UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 2, 2006

OR

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

For the transition period from _______________ to _______________

Commission file number: 000-24838

MATTSON TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0208119**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

47131 Bayside Parkway, Fremont, California 94538
(Address of principal executive offices, zip code)

(510) 657-5900
(Registrant's telephone number, including area code)

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 ☐ No ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer ☐ Accelerated Filer ☑ Non-accelerated filer ☐

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

Number of shares of common stock outstanding as of May 15, 2006: 52,447,148.

MATTSON TECHNOLOGY, INC.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

MATTSON TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	April 2, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 107,739	$ 116,593
Short-term investments	20,306	12,689
Accounts receivable, net	34,700	29,279
Advance billings	10,726	10,145
Inventories	39,262	32,876
Inventories - delivered systems	3,747	2,517
Prepaid expenses and other assets	12,454	13,603
Total current assets	228,934	217,702
Property and equipment, net	22,802	22,515
Goodwill	20,005	20,005
Intangibles, net	10,725	10,897
Other assets	4,443	4,448
Total assets	$ 286,909	$ 275,567
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,725	$ 17,436
Accrued liabilities	39,118	35,478
Deferred revenue	12,741	12,464
Total current liabilities	69,584	65,378
Total liabilities	69,584	65,378
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, 2,000 shares authorized; none issued and outstanding	-	-
Common stock, par value $0.001, 120,000 authorized shares; 52,803 shares issued and 52,428 shares outstanding in 2006; 52,097 shares issued and 51,722 shares outstanding in 2005	52	52
Additional paid-in capital	616,860	614,090
Accumulated other comprehensive income	8,854	8,181
Treasury stock, 375 shares in 2006 and 2005, at cost	(2,987)	(2,987)
Accumulated deficit	(405,454)	(409,147)
Total stockholders' equity	217,325	210,189
Total liabilities and stockholders' equity	$ 286,909	$ 275,567

The accompanying notes are an integral part of these condensed consolidated financial statements.

MATTSON TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share amounts)

	Three Months Ended	
	April 2, 2006	March 27, 2005
Net sales	$ 58,413	$ 52,779
Cost of sales	34,329	32,791
Gross profit	24,084	19,988
Operating expenses:		
Research, development and engineering	6,607	6,404
Selling, general and administrative	14,798	14,140
Amortization of intangibles	172	500
Total operating expenses	21,577	21,044
Income (loss) from operations	2,507	(1,056)
Interest expense	-	(58)
Interest income	1,103	444
Other income (expense), net	273	(798)
Income (loss) before income taxes	3,883	(1,468)
Provision (benefit) for income taxes	190	(112)
Net income (loss)	$ 3,693	$ (1,356)
Net income (loss) per share:		
Basic	$ 0.07	$ (0.03)
Diluted	$ 0.07	$ (0.03)
Shares used in computing net income (loss) per share:		
Basic	52,271	51,344
Diluted	53,809	51,344

The accompanying notes are an integral part of these condensed consolidated financial statements.

MATTSON TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three Months Ended	
	April 2, 2006	**March 27, 2005**
Cash flows from operating activities:		
Net income (loss)	$ 3,693	$ (1,356)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	1,531	2,307
Non-cash stock based compensation	226	71
Deferred taxes	-	(190)
Allowance for doubtful accounts	-	(783)
Inventory valuation charge	337	1,287
Amortization of intangibles	172	500
Other non-cash items	(3)	-
Changes in assets and liabilities:		
Accounts receivable	(5,387)	1,515
Advance billings	(581)	(2,047)
Inventories	(6,569)	(2,655)
Inventories - delivered systems	(1,230)	(816)
Prepaid expenses and other current assets	1,176	(1,789)
Other assets	(1,335)	(13)
Accounts payable	229	2,173
Accrued liabilities	3,547	(7,204)
Deferred revenue	277	1,287
Net cash used in operating activities	(3,917)	(7,713)
Cash flows from investing activities:		
Purchases of property and equipment	(428)	(840)
Proceeds from the sale of equipment	-	5
Purchases of available-for-sale investments	(13,002)	(3,320)
Proceeds from sales and maturities of available-for-sale investments	5,388	1,900
Net cash used in investing activities	(8,042)	(2,255)
Cash flows from financing activities:		
Restricted cash	-	(1)
Proceeds from stock plans	2,544	1,277
Net cash provided by financing activities	2,544	1,276
Effect of exchange rate changes on cash and cash equivalents	561	(1,586)
Net decrease in cash and cash equivalents	(8,854)	(10,278)
Cash and cash equivalents, beginning of period	116,593	89,653
Cash and cash equivalents, end of period	$ 107,739	$ 79,375

The accompanying notes are an integral part of these condensed consolidated financial statements.

MATTSON TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 2, 2006
(Unaudited)

Note 1. Basis of Presentation

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of financial position and operations have been included. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Mattson Technology, Inc. (the Company or Mattson) for the year ended December 31, 2005, which are included in the Company's Annual Report on Form 10-K.

The Company's current year will end December 31, 2006 and include 52 weeks. The Company closes its fiscal quarters on the Sunday closest to March 31, June 30, and September 30, and on December 31. The latest fiscal quarter ended April 2, 2006. The results of operations for the three months ended April 2, 2006 are not necessarily indicative of results that may be expected for future quarters or for the entire year ending December 31, 2006.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) requires the Company to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. In March 2005, the SEC issued Staff Accounting Bulletin (SAB) 107, which provides the Staff's views regarding interactions between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. The adoption of SFAS No. 123(R) requires additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. The adoption of SFAS No. 123(R) in the fiscal quarter ended April 2, 2006, had a material impact on the Company's consolidated results of operations, financial position and statement of cash flows. For more information on stock-based compensation costs during the three months ended April 2, 2006, refer to Note 9 - "Stock-Based Compensation."

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for the Company for accounting changes made in fiscal years beginning July 1, 2006; however, the Statement does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS No. 154 did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In March 2006, the Emerging Issues Task Force reached a tentative conclusion on Issue No. 06-02, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to Financial Accounting Standards Board (FASB) Statement No. 43, 'Accounting for Compensated Absences'" (EITF 06-02). In their tentative conclusion, the Task Force concluded that companies should accrue for employee sabbatical leave over the service period in which employees earn the right to sabbatical leave. Currently, the Company has accrued for the expense related to sabbatical leave for those employees expected to qualify for sabbatical leave in the next eighteen months. If the tentative conclusion reached in EITF 06-02 is ratified by the FASB, the Company anticipates that the adoption of EITF 06-02 will have a material impact on the Company's consolidated results of operations, financial position and statement of cash flows, as the Company would be required to recognize an additional liability and corresponding operating expense for its existing sabbatical program. The tentative conclusion on EITF 06-02 recommends that its provisions be adopted retrospectively and be effective for the first annual reporting period after the conclusion is ratified by the FASB.

Note 2. Balance Sheet Details

	April 2, 2006	December 31, 2005
	(in thousands)	
Cash and cash equivalents:		
Cash in bank	$ 39,848	$ 35,969
Money market funds	18,057	35,675
Commercial paper and notes	49,834	44,949
	$ 107,739	$ 116,593
Short-term investments:		
United States agency securities	$ 16,485	$ 11,325
United States corporate bonds	3,821	1,364
	$ 20,306	$ 12,689
Inventories, net:		
Purchased parts and raw materials	$ 25,536	$ 22,529
Work-in-process	8,906	5,339
Finished goods	4,820	5,008
	$ 39,262	$ 32,876
Property and equipment, net		
Machinery and equipment	$ 39,188	$ 38,706
Furniture and fixtures	11,125	12,777
Leasehold improvements	12,267	12,153
	62,580	63,636
Less: accumulated depreciation	(39,778)	(41,121)
	$ 22,802	$ 22,515
Accrued liabilities:		
Warranty	$ 13,850	$ 13,458
Accrued compensation and benefits	7,350	5,530
Income taxes payable	3,998	3,913
Other	13,920	12,577
	$ 39,118	$ 35,478

As of April 2, 2006 and December 31, 2005, the reserve for excess and obsolete inventories was $18.7 million and $19.3 million, respectively. All short-term investments are marked to market with unrealized gains (losses) recorded under other comprehensive income (See Note 11 to Condensed Consolidated Financial Statements). The maturities of short-term investments as of April 2, 2006 and December 31, 2005 are shown below (in thousands):

	April 2, 2006	December 31, 2005
	(in thousands)	
Due within one year	$ 17,844	$ 12,689
Due in one to two years	2,462	-
	$ 20,306	$ 12,689

Note 3. Goodwill and Intangible Assets

The following table summarizes the components of goodwill, other intangible assets and related accumulated amortization balances:

	April 2, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)			(in thousands)	
Goodwill	$ 20,005	$ -	$ 20,005	$ 20,005	$ -	$ 20,005
Developed technology	18,265	(7,540)	10,725	18,265	(7,368)	10,897
Total goodwill and intangible assets	$ 38,270	$ (7,540)	$ 30,730	$ 38,270	$ (7,368)	$ 30,902

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company reviews goodwill for impairment annually during the fourth quarter of each year and more frequently if an event or circumstance indicates that an impairment loss has occurred. There were no events or changes in circumstances during the three months ended April 2, 2006, which would have triggered an impairment review. No assurances can be given that future evaluations of goodwill will not result in charges as a result of future impairment.

Annual amortization expense is estimated to be $0.7 million for years 2006 to 2010.

Note 4. Accrued Restructuring Charges

At December 31, 2005, the Company had a restructuring accrual balance of $555,000, consisting of $555,000 for consolidation of excess facilities related to its 2002 restructuring plan. During the three months ended April 2, 2006, no payments were made and no new charges were incurred in connection with our restructuring activities, resulting in a balance of $555,000 at April 2, 2006.

Note 5. Guarantees

The warranty offered by the Company on its system sales generally ranges from 12 months to 36 months depending on the product. A provision for the estimated cost of warranty, based on historical costs, is recorded as cost of sales when the revenue is recognized. The Company's warranty obligations require it to repair or replace defective products or parts, generally at a customer's site, during the warranty period at no cost to the customer. The actual system performance and/or field expense profiles may differ from historical experience, and in those cases, the Company adjusts its warranty accruals accordingly.

The following table summarizes changes in the product warranty accrual for the three months ended April 2, 2006 and March 27, 2005:

	Three Months Ended	
	April 2, 2006	March 27, 2005
	(in thousands)	
Balance at beginning of period	$ 13,458	$ 16,044
Accrual for warranties issued during the period	5,284	2,880
Settlements made during the period	(4,892)	(2,833)
Balance at end of period	$ 13,850	$ 16,091

During the ordinary course of business, the Company's bank provides standby letters of credit or other guarantee instruments on behalf of the Company to certain parties as required. The maximum potential amount that the Company could be required to pay is $1.8 million, representing standby letters of credit outstanding as of April 2, 2006. The Company has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

The Company is a party to a variety of agreements, pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in the context of contracts under which the Company may agree to hold the other party harmless against losses arising from a breach of representations or with respect to certain intellectual property or tax-related matters. The Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances the Company may have defenses to asserted claims and/or recourse against third parties for payments made by the Company. It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company’s obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material effect on the Company's financial position or results of operations. The Company believes if it were to incur a loss in any of these matters, such loss should not have a material effect on the Company's financial position or results of operations.

