation, however, is inconsequential and perfunctory as it is also performed by third parties. Revenue related to spare parts sales is recognized on shipment and is included as part of service revenue. Service revenue also includes service contracts and non-warranty repairs of systems. On occasion, customers request a warranty period longer than our standard 12 month warranty. In those instances where extended warranty services are separately quoted to the customer, we follow the guidance of Financial Accounting Standards Board Technical Bulletin 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts,* associated revenue is deferred and recognized to income ratably over the term of the contract. Whereas service revenue related to service contracts is recognized ratably over the period under contract, service revenue related to repairs of systems is recognized as services are performed. Unearned maintenance and service contract revenue is included in deferred revenue. Furthermore, we do not provide our customers with any return rights. Service contracts may be purchased by the customer when the warranty period expires.

In limited situations we have multiple deliverables in our customer arrangements. Those situations include the sale of repair services and parts together where revenues are recognized when both the services and parts have been delivered. We also provide technical support to our customers as part of our warranty program. Upon recognition of product revenue, a liability is recorded for anticipated warranty costs.

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Allowance for Doubtful Accounts We maintain allowances for estimated losses resulting from the nonpayment by our customers of required payments. Credit limits are established through a process of reviewing the financial history and stability of our customers. Where appropriate and available, we obtain credit rating reports and financial statements of customers when determining or modifying their credit limits. We regularly evaluate the collectibility of our trade receivable balances based on a combination of factors such as the length of time the receivables are past due, customary payment practices in the respective geographies and our historical collection experience with customers. We believe that our doubtful accounts allowance reflects our risk associated with smaller rather than larger customers and that our reported allowances are adequate. If however, the financial conditions of customers were to deteriorate, resulting in their inability to make payments, we may need to record additional allowances which would result in additional general and administrative expenses being recorded for the period in which such a determination was made. In the rare instance we are unable to collect amounts receivable, we will write-off the receivable against the related allowance.

Inventories We are exposed to a number of economic and industry factors that could result in portions of our inventory becoming either obsolete or in excess of anticipated usage, or saleable only for amounts that are less than their carrying amounts. These factors include, but are not limited to, technological changes in our market, our ability to meet changing customer requirements, competitive pressures in products and prices, and the availability of key components from our suppliers. We have established inventory reserves when conditions exist that suggest that our inventory may be in excess of anticipated demand or is obsolete based upon our assumptions about future demand for our products and market conditions. We regularly evaluate our ability to realize the value of our inventory based on a combination of factors including the following: historical usage rates, forecasted sales of usage, product end-of-life dates, estimated current and future market values and new product introductions. For demonstration inventory, we also consider the potential cost to refurbish the inventory prior to sale. When recorded, our reserves are intended to reduce the carrying value of our inventory to its net realizable value. If actual demand for our products deteriorates, or market conditions are less favorable than those that we project, additional reserves may be required. Inventories are stated at the lower of cost, using the first-in, first-out method, or market value.

Product Warranties We sell the majority of our products with a twelve month repair or replacement warranty from the date of shipment. We provide an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to revenues. The estimated future warranty obligations related to product sales are reported in the period in which the related revenue is recognized. The estimated future warranty obligations are affected by the warranty periods, sales volumes, product failure rates, material usage, labor and replacement costs incurred in correcting a product failure. If actual product failure rates, material usage, labor or replacement costs differ from our estimates, revisions to the estimated warranty obligations would be required. For new product introductions where limited or no historical information exists, we may use warranty information from other previous product introductions to guide us in estimating our warranty accrual. The warranty accrual represents our best estimate of the amount necessary to settle future and existing claims on products sold as of the balance sheet date. We periodically assess the adequacy of our recorded warranty reserve and adjust the amounts in accordance with changes in these factors.

Income Tax Assets and Liabilities We account for income taxes based on Statement of Financial Accounting Standards (SFAS) No. 109 *Accounting for Income Taxes*, whereby deferred tax assets and liabilities must be recognized using enacted tax rates for the effect of temporary differences between the book and tax accounting for assets and liabilities. Also, deferred tax assets must be reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized in the future. We evaluate the deferred tax assets on a quarterly basis to determine whether or not a valuation allowance is appropriate. Factors used in this determination include future expected income and the underlying asset or liability which generated the temporary tax difference. Our income tax provision is primarily impacted by federal statutory rates, state and foreign income taxes and changes in our valuation allowance.

Stock-Based Compensation We currently account for stock-based compensation issued to employees using the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), as allowed by SFAS No. 123, *Accounting for Stock Based Compensation* as amended by SFAS No. 148, *Accounting for Stock Based Compensation Transition and Disclosures, an Amendment of FASB Statement No. 123*. Under the intrinsic value method, we do not recognize any compensation expense, as the exercise price of all stock options is equal to the fair market value at the time the options are granted. We disclose the pro forma effect of recognizing compensation expense on stock options granted to employees in the footnotes to the consolidated financial statements. These pro forma effects are based on the fair value of the options using the Black-Scholes valuation model using assumptions which are based on our historical experience.

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Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R) *Share-Based Payment*. This statement replaces SFAS No. 123, amends SFAS No. 95, *Statement of Cash Flows* and supersedes APB No. 25. SFAS No. 123(R) requires companies to apply a fair-value based measurement method in accounting for share-based payment transactions with employees and to record compensation expense for all stock awards granted, and to awards modified, repurchased or cancelled after the required effective date. In addition, we are required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS No. 123(R) will be effective for fiscal years beginning after June 15, 2005, which is our fiscal 2006. This statement will have a significant impact on our results of operations as we will be required to record compensation expense rather than disclose the impact on our results of operations within our footnotes.

In March 2005, the SEC staff issued guidance on SFAS No. 123(R). Staff Accounting Bulletin (SAB) No. 107 (SAB No. 107) was issued to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R) while enhancing the information that investors receive. SAB No. 107 creates a framework that is premised on two overarching themes: (a) considerable judgment will be required by preparers to successfully implement SFAS No. 123(R), specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Key topics covered by SAB No. 107 include: (a) valuation models SAB No. 107 reinforces the flexibility allowed by SFAS No. 123(R) to choose an option-pricing model that meets the standard s fair value measurement objective; (b) expected volatility SAB No. 107 provides guidance on when it would be appropriate to rely exclusively on either historical or implied volatility in estimating expected volatility; and (c) expected term the new guidance includes examples and some simplified approaches to determining the expected term under certain circumstances. We will apply the principles of SAB No. 107 in conjunction with its adoption of SFAS No. 123(R).

