FORMFACTOR INC
Form 10-K/A
July 20, 2004

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended December 27, 2003

or

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

For the transition period from to

Commission file number: 000-50307

FormFactor, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3711155**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

2140 Research Drive, Livermore, California 94550

(Address of principal executive offices, including zip code)

(925) 294-4300

(Registrant s telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock

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 þ No o

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the registrant s common stock, par value $0.001 per share, held by non-affiliates of the registrant as of December 27, 2003, based on the closing sales price of the registrant s common stock on June 27, 2003, the last business day of the registrant s most recently completed second fiscal quarter, as reported by the Nasdaq National Market, was $355,194,087. Shares of the registrant s common stock held by each officer and director and each person who owns 5% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant s common stock, par value $0.001 per share, outstanding as of March 19, 2004 was 37,442,515 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the 2004 Annual Meeting of Stockholders, which was filed within 120 days of the end of the fiscal year ended December 27, 2003, are incorporated by reference in the Form 10-K of the Registrant. Except with respect to information specifically incorporated by reference in the Form 10-K, the Proxy Statement is not deemed to be filed as a part of the Form 10-K of the Registrant.

EXPLANATORY NOTE

The Registrant is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 27, 2003 to amend and restate its Form 10-K initially filed with the Securities and Exchange Commission on March 22, 2004. This Amendment No. 1 restates the Registrant s financial results for fiscal years 2001, 2002 and 2003 to reflect a change in the amortization schedule of deferred stock-based compensation recorded in connection with its June 2003 initial public offering.

In connection with this adjustment, the Registrant reclassified a portion of the stock-based compensation expenses from operating expenses to cost of revenues and has revised its provision for income taxes accordingly. The aggregate amount of deferred stock-based compensation initially recorded remains unchanged.

The adjustment to the amortization schedule relates to pre-IPO refresh stock option grants issued in 2001 and 2002. These option grants were designed to add an additional year on to the vesting period of the employees existing option grant. This provides employees with consistent option compensation following full vesting of their original option grants, which generally occurs four years after grant. In connection with its IPO, the Registrant recorded $8.3 million of deferred stock based-compensation for these refresh grants to be amortized over their future one year vesting period. During the second quarter of 2004, the Registrant s independent auditors indicated that deferred stock based compensation relating to these refresh grants should have been amortized from the date of grant through the vesting period rather than during the vesting period. At the recommendation of its audit committee, the Registrant disclosed the matter to the SEC, Office of the Chief Accountant, to report and confirm that the amortization should begin from the grant date. The adjustment will result in higher stock-based compensation expense for the years fiscal 2001 through fiscal 2004, and lower stock-based compensation expense for fiscal 2005 through fiscal 2007 related to these refresh grants.

The restatement has no impact on the Company s net cash flows from operating activities or on the Registrant s cash and cash equivalents in the consolidated statements of cash flows for the periods restated.

Please see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 14 to the Notes to Consolidated Financial Statements contained in this Amendment No. 1 for further information regarding the revisions to the Registrant s financial results.

This Amendment No. 1 amends and restates the following items of the initial filing of the Registrant s Form 10-K: (i) Part II, Item 6 Selected Financial Data, (ii) Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, (iii) Part II, Item 8 Consolidated Financial Statements and Supplementary Data, (iv) Part II, Item 9A Controls and Procedures and (v) Part IV, Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K.

All information in the Registrant s Annual Report on Form 10-K for the fiscal year ended December 27, 2003, as amended by this Amendment No. 1, speaks as of the date of the original filing of the Registrant s Form 10-K for such period and does not reflect any subsequent information or events, except as expressly noted in this Amendment No. 1 and except for Exhibits 23.01, 31.01, 31.02, and 32.01. References to Amendment No. 1, Annual Report and Form 10-K in this Amendment No. 1 refer to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 27, 2003, as amended.

Contemporaneous with the filing of this Amendment No. 1 to its Annual Report on Form 10-K, the Registrant is filing an Amendment No. 1 to its Quarterly Report on Form 10-Q for the three months ended to reflect the revisions to the Registrant s financial results described above.

All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in the Registrant s reports, as amended, filed with the Securities and Exchange Commission subsequent to the date of the initial filing of the Registrant s Annual Report on Form 10-K for the fiscal year ended December 27, 2003.

INDEX

Form 10-K for the Fiscal Year Ended December 27, 2003

Table of Contents

PART II

Item 6: ***Selected Financial Data***

The following selected consolidated financial data are derived from FormFactor s consolidated financial statements. This data should be read in conjunction with FormFactor s consolidated financial statements and the related notes, and Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations. The following selected consolidated financial data for the fiscal years ended December 27, 2003, December 28, 2002 and December 29, 2001 has been restated to reflect adjustments related to the amortization schedule of deferred stock-based compensation described in Note 14 of the Notes to Consolidated Financial Statements included in this Form 10-K/A.

	Fiscal Year Ended				
	Dec. 25, 1999	Dec. 30, 2000	Dec. 29, 2001	Dec. 28, 2002	Dec. 27, 2003
			(As restated)	(As restated)	(As restated)
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	$ 35,722	$ 56,406	$ 73,433	$ 78,684	$ 98,302
Cost of revenues	20,420	28,243	38,385	39,456	49,929
Stock-based compensation			73	426	612
Gross margin	15,302	28,163	34,975	38,802	47,761
Operating expenses					
Research and development	9,466	11,995	14,619	14,592	15,569
Selling, general and administrative	11,020	15,434	18,500	17,005	19,044
Stock-based compensation	341	259	601	2,039	2,550
Restructuring charges			1,380		
Total operating expenses	20,827	27,688	35,100	33,636	37,163
Operating income (loss)	(5,525)	475	(125)	5,166	10,598
Interest and other income (expense), net	(119)	1,719	477	642	1,566
Income (loss) before income taxes	(5,644)	2,194	352	5,808	12,164
Benefit (provision) for income taxes		(115)	(307)	3,558	(4,649)
Net income (loss)	$ (5,644)	$ 2,079	$ 45	$ 9,366	$ 7,515
Net income (loss) per share:					
Basic	$ (2.16)	$ 0.61	$ 0.01	$ 2.11	$ 0.36
Diluted	$ (2.16)	$ 0.08	$ 0.00	$ 0.32	$ 0.22
Weighted-average number of shares used in per share calculation:					
Basic	2,609	3,408	4,029	4,448	21,047
Diluted	2,609	26,821	28,649	29,251	34,374
Consolidated Balance Sheet Data:					
Cash, cash equivalents, restricted cash and marketable securities	$ 19,248	$ 16,897	$ 27,576	$ 37,178	$ 181,820
Working capital	17,694	23,391	31,074	40,641	190,844
Total assets	38,332	47,499	62,264	77,955	237,165
Long-term debt, less current portion	2,183	521	1,167	625	
Redeemable convertible preferred stock and warrants	47,913	55,129	65,201	65,201	
Deferred stock based compensation, net	(184)	(184)	(4,051)	(10,782)	(7,902)

Total stockholders equity (deficit)	(21,286)	(18,586)	(17,582)	(4,604)	215,014

Table of Contents

Item 7: ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K/A. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions as described under the Note Regarding Forward-Looking Statements that appears in this Form 10-K. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under Trends, Risks and Uncertainties and elsewhere in this Form 10-K/A.

The following discussion and analysis of our financial condition and results of operations have been revised to reflect the adjustments related to amortization of deferred stock-based compensation described in Note 14 of the Notes to Consolidated Financial Statements included in this Form 10-K/A. Other than the revisions described in the preceding sentence, the following discussion and analysis, including the risk factors discussed under Trends, Risks and Uncertainties, do not reflect any information or events subsequent to December 27, 2003.