Note 6. Borrowing Facilities

The Company has a $10 million revolving line of credit with a bank, which may be increased to $20 million at the option of the Company. The revolving line of credit expires in April 2007, and has an annual commitment fee of $30,000. All borrowings under this credit line bear interest at a per annum rate equal to the bank's prime rate plus 100 basis points. The line of credit is collateralized by a blanket lien on all of the Company's domestic assets including intellectual property. The line of credit requires the Company to satisfy certain quarterly financial covenants, including maintaining a minimum consolidated cash balance, maintaining a minimum domestic cash balance of unrestricted cash and cash equivalents, maintaining a minimum balance of investment accounts, and not exceeding a maximum net loss limit. At April 2, 2006, there was no borrowing under this credit line. At April 2, 2006, the Company was out of compliance with one covenant under the line of credit, which requires the Company to provide audited financial statements within 90 days of its fiscal year-end. The Company obtained a waiver of this covenant through May 3, 2006, the date it filed its Annual Report on Form 10-K with the SEC for the year ended December 31, 2005,

In June 2004, the Company's Japanese subsidiary entered into a credit facility with a Japanese bank in the amount of 600 million Yen (approximately $5.1 million at April 2, 2006), collateralized by specific trade accounts receivable of the Japanese subsidiary. The facility is subject to the short-term prime rate, which was 1.375% per annum as of April 2, 2006. The facility has an indefinite term, subject to termination at the option of either party. The Company has given a corporate guarantee for this credit facility. There are no financial covenant requirements for this credit facility. At April 2, 2006, there was no borrowing under this credit facility.

Note 7. Commitments and Contingencies

In 2005, the Company entered into a new lease agreement for its existing corporate headquarters building in Fremont, California. The lease is for a period of 10 years, commencing upon expiration of the current sublease on May 31, 2007, and has an initial annual base rent cost of approximately $1.4 million, with annual base rent increases of approximately 3.5%. The Company has one five-year option to extend the lease at market lease rates in effect on the expiration date. Additionally, insurance, real property taxes and operating expenses are to be paid by the Company. The Company is responsible for an additional minimum lease payment at the end of the lease term of approximately $1.5 million, subject to adjustment, which is being accounted for in accordance with SFAS No. 13 "Accounting for Leases," and will be accrued on a straight-line basis over the lease term. The Company has provided the Landlord a letter of credit for $1.5 million to secure this obligation. The letter of credit amount may be increased to reflect any adjustments made to a restoration cost obligation provision included in the lease.

The Company leases two buildings previously used to house its manufacturing and administrative functions related to wet surface preparation products in Exton, Pennsylvania. The lease for both buildings will expire March 31, 2019 with a current combined rental cost of approximately $1.5 million annually. The lease agreement for both buildings allows for subleasing the premises without the approval of the landlord. In June 2002, the administrative building was sublet for a period of approximately five years, until December 2007, with an option for the subtenant to extend for an additional five years. Total lease payments of approximately $7.2 million are expected to cover all related costs on the administrative building during the sublease period. In July 2003, the manufacturing building at the Exton, Pennsylvania location was sublet for a period of approximately three years, until September 2006, with an option for the subtenant to renew for a total of two successive periods, the first for five years and the second for the balance of the term of the master lease. The sublease, aggregating to approximately $2.1 million in lease payments over the initial term, is expected to cover all related costs on the manufacturing building during the sublease period. In determining the facilities lease loss, net of cost recovery efforts, from expected sublease income, various assumptions were made, including the time period over which the buildings will be vacant; expected sublease terms; and expected sublease rates. As of December 31, 2005 and 2004, the Company had an accrual balance of $1.3 million related to these leases. The Company expects to make payments related to the above noted leases over the next thirteen years, less any sublet amounts. Adjustments to the accrual for these leases will be made in future periods, if necessary, as soon as evidence of any adjustment can be reasonably estimated as future events and circumstances become known.

In connection with the acquisition of Vortek Industries Ltd., the Company became party to an agreement between Vortek and the Canadian Minister of Industry (the Minister) relating to an investment in Vortek by Technology Partnerships Canada. Under that agreement, as amended, the Company or Vortek agreed to various covenants, including (a) payment by the Company of a royalty to the Minister of 1.4% of revenues from flash RTP products, up to a total of CAD14,269,290 (approximately $12.2 million at April 2, 2006), and (b) Vortek maintaining a specified average workforce of employees in Canada through October 27, 2009. If the Company, or Vortek, does not satisfy its obligations, the Minister may demand payment of liquidated damages in the amount of CAD14,269,290 less any royalties paid by Vortek or the Company to the Minister.

In the ordinary course of business, the Company is subject to claims and litigation, including claims that it infringes third party patents, trademarks and other intellectual property rights. Although the Company believes that it is unlikely that any current claims or actions will have a material adverse impact on its operating results or its financial position, given the uncertainty of litigation, the Company cannot be certain of this. Moreover, the defense of claims or actions against the Company, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

The Company is currently party to legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these matters is not presently determinable and cannot be predicted with certainty, management does not believe that the outcome of any of these matters or any of the above mentioned legal claims will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Note 8. Stock Plans

2005 Equity Incentive Plan

On May 25, 2005, the Company amended and restated the Company's 1989 Stock Option Plan (the "1989 Plan") as the 2005 Equity Incentive Plan (the "2005 Plan"), under which a total of 11,975,000 shares of common stock have been reserved for issuance. The Company's 2005 Stock Plan is a broad-based, long-term retention program that is intended to attract and retain qualified management and technical employees, and align stockholder and employee interests.

As of April 2, 2006, out of the total shares authorized for issuance under the 1989 and 2005 Plans, approximately 4,040,000 shares had been issued, 5,415,000 shares were subject to outstanding options, 9,000 shares were subject to outstanding restricted stock units, and 2,504,000 shares remained available for future grant.

The 2005 Plan amends the 1989 Plan to expand the types of stock-based incentives authorized under the 1989 Plan and to restate the 1989 Plan as the 2005 Plan. In addition to stock options, the 2005 Plan authorizes the grant of stock purchase rights, stock bonuses and restricted stock units. Options and stock purchase rights granted under the 2005 Plan are for periods not to exceed seven years. Generally, incentive stock option and non-statutory stock option grants under the 2005 Plan must be at prices at least 100% of the fair market value of the stock on the date of grant.

Employee Stock Purchase Plan

In August 1994, the Company adopted an employee stock purchase plan (Purchase Plan) under which 6,175,000 shares of common stock had been reserved for issuance through April 2, 2006. At April 2, 2006, approximately 3,570,000 shares were reserved and available for future issuance under the Purchase Plan.

The Purchase Plan is administered generally over offering periods of six months, beginning February 1 and August 1 of each year. During 2005, the Company changed its offering periods to complete an offering period prior to the Company's adoption of SFAS 123R in the first quarter of 2006. The regular offering period beginning August 1, 2004 was completed January 31, 2005. The Company also had a five-month offering period from June 1, 2005 to October 31, 2005. There was no offering period under the plan during the three months ended April 2, 2006, and accordingly, the Company did not record any compensation cost for the Purchase Plan during the first quarter.

Eligible employees may designate not more than 15% of their gross cash compensation to be deducted each pay period for the purchase of common stock under the Purchase Plan and participants may not purchase more than $25,000 worth of common stock in any calendar year or 10,000 shares in any offering period. On the last business day of each purchase period, shares of common stock are purchased with the employees' payroll deductions accumulated during the offering period, at a price per share equal to 90% of the market price of the common stock on the date immediately preceding the offering date or the date immediately preceding the purchase date, whichever is lower.

Note 9. Stock-Based Compensation

Effective January 1, 2006, Mattson adopted the provisions of SFAS No. 123(R), "Share-Based Payment". SFAS No. 123(R) establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the requisite service period for the employee. The Company previously applied Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, and provided the required pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation".

Prior to the adoption of SFAS No. 123(R)

Prior to the adoption of SFAS No. 123(R), the Company provided the disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosures." The pro-forma information for the three months ended March 27, 2005 was as follows:

(in thousands, except per share amounts)	Three Months Ended, March 27, 2005
Net income (loss) as reported:	$ (1,356)
Deduct: Total employee stock-based compensation expense determined under fair value method, net of tax	(1,085)
Pro forma net income (loss)	$ (2,441)
Basic net income (loss) per share:	
As reported	$ (0.03)
Pro forma	$ (0.05)
Diluted net income (loss) per share:	
As reported	$ (0.03)
Pro forma	$ (0.05)

Impact of the adoption of SFAS No. 123(R)

The Company elected to adopt SFAS No. 123(R) using the modified prospective application method as described therein. Accordingly, during the quarter ended April 2, 2006, the Company recorded stock-based compensation cost totaling the amount that would have been recognized had the fair value method been applied since the effective date of SFAS No. 123. Previously reported amounts have not been restated. The effect of recording stock-based compensation for the three months ended April 2, 2006 was as follows:

(in thousands, except per share amounts)		Three Months Ended, April 2, 2006
Stock-based compensation by type of award:		
Stock options	$	224
Restricted stock units (1)		2
Total stock-based compensation	$	226
Tax effect on stock-based compensation		-
Effect on net income	$	226
Stock-based compensation by category of expense:		
Cost of sales	$	4
Research, development and enginnering		37
Selling, general and administrative		185
Effect on net income	$	226
Effect on earnings per share:		
Basic	$	-
Diluted	$	-

(1) Stock-based compensation expense of $2,000 for the three months ended April 2, 2006, related to restricted stock units would also have been recorded under the provisions of APB No. 25.

As of December 31, 2005, the Company had an unrecorded deferred stock-based compensation balance related to stock options of $2.0 million after estimated forfeitures. In the Company's pro forma disclosures prior to the adoption of SFAS No. 123(R), the Company accounted for forfeitures upon occurrence. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised if necessary in subsequent periods if actual forfeitures differ from those estimates. During the three months ended April 2, 2006, the Company granted approximately 41,000 stock options and restricted stock units with an estimated total grant-date fair value of $324,000. During the three months ended April 2, 2006, the Company recorded stock-based compensation related to stock options and restricted stock units of $226,000. As of April 2, 2006, the unrecorded deferred stock-based compensation balance related to stock options and restricted stock units was $1.8 million after estimated forfeitures and will be recognized over an estimated weighted average amortization period of 1.9 years.

The Company has not capitalized any stock-based compensation as inventory or deferred system profit at April 2, 2006. The Company did not capitalize any stock-based compensation to inventory or deferred system profit at December 31, 2005 when the provisions of SFAS No. 123(R) were initially adopted as such amounts were inconsequential.