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on recognition and measurement guidance under EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* which clarifies the meaning of other-than-temporary impairment and its application to investments in debt and equity securities. In particular, investments within the scope of SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities,* and investments accounted for under the cost method are addressed. In September 2004, the FASB indefinitely delayed the requirements to record impairment losses under EITF 03-1 until the January 1, 2005. We adopted this consensus and the adoption did not have a material affect on our consolidated results of operations.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, An Amendment of ARB No. 43, Chapter 4.* This Statement amends ARB No. 43, Chapter 4, to clarify that abnormal amount of idle facility, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years that began after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The provisions of SFAS No. 151 should be applied prospectively. The Company does not believe SFAS No. 151 will have a material impact on its financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154) which replaces APB 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion.* 28. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, on the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted in the first fiscal quarter of 2006. We are currently evaluating the effect that the adoption of SFAS 154 will have on our consolidated results of operations and financial condition but do not expect it to have a material impact.

Restatement of Prior Operating Results

On October 26, 2005, our Audit Committee, acting on a recommendation from our management, determined that our audited financial statements for the fiscal year ended January 1, 2005, and its unaudited quarterly financial statements for the periods ended April 2, 2005 and July 2, 2005, should be restated to revise the accounting for certain post-sale warranty services and other items.

This Form 10-Q/A reflects adjustments to net revenues and operating expenses related to the restatement of our financial results. Below is a description of the significant adjustments impacting the financial results for the periods presented and relates to our (i) deferral of revenue associated with extended warranty contracts purchased by certain customers at the time of equipment sale, (ii) the alignment of the warranty accrual with the actual warranty periods for certain customers and (iii) accrual of certain foreign sales commission expenses into the appropriate period.

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Revenue Deferral Associated with Extended Warranty

The effect of the restatement is to defer revenue associated with extended warranty provisions of certain customer supply arrangements. We generally sell the majority of our products with a twelve month repair or replacement warranty. We identified certain transactions whereby the terms of the product sale included a separately priced extended warranty provision beyond the standard twelve month warranty. These identified transactions occurred in all periods presented. In accordance with Financial Accounting Standards Board Technical Bulletin 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts,* revenue for separately priced extended warranty contracts should be deferred and recognized ratably over the term of the extended warranty contract. We are restating our financial statements to recognize such deferred revenue on a straight-line basis over the contract period. The restatement adjustments resulted in a decrease to product sales previously reported in our Form 10-Q for the three- and six-month periods ended July 2, 2005 of $0.1 million and $0.3 million, respectively, and in a decrease to product sales for the three- and six-month periods ended July 3, 2004 of $0.2 million and $0.4 million, respectively.

Alignment of Warranty Accrual with Actual Warranty Periods

We provide a warranty accrual at the time of revenue recognition. As a result of the additional procedures we performed, we discovered that, in certain instances, the warranty periods used in determining the warranty accrual did not coincide with the actual warranty periods for products under warranty coverage. Accordingly, adjustments were recorded to the warranty accrual and related costs of product sales for the fiscal years 2005 and 2004. The restatement adjustments resulted in an increase to the warranty expense, previously reported in our Form 10-Q, for each of the three- and six-month periods ended July 2, 2005 of $0.1 million. The restatement adjustments resulted in an decrease to warranty expense for the three-month period ended July 3, 2004 of less than $0.1 million and an increase in warranty expense for the six-month period ended July 3, 2004 of $0.1 million.

Accrual of Unpaid Sales Commission

As part of our overall compensation strategy, we pay a commission to our field sales personnel for their services in selling our products and obtaining customer orders. The sales commissions are paid to the field sales personnel only after the customer has fully paid for the equipment or services received. Customer payment is often received a number of months after revenue is recognized. At one of our foreign locations, we erroneously recorded the expense upon payment of the sales commissions to our field sales personnel rather than when the related revenue and other associated costs of revenues were recognized. Accordingly, adjustments were recorded to reflect the sales commission expense in the periods in which we recognized the related revenue. The restatement adjustments resulted in an increase to selling expense previously reported in our Form 10-Q for each of the three- and six-month periods ended July 2, 2005 of less than $0.1 million and an increase for the three- and six-month periods ended July 3, 2004, of less than $0.1 million and $0.2 million, respectively.

Effect of Restatement Upon Previously Reported Balances

The condensed consolidated balance sheet as of January 1, 2005 and the condensed consolidated financial statements for the three- and six-month periods ended July 2, 2005 and July 3, 2004 contained herein have been restated to incorporate all these adjustments and the related tax effects as described herein. The restatement adjustments described herein required us to make a number of significant accounting judgments. The following table sets forth selected consolidated financial data, showing our previously reported and restated amounts at July 2, 2005 and January 1, 2005 (in thousands):

	July 2, 2005			January 1, 2005		
	As Previously Reported	As Restated	Inc (Dec)	As Previously Reported	As Restated	Inc (Dec)
Accrued payroll and related expenses	$ 2,644	$ 2,975	$ 331C	$ 2,206	$ 2,512	$ 306C
Deferred revenue	$ 2,798	$ 3,791	$ 993A	$ 2,742	$ 3,506	$ 764A
Other current liabilities	$ 3,649	$ 4,017	$ 368B	$ 1,840	$ 2,097	$ 257B
Total current liabilities	$ 15,436	$ 17,128	$ 1,692	$ 12,613	$ 13,940	$ 1,327
Retained earnings	$ 19,371	$ 17,679	$ (1,692)	$ 12,034	$ 10,707	$ (1,327)

A Adjustment relates to revenue deferral associated with extended warranty contracts
B Adjustment relates to the alignment of warranty accrual with actual warranty periods
C Adjustment relates to accrual of unpaid sales commission

The impact of all adjustments discussed herein to the condensed consolidated statement of operations was to decrease our previously reported net income per diluted share for the three- and six-month periods ended July 2, 2005 by $0.01 and

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$0.03, respectively. The following table sets forth selected consolidated financial data, showing our previously reported and restated amounts for the three- and six-month periods ended July 2, 2005 (in thousands, except per share amounts):