Overview

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

We operate in a single industry segment for the design, development, manufacture, sale and support of precision, high performance advanced semiconductor wafer probe cards.

We were formed in 1993 and in 1995 introduced our first commercial product. During 1996, we introduced the industry s first memory wafer probe card capable of testing up to 32 devices in parallel. Our revenues increased from $1.1 million in fiscal 1995 to $98.3 million in fiscal 2003.

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

While the majority of our sales are directly to semiconductor manufacturers, we also have significant sales to our distributor in Taiwan. Sales to our distributor were 13.4% of revenues in fiscal 2003. Sales to our distributors were 22.6% of revenues in fiscal 2002 and 32.9% of revenues in fiscal 2001. We sold our products in Japan to a distributor until March 31, 2002, when we began to sell directly in Japan. Currently, we have one distributor, Spirox Corporation, which serves Taiwan, Singapore and China. We also have the ability to sell our products directly to customers in that region.

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

Fiscal Year. Our fiscal year ends on the last Saturday in December. The fiscal years ended December 27, 2003, December 28, 2002 and December 29, 2001 had 52 weeks each.

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

Table of Contents

revenues from the sale of wafer probe cards will continue to account for substantially all of our revenues for the foreseeable future.

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

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

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

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

Stock-Based Compensation. In connection with the grant of stock options to employees in fiscal 2001, fiscal 2002, and fiscal 2003 through our initial public offering in June 2003, we recorded an aggregate of $14.3 million in deferred stock-based compensation. These options are considered compensatory because the fair value of our stock determined for financial reporting purposes is greater than the fair value determined on the date of the grant. As of December 27, 2003, we had an aggregate of $7.9 million of deferred stock-based compensation remaining to be amortized. This deferred stock-based compensation balance will be amortized as follows: $3.1 million during fiscal 2004; $2.7 million during fiscal 2005; $1.5 million during fiscal 2006; and $591,000 during fiscal 2007. We are amortizing the deferred stock-based compensation on a straight-line basis from the date of grant through the vesting period of the related options, which is generally four to five years. For options granted to employees to date, the amount of stock-based compensation amortization to be recognized in future periods could decrease if options for which deferred but unvested compensation has been recorded are forfeited. Stock based compensation expenses have been classified to the income statement expense category consistent with the category where related employee expenses are classified. We have restated our consolidated financial statements for fiscal 2001, 2002 and 2003 to reflect the adjustments related to amortization of deferred stock-based compensation and the figures contained in this paragraph reflect such adjustments. See Note 14 of the Notes to Consolidated Financial Statements included in this Form 10-K/A.

Provision for Income Taxes. As of December 27, 2003, we had state net operating loss carryforwards of approximately $825,000. The state net operating loss carryforwards will expire at various dates from 2006 through 2013. We also had research and development tax credit carryforwards of approximately $108,000 and $1,126,000 for federal and state income tax purposes, respectively. The federal research and development tax credit carryforward will expire at various dates from 2021 through 2023. The state research credit can be carried forward indefinitely.

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

Table of Contents

In the third quarter of fiscal 2002, we released our valuation allowance recorded against our deferred tax assets because we believe that it is more likely than not that our deferred tax assets will be realized.

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

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires us to make judgments, assumptions and estimates that affect the amounts reported. Note 2 of Notes to Consolidated Financial Statements describes the significant accounting policies used in the preparation of our consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as a policy that is both material to the presentation of our consolidated financial statements and requires management to apply judgments that could have a material effect on our financial condition and results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, we are periodically faced with uncertainties, the outcomes of which are not within our control and will not be known for prolonged periods of time. These uncertainties are discussed in the section below entitled Trends, Risks and Uncertainties. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America, and provide a meaningful presentation of our financial condition and results of operations.

We believe that the following are critical accounting policies:

Revenue Recognition. We recognize revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements, which supersedes SAB 101. SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. Determination of criteria (2) and (4) are based on management s judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Table of Contents

Revenues from product sales to customers other than distributors are recognized upon shipment and reserves are provided for estimated allowances. We defer recognition of revenues on sales to distributors until the distributor confirms an order from its customer. Revenues from licensing of our design and manufacturing technology, which have been insignificant to date, are recognized over the term of the license agreement or when the significant contractual obligations have been fulfilled.

Warranty Reserve. We provide for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. We continuously monitor product returns for warranty and maintain a reserve for the related expenses based upon our historical experience and any specifically identified field failures. As we sell new products to our customers, we must exercise considerable judgment in estimating the expected failure rates. This estimating process is based on historical experience of similar products as well as various other assumptions that we believe to be reasonable under the circumstances. Should actual product failure rates, material usage or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required.

From time to time, we may be subject to additional costs related to warranty claims from our customers. If and when this occurs, we generally make significant judgments and estimates in establishing the related warranty liability. This estimating process is based on historical experience, communication with our customers, and various assumptions that we believe to be reasonable under the circumstances. This additional warranty would be recorded in the determination of net income in the period in which the additional cost was identified.

Inventory Reserve. We state our inventories at the lower of cost, computed on a first in, first out basis, or market. We record inventory reserve for estimated obsolescence or unmarketable inventories equal to the difference between the cost of inventories and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory reserve may be required.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of. We account for the impairment of long-lived assets in accordance with Statement of Financial Accounting Standard, or SFAS, No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . We evaluate the carrying value of our long-lived assets whenever certain events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Such events or circumstances include, but are not limited to, a prolonged industry downturn, a significant decline in our market value or significant reductions in projected future cash flows.

Significant judgments and assumptions are required in the forecast of future operating results used in the preparation of the estimated future cash flows, including profit margins, long-term forecasts of the amounts and timing of overall market growth and our percentage of that market, groupings of assets, discount rates and terminal growth rates. In addition, significant estimates and assumptions are required in the determination of the fair value of our tangible long-lived assets, including replacement cost, economic obsolescence, and the value that could be realized in orderly liquidation. Changes in these estimates could have a material adverse effect on the assessment of our long-lived assets, thereby requiring us to write down the assets. Our net long-lived assets as of December 27, 2003 and December 28, 2002, included property and equipment of $20.5 million and $16.5 million, respectively.

Accounting for Income Taxes. We account for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes. Under this method, we determine deferred tax assets and liabilities based upon the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. The tax consequences of most events recognized in the current year s financial statements are included in determining income taxes currently payable. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenue, expenses, gains and losses, differences arise between the amount of taxable income and pretax financial income for a year and between the tax bases of

Table of Contents

assets or liabilities and their reported amounts in the financial statements. Because it is assumed that the reported amounts of assets and liabilities will be recovered and settled, respectively, a difference between the tax basis of an asset or a liability and its reported amount in the balance sheet will result in a taxable or a deductible amount in some future years when the related liabilities are settled or the reported amounts of the assets are recovered, hence giving rise to a deferred tax asset. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our actual current tax exposure together with assessing temporary differences that may result in deferred tax assets. Management judgment is required in determining any valuation allowance recorded against our net deferred tax assets. Any such valuation allowance would be based on our estimates of taxable income and the period over which our deferred tax assets would be recoverable. While management has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, if we were to determine that an increase in our valuation allowance in the future is necessary, an adjustment to the deferred tax asset would result in additional income tax expense in such period.

As of December 29, 2001, we had recorded a full valuation allowance of $9.1 million against our deferred tax assets, due to uncertainties related to our ability to utilize our deferred tax assets, primarily consisting of certain net operating losses carried forward, before they expire. In fiscal 2002, we released our valuation allowance because, based upon our recurring level of profitability, we believe that it is more likely than not that we will be able to utilize our deferred tax assets before they expire. In fiscal 2003, given our increasing levels of profitability, we continue to believe that it is more likely than not that we will be able to utilize our deferred tax assets before they expire.