Valuation Assumptions

In connection with the adoption of SFAS No. 123(R), the Company reassessed its valuation technique and related assumptions. The Company estimates the fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of SFAS No. 123(R), SAB No. 107 and the Company's prior period pro forma disclosures of net earnings, including stock-based compensation (determined under a fair value method as prescribed by SFAS No. 123). The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

	Options		**ESPP**	
	April 2, 2006	**March 27, 2005**	**April 2, 2006**	**March 27, 2005**
Expected dividend yield	-	-	*	-
Expected stock price volatility	88%	91%	*	52%
Risk-free interest rate	4.4%	4.1%	*	2.8%
Expected life of options	5 years	4 years	*	0.5 year

* The Company did not conduct an ESPP program during the three months ended April 2, 2006.

SFAS No. 123(R) requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected life of each option was determined by analyzing historical exercise and post-vest forfeiture patterns. The risk-free interest rate was determined using the rates for United States Treasury notes for similar terms. The expected stock price volatility assumption was determined using the historical volatility of the Company's common stock.

The following table summarizes the Company's equity compensation plans as of April 2, 2006:

	Number of securities to be issued upon exercise of outstanding options (1)	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (2) (excluding securities reflected in column (a))
	(a)	**(b)**	**(c)**
Equity compensation plans approved by security holders	5,432,000	$ 8.97	6,074,000
Equity compensation plans not approved by security holders	-	-	-
Total	5,432,000	$ 8.97	6,074,000

(1) Amounts shown are for options granted only. There were 9,000 shares of restricted stock units outstanding under the 2005 Plan as of April 2, 2006. Amount also includes 17,000 options outstanding under the Company's CFM plans.

(2) 2005 Plan awards of restricted stock are counted against the total number of shares issuable under the plan as 1.75 shares for every one share subject thereto. Including the 9,000 restricted stock units issued in the first quarter of 2006 (applying the 1.75 ratio as required by the 2005 Plan), and including the 3,570,000 shares reserved for issuance under the employee stock purchase plan, the number of shares remaining available for future issuance under our equity compensation plans was 6,074,000 shares as of April 2, 2006.

The following table summarizes the combined activity under all of the Company's equity incentive plans for the indicated periods, including 17,000 shares outstanding under the Company's CFM plans as of April 2, 2006:

	Awards Available For Grant (thousands)	Options Outstanding (thousands)	Weighted-Average Exercise Price
Balances at December 31, 2005	2,469	5,822	$ 8.93
Additional shares reserved		-	
Options granted	(32)	32	$ 11.89
Options exercised		(333)	$ 7.53
Options cancelled/expired/forfeited	83	(89)	$ 12.91
Restricted stock units granted (1)	(16)	-	$ -
Balances at April 2, 2006	2,504	5,432	$ 8.97

The options outstanding and exercisable at April 2, 2006 were in the following exercise price ranges:

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number (thousands)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (thousands)	Number (thousands)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (thousands)
$ 1.55 - $ 3.10	856	6.9	$ 2.44	$ 8,180	639	6.9	$ 2.46	$ 6,094
$ 3.20 - $ 7.61	845	5.4	$ 6.46	4,678	657	4.6	$ 6.50	3,611
$ 7.65 - $ 9.15	860	6.0	$ 7.87	3,548	626	5.7	$ 7.82	2,617
$ 9.25 - $ 9.99	863	7.8	$ 9.29	2,338	863	7.8	$ 9.29	2,338
$ 10.00 - $ 10.90	648	5.5	$ 10.42	1,021	648	5.5	$ 10.42	1,021
$ 11.00 - $ 12.25	771	7.9	$ 11.28	559	739	7.9	$ 11.25	554
$ 12.29 - $ 69.20	589	5.6	$ 18.58	-	589	5.6	$ 18.58	-
$ 1.55 - $ 69.20	5,432	6.5	$ 8.97	$ 20,324	4,761	6.5	$ 9.40	$ 16,235

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of $12.00 as of March 31, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of April 2, 2006 was 4.0 million.

The weighted average grant date fair value of options granted during the three months ended April 2, 2006 and March 27, 2005 was $8.42 and $6.12 per share, respectively. The weighted average fair value of ESPP shares granted during the three months ended March 27, 2005 was $2.48 per share.

The total intrinsic value of options exercised during the three months ended April 2, 2006 and March 27, 2005 was $1.6 million and $0.4 million, respectively. The total cash received from employees as a result of employee stock option exercises during the three months ended April 2, 2006 and March 27, 2005 was approximately $2.5 million and $1.3 million, respectively. The Company settles employee stock option exercises with newly issued common shares.

Restricted Stock Units

As of December 31, 2005, the Company had no deferred stock-based compensation balance related to restricted stock units. During the three months ended April 2, 2006, the Company's Board of Directors approved the grant of 9,000 shares of restricted stock units. These restricted stock units generally vest ¼ of the units granted on the first anniversary of the date of grant, and 1/36 of the units per month thereafter. The value of the restricted stock units was based on the closing market price of the Company's common stock on the date of award. The total grant date fair value of the restricted stock units granted during the three months ended April 2, 2006 was $108,000 after estimated forfeitures. Stock-based compensation cost for restricted stock units for the three months ended April 2, 2006 was $2,000.

As of April 2, 2006, there was $106,000 of total deferred stock-based compensation after estimated forfeitures related to nonvested restricted stock units granted under the 2005 Plan. That cost is expected to be recognized over an estimated weighted average amortization period of 3.9 years.

Note 10. Net Income Per Share

Net income (loss) per share is calculated in accordance with SFAS No. 128, "Earnings Per Share." SFAS No. 128 requires dual presentation of basic and diluted net income (loss) per share on the face of the income statement. Basic earnings per share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed using the weighted average number of common shares outstanding plus the effect of all dilutive securities representing potential common shares outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method, which includes consideration of stock-based compensation required by SFAS No. 123(R).

The following table summarizes the incremental shares from these potentially dilutive securities, calculated using the treasury stock method.

	Three Months Ended	
	April 2, 2006	**March 27, 2005**
	(in thousands)	
Weighted average shares outstanding - Basic	52,271	51,344
Diluted potential common shares from stock options	1,538	-
Weighted average shares outstanding - Diluted	53,809	51,344

Total stock options outstanding of 1.0 million and 5.5 million for the three months ended April 2, 2006 and March 27, 2005, respectively, were excluded from the computations because their inclusion would be antidilutive.

Note 11. Comprehensive Income

The balance of accumulated comprehensive income is as follows:

	April 2, 2006	**December 31, 2005**
	(in thousands)	
Cumulative translation adjustments	$ 8,921	$ 8,206
Unrealized investment loss	(67)	(25)
	$ 8,854	$ 8,181

The following are the components of comprehensive income:

	Three Months Ended	
	April 2, 2006	March 27, 2005
	(in thousands)	
Net income (loss)	$ 3,693	$ (1,356)
Cumulative translation adjustments	$ 715	$ (2,919)
Unrealized investment gain (loss)	(42)	(3)
Comprehensive income (loss)	$ 4,366	$ (4,278)

Note 12. Reportable Segments

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments, geographic areas and major customers in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or chief decision making group, in deciding how to allocate resources and in assessing performance. The Chief Executive Officer of the Company is the Company's chief decision maker. As the Company's business is completely focused on one industry segment, the design, manufacturing and marketing of advanced fabrication equipment for the semiconductor manufacturing industry, management believes that the Company has one reportable segment. The Company's revenues and profits are generated through the sales of products and services for this one segment.

The following shows net sales by geographic areas based on the installation locations of the systems and the location of services rendered:

	Three Months Ended			
	April 2, 2006		March 27, 2005	
	(in thousands)	%	(in thousands)	%
United States	$ 7,323	13	$ 8,586	16
Taiwan	12,931	22	15,117	29
Japan	6,855	12	8,386	16
Korea	18,720	32	7,989	15
Other Asia	9,007	15	6,843	13
Europe and others	3,577	6	5,858	11
	$ 58,413	100	$ 52,779	100

For purposes of determining sales to significant customers representing 10% or more of the Company’s total net sales, the Company includes sales to customers through its distributor (at the sales price to the distributor) and excludes the distributor as a significant customer. In the three months ended April 2, 2006, two customers accounted for 21% and 15% of net sales, respectively. In the three months ended March 27, 2005, two customers accounted for 18% and 13%, respectively, of net sales.

Geographical information relating to the Company's property and equipment as of April 2, 2006 and December 31, 2005 is as follows:

	April 2, 2006		December 31, 2005	
	(in thousands)	%	(in thousands)	%
The United States	$ 13,572	60	$ 13,868	62
Germany	5,727	25	4,978	22
Others	3,503	15	3,669	16
	$ 22,802	100	$ 22,515	100

Note 13. DNS Patent Infringement Suit Settlement

On June 24, 2002, the Company entered into a settlement agreement and a license agreement with Dainippon Screen Manufacturing Co., Ltd. (DNS), under which DNS agreed to make payments to the Company totaling between $75 million (minimum) and $105 million (maximum), relating to past damages, partial reimbursement of attorney fees and costs, and license fees.

No payments were received from DNS during the three months ended April 2, 2006 or March 27, 2005. The Company received a minimum annual royalty payment of $6.0 million in the second quarter of 2006, and is scheduled to receive a minimum annual royalty payment of $0.2 million in April 2007, totaling $6.2 million. Royalty payments received by the Company in excess of the minimum annual payments, if any, will be recorded as royalty revenue and recognized as net sales in the period they are reported to the Company by DNS, which is generally in June of each year.

As of April 2, 2006, DNS has made payments aggregating $68.8 million under the terms of the settlement and license agreements. Of the $68.8 million paid by DNS as of April 2, 2006, $4.6 million was withheld as Japanese withholding tax. In December 2004, the Company received a $3.1 million withholding tax refund from the Japanese tax authority through competent authority in respect of DNS's payments to the Company. The refund received was for Japanese withholding taxes paid through June 30, 2004. Effective July 1, 2004, no withholding tax is applicable on royalty payments from DNS due to the ratification of a new tax treaty on November 6, 2003, between Japan and the United States of America.

The Company recognized $1.4 million of royalty revenue for the three months ended April 2, 2006 and March 27, 2005, respectively.

Note 14. Income Taxes

The provision for income taxes reflected a tax provision of $190,000 for the quarter ended April 2, 2006. The tax provision was primarily due to foreign taxes of $187,000. The provision for income taxes reflected a tax benefit of $112,000 for the quarter ended March 27, 2005. The tax benefit was primarily due to the amortization in the amount of $190,000 associated with the acquired intangibles of STEAG and Vortek.

On a quarterly basis, the Company evaluates its expected income tax expense or benefit based on its year to date operations, and records an adjustment in the current quarter. The net tax provision is the result of the mix of profits earned by the Company and its subsidiaries in tax jurisdictions with a broad range of income tax rates.