	Three Months Ended July 2, 2005			Six Months Ended July 2, 2005		
	As Previously Reported	**As Restated**	**Inc (Dec)**	**As Previously Reported**	**As Restated**	**Inc (Dec)**
Net revenues						
Product sales	$ 16,654	$ 16,535	$ (119)[A]	$ 37,820	$ 37,545	$ (275)[A]
Service	$ 2,170	$ 2,201	$ 31	$ 4,495	$ 4,541	$ 46
Cost of product sales	$ 8,334	$ 8,463	$ 129[B]	$ 18,084	$ 18,195	$ 111[B]
Selling expenses	$ 2,824	$ 2,851	$ 27[C]	$ 5,969	$ 5,994	$ 25[C]
Income from operations	$ 5,070	$ 4,826	$ (244)	$ 7,916	$ 7,551	$ (365)
Income tax provision	$ 308	$ 308	$	$ 391	$ 391	$
Net income	$ 4,732	$ 4,488	$ (244)	$ 7,337	$ 6,972	$ (365)
Net income per share:						
Basic	$ 0.37	$ 0.36	$ (0.01)	$ 0.58	$ 0.55	$ (0.03)
Diluted	$ 0.35	$ 0.34	$ (0.01)	$ 0.55	$ 0.52	$ (0.03)

[A] Adjustment relates to revenue deferral associated with extended warranty contracts
[B] Adjustment relates to the alignment of warranty accrual with actual warranty periods
[C] Adjustment relates to accrual of unpaid sales commission

The impact of all adjustments discussed herein to the condensed consolidated statement of operations was to decrease our previously reported net income per diluted share for the three- and six-month periods ended July 3, 2004 by $0.02 and $0.06, respectively. The following table sets forth selected consolidated financial data, showing our previously reported and restated amounts for the three- and six-month periods ended July 3, 2004 (in thousands, except per share amounts):

	Three Months Ended July 3, 2004			Six Months Ended July 3, 2004		
	As Previously Reported	**As Restated**	**Inc (Dec)**	**As Previously Reported**	**As Restated**	**Inc (Dec)**
Net revenues						
Product sales	$ 14,174	$ 13,972	$ (202)[A]	$ 25,837	$ 25,443	$ (394)[A]
Service	$ 2,037	$ 2,037	$	$ 4,045	$ 4,045	$
Cost of product sales	$ 5,922	$ 5,889	$ (33)[B]	$ 11,325	$ 11,428	$ 103[B]
Selling expenses	$ 3,091	$ 3,129	$ 38[C]	$ 6,157	$ 6,337	$ 180[C]
Income from operations	$ 1,517	$ 1,310	$ (207)	$ 324	$ (353)	$ (677)
Income tax provision	$ 61	$ 61	$	$ 104	$ 104	$
Net income	$ 1,302	$ 1,095	$ (207)	$ 90	$ (587)	$ (677)
Net income per share:						
Basic	$ 0.11	$ 0.09	$ (0.02)	$ 0.01	$ (0.05)	$ (0.06)
Diluted	$ 0.10	$ 0.08	$ (0.02)	$ 0.01	$ (0.05)	$ (0.06)

A Adjustment relates to revenue deferral associated with extended warranty contracts
B Adjustment relates to the alignment of warranty accrual with actual warranty periods
C Adjustment relates to accrual of unpaid sales commission

We have determined the cumulative effect of these errors was approximately $0.4 million as of January 3, 2004. The effect was not material to any relevant prior period and had the amounts been recorded correctly in the prior periods, there would have been no significant effect on reported net loss, comprehensive loss or total stockholder s equity. To correct this misstatement, we recorded the cumulative $0.4 million in the condensed consolidated statement of operations in the three-month period ended April 3, 2004.

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Results of Operations

Periods ended July 2, 2005 and July 3, 2004

Net revenues: Our net revenues were comprised of the following categories (in thousands):

	Three Months Ended			Six Months Ended		
	July 2, 2005	July 3, 2004	Percentage Change	July 2, 2005	July 3, 2004	Percentage Change
Automated systems	$ 9,814	$ 7,805	26%	$ 23,822	$ 12,767	87%
Integrated systems	5,739	5,446	5	11,779	11,381	4
Tabletop systems	982	721	36	1,934	1,295	49
Service	2,201	2,037	8	4,541	4,045	12
Total net revenues	$ 18,736	$ 16,009	17%	$ 42,086	$ 29,488	43%

Net revenues for the three months ended July 2, 2005 were $18.7 million, an increase of $2.7 million or 17% from the comparable period in 2004. For the six months ended July 2, 2005, net revenues of $42.1 million increased $12.6 million or 43% from the comparable period in 2004. Product sales of $16.6 million and $37.6 million for the three months and six months ended July 2, 2005, respectively, increased $2.6 million or 19% and $12.1 million or 48%, respectively, as compared with the same periods during 2004. Sales of automated, integrated and tabletop systems increased in the second quarter of 2005 from their second quarter 2004 levels. The increase in product sales resulted from demand for semiconductor process control equipment, primarily in Asia. We believe that increased consumer demand for high performance electronics drives technology advancement in semiconductor design and manufacturing which has in turn promoted the purchase of semiconductor capital equipment featuring the latest advances in technology. Service revenue of $2.2 million and $4.5 million for the three months and six months ended July 2, 2005, respectively, increased $0.2 million or 8% and $0.5 million or 12%, respectively, as compared to the same periods in 2004 primarily due to higher sales of parts and services, particularly in Asia, due in part to a large installed base of systems that have passed their warranty periods.

Cost of sales: As a percentage of product sales, cost of product sales increased to 51% in the second quarter of 2005 from 42% in the second quarter of 2004 and increased to 48% in the six months ended July 2, 2005 from 45% for the same period in 2004 due primarily to a mix of lower margin sales and increased inventory reserves taken on older products. Cost of service as a percentage of service revenue increased to 118% in the second quarter of 2005 from 81% in the second quarter of 2004 and increased to 114% in the six months ended July 2, 2005 from 81% for the same period in 2004 primarily as a result of higher service costs from an increase in headcount and related overhead to provide additional support for our growing customer base, particularly in Asia. We could not fully recoup these costs due to higher service demands from our customer base.

Research and development expenses: Our research and development expenses for the three month and six month periods ended July 2, 2005 increased by $1.0 million or 37% and $0.7 million or 11%, respectively, compared to the same periods in 2004 resulting primarily from increased headcount and materials expenses. In the United States, our research and development efforts are focused on semiconductor

metrology. In South Korea, our research and development efforts are focused on the overlay metrology market. In Japan, our research and development efforts are focused on tabletop and flat panel display metrology. We are committed to the development of new and enhanced products and believe that new product introductions are required for us to maintain our competitive position.

Selling expenses: Our selling expenses for the three month and six month ended July 2, 2005 decreased by $0.3 million or 9% and $0.3 million or 5%, respectively, compared to the same periods in 2004 primarily due to lower headcount levels.

General and administrative expenses: Our general and administrative expenses for the three month and six month periods ended July 2, 2005 increased $1.0 million or 76% and $1.7 million or 65%, respectively, compared to the same periods in 2004 due primarily to higher regulatory compliance expenses. We expect the trend with respect to regulatory expenses to continue in the future.