Results of Operations

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

	Fiscal Year Ended		
	Dec. 29, 2001	Dec. 28, 2002	Dec. 27, 2003
	(As restated)	(As restated)	(As restated)
Revenues	100.0%	100.0%	100.0%
Cost of revenues	52.3	50.2	50.8
Stock-based compensation*	0.1	0.5	0.6
Gross margin	47.6	49.3	48.6
Operating expenses:			
Research and development	19.9	18.6	15.8
Selling, general and administrative	25.2	21.6	19.4
Stock-based compensation*	0.8	2.5	2.7
Restructuring charges	1.9		
Total operating expenses	47.8	42.7	37.9
Operating income (loss)	(0.2)	6.6	10.7
Interest and other income, net	0.6	0.8	1.6
Income before income taxes	0.4	7.4	12.3
Benefit (provision) for income taxes	(0.4)	4.5	(4.7)
Net income	0.0%	11.9%	7.6%

* See Note 14 of the Notes to Consolidated Financial Statements.

Table of Contents

Fiscal Years Ended December 27, 2003 and December 28, 2002

Revenues. Revenues for fiscal 2003 were $98.3 million compared with $78.7 million, an increase of $19.6 million, or 24.9%. The $19.6 million increase was due primarily to an increase of $5.5 million in revenues from DRAM manufacturers, an increase of $8.9 million from manufacturers of flash memory devices, an increase of $5.1 million in revenues from a manufacturer of chipsets and an increase of $200,000 in other revenues.

The majority of revenues for fiscal 2003 were generated by sales of wafer probe cards to manufacturers of DRAM devices. Sales of wafer probe cards to test DRAM devices accounted for $60.3 million, or 61.3% of revenues for fiscal 2003 compared to $54.8 million, or 69.6% of revenues, for fiscal 2002. The increase in revenues from DRAM manufacturers was driven primarily by an increased demand from the continued transitioning of DRAM manufacturers to higher device density, new advanced technology nodes, to 300 mm wafer size and new architectures, like DDR II.

Continued business momentum, increased design and customer wins at manufacturers of flash memory devices increased our revenues in the market segment for fiscal 2003 compared to fiscal 2002. Revenues generated from sales to flash memory device manufacturers for fiscal 2003 were $18.1 million compared with $9.2 million for fiscal 2002, an increase of 97%.

Revenues from manufacturers of microprocessor and other flip chip devices increased to $18.8 million for fiscal 2003 from $13.7 million for fiscal 2002. Revenues for fiscal 2003 benefited from new product introductions, such as our 175µ pitch MicroSpring contact technology and MicroForce probing technology solutions for flip chip logic applications introduced in the second quarter of 2003 with production shipments occurring in the third quarter of 2003. The significant customer concentration for these products will continue to drive quarter to quarter cyclicality from these tooling cycles.

Revenues by geographic region for fiscal 2003 as a percentage of revenues were 50.1% in North America, 10.3% in Europe, 20.1% in Japan and 19.5% in Asia Pacific. Revenues by geographic region for fiscal 2002 as a percentage of revenues were 55.6% in North America, 15.5% in Europe, 21.8% in Asia Pacific and 7.1% in Japan. The increase in the percentage of revenues in Japan was primarily due to increased sales to a manufacturer of DRAM devices.

The following customers accounted for more than 10% of our revenues for fiscal 2003 or fiscal 2002:

	Fiscal 2003	Fiscal 2002
Intel Corporation	30.1%	26.9%
Spirox Corporation	13.4%	20.9%
Elpida	12.4%	*
Infineon Technologies AG	10.3%	20.1%

* Less than 10% of revenues.

Gross Margin. Gross margin as a percentage of revenues was 48.6% for fiscal 2003 compared with 49.3% for fiscal 2002. The decrease in gross margin percentage was primarily due to increased fixed costs and a change in product mix. Stock based compensation reduced the gross margin by $612,000, or 0.6% of revenues in 2003, compared to $426,000, or 0.5% of revenues, in 2002. We increased our manufacturing fixed costs in response to a continued positive demand for our products and continued design wins. This investment, primarily in headcount, has been essential to convert our operations to a 7 day, 24 hour manufacturing shift structure, which began in the second quarter of 2003 and completed in the third quarter of 2003. This structure further increased our capacity and supports the first steps in establishing the required staffing levels to transfer our manufacturing processes into our new production facility in 2004.

Gross margin performance will be impacted in 2004 as we begin to incur non-recurring expenses related to the bring-up of our new production facility, as well as we invest in further capacity increases in our existing production site.

Table of Contents

Research and Development. Research and development expenses increased to $15.6 million, or 15.8% of revenues, for fiscal 2003 compared to $14.6 million, or 18.6% of revenues, for fiscal 2002. The increase in absolute dollars is mainly due to increased personnel costs associated with an increase of product development activities in fiscal 2003. During fiscal 2003, we continued our development of next generation parallelism product, fine pitch memory and logic products, advanced MicroSpring interconnect technology and higher speed wafer probe. We introduced our new S200 technology, which is a high parallelism, high frequency probe card for fully tested memory die, and also our new wafer-level burn-in technology for certain DRAM device applications.

Selling, General and Administrative. Selling, general and administrative expenses were $19.0 million for fiscal 2003, or 19.4% of revenues, compared to $17.0 million, or 21.6% of revenues, for fiscal 2002. The increase in absolute dollars was mainly due to increased personnel costs, higher sales and marketing spending, in line with higher revenues and new product introductions, and costs associated with being a public company.

Interest and Other Income (Expense), Net. Interest and other income (expense), net was $1.6 million for fiscal 2003 compared with $642,000 for fiscal 2002. We generated greater interest income in 2003 resulting from a larger cash, cash equivalents and marketable securities balance throughout the second half of fiscal 2003 as a result of our initial public offering in June of 2003 and our follow-on offering in November of 2003. In addition, the increased business in Japan combined with the weaker dollar generated foreign currency gains of $758,000 in fiscal 2003 compared to foreign currency gains of $22,000 in fiscal 2002.

Benefit (Provision) for Income Taxes. Provision for income taxes was $4.6 million for fiscal 2003 compared to a benefit of $3.6 million for fiscal 2002. The $3.6 million benefit for fiscal 2002 resulted from the release of the valuation allowance against our deferred tax assets in the amount of $5.9 million. The effective tax rate for fiscal 2003 was 38.2%. Our future effective income tax rate depends on various factors, such as pending tax law changes including but not limited to the tax benefit from export sales and research and development credits and the geographic composition of our pre-tax income.

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

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

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

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

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

Table of Contents

sales of our DRAM large area array wafer probe cards and the industry s conversion to DDR based DRAM devices in the second half of fiscal 2002.

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

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

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

* Less than 10% of revenues.

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

Gross Margin. Gross margin as a percentage of revenues was 49.3% for fiscal 2002 compared with 47.6% for fiscal 2001. The increase in gross margin percentage was primarily due to cost reduction actions associated with our restructuring in the third quarter of fiscal 2001, continued reductions in the cost of materials, and shipments of high complexity products incorporating newer technology. These benefits were partially offset by a generally less favorable pricing environment due to the overall decline in demand. Stock-based compensation reduced the gross margin by $426,000, or 0.5% of revenues in 2002 compared to $73,000 or 0.1% of revenues in 2001. We also experienced an increase in warranty expenses caused primarily by an increase in field failures at one of our customers. Gross margin in absolute dollars and as a percentage of revenues will be subject to fluctuations as we continue to introduce new technologies into our manufacturing processes and to experience cyclicality in our end markets.