The Company’s valuation allowance at April 2, 2006 is primarily attributable to Federal and state deferred tax assets, as well as certain foreign deferred tax assets. Management believes that sufficient uncertainty exists with regard to the realizability of these tax assets such that a valuation allowance is necessary. Factors considered in providing a valuation allowance include the lack of a significant history of consistent profits and the lack of carry-back capacity to realize these assets. Based on the absence of objective evidence, management is unable to assert that it is more likely than not that the Company will generate sufficient taxable income to realize these remaining net deferred tax assets.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

This quarterly report on Form 10-Q contains forward-looking statements, which are subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and beliefs, including estimates and projections about our industry. Our forward-looking statements may include statements that relate to our future revenue, customer demand, market share, competitiveness, gross margins, product development plans and levels of research and development (R&D activity), outsourcing plans and operating expenses, tax expenses, the expected effects, cost and timing of restructurings and consolidation of operations and facilities, economic conditions in general and in our industry, and the sufficiency of our financial resources to support future operations and capital expenditures. Forward-looking statements typically are identified by use of terms such as "anticipates," "expects," "intends," "plans," "seeks," "estimates," "believes," and similar expressions, although some forward-looking statements are expressed differently. These statements are not guarantees of future performance and are subject to numerous risks, uncertainties, and assumptions that are difficult to predict. Such risks and uncertainties include those set forth in Item 1A under "Risk Factors That May Affect Future Results and Market Price of Stock" and Item 2 under "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our actual results could differ materially from those anticipated by these forward-looking statements. The forward-looking statements in this report speak only as of the time they are made and do not necessarily reflect our outlook at any other point in time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or for any other reason.

Documents to Review In Connection With Management's Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes presented in this Form 10-Q and the consolidated financial statements and notes in our last filed Annual Report on Form 10-K, for the year ended December 31, 2005.

Overview

In 2005, we were the leading supplier of dry strip equipment for the second consecutive year and the second largest supplier of rapid thermal processing (RTP) equipment in the global semiconductor industry for the third consecutive year, according to Gartner Dataquest, an independent research firm. Our manufacturing equipment is used for transistor level, or front-end-of-line manufacturing, and also in specialized applications for processing the interconnect layer, or back-end-of-line processing. Our manufacturing equipment utilizes innovative technology to deliver advanced processing capabilities and high productivity for the fabrication of current and next-generation integrated circuits (ICs). Our tools, technologies and expertise are enablers in the semiconductor industry's transition to larger 300 millimeter wafers, sub-90 nanometer design rules and the use of new materials, such as copper, low capacitance (low-k) dielectrics and barrier metals.

We continually invest in technology to ensure that our products deliver results on the wafer. In the first quarter of 2006, we:

- Introduced our new Suprema™ strip system, which is gaining rapid customer acceptance as a result of its industry-leading productivity

- Broadened our customer base by penetrating two accounts, securing new customer wins for our leading strip and RTP products

Our business depends upon capital expenditures by manufacturers of semiconductor devices. The level of capital expenditures by these manufacturers depends upon the current and anticipated market demand for such devices. Because the demand for semiconductor devices is highly cyclical, the demand for wafer processing equipment is also highly cyclical. The cyclicality and uncertainties regarding overall market conditions continue to present significant challenges to us and impair our ability to forecast near-term revenue. Given that many of our costs are fixed in the short-term, our ability to quickly modify our operations in response to changes in market conditions is limited.

Part of our strategy is to outsource selected non-critical functions in manufacturing, spare parts logistics, subsystem design and other areas to third parties specializing in these areas. This allows us to concentrate our resources on our core technologies in strip and RTP, reduce our cost structure and achieve greater flexibility to expand and contract manufacturing capacity as market conditions require. Although we have implemented cost cutting and operational flexibility measures, we are largely dependent upon increases in sales in order to improve our profitability.

Going forward, the success of our business will be dependent on numerous factors, including, but not limited to, the market demand for semiconductors and semiconductor wafer processing equipment and our ability to (a) significantly grow the Company, either organically or through acquisitions, in order to enhance our competitiveness and profitability, (b) develop and bring to market new products that address our customers' needs, (c) grow customer loyalty through collaboration with and support of our customers and (d) maintain a cost structure that will enable us to operate effectively and profitably throughout changing industry cycles.

For the three months ended April 2, 2006, our net sales were $58.4 million, an increase of 10.7% from $52.8 million for the same period last year, primarily due to an increase in system sales of $4.1 million and an increase in sales of service and spare parts of $1.5 million. Gross profit margin for the three months ended April 2, 2006 was 41.2%, an increase of 3.3 percentage points from 37.9% for the same period of 2005.

Operating expenses for the three months ended April 2, 2006 were $21.6 million, $0.5 million higher than the $21.0 million reported for the same period of 2005. Operating expenses as a percentage of net sales were 36.9% for the three months ended April 2, 2006, compared with 39.9% for the same period of 2005.

For the three months ended April 2, 2006, net cash used in operating activities was $3.9 million. Cash, cash equivalents, and short-term investments totaled $128.0 million as of April 2, 2006.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our condensed 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. On an on-going basis, management evaluates its estimates and judgments, including those related to reserves for excess and obsolete inventory, warranty obligations, bad debts, intangible assets, income taxes, restructuring costs, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. These form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We consider certain accounting policies related to revenue recognition, warranty obligations, inventories, goodwill and other intangible assets, impairment of long-lived assets and income taxes as critical to our business operations and an understanding of our results of operations.

Revenue Recognition. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements (SAB 104). We account for equipment sales as follows: 1) for equipment sales of existing products with new specifications and for all sales of new products, revenue is recognized upon customer acceptance; 2) for equipment sales to existing customers who have purchased the same equipment with the same specifications and previously demonstrated acceptance provisions, or equipment sales to new customers purchasing existing products with established reliability, we recognize revenue on a multiple element approach in which we bifurcate a sale transaction into two separate elements based on objective evidence of fair value. The two elements are the tool and installation of the tool. Under this approach, the portion of the invoice price that is due upon shipment, generally 90% of the total invoice price, is recognized as revenue upon shipment and title transfer of the tool; and the remaining portion of the total invoice price, generally 10% of the total invoice price, which is due once installation services have been accepted, is not recognized as revenue until final customer acceptance of the tool. From time to time, however, we allow customers to evaluate systems, and since customers can return such systems at any time with limited or no penalty, we do not recognize revenue until these evaluation systems are accepted by the customers. Revenues associated with sales to customers in Japan are recognized upon title transfer, which generally occurs upon customer acceptance, with the exception of sales of RTP products through our distributor in Japan, where we recognize revenues upon title transfer to the distributor. For spare parts, we recognize revenue upon shipment. We recognize service and maintenance contract revenue on a straight-line basis over the service period of the related contract. Accounts receivable for which revenue has not been recognized are classified as "Advance Billings" in the accompanying consolidated balance sheets.

In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured.

Warranty. The warranty we offer on system sales generally ranges from 12 months to 36 months, depending on the product. A provision for the estimated cost of warranty, based on historical costs, is recorded as a cost of revenue when the revenue is recognized for the sale of the equipment or parts. Our warranty obligations require us to repair or replace defective products or parts, generally at a customer's site, during the warranty period at no cost to the customer. The actual system performance and/or field expense profiles may differ from historical experience, and in those cases, we adjust our warranty accruals accordingly. While our warranty costs have historically been within our expectations and the provisions we have established, we cannot be certain that we will continue to experience the same warranty costs that we have had in the past.

Inventories. Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis, and include material, labor and manufacturing overhead costs. Finished goods are reported as inventories until the point of title transfer to the customer. When the terms of sale do not specify, we assume title transfers when we complete physical transfer of the products to the freight carrier unless other customer practices prevail. All intercompany profits related to the sales and purchases of inventory between our legal entities are eliminated from the consolidated financial statements.

Our policy is to assess the valuation of all inventories, including manufacturing raw materials, work-in-process, finished goods and spare parts, in each reporting period. Although we attempt to accurately forecast future inventory demand, given the competitive pressures and cyclicality of the semiconductor industry, there may be significant unanticipated changes in demand or technological developments that could have a significant impact on the value of our inventories and reported operating results.

Goodwill and Other Intangible Assets. We review our goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and we also review goodwill annually in accordance with SFAS No. 142, "Goodwill and Other Intangibles." Goodwill and intangible assets, such as purchased technology, are generally recorded in connection with business acquisitions. The value assigned to goodwill and intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. A severe decline in market conditions could result in an unexpected impairment charge for impaired goodwill, which could have a material adverse effect on our business, financial condition and results of operations.

We are required to test our goodwill for impairment at the reporting unit level. We have determined that we have only one reporting unit. The test for goodwill impairment is a two-step process. The first step compares the fair value of our reporting unit with its carrying amount, including goodwill. If the fair value of our reporting unit exceeds its carrying amount, goodwill of our reporting unit is considered not to be impaired, thus the second step of the impairment test is unnecessary. The second step, used to measure the amount of impairment loss, compares the implied fair value of our reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of our reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. There were no events or changes in circumstances during the first quarter of 2006 which triggered an impairment review.

Impairment of Long-Lived Assets. Pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we review our long-lived assets, including property and equipment, intangibles and other long-lived assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Recoverability is measured by a comparison of the assets' carrying amount to their expected future undiscounted net cash flows. If such assets are considered to be impaired, the impairment to be recognized is measured based on the amount by which the carrying amount of the asset exceeds its fair value.

During the three months ended April 2, 2006 and March 27, 2005, we did not record any impairment charge.

Income Taxes. We have recognized a net deferred tax asset of $3.0 million related to our German operations, as we expect it is more likely than not that we will realize the benefit from the German net deferred tax asset as of April 2, 2006. For all other tax jurisdictions, we recorded a 100% valuation allowance against our net deferred tax asset as we expect it is more likely than not that we will not realize our net deferred tax asset as of April 2, 2006. In assessing the need for a valuation allowance, we consider historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies. In the event we determine that we would be able to realize additional deferred tax assets in the future in excess of the net recorded amount, or if we subsequently determine that realization of an amount previously recorded is unlikely, we would record an adjustment to the deferred tax asset valuation allowance, which would change income in the period of adjustment.