Asset impairment: During the three month period ended July 2, 2005 we recorded an asset impairment charge of $2.2 million for certain assets in our Japanese operations. Under SFAS No. 144, we should assess the recoverability of assets when events become known which would indicate potential impairment. The Company evaluated the estimated future cash flows of certain assets groups in our Japanese operations and determined the undiscounted estimated future cash flows would be insufficient to recover the carrying value of those assets. The impairment charge was measured based on the excess carrying value of the asset group in excess of the associated discounted future cash flows. Accordingly, we recorded an asset impairment charge during the quarter.

Merger termination fee: During the second quarter of 2005, we announced the termination of our merger agreement with August Technology Corporation. In accordance with the terms of the merger agreement, August Technology paid us a merger termination fee of $8.3 million and approximately $2.6 million as reimbursement of the Company s expenses.

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Total other expense, net: Our total other expense, net, for the three month and six month periods ended July 2, 2005 decreased $0.1 million and increased $0.1 million, respectively, from the comparable periods in 2004.

Income tax provision: The effective tax rates of 6% and 5% for the three months and six months ended July 2, 2005, respectively, primarily reflect the Company s obligation for foreign taxes and U.S. Federal alternative minimum taxes. The estimated annual tax rate differs from the combined U.S. Federal and state statutory tax rates of 40% primarily due to the utilization of net operating loss carryforwards and the release of the related valuation allowance. We have established significant valuation allowances for our deferred tax assets arising from our operating losses of the past two years. We will continue to assess the realizability of our deferred tax assets particularly if we establish a pattern of profitability in future quarters.

Liquidity and Capital Resources

At July 2, 2005, our cash, cash equivalents and short-term investments totaled $45.2 million. The short-term investments consist primarily of U.S. Treasury Bills. At July 2, 2005, we had working capital of $78.8 million compared to $68.6 million at January 1, 2005. Our current ratio at July 2, 2005 was 5.6 to 1.

Operating activities for the first six months of 2005 provided cash of $9.1 million primarily from net income of $7.0 million which includes the $8.3 million cash received from August Technology for the merger termination fee, and non-cash charges for an asset impairment of $2.2 million and depreciation and amortization of $1.2 million as well as higher levels of current liabilities. These inflows of cash were partially offset by higher accounts receivable resulting from the timing of shipments and receipt of payments.

Investing activities used $1.0 million primarily due to purchases of short-term investments of $18.9 million offset to some extent by sales of short-term investments in the amount of $18.0 million.

Financing activities provided $2.2 million primarily due to borrowing under our line of credit in Japan and the sale of stock from the exercise of stock options by offset to some extent by repayment of long-term debt in Japan.

We have evaluated and will continue to evaluate the acquisition of products, technologies or businesses that are complementary to our business. These activities may result in product and business investments, which may affect our cash position and working capital balances. Some of these activities might require significant cash outlays. However, we believe working capital including cash, cash equivalents and short-term investments will be sufficient to meet our needs through at least the next twelve months.

Contractual Obligations

The following table summarizes our contractual cash obligations as of July 1, 2005, and the effect such obligations are expected to have on liquidity and cash flow in future periods (in thousands):

	Total	Remaining six months of fiscal 2005	1-3 Years	4-5 Years	More than 5 Years
Debt obligations(1)	$ 2,127	$ 230	$ 794	$ 744	$ 359
Operating leases	657	255	360	40	2
Other short-term liabilities	255	255			
Line of credit	1,789		1,789		
Total	$ 4,828	$ 740	$ 2,943	$ 784	$ 361

(1) Our debt obligations primarily relate to the expansion of our Japanese facilities to accommodate the production of larger flat panel display systems, and do not include interest, which we are obligated to pay.

We have no off-balance sheet financing arrangements.

Factors That May Affect Future Operating Results

You should carefully consider the risks described below together with all of the other information included in this Quarterly Report on Form 10-Q/A before making an investment decision. The risks and uncertainties described below are not the only ones that we face. If any of the following risks actually occurs, our business, financial condition or operating results could be harmed. In such case, the trading price of our common stock could decline, and you could lose all or part of your investment.

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Risks Related to Our Business

Cyclicality in the semiconductor and flat panel display industries has led to substantial fluctuations in demand for our systems and may, from time to time, continue to do so.

Our operating results have varied significantly from period to period due to the cyclical nature of the semiconductor and flat panel display industries. The majority of our business depends upon the capital expenditures of semiconductor device and equipment manufacturers. These manufacturers capital expenditures, in turn, depend upon the current and anticipated market demand for semiconductors and products using semiconductors. The semiconductor industry is cyclical and has historically experienced periodic downturns. These downturns have often resulted in substantial decreases in the demand for semiconductor manufacturing equipment, including metrology systems. We have found that the resulting decrease in capital expenditures has typically been more pronounced than the downturn in semiconductor device industry revenues. We expect the cyclical nature of the semiconductor industry, and therefore, our business, to continue in the foreseeable future. Recently, the semiconductor industry emerged from a sustained downturn, which had existed for the past few years. Should this trend reverse and the downturn resume, our business and results of operations would suffer.

Because we derive a significant portion of our revenues from sales in Asia, our revenues and results of operations could be adversely affected by the instability of Asian economies.

Revenues from customers in Asian markets represented 63.3%, 72.7% and 68.8% of our total net revenues in 2002, 2003 and 2004, respectively. Countries in the Asia Pacific region, including Japan, South Korea and Taiwan, each of which accounted for a significant portion of our business in that region, had experienced general economic weaknesses in 2002 and 2003, which adversely affected our revenues at that time.

We depend on Applied Materials and other OEM suppliers for sales of our integrated metrology systems, and the loss of Applied Materials or any of our other OEM suppliers as a customer could harm our business.

We believe that sales of integrated metrology systems will continue to be an important source of our revenues. Sales of our integrated metrology systems depend upon the ability of Applied Materials to sell semiconductor equipment products that include our metrology systems as components. If Applied Materials is unable to sell such products, or if Applied Materials chooses to focus its attention on products that do not integrate our systems, our business could suffer. If we were to lose Applied Materials as a customer for any reason, our ability to realize sales from integrated metrology systems would be significantly diminished, which would harm our business.

Our largest customers account for a substantial portion of our revenue, and our revenue would materially decline if one or more of these customers were to purchase significantly fewer of our systems or if they delayed or cancelled a large order.