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

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

Restructuring Charges. During the third quarter of fiscal 2001, we recorded a restructuring charge of $1.4 million. We implemented the restructuring plan to better align our infrastructure with the market conditions in the semiconductor industry and to further focus the company on the wafer probe card business. The restructuring charge consisted of $880,000 for headcount reductions covering 14 employees in research and development, 23 employees in operations and 17 employees in selling, general and administrative. The majority of the affected employees were based in Livermore, California. Further, we recorded charges of

Table of Contents

$223,000 for the consolidation of excess facilities and $277,000 for asset write-offs, primarily for property and equipment. The consolidation of excess facilities included the closure of certain corporate facilities that had been vacated. The charge of $223,000 primarily related to lease termination and noncancelable lease costs. The charge of $277,000 primarily related to the disposal of property and equipment, which primarily consisted of leasehold improvements for the excess facilities. As of December 28, 2002, the restructuring plan had been fully executed.

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

Benefit (Provision) for Income Taxes. We recorded a benefit for income taxes for fiscal 2002 of $3.6 million compared to the provision of $307,000 for fiscal 2001. The benefit resulted from the release of the valuation allowance recorded against deferred tax assets, partially offset by the provision for income taxes on pre-tax profits. The valuation allowance was released because we believe that it is more likely than not that the deferred tax assets will be realized.

Liquidity and Capital Resources

As of December 27, 2003, we had $181.8 million in cash, cash equivalents, marketable securities and restricted cash, compared with $37.2 million as of December 28, 2002. On June 17, 2003, we completed our initial public offering in which we sold 5,605,305 shares of our common stock and we subsequently sold an additional 900,000 shares pursuant to the exercise of the underwriters over-allotment option. These sales resulted in net proceeds of approximately $82.0 million. On November 10, 2003 we completed our follow-on public offering in which we sold 2,249,866 shares of our common stock, including 750,000 shares sold pursuant to the underwriters over-allotment option. We received net proceeds of approximately $55.9 million.

Net cash provided by operating activities was $13.0 million for fiscal 2003 compared with net cash provided by operating activities of $12.9 million for fiscal 2002 and $10.3 million for fiscal 2001. The increase in net cash provided by operations in fiscal 2003 compared to fiscal 2002 and 2001 resulted primarily from an increase in net income for fiscal 2003, when adjusted for any non-cash items, offset by increases in working capital in fiscal 2003 compared to fiscal 2002 and 2001.

Significant non-cash adjustments that impacted net income for fiscal 2002 were the release of the valuation allowance against our deferred tax assets and inventory write-offs. Working capital increases in fiscal 2003 resulted primarily from increases in accounts receivables and inventories, partially offset by increases in accounts payable and accrued liabilities.

Accounts receivable increased by $7.5 million for fiscal 2003 due to an increase in worldwide revenues, particularly to customers in Japan, which typically have longer payment terms. Revenues to Japanese customers increased from $5.6 million in fiscal 2002 to $19.7 million in fiscal 2003. Accounts receivable remained flat for fiscal 2002, compared to a decline of $501,000 for fiscal 2001.

The $5.8 million increase in inventories for fiscal 2003 reflected an increase in raw materials and work-in-process to support revenue growth. Accounts payable increased as a result of the increased inventory purchases to support the revenue growth. Inventories increased in fiscal 2002 and 2001 to meet the expected demand for our products.

Accrued liabilities increased by $2.3 million for fiscal 2003 due primarily to the increase in accrued income taxes and accrued incentive compensation. Accrued liabilities increased from $5.8 million in fiscal 2001 to $7.7 million in fiscal 2002. The increase was due to the increase in accrued incentive compensation as part of our shift to more variable compensation as well as an increase in warranty costs reflecting higher revenue levels.

Net cash used by investing activities was $64.1 million for fiscal 2003, compared to $7.5 million used by investing activities for fiscal 2002. Net cash used by investing activities was $11.6 million for fiscal 2001. Net cash used by investing activities resulted primarily from the net purchase of marketable securities and capital

Table of Contents

expenditures in each of these periods. Capital expenditures were $9.1 million for fiscal 2003, $4.2 million for fiscal 2002 and $9.4 million for fiscal 2001. We invested in the expansion of manufacturing facilities as well as in leasehold improvements to our new headquarters and manufacturing facility.

Net cash provided by financing activities was $140.6 million for fiscal 2003 compared with net cash provided by financing activities of $863,000 for fiscal 2002. Net cash provided by financing activities was $10.0 million for fiscal 2001. In June 2003, we completed our initial public offering in which we sold 6,505,305 of our common stock. The sale of shares of common stock by us, including the sale of 900,000 shares pursuant to the exercise of the over-allotment option by the underwriters resulted in aggregate gross proceeds of approximately $91.1 million, approximately $6.4 million of which we applied to underwriting discounts and approximately $2.7 million of which we applied to related costs. As a result, we received approximately $82.0 million of the offering proceeds. On November 10, 2003 we completed our follow-on public offering in which we sold 2,249,866 shares of our common stock, including an over-allotment of 750,000 shares of our common stock. We received approximately $55.9 million of the offering proceeds. Net cash provided by financing activities was primarily due to the issuance of common stock in fiscal 2002 and to the sale of our redeemable convertible preferred stock in fiscal 2001, partially offset by debt repayments in each of these periods.

In May 2001, we signed a ten-year lease for an additional 119,000 square feet of manufacturing, research and development and office space. The total rent obligation over the term of the lease is $21.8 million and is accounted for as an operating lease. We expect to invest approximately $25.0 million in leasehold improvements for our new headquarters and manufacturing facility through 2004. Of this amount, approximately $18.0 million relates to the design and construction of a new manufacturing facility, while the remaining amount relates to the build out and infrastructure of research and development and office space.

In February 2003, we entered into an amended and restated loan and security agreement with Comerica Bank. Our loan and security agreement provided a revolving line of credit of up to $16.0 million. In April 2003, we borrowed funds under the revolving line of credit to pay down the outstanding amounts under the expiring equipment line of credit and term loan under our prior agreement with Comerica. We repaid the outstanding amounts under the line of credit in September 2003 and the amended and restated loan and security agreement with Comerica Bank was terminated in December 2003. We have no debt obligations that have not been recorded in our consolidated financial statements.

The following table describes our commitments to settle contractual obligations in cash as of December 27, 2003.

	Payments Due by Fiscal Year				
	2004	2005-2006	2007-2008	After 2008	Total
			(In thousands)		
Operating leases	$3,419	$5,056	$5,232	$11,160	$24,867

On January 20, 2004, we announced our fiscal 2003 annual results. Subsequently, we have concluded that all of our available-for-sale securities, regardless of their contractual maturities, should be classified as current assets because our policy is to consider all marketable securities as available for use in the current operating cycle.

As a result we have reclassified $48.8 million of our marketable securities to current assets within our balance sheet. The above reclassification had no impact on our total assets, total liabilities, or stockholders equity as of December 27, 2003 or on our net income for fiscal 2003 as previously announced.

We believe our existing cash balance, cash equivalents and marketable securities will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products and enhancement to existing products, the costs to ensure access to adequate manufacturing capacity, and the continuing market acceptance of our products. Although we are currently not a party to any

Table of Contents

agreement or letter of intent with respect to potential investments in, or acquisitions of, complementary businesses, products or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, or SPEs, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 27, 2003, we are not involved in any unconsolidated SPE transactions.