Results of Operations

The following table sets forth our condensed consolidated results of operations for the periods indicated, along with amounts expressed as a percentage of net sales, and comparative information regarding the absolute and percentage changes in these amounts:

	Three Months Ended,				Increase (Decrease)	
	April 2, 2006		March 27, 2005			
	(thousands)	%	(thousands)	%	(thousands)	%
Net sales	58,413	100.0	52,779	100.0	5,634	10.7
Cost of sales	34,329	58.8	32,791	62.1	1,538	4.7
Gross profit	24,084	41.2	19,988	37.9	4,096	20.5
Operating expenses:						
Research, development and engineering	6,607	11.3	6,404	12.1	203	3.2
Selling, general and administrative	14,798	25.3	14,140	26.8	658	4.7
Amortization of intangibles	172	0.3	500	0.9	(328)	(65.6)
Total operating expenses	21,577	36.9	21,044	39.9	533	2.5
Income (loss) from operations	2,507	4.3	(1,056)	(2.0)	3,563	n/m[(1)]
Interest expense	-	-	(58)	(0.1)	(58)	(100.0)
Interest income	1,103	1.9	444	0.8	659	148.4
Other income (expense), net	273	0.5	(798)	(1.5)	1,071	n/m[(1)]
Income (loss) before income taxes	3,883	6.6	(1,468)	(2.8)	5,351	n/m[(1)]
Income tax expense (benefit)	190	0.3	(112)	(0.2)	302	n/m[(1)]
Net income (loss)	$ 3,693	6.3	$ (1,356)	(2.6)	$ 5,049	n/m[(1)]

(1) not meaningful

Net Sales and Deferred Revenue

Net sales for the first quarter of 2006 increased from the same period of 2005, primarily due to an increase in system sales of $4.1 million and an increase in sales of service and spare parts of $1.5 million. Net sales for the first quarters of 2006 and 2005 each included royalty income of $1.4 million.

International sales, predominantly to customers based in Europe and Asia, including China, Japan, Korea, Singapore and Taiwan, accounted for 87% of net sales in the first quarter of 2006, compared to 84% for the first quarter of 2005. We anticipate that international sales will continue to account for a significant portion of our net sales.

Our deferred revenue at April 2, 2006 increased to $12.7 million from $12.5 million at December 31, 2005, primarily due to a net increase in deferred revenue for system shipments and service contracts in the first three months of 2006 of approximately $0.2 million.

Gross Profit and Gross Profit Margin

Gross profit in the first quarter of 2006 increased by $4.1 million compared to the first quarter of 2005, primarily due to higher gross profit from systems sales of $5.1 million, higher gross profit from service and spare parts sales of $0.8 million, and lower inventory valuation charges of $1.0 million, partially offset by a decrease of $0.5 million due to net deferral of systems revenue, and higher warranty expenses of $2.3 million.

Gross profit margin in the first quarter of 2006 increased by 3.3 percentage points compared to the first quarter of 2005, primarily due to higher gross profit margin from system sales of 4.7 percentage points and service and spare parts sales of 0.4 percentage point and a benefit of 1.9 percentage points due to lower inventory valuation charges, partially offset by higher warranty expenses of 3.4 percentage points. Gross margin related to DNS royalty revenue was also lower by 0.3 percentage point due to higher sales volume in 2005.

Due to intense competition, we continue to face pricing pressure that can affect our gross profit margin. We continue to increase the proportion of manufacturing work performed by outsourcing partners. This outsourcing strategy is a key element of our "cyclically flexible enterprise" business model, which is designed to enable us to expand and contract our manufacturing capacity to meet market conditions. Our gross profit margin has varied over the years and will continue to be affected by many factors, including competitive pressures, product mix, economies of scale and overhead absorption levels.

Research, Development and Engineering

Research, development and engineering expenses increased in amount for the first quarter of 2006 compared to the same period of 2005, primarily due to activities in 2006 to expand our product portfolio to accommodate sub-65 nanometer design rules.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses for the first quarter of 2006 increased compared to the same period of 2005, primarily due to higher legal and professional expenses of $0.6 million primarily due to the additional efforts needed to complete our 2005 Form 10-K, increased travel expenses of $0.2 million due to higher levels of business activity, and a charge of $0.2 million for stock-based compensation in 2006 due to the adoption of FAS 123R, partially offset by lower depreciation expenses of $0.8 million and lower corporate insurance costs of $0.4 million. Additionally, selling, general and administrative costs in the first quarter of 2005 benefited $0.8 million due to a reduction in accounts receivable reserve requirements.

Amortization of Intangibles

Amortization of intangibles for the three months ended April 2, 2006 decreased compared to the same period of 2005 as the intangibles resulting from our acquisition of the STEAG semiconductor division in January 2001 were fully amortized at December 31, 2005. The amortization of intangibles in the first quarter of 2006 results from our acquisition of Vortek Industries Ltd. on October 27, 2004.

Interest and Other Income (Expense), Net

Interest income increased in the first quarter of 2006 compared with the same period of 2005, primarily due to higher average interest rates. Other income for the first quarter of 2006 included miscellaneous income of $0.3 million. Other expense, net for the first quarter of 2005 included a realized foreign exchange loss of $1.3 million on forward foreign exchange contracts settled during the first quarter of 2005, partially offset by other realized and unrealized foreign currency exchange gains of $0.2 million and miscellaneous income of $0.2 million.

Provision for Income Taxes

The provision for income taxes reflected a tax provision of $190,000 for the quarter ended April 2, 2006. The tax provision was primarily due to foreign taxes of $187,000. The provision for income taxes reflected a tax benefit of $112,000 for the quarter ended March 27, 2005. The tax benefit was primarily due to the amortization of in the amount of $190,000 associated with the acquired intangibles of the STEAG Semiconductor division and Vortek.

On a quarterly basis, we evaluate our expected income tax expense or benefit based on our year to date operations and record an adjustment in the current quarter. The net tax provision is the result of the mix of profits earned by us and our subsidiaries in tax jurisdictions with a broad range of income tax rates.

Our valuation allowance at April 2, 2006 is primarily attributable to Federal and state deferred tax assets, as well as certain foreign deferred tax assets. We believe that sufficient uncertainty exists with regard to the realizability of these tax assets such that a valuation allowance is necessary. Factors considered in providing a valuation allowance include the lack of a significant history of consistent profits and the lack of carry-back capacity to realize these assets. Based on the absence of objective evidence, we are unable to assert that it is more likely than not that we will generate sufficient taxable income to realize these remaining net deferred tax assets.

Stock-based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS No. 123(R), “Share-Based Payment”. SFAS No. 123(R) establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award which is computed using the Black-Scholes option valuation model, and is recognized as expense over the requisite service period for the employee. We previously applied Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related Interpretations, and provided the required pro forma disclosures of SFAS No. 123, “Accounting for Stock-Based Compensation”. We elected to adopt the modified prospective application method as provided by SFAS No. 123(R). Accordingly, during the period ended April 2, 2006, we recorded stock-based compensation cost totaling the amount that would have been recognized had the fair value method been applied since the effective date of SFAS No. 123. We did not restate previously reported amounts.

During the three months ended April 2, 2006, we recorded stock-based compensation related to stock options of $206,000. As of April 2, 2006, the unrecorded deferred stock-based compensation after estimated forfeitures related to stock options was $1.8 million and will be recognized over an estimated weighted average amortization period of 1.9 years. There was no compensation cost in connection with the employee stock purchase plan for the three months ended April 2, 2006. Compensation cost for all restricted stock units for the three months ended April 2, 2006 was $2,000. Compensation cost for restricted stock units is determined based on the grant date fair value of the shares of common stock, and is recognized on a straight-line basis over the requisite service period. As of April 2, 2006, the recorded deferred stock-based compensation, after estimated forfeitures, related to nonvested restricted stock units granted under the 2005 Equity Incentive Plan was $106,000. That cost is expected to be recognized over an estimated weighted average amortization period of 3.9 years.

Liquidity and Capital Resources

Our cash, cash equivalents, and short-term investments were $128.0 million at April 2, 2006, a decrease of $1.3 million from $129.3 million as of December 31, 2005. Stockholders' equity at April 2, 2006 was $217.3 million.

Credit Arrangements

We have a $10 million revolving line of credit with a bank, which may be increased to $20 million at our option. The revolving line of credit expires in April 2007, and has an annual commitment fee of $30,000. All borrowings under this credit line bear interest at a per annum rate equal to the bank's prime rate plus 100 basis points. The line of credit is collateralized by a blanket lien on all of our domestic assets including intellectual property. The line of credit requires us to satisfy certain quarterly financial covenants, including maintaining a minimum consolidated cash balance, maintaining a minimum domestic cash balance of unrestricted cash and cash equivalents, maintaining a minimum balance of investment accounts, and not exceeding a maximum net loss limit. At April 2, 2006, there was no borrowing under this credit line. At April 2, 2006, we were out of compliance with one covenant under the line of credit, which requires us to provide audited financial statements within 90 days of our fiscal year-end. We obtained a waiver of this covenant through May 3, 2006, the date we filed our Annual Report on Form 10-K with the SEC for the year ended December 31, 2005.

In June 2004, our Japanese subsidiary entered into a credit facility with a Japanese bank in the amount of 600 million Yen (approximately $5.1 million at April 2, 2006), collateralized by specific trade accounts receivable of the Japanese subsidiary. The facility is subject to the short-term prime rate, which was 1.375% per annum as of April 2, 2006. The facility has an indefinite term, subject to termination at the option of either party. We have given a corporate guarantee for this credit facility. There are no financial covenant requirements for this credit facility. At April 2, 2006, there was no borrowing under this credit facility.

Off-Balance-Sheet Arrangements

As of April 2, 2006, we did not have any "off-balance-sheet" arrangements, as defined in Item 303 (a)(4)(ii) of Regulation S-K.

Contractual Obligations

Under U.S. generally accepted accounting principles, certain obligations and commitments are not required to be included in our consolidated balance sheets. These obligations and commitments, while entered into in the normal course of business, may have a material impact on our liquidity.

In September 2005, we entered into a new lease agreement for our existing corporate headquarters building in Fremont, California. The lease is for a period of 10 years, commencing upon expiration of the current sublease on May 31, 2007, and has an initial annual base rent cost of approximately $1.4 million. We have one five-year option to extend the lease at then current market lease rates. Additionally, we are responsible for insurance, real property taxes, and operating expenses. Upon termination of the lease, we are responsible for restoration costs of approximately $1.5 million, subject to adjustment, and we have provided the Landlord a letter of credit for $1.5 million to secure this obligation. The letter of credit amount will be increased to reflect any adjustments made to the restoration cost obligation.

In connection with the acquisition of Vortek Industries Ltd., we became party to an agreement between Vortek and the Canadian Minister of Industry (the Minister) relating to an investment in Vortek by Technology Partnerships Canada. Under that agreement, as amended, we or Vortek agreed to various covenants, including (a) payment by us of a royalty to the Minister of 1.4% of revenues from flash RTP products, up to a total of CAD14,269,290 (approximately $12.2 million at April 2, 2006), and (b) Vortek maintaining a specified average workforce of employees in Canada through October 27, 2009. If we, or Vortek, do not satisfy our obligations, the Minister may demand payment of liquidated damages in the amount of CAD14,269,290 less any royalties paid by Vortek or us to the Minister.

Other Commitments and Legal Settlements

On June 24, 2002, we entered into a settlement agreement and a license agreement with DNS under which DNS agreed to make payments to us totaling between $75 million (minimum) and $105 million (maximum), relating to past damages, partial reimbursement of attorney fees and costs, and license fees (See Note 13).