Historically, a significant portion of our revenues in each quarter and each year has been derived from sales to a relatively few number of customers, and we expect this trend to continue. There are only a limited number of large companies operating in the semiconductor and flat panel display industries. Accordingly, we expect that we will continue to depend on a small number of large customers for a significant portion of our revenues for at least the next several years. If any of our key customers were to purchase significantly fewer systems, or if a large order were delayed or cancelled, our revenues would significantly decline. In 2004, sales to Applied Materials accounted for 21.4% and sales to Samsung accounted for 14.7% of our total net revenues, respectively. In 2003, sales to Applied Materials accounted for 15.4% and sales to

Hynix accounted for 12.0% of our total net revenues, respectively. In 2002, sales to Applied Materials accounted for 13.8% and sales to TSMC accounted for 10.9% of our total net revenues, respectively.

The success of our product development efforts depends on our ability to anticipate market trends and the price, performance and functionality requirements of semiconductor device manufacturers. In order to anticipate these trends and ensure that critical development projects proceed in a coordinated manner, we must continue to collaborate closely with our customers. Our relationships with our customers provide us with access to valuable information regarding industry trends, which enables us to better plan our product development activities. If our current relationships with our large customers are impaired, or if we are unable to develop similar collaborative relationships with important customers in the future, our long-term ability to produce commercially successful systems could be adversely affected.

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We may have difficulty meeting the requirements described in Section 404 of the Sarbanes-Oxley Act of 2002, including addressing our material weakness in our internal controls identified in connection with our restatements, and failure to meet such requirements could materially affect our stock price.

We will be required to file a report on internal accounting controls, in accordance with Section 404 of the Sarbanes-Oxley Act, with our Annual Report on Form 10-K for the fiscal year ending December 31, 2005. Accordingly, we will be required to increase the amount of documentation surrounding our internal control systems and provide evidence that our systems have been properly tested to support our management s conclusions.

On October 26, 2005, our Audit Committee, acting on a recommendation from our management, determined that our audited financial statements for the fiscal year ended January 1, 2005, and our unaudited quarterly financial statements for the periods ended April 2, 2005 and July 2, 2005, should be restated. The need for such restatements resulted from a combination of control deficiencies that, together, we consider to be a material weakness. The control deficiencies and restatements relate to our (i) deferral of revenue associated with extended warranty contracts purchased by certain customers at the time of equipment sale, (ii) alignment of the warranty accrual with the actual warranty periods for certain customers and (iii) accrual of certain foreign sales commission expenses in the appropriate period.

Our Chief Financial Officer and our Audit Committee have discussed these matters disclosed above with our independent registered public accounting firm. We have concluded that the circumstances that led to the restatements resulted primarily from certain accounting practices that were implemented several years ago. We have now implemented additional detailed procedures to improve reporting in these areas including the following:

- Assembly of a management team that is responsible for reviewing terms and conditions of each significant sale to identify all key contract terms and accounting implications,

- Compilation of a database of all machines presently under warranty coverage reflecting warranty periods for such machines,

- Applying additional oversight to accounting procedures at foreign locations and review of liabilities recorded.

The sale of our Flat Panel Display business has necessitated the relocation our Japanese accounting function in the fourth quarter of 2005 as we complete our Section 404 internal controls assessment. The relocation of our Japanese accounting function increases the risk of significant deficiencies or material weaknesses in our Section 404 internal controls assessment as of December 31, 2005.

While we are improving our internal control systems there can be no assurance that our report will not disclose a material weakness. Even if we do not identify such a material weakness, our auditors may identify a material weakness in their attestation. In the event that a material weakness is identified, our stock price may be adversely affected.

Our current and potential competitors have significantly greater resources than we do, and increased competition could impair sales of our products.

We operate in the highly competitive semiconductor and flat panel display industries and face competition from a number of companies, many of which have greater financial, engineering, manufacturing, marketing and customer support resources than we do. As a result, our competitors may be able to respond more quickly to new or emerging technologies or market developments by devoting greater resources to the development, promotion and sale of products, which could impair sales of our products. Moreover, there has been merger and acquisition activity among our competitors and potential competitors. These transactions by our competitors and potential competitors may provide them with a competitive advantage over us by enabling them to rapidly expand their product offerings and service capabilities to meet a broader range of customer needs. Many of our customers and potential customers in the semiconductor and flat panel display industries are large companies that require global support and service for their metrology systems. Some of our larger or more geographically diverse competitors might be better equipped to provide this global support.

If any of our systems fail to meet or exceed our internal quality specifications, we cannot ship them until such time as they have met such specifications. If we experience significant delays or are unable to ship our products to our customers as a result of our internal processes, or for any other reason, our business and reputation may suffer.

Our products are complex and require technical expertise to design and manufacture properly. Various problems occasionally arise during the manufacturing process that may cause delays and/or impair product quality. We must actively monitor our manufacturing processes to ensure that our products meet our internal quality specifications. Any significant delays stemming from the failure of our products to meet or exceed our internal quality specifications, or for any other reasons, would delay our shipments. Shipment delays could harm our business and reputation in the industry.

If we deliver systems with defects, our credibility will be harmed, revenue from, and market acceptance of, our systems will decrease and we could expend significant capital and resources as a result of such defects.

Notwithstanding our internal quality specifications, our systems have sometimes contained errors, defects and bugs when introduced. If we deliver systems with errors, defects or bugs, our credibility and the market acceptance and sales of our systems would be harmed. Further, if our systems contain errors, defects or bugs, we may be required to expend significant capital and resources to alleviate such problems. Defects could also lead to product liability as a result of product liability lawsuits against us or against our customers. We have agreed to indemnify our customers in some circumstances against liability arising from defects in our systems. In the event of a successful product liability claim, we could be obligated to pay damages significantly in excess of our product liability insurance limits.

Successful infringement claims by third parties could result in substantial damages, lost product sales and the loss of important intellectual property rights by us.

Our commercial success depends in part on our ability to avoid infringing or misappropriating patents or other proprietary rights owned by third parties. From time to time we may receive communications from third parties asserting that our metrology systems may contain design features which are claimed to infringe on their proprietary rights. For example, we announced on March 14, 2005 that we had received notice of a patent infringement lawsuit brought by Nova Measuring Instruments, Ltd., alleging infringement of a patent. There can be no assurance that Nanometrics new or current products do not infringe any valid intellectual property rights. Even if our products do not infringe, we may be required to expend significant sums of money to defend against infringement claims, as in the Nova Measuring Instruments, Ltd. lawsuit described above, or to actively protect our intellectual property rights through litigation.