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board, or FASB, issued a revised FASB Interpretation No. 46, or FIN 46R, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. The FASB published the revision to clarify and amend some of the original provisions of FIN 46, which was issued in January 2003, and to exempt certain entities from its requirements. A variable interest entity, or (VIE) refers to an entity subject to consolidation according to the provisions of this Interpretation. FIN 46R applies to entities whose equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support provided by any parties, including equity holders, or where the equity investors (if any) do not have a controlling financial interest. FIN 46R provides that if an entity is the primary beneficiary of a VIE, the assets, liabilities, and results of operations of the VIE should be consolidated in the entity s financial statements. In addition, FIN 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE provide additional disclosures. The provisions of FIN 46R are effective for the Company s fiscal 2004 first quarter. We do not expect the adoption of FIN46R to have a material impact on our financial position or on our results of operations.

Trends, Risks and Uncertainties

You should carefully consider the following risk factors, as well as the other information in this Annual Report on Form 10-K, in evaluating FormFactor and our business. If any of the following risks actually occur, our business, financial condition and results of operations would suffer. Accordingly, the trading price of our common stock would likely decline and you may lose all or part of your investment in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

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

Our operating results are likely to fluctuate. Some of the important factors that could cause our revenues and operating results to fluctuate from period-to-period include:

customer demand for our products;

our ability to deliver reliable, cost-effective products in a timely manner;

the reduction, rescheduling or cancellation of orders by our customers;

the timing and success of new product introductions and new technologies by our competitors and us;

our product and customer sales mix and geographical sales mix;

changes in the level of our operating expenses needed to support our anticipated growth;

a reduction in the price or the profitability of our products;

changes in our production capacity or the availability or the cost of components and materials;

Table of Contents

our ability to bring new products into volume production efficiently;

the timing of and return on our investments in research and development;

our ability to collect accounts receivable;

seasonality, principally due to our customers purchasing cycles; and

market conditions in our industry, the semiconductor industry and the economy as a whole.

The occurrence of one or more of these factors might cause our operating results to vary widely. As a result, we believe that you should not rely on period-to-period comparisons of our financial results as an indication of our future performance. If our revenues or operating results fall below the expectations of market analysts or investors, the market price of our common stock could decline substantially.

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

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

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

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

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

transition our products to new manufacturing technologies;

Table of Contents

identify emerging technological trends in our target markets;

maintain effective marketing strategies;

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

adjust to changing market conditions quickly and cost-effectively.

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

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

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

current and projected chip prices;

projected price erosion for the manufacturer s particular chips;

supply and demand issues;

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

the availability of funds to the manufacturer;

the technology roadmap of the manufacturer; and

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

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

We are subject to general economic and market conditions.

Our business is subject to the effects of general economic conditions in the United States and worldwide, and to market conditions in the semiconductor industry in particular. For example, in fiscal 2001, our operating results were adversely affected by unfavorable global economic conditions and reduced capital spending by semiconductor manufacturers. These adverse conditions resulted in a decrease in the demand for semiconductors and products using semiconductors, and in a sharp reduction in the development of new

Table of Contents

semiconductors and semiconductor designs. As a result, we experienced a decrease in the demand for our wafer probe cards. If the economic conditions in the United States and worldwide do not improve, or if they worsen from current levels, we could experience material negative effects on our business.

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

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

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

We derive substantially all of our revenues from wafer probe cards that we sell to manufacturers of DRAM memory and flash memory devices and manufacturers of microprocessor, chipset and other logic devices. In the microprocessor, chipset and other logic device markets, our products are primarily used for devices employing flip chip packaging, which devices are commonly referred to as flip chip logic devices. In fiscal 2003, sales to manufacturers of DRAM devices accounted for 61.3% of our revenues, sales to manufacturers of flip chip logic devices accounted for 19.1% of our revenues, and sales to manufacturers of flash memory devices accounted for 18.4% of our revenues. For fiscal 2002, sales to manufacturers of DRAM devices accounted for 69.6% of our revenues, sales to manufacturers of flip chip logic devices accounted for 17.4% of our revenues, and sales to manufacturers of flash memory devices accounted for 11.7% of our revenues. Therefore, our success depends in part upon the continued acceptance of our products within these markets and our ability to continue to develop and introduce new products on a timely basis for these markets. For example, the market might not accept an increasingly high parallelism wafer test solution.

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

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

The wafer probe card market is highly competitive. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. In the past, increased competition has resulted in price reductions, reduced gross margins or loss of market share, and could do so in the future. Competitors might introduce new competitive products for the same markets that our products currently serve. These products may have better performance, lower prices and broader acceptance than our products. In addition, for products such as wafer probe cards, semiconductor manufacturers typically qualify more than one source, to avoid dependence on a single source of supply. As a result, our customers will likely purchase products from our competitors. Current and potential competitors include AMST Co., Ltd., Cascade

Table of Contents

Microtech, Inc., ESJ Corporation, Feinmetall GmbH, Japan Electronic Materials Corporation, Kulicke and Soffa Industries, Inc., Micronics Japan Co., Ltd., MicroProbe, Inc., NanoNexus Inc., Phicom Corporation, SCS Hightech, Inc., Tokyo Cathode Laboratory Co., Ltd. and Wentworth Laboratories, Inc., among others. Many of our current and potential competitors have greater name recognition, larger customer bases, more established customer relationships or greater financial, technical, manufacturing, marketing and other resources than we do. As a result, they might be able to respond more quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the development, promotion, sale and support of their products, and reduce prices to increase market share. Some of our competitors also supply other types of test equipment, or offer both advanced wafer probe cards and needle probe cards. Those competitors that offer both advanced wafer probe cards and needle probe cards might have strong, existing relationships with our customers or with potential customers. Because we do not offer a needle probe card or other conventional technology wafer probe card for less advanced applications, it may be difficult for us to introduce our advanced wafer probe cards to these customers and potential customers for certain wafer test applications. It is possible that existing or new competitors, including test equipment manufacturers, may offer new technologies that reduce the value of our wafer probe cards.

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

A relatively small number of customers has accounted for a significant portion of our revenues in any particular period. In fiscal 2003, four customers accounted for 66.2% of our revenues. In fiscal 2002, four customers accounted for 77.2% of our revenues. Our ten largest customers accounted for 93.5% of our revenues in fiscal 2003 and 97.4% of our revenues in fiscal 2002. We anticipate that sales of our products to a relatively small number of customers will continue to account for a significant portion of our revenues. The cancellation or deferral of even a small number of purchases of our products could cause our revenues to decline in any particular quarter. A number of factors could cause customers to cancel or defer orders, including manufacturing delays, interruptions to our customers operations due to fire, natural disasters or other events or a downturn in the semiconductor industry. Our agreements with our customers do not contain minimum purchase commitments, and our customers could cease purchasing our products with short or no notice to us or fail to pay all or part of an invoice. In some situations, our customers might be able to cancel orders without a significant penalty. In addition, the continuing trend toward consolidation in the semiconductor industry, particularly among manufacturers of DRAMs, could reduce our customer base and lead to lost or delayed sales and reduced demand for our wafer probe cards. Industry consolidation also could result in pricing pressures as larger DRAM manufacturers could have sufficient bargaining power to demand reduced prices and favorable nonstandard terms. Additionally, certain customers may not want to rely entirely or substantially on a single wafer probe card supplier and, as a result, such customers could reduce their purchases of our wafer probe cards.

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

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

Table of Contents

when they are introduced to the market. Our relationships with our customers and test equipment companies could deteriorate if they:

become concerned about our ability to protect their intellectual property;

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

regard us as a competitor;

establish relationships with others in our industry; or

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

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

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

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

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

We rely on Spirox Corporation, our distributor in Taiwan, Singapore and China, for a substantial portion of our revenues. Sales to Spirox accounted for 13.4% of our revenues in fiscal 2003 and 20.9% of our revenues in fiscal 2002. Spirox also provides customer support. A reduction in the sales or service efforts or financial viability of our distributor, or deterioration in, or termination of, our relationship with our distributor could harm our revenues, our operating results and our ability to support our customers in the distributor s territory. In addition, establishing alternative sales channels in the region could consume substantial time and resources, decrease our revenues and increase our expenses.