In April 2006, DNS paid us the minimum annual royalty payment of $6.0 million. As of May 17, 2006, DNS has made payments aggregating $74.8 million under the terms of the settlement and license agreements. We are scheduled to receive minimum annual royalty payments of $0.2 million in 2007.

Liquidity and Capital Resources Outlook

As of April 2, 2006, we had cash, cash equivalents, and short-term investments of $128.0 million. We believe that these balances, including interest to be earned thereon, and anticipated cash flows from operating activities will be sufficient to fund our working and other capital requirements over the course of the next twelve months and for the foreseeable future. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may use available cash, cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, we may raise additional funds from a combination of sources, including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited.

Cash Flows from Operating Activities

Net cash used in operations during the first quarter of 2006 was $3.9 million, primarily due to an increase in inventories of $6.6 million and an increase in accounts receivable of $5.4 million, partially offset by net income of $3.7 million, an increase in accrued liabilities of $3.6 million and depreciation of $1.5 million. The increase in accounts receivable was primarily due to higher shipments toward the end of the fiscal quarter, and an increase in sales from the fourth quarter of 2005. The increase in inventories is primarily due to the increase in system sales in 2006.

Net cash used in operations during the first quarter of 2005 was $7.7 million, primarily due to the net loss of $1.4 million, a decrease in accrued liabilities of $7.2 million, and increases in inventories of $2.7 million, advanced billings of $2.0 million and prepaid expenses and other current assets of $1.8 million, partially offset by a depreciation charge of $2.3 million, an increase in accounts payable of $2.2 million, a decrease in accounts receivable of $1.5

million and an inventory valuation charge of $1.3 million. The net decrease of $5.0 million in accrued liabilities and accounts payable was mainly due to the payment of an accrued 2004 performance bonus of $2.0 million and other fringe benefits of $1.1 million, payment of termination fees of $0.4 million related to our surrendered building leases in Germany, payments of accrued lease termination costs of $0.3 million, payments of miscellaneous accrued expenses of $0.9 million. Inventories increased by $2.7 million due to the build-up of work-in-progress to meet anticipated higher system shipments in April 2005. Advanced billings increased by $2.0 million as a result of deferred revenue of $11.8 million associated with systems shipped in the first quarter of 2005, partially offset by deferred revenue of $9.8 million for shipments in prior periods recognized during the first quarter of 2005. An inventory valuation charge of $1.3 million was incurred for excess and obsolescence provision for spare parts and demonstration and evaluation tools.

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors including fluctuations in our net sales and operating results, amount of revenue deferred, collection of accounts receivable and timing of payments.

Cash Flows from Investing Activities

Net cash used in investing activities during the first quarter of 2006 was $8.0 million, primarily due to purchases of $13.0 million of available-for-sale investments and capital spending of $0.4 million, partially offset by proceeds of $5.4 million from sales and maturities of available-for-sale investments.

Net cash used in investing activities during the first quarter of 2005 was $2.3 million, primarily due to purchases of $3.3 million of available-for-sale investments and capital spending of $0.8 million for computer equipment and software, partially offset by proceeds of $1.9 million from sales and maturities of available-for-sale investments.

Cash Flows from Financing Activities

Net cash provided by financing activities during the first quarter of 2006 was $2.5 million, attributable to net proceeds of $2.5 million from stock options exercised.

Net cash provided by financing activities during the first quarter of 2005 was $1.3 million, attributable to net proceeds of $1.3 million from stock options exercised and stock purchases under our employee stock purchase plan.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) requires us to measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements. In March 2005, the SEC issued Staff Accounting Bulletin (SAB) 107, which provides the Staff's views regarding interactions between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. The adoption of SFAS No. 123(R) requires additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. The adoption of SFAS No. 123(R) in the fiscal quarter ended April 2, 2006, had a material impact on our consolidated results of operations, financial position and statement of cash flows. For more information on stock-based compensation costs during the three months ended April 2, 2006, refer to Note 9 - "Stock-Based Compensation."

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for us for accounting changes made in fiscal years beginning July 1, 2006; however, the Statement does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS No. 154 did not have a material effect on our consolidated financial position, results of operations or cash flows.

In March 2006, the Emerging Issues Task Force reached a tentative conclusion on Issue No. 06-02, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to Financial Accounting Standards Board

(FASB) Statement No. 43, 'Accounting for Compensated Absences'" (EITF 06-02). In their tentative conclusion, the Task Force concluded that companies should accrue for employee sabbatical leave over the service period in which employees earn the right to sabbatical leave. Currently, we have accrued for the expense related to sabbatical leave for those employees expected to qualify for sabbatical leave in the next eighteen months. If the tentative conclusion reached in EITF 06-02 is ratified by the FASB, we anticipate that the adoption of EITF 06-02 will have a material impact on our consolidated results of operations, financial position and statement of cash flows, as we would be required to recognize an additional liability and corresponding operating expense for our existing sabbatical program. The tentative conclusion on EITF 06-02 recommends that its provisions be adopted retrospectively and be effective for the first annual reporting period after the conclusion is ratified by the FASB.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to financial market risks, including changes in foreign currency exchange rates and interest rates. Historically, much of our revenues and capital spending has been transacted in U.S. dollars.

Our exposure to market risk for changes in interest rates relates to our investment portfolio. We do not currently use derivative financial instruments in our investment portfolio, or hedge for these interest rate exposures. We place our investments with high credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity.

Our interest rate risk relates primarily to our investment portfolio, which consisted of $107.7 million in cash equivalents and $20.3 million in short-term marketable securities as of April 2, 2006. An immediate sharp increase in interest rates could have a material adverse affect on the fair value of our investment portfolio. Conversely, immediate sharp declines in interest rates could seriously harm interest earnings of our investment portfolio. By policy, we limit our exposure to longer-term investments. The maturities of short-term investments as of April 2, 2006 and December 31, 2005 are shown below:

	April 2, 2006	December 31, 2005
	(in thousands)	
Due within one year	$ 17,844	$ 12,689
Due in one to two years	2,462	-
	$ 20,306	$ 12,689

Foreign Currency Risk

The functional currency of our foreign subsidiaries is their local currencies. Accordingly, all assets and liabilities of these foreign operations are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. Gains or losses from translation of foreign operations where the local currencies are the functional currency are included as a component of accumulated other comprehensive income/(loss). Foreign currency transaction gains and losses are recognized in the consolidated statements of operations as they are incurred. Because much of our revenues and capital spending are transacted in U.S. dollars, we believe that foreign currency exchange rates should not materially adversely affect our overall financial position, results of operations or cash flows.

During January 2005, we settled three forward foreign exchange contracts outstanding as of December 31, 2004 for the purchase in total of 28.3 million Euros in exchange for US$38.6 million (weighted average contract rate of 1 Euro to US$1.36) upon maturities and realized a total foreign exchange loss of $1.3 million, which was recorded under other expense, net. No new forward foreign exchange contracts were entered into during the first three months of 2006 or 2005. There were no forward foreign exchange contracts outstanding as of April 2, 2006 or March 27, 2005.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the quarterly period covered by this report. Our disclosure controls and procedures are intended to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as the principal executive and financial officers, respectively, to allow final decisions regarding required disclosures. Because of the material weaknesses described in Management's Report on Internal Control Over Financial Reporting in our Annual Report on Form 10-K for the year ended December 31, 2005, which was filed with the SEC on May 3, 2006, our management has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective. Notwithstanding the material weaknesses discussed in our Annual Report on Form 10-K for the year ended December 31, 2005, our management has concluded that the financial statements included in this Form 10-Q present fairly, in all material respects our financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

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. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Quarterly Evaluation of Changes in Internal Control over Financial Reporting

Our management, with the participation of our chief executive officer and chief financial officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the first quarter of 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our management concluded that there was no such change during that quarter.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

In the ordinary course of business, we are subject to claims and litigation, including claims that we infringe third party patents, trademarks and other intellectual property rights. Although we believe that it is unlikely that any current claims or actions will have a material adverse impact on our operating results or our financial position, given the uncertainty of litigation, we cannot be certain of this. Moreover, the defense of claims or actions against us, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Our involvement in any patent dispute, other intellectual property dispute or action to protect trade secrets and know-how could result in a material adverse effect on our business. Adverse determinations in current litigation or any other litigation in which we may become involved could subject us to significant liabilities to third parties, require us to grant licenses to or seek licenses from third parties and prevent us from manufacturing and selling our products. Any of these situations could have a material adverse effect on our business.

Item 1A. ***Risk Factors***

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF STOCK

The semiconductor equipment industry is highly cyclical and periodically has severe and prolonged downturns, which causes our operating results to fluctuate significantly. We are exposed to the risks associated with industry overcapacity, including reduced capital expenditures, decreased demand for our products, increased price competition and delays by our customers in paying for our products.

The semiconductor industry is highly cyclical and has historically experienced periodic downturns, whether as the result of general economic changes or capacity growth temporarily exceeding growth in demand for semiconductor devices. Our business depends in significant part upon capital expenditures by manufacturers of semiconductor devices, including manufacturers that open new or expand existing facilities. Periods of overcapacity and reductions in capital expenditures by our customers cause decreases in demand for our products. If existing fabrication facilities are not expanded and new facilities are not built, demand for our systems may not develop or increase, and we may be unable to generate significant new orders for our systems. If we are unable to develop new orders for our systems, we will not achieve anticipated net sales levels. During periods of declining demand for semiconductor manufacturing equipment, our customers typically reduce purchases, delay delivery of ordered products and/or cancel orders, resulting in reduced revenues and backlog, delays in revenue recognition and excess inventory. Increased price competition may result, causing pressure on our gross margin and net income.

In future downturns, if we are unable to effectively align our cost structure with prevailing market conditions, we could experience losses, may be required to undertake additional cost-cutting measures, and may be unable to continue to invest in marketing, research and development and engineering at the levels we believe are necessary to maintain our competitive position in our core businesses. Our failure to make these investments could seriously harm our long-term business prospects.

We depend on large purchases from a few customers, and any cancellation, reduction or delay of purchases by or failure to collect receivables from these customers could harm our business.

Currently, we derive most of our revenues from the sale of a relatively small number of systems to a relatively small number of customers, which makes our relationship with each customer critical to our business. The list prices on our systems range from $0.5 million to more than $2.5 million. Consequently, any order cancellations, delays in scheduled shipments, delays in customer acceptances or delays in collection of accounts receivable could materially adversely affect our operating results and cause our results to fall below our expectations and the expectations of market analysts or investors. Delays in collection of accounts receivable could require us to increase our accounts receivable reserve, which would increase our operating expenses.

