

NEXTEST SYSTEMS CORP
Form S-1/A
March 15, 2006
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As filed with the Securities and Exchange Commission March 15, 2006

Registration No. 333-130100

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 5

to

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

NEXTEST SYSTEMS CORPORATION

(Exact Name of Corporation as Specified in Its Charter)

California (prior to reincorporation)

Delaware (after reincorporation)
(State or other jurisdiction of
incorporation or organization)

3825
(Primary Standard Industrial
Classification Code Number)

77-0470150
(I.R.S. Employer
Identification No.)

Nextest Systems Corporation

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

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

Robin Adler

Chief Executive Officer

Nextest Systems Corporation

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

(Name, address, including zip code and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable following the effectiveness of this Registration Statement.

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

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

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

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

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

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

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

Subject to Completion

Preliminary Prospectus dated March 15, 2006

PROSPECTUS

5,400,000 Shares

Common Stock

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

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

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

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to Nextest Systems Corporation	\$	\$

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Proceeds, before expenses, to the Selling Stockholders \$ \$

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

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

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

Merrill Lynch & Co.

Cowen & Company

Needham & Company, LLC

The date of this prospectus is _____, 2006.

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

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

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PROSPECTUS SUMMARY

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

Nextest Systems Corporation

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

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

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

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

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

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net income of \$1.7 million for the six months ended December 31, 2004. For the fiscal year ended June 30, 2005, we reported net revenue of \$48.4 million and a net loss of \$0.3 million compared with net revenue of \$44.5 million and net income of \$6.3 million for the fiscal year ended June 30, 2004.

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Our Solution

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

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

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

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

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

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

Our Strategy

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

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

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

target the high-volume low-cost ICs typically used in consumer digital products.

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

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

Company Information

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

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The Offering

Common stock offered by:

Nextest Systems Corporation	4,000,000 shares
Selling stockholders	1,400,000 shares
Total	5,400,000 shares

Common stock to be outstanding after this offering 16,886,928 shares

Overallotment option 810,000 shares

Use of proceeds We intend to use the net proceeds of this offering received by us for general corporate purposes, including working capital and capital expenditures. We will not receive any proceeds from the shares of common stock sold by the selling stockholders. See the discussion of Use of Proceeds for a more detailed description.

Risk factors See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

Proposed Nasdaq National Market symbol NEXT

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

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

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

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

a 30-day option by the underwriters to purchase up to 600,000 additional shares from us and 210,000 shares from the selling stockholders to cover overallotments.

Unless otherwise indicated, all information in this prospectus:

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

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

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

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

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

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

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

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

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

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

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

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Basic and diluted net income (loss) per share available to common stockholders:

Net income (loss) per share basic	\$ (1.07)	\$ 0.25	\$ (0.54)	\$ (0.09)	\$ 0.03
Net income (loss) per share diluted	\$ (1.07)	\$ 0.22	\$ (0.54)	\$ (0.09)	\$ 0.03
Shares used in per share calculation basic	7,816	8,312	8,663	8,630	8,649
Shares used in per share calculation diluted	7,816	9,457	8,663	8,630	9,486

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	Fiscal Year Ended June 30, <u>2005</u>	Six Months Ended December 31, <u>2005</u>
Unaudited pro forma net income (loss) per share:		
Pro forma net income (loss) per share basic	\$ (0.02)	\$ 0.26
Pro forma net income (loss) per share diluted	\$ (0.02)	\$ 0.24
Pro forma shares used in per share calculation basic	12,926	12,912
Pro forma shares used in per share calculation diluted	12,926	13,748

As of December 31, 2005

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

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RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

demand for and market acceptance of our products as a result of the cyclical nature of the ATE industry or otherwise, often resulting in reduced ATE systems sales during industry downturns and increased sales during periods of industry recovery;

fluctuations in demand for flash memory;

order cancellations by customers;

changes in the timing and terms of product orders by customers;

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

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

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

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

delays or problems in the planned introduction of new products;

competitive pressures resulting in lower selling prices in our industry;

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

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

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

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

provisions to write-off excess or obsolete inventory.

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

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

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

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

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

likely result in a reduction in the demand for our products and could harm our business.

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

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

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

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

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

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

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

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