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

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

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

We intend to work with our customers to migrate elements of final test from the device level to the wafer level. This migration will involve a change in semiconductor test strategies from concentrating final test at the individual device level to increasing the amount of test at the wafer level. Semiconductor manufacturers typically take time to qualify new strategies that affect their testing operations. As a result, general acceptance

Table of Contents

of wafer-level final test might not occur in the near term or at all. In addition, semiconductor manufacturers might not accept and use wafer-level final test in a way that uses our technology. If the migration of elements of final test to wafer probe test does not grow as we anticipate, or if semiconductor manufacturers do not adopt our technology for their wafer probe test requirements, market acceptance of other applications for our technology could be delayed.

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

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

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

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

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

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

If we do not transition effectively to our new operations and manufacturing site, our manufacturing capacity will be negatively impacted.

We plan to move our manufacturing operations into a new facility in Livermore in 2004. The costs of starting up our new manufacturing facility, including capital costs such as equipment and fixed costs such as rent, will be substantial. We might not be able to shift from our current production facility to the new production facility efficiently or effectively. The transition will require us to have both our existing and new manufacturing facilities operational for several quarters, including into 2005. This will cause us to incur significant costs due to redundancy of infrastructure at both sites. Furthermore, the qualification of the new manufacturing facility will require us to use materials and build product and product components that will not be sold to our customers, causing higher than normal material spending. The transition might also lead to manufacturing interruptions, which could mean delayed deliveries or lost sales. Some or all of our customers

Table of Contents

could require a full qualification of our new facility. Any qualification process could take longer than we anticipate. Any difficulties with the transition or with bringing the new manufacturing facility to full capacity and volume production could increase our costs, disrupt our production process and cause delays in product delivery and lost sales, which would harm our operating results.

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

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

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

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

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

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

Table of Contents

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

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

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

cause lower than anticipated yields and lengthening of delivery schedules;

cause delays in product shipments;

cause delays in new product introductions;

cause us to incur warranty expenses;

result in increased costs and diversion of development resources;

cause us to incur increased charges due to unusable inventory;

require design modifications; or

decrease market acceptance or customer satisfaction with these products.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

While we have made no acquisitions of businesses, products or technologies in the past, we may make acquisitions of complementary businesses, products or technologies in the future. Integrating newly acquired

Table of Contents

businesses, products or technologies into our company could put a strain on our resources, could be expensive and time consuming, and might not be successful. Future acquisitions could divert our management s attention from other business concerns and expose our business to unforeseen liabilities or risks associated with entering new markets. In addition, we might lose key employees while integrating new organizations. Consequently, we might not be successful in integrating any acquired businesses, products or technologies, and might not achieve anticipated revenues and cost benefits. In addition, future acquisitions could result in customer dissatisfaction, performance problems with an acquired company, potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities, possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could harm our business.

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

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

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

the complexity of the customer s fabrication processes;

the internal technical capabilities of the customer; and

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

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

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

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

Table of Contents

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

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

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

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

We might be required to spend significant resources to monitor and protect our intellectual property rights. We presently believe that it is likely that one or more of our competitors are using methodologies or have implemented structures into certain of their products that are covered by one or more of our intellectual property rights. On February 24, 2004, we filed in the Seoul Southern District Court, located in Seoul, South Korea, two separate complaints against Phicom Corporation, a Korean corporation, alleging infringement of a total of four Korean patents issued to FormFactor. One Complaint alleges that Phicom is infringing our Korean Patent Nos. 252,457, entitled Method of Fabricating Interconnections Using Cantilever Elements and Sacrificial Substrates, and 324,064, entitled Contact Tip Structures for Microelectronic Interconnection Elements and Methods of Making Same. The other Complaint alleges Phicom is infringing our Korean Patent Nos. 278,342, entitled Method of Altering the Orientation of Probe Elements in a Probe Card Assembly, and 399,210, entitled Probe Card Assembly. Both of the Complaints seek injunctive relief. The court actions are a part of our ongoing efforts to protect the intellectual property embodied in our proprietary technology, including our MicroSpring interconnect technology. We could incur material expenses in these litigations. We may initiate other claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. If we threaten or initiate litigation, we may be subject to claims by third parties against which we must defend. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel. In addition, many of our customer contracts contain provisions that require us to indemnify our

Table of Contents

customers for third party intellectual property infringement claims, which would increase the cost to us of an adverse ruling in such a claim. An adverse determination could also prevent us from licensing our technologies and methods to others.

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

We are subject to various and frequently changing U.S. federal, state and local, and foreign governmental laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites and the maintenance of a safe workplace. We could incur substantial costs, including cleanup costs, civil or criminal fines or sanctions and third-party claims for property damage or personal injury, as a result of violations of or liabilities under environmental laws and regulations or non-compliance with the environmental permits required at our facilities.

For instance, in May 2003, we received a Notice of Violation from the Bay Area Air Quality Management District, or BAAQMD, regarding our record keeping relating to our usage of wipe cleaning solvent. We introduced corrective action to prevent any continued or recurrent record keeping violation, and we resolved the Notice of Violation with a monetary payment which was not significant. It is possible that in the future, we may receive environmental violation notices, and that final resolution of the violations identified by these notices could harm our operating results. By way of further example, in December 2003, we received an Inspection Report from the Department of Toxic Substances Control, or DTSC, in connection with an inspection conducted in August 2003 of the Company s facilities. The DTSC Report reflects certain violations that had not been previously addressed by us in correspondence with the DTSC. We promptly took appropriate steps to address all of the violations noted, believe that all such violations were addressed, and sent correspondence to the DTSC confirming such corrective steps. At the present time it is not clear whether any monetary penalty will be imposed by the DTSC for the violations, and if so, the relative significance of the penalty. In January 2004, we received a Notice of Violation from the BAAQMD for Failure to Meet Permit Condition during a routine inspection of our facilities conducted by an Inspector with the Compliance & Enforcement Division of the BAAQMD. The January BAAQMD Notice reflects that we recently exceeded permissible usage limits on its solvent bench operations. The limit was exceeded only recently, in November 2003. We have identified appropriate corrective action and are also continuing our efforts to get the permit modified to reflect the current usage requirements. Notwithstanding our contemplated corrective action, the January BAAQMD Notice remains unresolved and we may be subject to a penalty based upon the unresolved January BAAQMD Notice. In view of the May BAAQMD Notice discussed above and the fact that a payment was associated with the resolution thereof, we presently believe that it is likely the January BAAQMD Notice will result in the imposition of a monetary penalty. At the present time it is not clear whether any monetary payment would be significant. In February 2004, a contractor at our manufacturing facility discharged certain diesel fuel mixed with water into a storm drain. We notified the appropriate agencies, assisted in their investigation and in the activities of a third party to assist with the cleanup activities. We have not yet been notified as to whether any financial penalties will be imposed based upon the incident and, if imposed, whether such penalties would be significant.

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

Table of Contents

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

Sales of our products to customers outside the United States have accounted for an important part of our revenues. Our international sales as a percentage of our revenues were 49.9% for fiscal 2003 and 44.4% for fiscal 2002. In the future, we expect international sales, particularly into Europe, Japan, South Korea and Taiwan, to continue to account for a significant percentage of our revenues. Accordingly, we will be subject to risks and challenges that we would not otherwise face if we conducted our business only in the United States. These risks and challenges include:

compliance with a wide variety of foreign laws and regulations;

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

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

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

difficulties in staffing and managing personnel, distributors and representatives;

reduced protection for intellectual property rights in some countries;

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

seasonal fluctuations in purchasing patterns in other countries; and

fluctuations in freight rates and transportation disruptions.