Our list of major customers changes substantially from year to year, and we cannot predict whether a major customer in one year will make significant purchases from us in future years. Additionally, our customers' capital budget considerations and our lengthy sales cycle make the timing of customer orders uneven and difficult to predict. Accordingly, it is difficult for us to accurately forecast our revenues and operating results from year to year and quarter to quarter. If we are unable to collect a receivable from a large customer, our financial results will be negatively impacted.

Our backlog orders are subject to cancellation or delay.

Although we maintain a backlog of customer orders with expected shipment dates within the next 12 months, customers may request cancellations or delivery delays. As a result, our backlog may not be a reliable indication of future revenues. If shipments of orders in backlog are cancelled or delayed, revenues could fall below our expectations and the expectations of market analysts and investors.

Delays or technical and manufacturing difficulties incurred in the introduction of new products could be costly and adversely affect our customer relationships.

Our success depends in part on the continual introduction of new and improved systems and processes. Our products are complex, and we may experience delays and technical or manufacturing difficulties in the prototype introduction of new systems and enhancements, or in achieving volume production of new systems or enhancements. Our inability to overcome such difficulties, to meet the technical specifications of any new systems or enhancements, or to manufacture and ship these systems or enhancements in volume and in a timely manner would materially adversely affect our business and results of operations, as well as our customer relationships. We may from time to time incur unanticipated costs to ensure the functionality and reliability of our products early in their life cycles, and such costs can be substantial. If we encounter reliability or quality problems with our new products or enhancements, we could face a number of difficulties, including reduced orders, higher manufacturing costs, delays in collection of accounts receivable and additional service and warranty expenses, all of which could materially adversely affect our business and results of operations.

We may not achieve anticipated revenue levels if we are not selected as "vendor of choice" for new or expanded fabrication facilities, or if our systems and products do not achieve broader market acceptance.

Because semiconductor manufacturers must make a substantial investment to install and integrate capital equipment into a semiconductor fabrication facility, these manufacturers will tend to choose semiconductor equipment manufacturers based on established relationships, product compatibility and proven financial performance.

Once a semiconductor manufacturer selects a particular vendor's capital equipment, the manufacturer generally relies for a significant period of time upon equipment from this "vendor of choice" (VOC) for the specific production line application. In addition, the semiconductor manufacturer frequently will attempt to consolidate its other capital equipment requirements with the same vendors. Accordingly, we may face narrow windows of opportunity to be selected as the VOC by significant new customers. It may be difficult for us to sell to a particular customer for a significant period of time once that customer selects a competitor's product, and we may not be successful in obtaining broader acceptance of our systems and technology. If we are unable to achieve broader market acceptance of our systems and technology, we may be unable to maintain and grow our business and our operating results and financial condition will be adversely affected.

We must continually anticipate technology trends, improve our existing products and develop new products in order to be competitive. The development of new or enhanced products involves significant risk and cost.

The markets in which we and our customers compete are characterized by rapidly changing technology, evolving industry standards and continuous improvements in products and services. Consequently, our success depends upon our ability to anticipate future technology trends and customer needs, to develop new systems and processes that meet customer requirements and industry standards and that compete effectively on the basis of price and performance, and to continually improve our existing systems and processes.

Our development and manufacture of new products involves significant risk, since the products are very complex and the development cycle is long and expensive. The success of any new systems we develop and introduce is dependent on a number of factors, including our ability to correctly predict customer requirements for new processes, to assess and select the potential technologies for research and development, and to timely complete new system designs that are acceptable to the market. We may make substantial investments in new technologies before we can know whether they are technically or commercially feasible or advantageous, and without any assurance that revenue from future products or product enhancements will be sufficient to recover the associated development costs. Not all development activities result in commercially viable products. We may be adversely affected by manufacturing inefficiencies and the challenge of producing innovative systems in volumes that meet customer requirements. We may not be able to improve our existing systems or develop new technologies or systems in a timely manner. We may exceed the budgeted cost of reaching our research, development and engineering objectives, and planned product development schedules may require extension. Any delays or additional development costs could have a material adverse effect on our business and results of operations.

As we continue our work to implement and improve our new enterprise resource planning and financial statement consolidation systems, unexpected problems could occur and could cause disruption to the management of our business and delays in the preparation of our financial statements.

In the fourth quarter of 2004, as part of a multi-phase process, we completed the implementation of a new enterprise resource planning, or ERP, system for our worldwide operations. The new ERP system has become integral to our ability to accurately and efficiently maintain our books and records, record our transactions, provide critical information to our management and prepare our financial statements. Our work to implement and improve our new computerized consolidation and ERP systems continues as an active project. These systems are relatively new to us and we have not had extensive experience with them.

The new ERP and consolidation systems could eventually become more costly, difficult and time-consuming to purchase and implement than we currently anticipate. Implementation of the new ERP system has required us to change internal business practices. We may encounter unexpected difficulties or costs or other challenges, any of which may disrupt our business or cause delays in the reporting of our financial results. Our existing systems, procedures or controls may not be adequate to support our operations and require us to change our internal business practices. Corrections and improvements may be required as we continue the implementation of our new systems, procedures and controls, and could cause us to incur additional costs and require additional management attention, placing burdens on our internal resources. If we fail to manage these changes effectively, it could adversely affect our ability to manage our business and our operating results.

Our results of operations may suffer if we do not effectively manage our inventory.

We need to manage our inventory of component parts, work-in-process and finished goods effectively to meet customer delivery demands at an acceptable risk and cost. Customers are increasingly requiring very short lead times for delivery, which may require us to purchase and carry additional inventory. For both the inventories that support manufacture of our products and our spare parts inventories, if the customer demand we anticipate does not materialize in a timely manner, we will incur increased carrying costs and some inventory could become un-saleable or obsolete, resulting in write-offs which would adversely affect the results of our operations.

Warranty claims in excess of our projections could seriously harm our business.

We offer a warranty on our products. The cost associated with our warranty is significant, and in the event our projections and estimates of this cost are inaccurate, our financial performance could be seriously harmed. In addition, if we experience product failures at an unexpectedly high level, our reputation in the marketplace could be damaged, and our business would suffer.

We are increasingly outsourcing manufacturing and logistics activities to third-party service providers, which decreases our control over the performance of these functions.

We have already outsourced certain manufacturing and spare parts logistics functions to third-party service providers, and we may outsource more of those functions in the future. While we expect to achieve operational flexibility and cost savings as a result of this outsourcing, outsourcing has a number of risks and reduces our control over the performance of the outsourced functions. Significant performance problems by these third-party service providers could result in cost overruns, delayed deliveries, shortages, quality issues or other problems that could result in significant customer dissatisfaction and could materially and adversely affect our business, financial condition and results of operations.

If for any reason one or more of these third-party service providers becomes unable or unwilling to continue to provide services of acceptable quality, at acceptable costs and in a timely manner, our ability to deliver our products or spare parts to our customers could be severely impaired. We would quickly need to identify and qualify substitute service providers or increase our internal capacity, which could be expensive, time-consuming and difficult, and could result in unforeseen operations problems. Substitute service providers might not be available or, if available, might be unwilling or unable to offer services on acceptable terms.

If customer demand for our products increases, we may be unable to secure sufficient additional capacity from our current service providers on commercially reasonable terms, if at all.

Our requirements are expected to represent a small portion of the total capacities of our third-party service providers, and they may preferentially allocate capacity to other customers, even during periods of high demand for our products. In addition, such manufacturers could suffer financial difficulties or disruptions in their operations due to causes beyond our control.

We may not be able to continue to successfully compete in the highly competitive semiconductor equipment industry.

The semiconductor equipment industry is both highly competitive and subject to rapid technological change. Significant competitive factors include the following:

- system performance;
- cost of ownership;

- size of installed base;
- breadth of product line;
- delivery availability; and
- customer support.

Competitive pressure has been increasing in several areas. In particular, there is increased price competition, and customers are waiting to make purchase commitments based on their end-user demand, which are then placed with requests for rapid delivery dates and increased product support.

Our major competitors are larger than we are, have greater capital resources, and may have a competitive advantage over us by virtue of having:

- broader product lines;
- longer operating history;
- greater experience with high-volume manufacturing;
- substantially larger customer bases;
- the ability to reduce price through product bundling; and
- substantially greater customer support, financial, technical and marketing resources.

In addition, to expand our sales we must often replace the systems of our competitors or sell new systems to customers of our competitors. Our competitors may develop new or enhanced competitive products that will offer price or performance features that are superior to our systems. Our competitors may also be able to respond more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion, sale and on-site customer support of their product lines. We may not be able to maintain or expand our sales if competition increases and we are unable to respond effectively.

Our lengthy sales cycle increases our costs and reduces the predictability of our revenue.

Sales of our systems depend upon the decision of a prospective customer to increase or replace manufacturing capacity, typically involving a significant capital commitment. Accordingly, the decision to purchase our systems requires time-consuming internal procedures associated with the evaluation, testing, implementation and introduction of new technologies into our customers' manufacturing facilities. Even after the customer determines that our systems meet their qualification criteria, we may experience delays finalizing system sales while the customer obtains approval for the purchase, constructs new facilities or expands its existing facilities. Consequently, the time between our first contact with a customer regarding a specific potential purchase and the customer's placing its first order may last from nine to twelve months or longer. We may incur significant sales and marketing expenses during this evaluation period. In addition, the length of this period makes it difficult to accurately forecast future sales. If sales forecasted from a specific customer are not realized, we may experience an unplanned shortfall in revenues, and our quarterly and annual revenue and operating results may fluctuate significantly from period to period.

We are highly dependent on international sales, and face significant economic and regulatory risks.

International sales accounted for 84% of our net sales in 2005, 87% of our net sales in 2004, and 87% of our net sales in 2003. We anticipate international sales will continue to account for a significant portion of our future net sales. Asia has been a particularly important region for our business, and we anticipate that it will continue to be important going forward. Our sales to customers located in China, Japan, Korea, Taiwan and other Asian countries accounted for 72% of our net sales in 2005, 78% of our net sales in 2004 and 70% of our net sales in 2003. Because of our continuing dependence upon international sales, we are subject to a number of risks associated with international business activities, including:

- unexpected changes in law or regulations resulting in more burdensome governmental controls, tariffs, taxes, restrictions, embargoes or export license requirements;
- exchange rate volatility;
- the need to comply with a wide variety of foreign and U.S. export laws;

- political and economic instability, particularly in Asia;
- differing labor regulations;
- reduced protection for intellectual property;
- difficulties in accounts receivable collections;
- difficulties in managing distributors or representatives; and
- difficulties in staffing and managing foreign subsidiary operations.

In the U.S. and Asia (excluding Japan), our sales to date have been denominated primarily in U.S. dollars, while our sales in Japan are usually denominated in Japanese Yen. Our sales to date in Europe have been denominated in various currencies, currently primarily U.S. dollars and the Euro. Our sales in foreign currencies are subject to risks of currency fluctuation. For U.S. dollar sales in foreign countries, our products may become less price-competitive when the local currency is declining in value compared to the dollar. This could cause us to lose sales or force us to lower our prices, which would reduce our gross margins.