We obtain some of the components and subassemblies included in our systems from a single source or a limited group of suppliers, and the partial or complete loss of one of these suppliers could cause production delays and significant loss of revenue.

We rely on outside vendors to manufacture many components and subassemblies. Certain components, subassemblies and services necessary for the manufacture of our systems are obtained from a sole supplier or limited group of suppliers. We do not maintain any long-term supply agreements with any of our suppliers. We have entered into arrangements with J.A. Woollam Company for the purchase of the spectroscopic ellipsometer component incorporated in our advanced measurement systems. Our reliance on a sole or a limited group of suppliers involves several risks, including the following:

- we may be unable to obtain an adequate supply of required components;
- we have reduced control over pricing and the timely delivery of components and subassemblies; and
- our suppliers may be unable to develop technologically advanced products to support our growth and development of new systems.

Some of our suppliers have relatively limited financial and other resources. Because the manufacturing of certain of these components and subassemblies involves extremely complex processes and requires long lead times, we may experience delays or shortages caused by our suppliers. If we were forced to seek alternative sources of supply or to manufacture such components or subassemblies internally, we could be forced to redesign our systems, which could cause production delays and prevent us from shipping our systems to customers on a timely basis.

Any inability to obtain adequate deliveries from our suppliers, or any other circumstance that would restrict our ability to ship our products, could damage relationships with current and prospective customers, harm our business and result in significant loss of revenue.

Variations in the amount of time it takes for us to sell our systems may cause fluctuations in our operating results, which could adversely affect our stock price.

Variations in the length of our sales cycles could cause our revenues to fluctuate widely from period to period. Our customers generally take long periods of time to evaluate our metrology systems. We expend significant resources educating and providing information to our prospective customers regarding the uses and benefits of our systems. The length of time that it takes for us to complete a sale depends upon many factors, including:

- the efforts of our sales force and our independent sales representatives;
- the complexity of the customer s metrology needs;

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- the internal technical capabilities and sophistication of the customer;
- the customer s budgetary constraints; and
- the quality and sophistication of the customer s current processing equipment.

Because of the number of factors influencing the sales process, the period between our initial contact with a customer and the time at which we recognize revenue from that customer, if at all, varies widely. Our sales cycles, including the time it takes for us to build a product to customer specifications after receiving an order, typically range from three to six months. Occasionally our sales cycles can be much longer, particularly with customers in Asia who may require longer evaluation periods. During the sales cycles, we commit substantial resources to our sales efforts in advance of receiving any revenue, and we may never receive any revenue from a customer despite our sales efforts.

If we do complete a sale, customers often purchase only one of our systems and then evaluate its performance for a lengthy period of time before purchasing additional systems. The purchases are generally made through purchase orders rather than through long-term contracts. The number of additional products that a customer purchases, if any, depends on many factors, including a customer s capacity requirements. The period between a customer s initial purchase and any subsequent purchases is unpredictable and can vary from three months to a year or longer. Variations in the length of this period could cause fluctuations in our operating results, which could adversely affect our stock price.

Relatively small fluctuations in our system sales volume may cause our operating results to vary significantly each quarter.

During any quarter, a significant portion of our revenue is derived from the sale of a relatively small number of systems. Our automated metrology systems range in price from approximately $200,000 to over $1,000,000 per system, our integrated metrology systems range in price from approximately $80,000 to $300,000 per system and our tabletop metrology systems range in price from approximately $50,000 to $200,000 per system. Accordingly, a small change in the number or types of systems that we sell could cause significant changes in our operating results.

We may experience material payment delays as a result of customer acceptance issues and such delays could negatively affect our results of operations.

As a result of customer acceptance issues, we may, from time to time, experience payment delays on some of our systems. Because a significant portion of our revenue is derived from the sale of a relatively small number of our systems, substantial payment delays by our customers could materially and adverse affect our results of operations.

We depend on orders that are received and shipped in the same quarter, and therefore our results of operations may be subject to significant variability from quarter to quarter.

Our net sales in any given quarter depend upon a combination of orders received in that quarter for shipment in that quarter and shipments from backlog. Our backlog at the beginning of each quarter does not include all systems sales needed to achieve expected revenues for that quarter. Consequently, we are dependent on obtaining orders for systems to be shipped in the same quarter that the order is received. Moreover,

customers may reschedule shipments, and production difficulties could delay shipments. Accordingly, we have limited visibility into future product shipments, and our results of operations may be subject to significant variability from quarter to quarter.

Because of the high cost of switching equipment vendors in our markets, it is sometimes difficult for us to attract customers from our competitors even if our metrology systems are superior to theirs.

We believe that once a semiconductor customer has selected one vendor s metrology system, the customer generally relies upon that system and, to the extent possible, subsequent generations of the same vendor s system, for the life of the application. Once a vendor s metrology system has been installed, a customer must often make substantial technical modifications and may experience downtime in order to switch to another vendor s metrology system. Accordingly, unless our systems offer performance or cost advantages that outweigh a customer s expense of switching to our systems, it will be difficult for us to achieve significant sales from that customer once it has selected another vendor s system for an application.

If we are not successful in developing new and enhanced metrology systems we will likely lose market share to our competitors.

We operate in an industry that is subject to technological changes, changes in customer demands and the introduction of new, higher performance systems with short product life cycles. To be competitive, we must continually design, develop and introduce in a timely manner new metrology systems that meet the performance and price demands of semiconductor

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manufacturers and suppliers. We must also continue to refine our current systems so that they remain competitive. We may experience difficulties or delays in our development efforts with respect to new systems, and we may not ultimately be successful in developing them. Any significant delay in releasing new systems could adversely affect our reputation, give a competitor a first-to-market advantage or cause a competitor to achieve greater market share.

Lack of market acceptance for our new products may affect our ability to generate revenue and may harm our business.

We have recently introduced several new products to market including the Nano OCD/DUV 9010, the Nanometrics Atlas, Atlas-M, Orion and the Nano OCD 9010M. We have invested substantial time and resources into the development of the products. However, we cannot accurately predict the future level of acceptance of our new products by our customers. As a result, we may not be able to generate anticipated revenue from sales of these products. While we anticipate that our new products will become an increasingly larger component of our business, their failure to gain acceptance with our customers could materially harm our business. Additionally, if our new products do gain market acceptance, our ability to sell our existing products may be impeded. As a result, there can be no assurance that the introduction of these products will be commercially successful or that these products will result in significant additional revenues or improved operating margins in future periods.

Our intellectual property may be infringed upon by third parties despite our efforts to protect it, which could threaten our future success and competitive position and adversely affect our operating results.