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

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

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

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

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

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

The Sarbanes-Oxley Act of 2002 that became law in July 2002, as well as new rules and regulations subsequently implemented by the Securities and Exchange Commission, have required changes to some of our corporate governance practices. The Act also requires the Securities and Exchange Commission to promulgate

26

Table of Contents

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

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in both the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in different jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings in countries with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws including pending tax law changes, such as the benefit from export sales and the research and development credit by material audit assessments. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay could be subject to ongoing audits in various jurisdictions and a material assessment by a governing tax authority could affect our profitability.

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

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

variations in our operating results;

announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by us or by our competitors;

recruitment or departure of key personnel;

the gain or loss of significant orders or customers;

changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;

market conditions in our industry, the industries of our customers and the economy as a whole; and

sales or perceived sales of substantial amounts of our common stock held by existing stockholders.

In addition, if the market for technology stocks or the stock market in general experiences continued or greater loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock also might decline in reaction to events that affect other companies in our industry even if these events do not directly affect us.

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

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

Table of Contents

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

The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters.

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

Our management has broad discretion over the use of the proceeds to us from our public offerings of common stock and might not apply the proceeds of our public offerings in ways that enhance our results of operations.

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

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

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

establish a classified board of directors so that not all members of our board are elected at one time;

provide that directors may only be removed for cause and only with the approval of 66 2/3% of our stockholders;

require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;

authorize the issuance of blank check preferred stock that our board could issue to increase the number of outstanding shares and to discourage a takeover attempt;

authorize the issuance of blank check preferred stock that our board could issue to increase the number of outstanding shares and to discourage a takeover attempt;

limit the ability of our stockholders to call special meetings of stockholders;

prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and

establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Table of Contents

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

Table of Contents

Item 8: ***Consolidated Financial Statements and Supplementary Data***
Consolidated Financial Statements

The consolidated financial statements of FormFactor required by this item are included in the section entitled Consolidated Financial Statements of this Annual Report on Form 10-K/A. See Item 15(a)(1) for a list of FormFactor s consolidated financial statements. The consolidated financial statements and related notes, including the selected quarterly financial data below, of FormFactor have been restated to reflect the adjustments related to the amortization schedule of deferred stock-based compensation described in Note 14 of the Notes to Consolidated Financial Statements, and other than revisions to reflect such adjustments, do not reflect any information or events subsequent to December 27, 2003.

Selected Quarterly Financial Data

The following selected quarterly financial data should be read in conjunction with FormFactor s consolidated financial statements and the related notes and Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations. This information has been derived from unaudited consolidated financial statements of FormFactor that, in the Company s opinion, reflect all recurring adjustments necessary to fairly present this information when read in conjunction with FormFactor s consolidated financial statements and the related notes appearing in the section entitled Consolidated Financial Statements. The results of operations for any quarter are not necessarily indicative of the results to be expected for any future period.

	Mar. 31, 2001		June 30, 2001		Sept. 29, 2001		Dec. 29, 2001	
	As originally reported	As restated	As originally reported	As restated	As originally reported	As restated	As originally reported	As restated
	(In thousands, except per share data)							
Revenues	$19,849	$19,849	$21,507	$21,507	$16,021	$16,021	$16,056	$16,056
Cost of revenues	10,410	10,410	11,269	11,269	8,477	8,477	8,229	8,229
Stock-based compensation *		2		13		23		35
Gross margin	9,439	9,437	10,238	10,225	7,544	7,521	7,827	7,792
Operating expenses:								
Research and development	4,073	4,073	4,323	4,323	3,054	3,054	3,169	3,169
Selling, general and administrative	4,730	4,730	5,230	5,230	4,344	4,344	4,196	4,196
Stock-based compensation*	58	61	102	92	103	161	206	287
Restructuring charges					1,380	1,380		
Total operating expenses	8,861	8,864	9,655	9,645	8,881	8,939	7,571	7,652

Operating income (loss)	578	573	583	580	(1,337)	(1,418)	256	140
Interest and other income, net	(74)	(74)	94	94	229	229	228	228
Income (loss) before income taxes	504	499	677	674	(1,108)	(1,189)	484	368
Benefit (provision) for income taxes	(207)	(435)	(291)	(588)	426	1,037	(235)	(321)
Net income (loss)	$ 297	$ 64	$ 386	$ 86	$ (682)	$ (152)	$ 249	$ 47
Net income (loss) per share:								
Basic	$ 0.08	$ 0.02	$ 0.10	$ 0.02	$ (0.16)	$ (0.04)	$ 0.06	$ 0.01
Diluted	$ 0.01	$ 0.00	$ 0.01	$ 0.00	$ (0.16)	$ (0.04)	$ 0.01	$ 0.00
Weighted-average number of shares used in per share calculations								
Basic	3,790	3,790	3,941	3,941	4,137	4,137	4,248	4,248
Diluted	27,924	27,915	28,353	28,423	4,137	4,137	29,038	29,033

	Mar. 30, 2002		**June 29, 2002**		**Sept. 28, 2002**		**Dec. 28, 2002**	
	As originally reported	**As restated**	**As originally reported**	**As restated**	**As originally reported**	**As restated**	**As originally reported**	**As restated**
	(In thousands, except per share data)							
Revenues	$17,288	$17,288	$18,510	$18,510	$20,729	$20,729	$22,157	$22,157
Cost of revenues	8,859	8,859	9,422	9,422	10,259	10,259	10,916	10,916
Stock-based compensation *		58		102		139		127
Gross margin	8,429	8,371	9,088	8,986	10,470	10,331	11,241	11,114
Operating expenses:								
Research and development	3,249	3,249	3,579	3,579	3,828	3,828	3,936	3,936
Selling, general and administrative	3,992	3,992	4,172	4,172	4,265	4,265	4,576	4,576
Stock-based compensation*	165	258	302	546	283	613	289	622
Restructuring charges								
	7,406	7,499	8,053	8,297	8,376	8,706	8,801	9,134

Total operating expenses								
Operating income	1,023	872	1,035	689	2,094	1,625	2,440	1,980
Interest and other income, net	155	155	164	164	85	85	238	238
Income before income taxes	1,178	1,027	1,199	853	2,179	1,710	2,678	2,218
Benefit (provision) for income taxes	(332)	(332)	(485)	(485)	5,031	5,338	(1,089)	(963)
Net income	$ 846	$ 695	$ 714	$ 368	$ 7,210	$ 7,048	$ 1,589	$ 1,255
Net income per share:								
Basic	$ 0.19	$ 0.16	$ 0.16	$ 0.08	$ 1.61	$ 1.57	$ 0.35	$ 0.28
Diluted	$ 0.03	$ 0.02	$ 0.02	$ 0.01	$ 0.24	$ 0.24	$ 0.05	$ 0.04
Weighted-average number of shares used in per share calculations								
Basic	4,391	4,391	4,438	4,438	4,478	4,478	4,529	4,529
Diluted	29,823	29,847	29,535	29,599	29,575	29,671	29,227	29,090

	Mar. 29, 2003		**June 28, 2003**		**Sept. 27, 2003**		**Dec. 27, 2003**	
	As originally reported	**As restated**	**As originally reported**	**As restated**	**As originally reported**	**As restated**	**As originally reported**	**As restated**
	(In thousands, except per share data)							
Revenues	$18,669	$18,669	$22,094	$22,094	$26,076	$26,076	$31,463	$31,463
Cost of revenues	9,800	9,800	11,469	11,469	13,213	13,213	15,447	15,447
Stock-based compensation *		138		150		163		161
Gross margin	8,869	8,731	10,625	10,475	12,863	12,700	16,016	15,855
Operating expenses:								
Research and development	3,525	3,525	3,831	3,831	3,966	3,966	4,247	4,247
Selling, general and administrative	4,013	4,013	4,478	4,478	4,980	4,980	5,573	5,573
Stock-based compensation*	333	636	371	623	396	638	384	653