In addition, the expenses of our German manufacturing operation are primarily incurred in Euros. If the Euro were to appreciate in relation to the U.S. dollar, our operating expenses would increase.

We depend upon a limited number of suppliers for some components and subassemblies, and supply shortages or the loss of these suppliers could result in increased cost or delays in manufacture and sale of our products.

We rely to a substantial extent on outside vendors to provide many of the components and subassemblies of our systems. We obtain some of these components and subassemblies from a sole source or a limited group of suppliers. Because of our anticipated reliance on outside vendors generally, and on a sole or a limited group of suppliers in particular, we may be unable to obtain an adequate supply of required components. Although we currently experience minimal delays in receiving goods from our suppliers, when demand for semiconductor equipment is strong, our suppliers may have difficulty providing components on a timely basis.

In addition, during periods of shortages of components, we may have reduced control over pricing and timely delivery of components. We often quote prices to our customers and accept customer orders for our products prior to purchasing components and subassemblies from our suppliers. If our suppliers increase the cost of components or subassemblies, we may not have alternative sources of supply and may no longer be able to increase the cost of the system being evaluated by our customers to cover all or part of the increased cost of components.

The manufacture of some of these components and subassemblies is an extremely complex process and requires long lead times. If we are unable to obtain adequate and timely deliveries of our required components or subassemblies, we may have to seek alternative sources of supply or manufacture such components internally. This could delay our ability to manufacture or timely ship our systems, causing us to lose sales, incur additional costs, delay new product introductions, and harm our reputation.

We manufacture many of our products at two primary manufacturing facilities and are thus subject to risk of disruption.

Although we outsource the manufacturing for certain of our products to third parties, we continue to produce our latest generation products at our two principal manufacturing plants in Fremont, California and Dornstadt, Germany. We have limited ability to interchangeably produce our products at either facility, and in the event of a disruption of operations at one facility, our other facility would not be able to make up the capacity loss. Our operations are subject to disruption for a variety of reasons, including, but not limited to natural disasters, work stoppages, operational facility constraints and terrorism. Such disruption could cause delays in shipments of products to our customers, result in cancellation of orders or loss of customers and seriously harm our business.

Because of competition for qualified personnel, we may not be able to recruit or retain necessary personnel, which could impede development or sales of our products.

Our growth will depend on our ability to attract and retain qualified, experienced employees. There is substantial competition for experienced engineering, technical, financial, sales, and marketing personnel in our industry. In particular, we must attract and retain highly skilled design and process engineers. Historically, competition for such personnel has been intense in all of our locations, but particularly in the San Francisco Bay Area where our headquarters is located. If we are unable to retain existing key personnel, or attract and retain additional qualified personnel, we may from time to time experience inadequate levels of staffing to develop and market our products and perform services for our customers. As a result, our growth could be limited, or we could fail to meet our delivery commitments or experience deterioration in service levels or decreased customer satisfaction.

If we are unable to protect our intellectual property, we may lose a valuable asset and experience reduced market share. Efforts to protect our intellectual property may require additional costly litigation.

We rely on a combination of patents, copyrights, trademark and trade secret laws, non-disclosure agreements, and other intellectual property protection methods to protect our proprietary technology. Despite our efforts to protect our intellectual property, our competitors may be able to legitimately ascertain the non-patented proprietary technology embedded in our systems. If this occurs, we may not be able to prevent the use of such technology. Our means of protecting our proprietary rights may not be adequate and our patents may not be sufficiently broad to protect our technology. Any patents owned by us could be challenged, invalidated, or circumvented and any rights granted under any patent may not provide adequate protection to us. Furthermore, we may not have sufficient resources to protect our rights. Our competitors may independently develop similar technology, or design around patents that may be issued to us. In addition, the laws of some foreign countries may not protect our proprietary rights to as great an extent as do the laws of the United States and it may be more difficult to monitor the use of our products in such foreign countries. As a result of these threats to our proprietary technology, we may have to resort to costly litigation to enforce our intellectual property rights.

We might face patent infringement or other intellectual property infringement claims that may be costly to resolve and could divert management attention.

We may from time to time be subject to claims of infringement of other parties' patents or other proprietary rights. In addition, we on occasion receive notification from customers who believe that we owe them indemnification or have other obligations related to infringement claims made against the customers by third parties. Our involvement in any patent dispute or other intellectual property dispute or action to protect trade secrets, even if the claims are without merit, could be very expensive to defend and could divert the attention of our management. Adverse determinations in any litigation could subject us to significant liabilities to third parties, require us to seek costly licenses from third parties, and prevent us from manufacturing and selling our products. Royalty or license agreements, if required, may not be available on terms acceptable to us or at all. Any of these situations could have a material adverse effect on our business and operating results in one or more countries.

Our failure to comply with environmental regulations could result in substantial liability.

We are subject to a variety of federal, state, local, and foreign laws, rules, and regulations relating to environmental protection. These laws, rules, and regulations govern the use, storage, discharge, and disposal of hazardous chemicals during manufacturing, research and development and sales demonstrations. If we fail to comply with present or future regulations, especially in our Fremont, California and Dornstadt, Germany manufacturing facilities, we could be subject to substantial liability for clean up efforts, personal injury, and fines or suspension or cessation of our operations. We may be subject to liability if our acquired companies have past violations. Restrictions on our ability to expand or continue to operate our present locations could be imposed upon us, or we could be required to acquire costly remediation equipment, or incur other significant expenses.

We incurred net operating losses during 2001 to 2003. We may not achieve or maintain profitability on an annual basis.

We incurred net losses of approximately $336.7 million for the year ended December 31, 2001, $69.7 million for the year ended December 31, 2002 and $35.5 million for the year ended December 31, 2003. Although we were profitable for 2004 and 2005, we expect to continue to incur significant research and development and selling, general and administrative expenses. We may not achieve profitability in future years. We will need to continue to generate significant sales to achieve and maintain profitability, and we may not be able to do so.

Our quarterly operating results fluctuate significantly, are difficult to predict, and may fall short of anticipated levels, which could cause our stock price to decline.

Our quarterly revenue and operating results have varied significantly in the past and are likely to vary significantly in the future, which makes it difficult for us to predict our future operating results. A substantial percentage of our operating expenses are fixed in the short term and we may be unable to adjust spending to compensate for an unexpected shortfall in revenues. As a result, any delay in generating or recognizing revenues could cause our operating results to be below the expectations of market analysts or investors, which could cause the price of our common stock to decline.

The price of our common stock has fluctuated in the past and may continue to fluctuate significantly in the future, which may lead to losses by investors or to securities litigation.

The market price of our common stock has been highly volatile in the past, and our stock price may decline in the future. For example, for the year ended December 31, 2005, the price range for our common stock was \$5.77 to \$10.68 per share.

In addition, in recent years the stock market in general, and the market for shares of high technology stocks in particular, have experienced extreme price fluctuations. These fluctuations have frequently been unrelated to the operating performance of the affected companies. Such fluctuations could adversely affect the market price of our common stock. In the past, securities class action litigation has often been instituted against a company following periods of volatility in its stock price. This type of litigation, if filed against us, could result in substantial costs and divert our management's attention and resources.

Any future business acquisitions may disrupt our business, dilute stockholder value, or distract management attention.

As part of our ongoing business strategy, we may consider acquisitions of, or significant investments in, businesses that offer products, services, and technologies complementary to our own. Such acquisitions could materially adversely affect our operating results and/or the price of our common stock. Acquisitions also entail numerous risks, including:

- difficulty of assimilating the operations, products, and personnel of the acquired businesses;
- potential disruption of our ongoing business;
- unanticipated costs associated with the acquisition;
- inability of management to manage the financial and strategic position of acquired or developed products, services, and technologies;
- inability to maintain uniform standards, controls, policies, and procedures; and
- impairment of relationships with employees and customers that may occur as a result of integration of the acquired business.

To the extent that shares of our stock or other rights to purchase stock are issued in connection with any future acquisitions, dilution to our existing stockholders will result, and our earnings per share may suffer. Any future acquisitions may not generate additional revenue or provide any benefit to our business, and we may not achieve a satisfactory return on our investment in any acquired businesses.

Continued compliance with new regulatory and accounting requirements will be challenging and is likely to cause our general and administrative expenses to increase and impact our future financial position and results of operations.

As a result of compliance with the Sarbanes-Oxley Act of 2002, as well as changes to listing standards adopted by the Nasdaq Stock Market, and the attestation and accounting changes required by the Securities and Exchange Commission, we are required to implement additional internal controls, to improve our existing internal controls, and to comprehensively document and test our internal controls. As a result, we are required to hire additional personnel and to obtain additional outside legal, accounting and advisory services, all of which will cause our general and administrative costs to increase. Proposed changes in the accounting rules, including legislative and other proposals to account for employee stock options as a compensation expense among others, could materially increase the expenses that we report under generally accepted accounting principles, which may adversely affect our operating results.

We Have Material Weaknesses in Our Internal Control over Financial Reporting

During the audit of our 2005 financial statements, our management identified the following material weaknesses in internal control over financial reporting:

- lack of sufficient personnel and resources to properly perform the quarterly and year-end financial statement closing processes, including the monitoring of the previously selected accounting policy for the amounts received from a patent infringement settlement, and the review of certain account reconciliations and analyses.
- lack of effective controls over the computation and review of reserves for slow-moving and excess and obsolete inventory

Although we have taken and continue to take a number of steps to address these material weaknesses, the existence of a material weakness is an indication that there is more than a remote likelihood that a material misstatement of our financial statements might not be prevented or detected in the current or any future period. In addition, we may in the future identify other material weaknesses or significant deficiencies in our internal control over financial reporting that we have not discovered to date.

Furthermore, the initiatives we are taking to remedy the material weaknesses are expected to result in additional costs for increased personnel, which could adversely affect our operating results. Also, we can not be sure that the initiatives our management is taking will result in a determination by our independent registered public accounting firm that our internal controls over financial reporting are properly designed and operating effectively in future periods.

Item 6. ***Exhibits***

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Company.
3.2(2)	Third Amended and Restated Bylaws of the Company.
31.1	Certification of Chief Executive Officer Pursuant to Sarbanes-Oxley Act Section 302(a).
31.2	Certification of Chief Financial Officer Pursuant to Sarbanes-Oxley Act Section 302(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

(1) Incorporated by reference from Mattson Technology, Inc. Current Report on Form 8-K filed on January 30, 2001.

(2) Incorporated by reference from Mattson Technology, Inc. Quarterly Report on Form 10-Q filed on August 14, 2002.

SIGNATURES

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

MATTSON TECHNOLOGY, INC.
(Registrant)

Dated: May 17, 2006

By: /s/ DAVID DUTTON
David Dutton
President and Chief Executive Officer
(Principal Executive Officer)

Dated: May 17, 2006

By: /s/ LUDGER VIEFHUES
Ludger Viefhues
Executive Vice President – Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)