Our future success and competitive position depend in part upon our ability to obtain and maintain proprietary technology for our principal product families, and we rely, in part, on patent, trade secret and trademark law to protect that technology. If we fail to adequately protect our intellectual property, it will be easier for our competitors to sell competing products. We own or have licensed a number of patents relating to our metrology systems, and have filed applications for additional patents. Any of our pending patent applications may be rejected, and we may not in the future be able to develop additional proprietary technology that is patentable. In addition, the patents we do own or that have been issued or licensed to us may not provide us with competitive advantages and may be challenged by third parties. Third parties may also design around these patents.

In addition to patent protection, we rely upon trade secret protection for our confidential and proprietary information and technology. We routinely enter into confidentiality agreements with our employees. However, in the event that these agreements may be breached, we may not have adequate remedies. Our confidential and proprietary information and technology might also be independently developed by or become otherwise known to third parties. We may be required to initiate litigation in order to enforce any patents issued to or licensed by us, or to determine the scope or validity of a third party s patent or other proprietary rights. Any such litigation, regardless of outcome, could be expensive and time consuming, and could subject us to significant liabilities or require us to re-engineer our product or obtain expensive licenses from third parties, any of which would adversely affect our business and operating results.

If we choose to acquire new and complementary businesses, products or technologies instead of developing them ourselves, we may be unable to complete these acquisitions or may not be able to successfully integrate an acquired business in a cost-effective and non-disruptive manner.

Our success depends on our ability to continually enhance and broaden our product offerings in response to changing technologies, customer demands and competitive pressures. To achieve this, from time to time we have acquired complementary businesses, products, or technologies instead of developing them ourselves and may choose to do so in the future. We previously announced the termination of our definitive merger agreement with August Technology Corporation. As highlighted by this example, we do not know if we will be able to complete any

acquisitions, or whether, if we were able to do so, we will be able to successfully integrate any acquired business, operate it profitably or retain its key employees. Integrating any business, product or technology that we acquire could be expensive and time consuming, disrupt our ongoing business and distract our management. In addition, in order to finance any acquisitions, we may be required to raise additional funds through public or private equity or debt financings. In that event, we could be forced to obtain financing on terms that are not favorable to us and, in the case of an equity financing, that result in dilution to our shareholders. If we are unable to integrate any acquired entities, products or technologies effectively, our business will suffer.

We must attract and retain key personnel with relevant industry knowledge to help support our future growth.

Our success depends to a significant degree upon the continued contributions of our key management, engineering, sales and marketing, customer support, finance and manufacturing personnel. We generally do not enter into employment contracts with any of our key personnel. The loss of any of these key personnel, who would be difficult to replace, could harm our business and operating results. To support our future growth, we will need to attract and retain additional qualified employees. Competition for such personnel in our industry is ongoing, and we may not be successful in attracting and retaining qualified employees.

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We manufacture all of our systems at a limited number of facilities, and any prolonged disruption in the operations of those facilities could reduce our revenues.

We produce all of our systems in our manufacturing facilities located in Milpitas, California and through our subsidiaries in Japan and South Korea. Our manufacturing processes are highly complex and require sophisticated, costly equipment and specially designed facilities. As a result, any prolonged disruption in the operations of our manufacturing facilities, such as those resulting from a fire or severe earthquake, could seriously harm our ability to satisfy our customer order deadlines. A significant portion of our operations is located in Japan and South Korea, which may be subject to regional political and economic instability.

Our efforts to protect our intellectual property may be less effective in some foreign countries where intellectual property rights are not as well protected as in the United States.

In 2002, 2003 and 2004, 69.0%, 74.8% and 71.8%, respectively, of our total net revenues were derived from sales to customers in foreign countries, including certain countries in Asia, such as Taiwan, South Korea and Japan. In 2005 to date, this trend has continued and is expected to do so for the foreseeable future. The laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States, and many U.S. companies have encountered substantial problems in protecting their proprietary rights against infringement in such countries. If we fail to adequately protect our intellectual property in these countries, it would be easier for our competitors to sell competing products.

We will incur increased costs as a result of recent changes in laws and regulations affecting public companies.

Compliance with recent changes in laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002, has resulted in, and may result in additional, increased accounting, legal and administrative costs. In particular, Section 404 of the Sarbanes-Oxley Act and the rules of the Securities and Exchange Commission and the PCAOB impose new requirements with respect to the evaluation of the effectiveness of our internal controls. The cost of complying with these new requirements is substantial.

Our quarterly operating results have varied in the past and probably will continue to vary significantly in the future, which will cause volatility in our stock price.

Our quarterly operating results have varied significantly in the past and are likely to vary in the future, which volatility could cause our stock price to decline. Some of the factors that may influence our operating results and subject our stock to extreme price and volume fluctuations include:

- changes in customer demand for our systems;
- economic conditions in the semiconductor and flat panel display industries;

- the timing, cancellation or delay of customer orders and shipments;
- market acceptance of our products and our customers products;
- competitive pressures on product prices and changes in pricing by our customers or suppliers;
- the timing of new product announcements and product releases by us or our competitors and our ability to design, introduce and manufacture new products on a timely and cost-effective basis;
- the timing of acquisitions of businesses, products or technologies;
- the levels of our fixed expenses, including research and development costs associated with product development, relative to our revenue levels; and
- fluctuations in foreign currency exchange rates, particularly the Japanese yen.

If our operating results in any period fall below the expectations of securities analysts and investors, the market price of our common stock would likely decline.

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We are highly dependent on international sales and operations, which exposes us to foreign political and economic risks.

Sales to customers in foreign countries accounted for approximately 69.0%, 74.8% and 71.8% of our total net revenues in 2002, 2003 and 2004, respectively. Foreign sales in 2005 to date have been consistent with this trend are expected to remain so into the foreseeable future. We maintain facilities in Japan and South Korea. We anticipate that international sales will continue to account for a significant portion of our revenues. International sales and operations carry inherent risks such as: regulatory limitations imposed by foreign governments, obstacles to the protection of our intellectual property, political, military and terrorism risks, disruptions or delays in shipments caused by customs brokers or other government agencies, unexpected changes in regulatory requirements, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations, and potentially adverse tax consequences resulting from changes in tax laws. If any of these risks materialize and we are unable to manage them, our international sales and operations would suffer.

We are subject to various environmental laws and regulations that could impose substantial costs upon us and may adversely affect our business, operating results and financial condition.