Restructuring charges								
Total operating expenses	7,871	8,174	8,680	8,932	9,342	9,584	10,204	10,473
Operating income	998	557	1,945	1,543	3,521	3,116	5,812	5,382
Interest and other income, net	129	129	131	131	520	520	786	786
Income before income taxes	1,127	686	2,076	1,674	4,041	3,636	6,598	6,168
Provision for income taxes	(428)	(263)	(789)	(642)	(1,536)	(1,395)	(2,530)	(2,349)
Net income	$ 699	$ 423	$ 1,287	$ 1,032	$ 2,505	$ 2,241	$ 4,068	$ 3,819
Net income per share:								
Basic	$ 0.15	$ 0.09	$ 0.12	$ 0.09	$ 0.07	$ 0.07	$ 0.11	$ 0.11
Diluted	$ 0.02	$ 0.01	$ 0.04	$ 0.03	$ 0.07	$ 0.06	$ 0.10	$ 0.10
Weighted-average number of shares used in per share calculations								
Basic	4,539	4,539	10,894	10,894	34,117	34,117	35,617	35,617
Diluted	29,266	29,070	31,170	31,358	37,905	38,044	39,460	39,608

* See Note 14 of the Notes to Consolidated Financial Statements

Table of Contents

Item 9A: ***Controls and Procedures***

Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, FormFactor management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this Annual Report on Form 10-K, of the effectiveness of FormFactor s disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of December 27, 2003, FormFactor s disclosure controls and procedures were effective for ensuring that information required to be disclosed in the reports that FormFactor files or submits under the Securities Exchange Act of 1934 are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Pursuant to the Public Company Accounting Oversight Board s Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*, effective June 17, 2004, a restatement is by definition a significant deficiency in a company s internal control over financial reporting. This Amendment No. 1 to FormFactor s Annual Report on Form 10-K restates its financial results for fiscal years 2001, 2002 and 2003 to reflect a change in the amortization schedule of deferred stock-based compensation recorded in connection with its June 2003 initial public offering and to reflect a portion of the stock-based compensation amortization in cost of revenues.

Internal Control over Financial Reporting

As required by Rule 13a-15(d) of the Securities Exchange Act of 1934, FormFactor management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of FormFactor s internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) to determine whether any changes in FormFactor s internal control over financial reporting occurred during the fourth quarter of 2003 that materially affected, or are reasonably likely to materially affect, FormFactor s internal control over financial reporting. Based on that evaluation, there has been no such change during the fourth fiscal quarter.

Limitations on Effectiveness of Controls

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Table of Contents

PART IV

Item 15: ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) The following documents are filed as part of this Annual Report on Form 10-K/A:

(1) Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Stockholders Equity (Deficit)
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(2) Financial Statement Schedule:

Report of Independent Registered Public Accounting Firm
Schedule II Valuation and Qualifying Accounts

(3) Exhibits:

The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K

Date of Report	Item(s)	Description
10/16/03	7, 12	FormFactor announced earnings for the quarter ended September 27, 2003.
10/16/03	5, 7	FormFactor announced its intention to file a Form S-1 Registration Statement with the SEC for a proposed public follow-on offering.
10/20/03	5, 7	FormFactor announced the filing of a Form S-1 Registration Statement with the SEC for a proposed public follow-on offering.
11/04/03	5, 7	FormFactor announced the pricing of its public follow-on offering.

(c) Exhibits: The following exhibits are filed as part of this Annual Report on Form 10-K:

Exhibit Number	Exhibit Description
10.11(1)(4)	Key Management Bonus Plan (2004)
10.12(1)(4)	Sales Incentive Plan (first half 2004)
10.35(4)	Letter Agreement by and between Infineon Technologies Aktiengesellschaft and FormFactor dated December 10, 2003
10.45(1)(4)	Probe Card Purchase Agreement by and between Elpida Memory, Inc. and FormFactor dated April 1, 2002 and Agreement by and between Elpida Memory, Inc. and FormFactor dated August 18, 2003
23.01(3)	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
24.01	Powers of Attorney (set forth on the signature page hereof)
31.01(3)	Certification of Chief Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02(3)	

	Certification of Chief Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01(2)(3)	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this Form 10-K and have been filed separately with the Securities and Exchange Commission.

(2) This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

(3) Filed with this Amendment No. 1 to Form 10-K/A.

(4) Filed with initial filing of the Form 10-K on March 22, 2004.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Livermore, State of California, on the 20th day of July 2004.

FORMFACTOR, INC.

By: /s/ JENS MEYERHOFF

Jens Meyerhoff
Chief Operating Officer and
and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned whose signature appears below constitutes and appoints Dr. Igor Y. Khandros, Jens Meyerhoff and Stuart L. Merkadeau, and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to the Annual Report on Form 10-K of the Registrant and any other documents in connection therewith, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act requisite and necessary to be done with respect to the Annual Report on Form 10-K of the Registrant, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K/A has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Principal Executive Officer and Director:		
/s/ DR. IGOR Y. KHANDROS	Chief Executive Officer, President and Director	July 20, 2004
Dr. Igor Y. Khandros		
Principal Financial Officer:		
/s/ JENS MEYERHOFF	Chief Operating Officer and Chief Financial Officer	July 20, 2004
Jens Meyerhoff		
Principal Accounting Officer:		
/s/ MICHAEL M. LUDWIG	Vice-President Finance, and Controller	July 20, 2004
Michael M. Ludwig		

Table of Contents

Signature	Title	Date
Additional Directors:		
/s/ JOSEPH R. BRONSON	Director	July 20, 2004
Joseph R. Bronson		
	Director	July 20, 2004
Dr. Thomas J. Campbell		
/s/ DR. WILLIAM H. DAVIDOW	Director	July 20, 2004
Dr. William H. Davidow		
/s/ G. CARL EVERETT, JR.	Director	July 20, 2004
G. Carl Everett, Jr.		
/s/ JAMES A. PRESTRIDGE	Director	July 20, 2004
James A. Prestridge		

Table of Contents

CONSOLIDATED FINANCIAL STATEMENTS

As required under Item 8: Consolidated Financial Statements and Supplementary Data, the consolidated financial statements of FormFactor are provided in this section as follows:

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of FormFactor, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders equity (deficit) and of cash flows present fairly, in all material respects, the financial position of FormFactor, Inc. (the Company) and its subsidiaries at December 28, 2002 and December 27, 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 14 to the accompanying consolidated financial statements, the Company has restated its consolidated financial statements for the fiscal years 2001, 2002 and 2003.

PricewaterhouseCoopers LLP

San Jose, California
March 17, 2004, except for Note 14,
as to which the date is July 20, 2004.

Table of Contents

FORMFACTOR, INC.

CONSOLIDATED BALANCE SHEETS

	December 28, 2002	December 27, 2003
	(In thousands, except share and per share data)	
	(As restated)	(As restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$26,786	$116,305
Marketable securities	7,557	62,965
Accounts receivable, net of allowance for doubtful accounts of $253 in 2002 and $103 in 2003	11,986	19,698
Inventories, net	4,230	8,025
Deferred tax assets	2,680	2,825
Prepaid expenses and other current assets	3,463	2,744
Total current assets	56,702	212,562
Restricted cash	2,835	2,550
Property and equipment, net	16,538	20,495
Deferred tax assets	1,396	1,202
Other assets		