Some of our operations use substances regulated under various federal, state, local, and international laws governing the environment, including those relating to the storage, use, discharge, disposal, labeling, and human exposure to hazardous and toxic materials. We could incur costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. Liability under environmental laws can be joint and several and without regard to comparative fault. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or require us to acquire additional expensive equipment, modify our manufacturing processes, or incur other significant expenses. There can be no assurance that violations of environmental laws or regulations will not occur in the future as a result of the inability to obtain permits, human error, equipment failure or other causes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning market risk is incorporated herein by reference to Item 7A Quantitative and Qualitative Disclosures About Market Risk contained in Part II of our Annual Report on Form 10-K/Amendment No. 2, for the fiscal year ended January 1, 2005. Our exposure to market risk does not differ materially from that discussed in our Annual Report on Form 10-K/Amendment No. 2, for the fiscal year ended January 1, 2005. However, we cannot give any assurance as to the effect that future changes in interest rates or foreign currency rates will have on our consolidated financial position, results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

We have previously disclosed that under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted evaluations of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act)). Based upon those evaluations, our management, including our CEO and CFO, had concluded that the design and operation of our disclosure controls and procedures provided reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

On October 26, 2005, our Audit Committee, acting on a recommendation from our management, determined that our audited financial statements for the fiscal year ended January 1, 2005, and our unaudited quarterly financial statements for the periods ended April 2, 2005 and July 2, 2005, should be restated. The need for such restatements resulted from a combination of control deficiencies that together, we consider to be a material weakness. The control deficiencies and restatements relate to our (i) deferral of revenue associated with extended warranty contracts purchased by certain customers at the time of equipment sale, (ii) alignment of the warranty accrual with the actual warranty periods for certain customers and (iii) accrual of certain foreign sales commission expenses in the appropriate period.

As a result of this discovery and subsequent evaluation, we have determined that our disclosure controls and procedures were not effective as of July 2, 2005. Further, we have determined that these control deficiencies existed with respect to certain aspects of our historical financial reporting and, accordingly, we have concluded that our prior disclosures regarding the sufficiency of our disclosure controls may not have been correct.

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Our Chief Financial Officer and the Company s Audit Committee have discussed the matters disclosed above with our independent registered public accounting firm. We have concluded that the circumstances that led to the restatements resulted primarily from certain accounting practices that were implemented several years ago. We are currently in the process of implementing the recommendations of BDO Seidman. Additionally, we are also in the process of augmenting our current control processes, repositioning current finance and accounting personnel and recruiting additional personnel to ensure consistently complete and accurate reporting of financial information. Furthermore, remediation of internal controls, required to fully comply with the Section 404 internal control assessment, may require more significant efforts by management than initially anticipated. We have implemented additional detailed procedures to improve reporting in these areas including the following:

- assembly of a management team that is responsible for reviewing terms and conditions of each significant sale to identify all key contract terms and accounting implications,
- compilation of a database of all machines presently under warranty coverage reflecting warranty periods for such machines,
- application of additional oversight to accounting procedures at foreign locations and review of liabilities recorded.

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On March 9, 2005, Nova Measuring Instruments Ltd. (Nova) filed suit against Nanometrics. The complaint alleges that certain of our products infringe a Nova patent and seeks a preliminary and permanent injunction against their sale and unspecified damages. We do not believe any of our products infringe any valid claim of the Nova patent. We intend to vigorously and aggressively defend ourselves in the litigation. While the results of such litigation matters and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse impact on our financial position or results operations.

In August 2005, we were served with a complaint alleging certain of our products infringe the intellectual property of a third party. The complaint seeks a preliminary and permanent injunction against the sale of these products and unspecified damages. We do not believe any of our products infringe any intellectual property of a third party and we intend to vigorously and aggressively defend ourselves in the litigation.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A. The annual meeting of shareholders was held on August 26, 2005.

B. The following directors were elected to the board of directors:

Vincent J. Coates

J. Thomas Bentley

John D. Heaton

Stephen J Smith

Edmond R. Ward

William G. Oldham

Norman V. Coates

C. The following matters were voted upon at the annual meeting:

		For	Against	Abstain
1.	To elect the following directors to serve until the next annual meeting of shareholders or until their successors are elected:			
	Vincent J. Coates, Chairman	6,199,883	0	658,694
	J. Thomas Bentley, Director	6,166,512	0	692,065
	John D. Heaton, Director	6,202,283	0	656,294
	Stephen J Smith, Director	6,169,412	0	689,165
	Edmond R. Ward, Director	6,169,412	0	689,165
	William G. Oldham, Director	6,229,695	0	628,882
	Norman V. Coates, Director	6,157,889	0	700,688
2.	Proposal to approve the reincorporation of the Company under the laws of the State of Delaware through a merger with Big League Merger Corporation, a wholly-owned subsidiary of the Company.	5,279,556	1,563,917	15,104
3.	Proposal to approve the governance and other provisions in the certificate of incorporation and bylaws of the Company to be contingent and effective upon the completion of the reincorporation merger.	3,974,962	2,857,956	25,659
4.	Proposal to approve the adoption of the Company s 2005 Employee Stock Option Plan and the reservation of 1,200,000 shares of common stock for issuance thereunder.	5,058,683	1,766,834	33,060
5.	Proposal to ratify the appointment of BDO Seidman, LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2005.	6,813,183	30,106	15,288

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Index

The following exhibits are filed or incorporated by reference with this Quarterly Report on Form 10-Q/A:

3.1(1)	Amended and Restated Articles of Incorporation of Nanometrics Incorporated.
3.2(2)	Restated Bylaws of Nanometrics Incorporated.
3.3(3)	Certificate of Amendment of Amended and Restated Bylaws of Nanometrics Incorporated.
4.1(4)	Form of Common Stock Certificate.
10.1(5)	Asset Purchase and License Agreement dated September 14, 2005 by and between Nanometrics Incorporated and Toho Technology Corporation.

Exhibit Number	**Description**
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to Registrant s Annual Report on Form 10-K (File No. 000-13470) filed on March 28, 2003.
(2) Incorporated by reference to Registrant s Annual Report on Form 10-K (File No. 000-13470) filed on April 1, 1998.
(3) Incorporated by reference to Registrant s Annual Report on Form 10-K (File No. 000-13470) filed on March 30, 2001.
(4) Incorporated by reference to Registrant s Registration Statement on Form S-1 (File No. 2-93949), which became effective November 28, 1984.
(5) Incorporated by reference to Registrant s Quarterly Report on Form 10-Q (File No. 000-13470) filed on August 16, 2005.

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SIGNATURES

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

NANOMETRICS INCORPORATED
(Registrant)

By: /s/ Douglas J. McCutcheon

Douglas J. McCutcheon
Chief Financial Officer

Dated: February 22, 2006