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NANOMETRICS INC
Form 10-Q/A
August 23, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended April 3, 2004

OR

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

For the transition period from _____ to _____

Commission file number 0-13470

NANOMETRICS INCORPORATED

(Exact name of registrant as specified in its charter)

California

94-2276314

(State or other jurisdiction of incorporation or organization)

(I. R. S. Employer Identification No.)

1550 Buckeye Drive, Milpitas, CA

95035

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

YES NO

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As of April 23, 2004, there were 12,240,898 shares of common stock, no par value, issued and outstanding.

EXPLANATORY NOTE

This Form 10-Q/A is being filed to correct a computational error in the pro forma disclosure contained in Note 8 of the Notes to Condensed Consolidated Financial Statements. For ease of reference, our Form 10-Q/A restates the Form 10-Q for the fiscal quarter ended April 3, 2004 in its entirety.

NANOMETRICS INCORPORATED

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PART I: FINANCIAL INFORMATION
ITEM 1: Financial Statements

NANOMETRICS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except share amounts)
(Unaudited)

| | April 3, 2004 | January 3, 2004 |
|---------------------------------------------------------------------------------------------------------------------|------------------|--------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 24,075 | \$ 7,949 |
| Short-term investments | -- | 21,943 |
| Accounts receivable, net of allowances of \$584 and \$576, respectively | 19,517 | 14,522 |
| Inventories | 26,279 | 24,264 |
| Prepaid expenses and other | 1,386 | 1,015 |
| | ----- | ----- |
| Total current assets | 71,257 | 69,693 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 49,909 | 49,738 |
| INTANGIBLE ASSETS, NET | 1,221 | 1,322 |
| OTHER ASSETS | 1,027 | 987 |
| | ----- | ----- |
| TOTAL | \$123,414 | \$121,740 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 2,576 | \$ 2,047 |
| Accrued payroll and related expenses | 1,697 | 1,593 |
| Deferred revenue | 3,163 | 2,345 |
| Other current liabilities | 1,402 | 1,436 |
| Income taxes payable | 1,377 | 1,528 |
| Current portion of debt obligations | 1,925 | 1,157 |
| | ----- | ----- |
| Total current liabilities | 12,140 | 10,106 |
| DEFERRED INCOME TAXES AND OTHER LONG-TERM LIABILITIES | 550 | 545 |
| DEBT OBLIGATIONS | 2,490 | 2,648 |
| | ----- | ----- |
| Total liabilities | 15,180 | 13,299 |
| | ----- | ----- |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, no par value; 50,000,000 shares authorized; 12,207,277 and 12,166,016 outstanding, respectively | 101,484 | 101,099 |
| Retained earnings | 5,796 | 7,008 |
| Accumulated other comprehensive income | 954 | 334 |
| | ----- | ----- |
| Total shareholders' equity | 108,234 | 108,441 |
| | ----- | ----- |
| TOTAL | \$123,414 | \$121,740 |
| | ===== | ===== |

NANOMETRICS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands except per share amounts)
(Unaudited)

| | Three Months Ended | |
|---------------------------------------|--------------------|-------------------|
| | April 3, 2004 | March 29, 2003 |
| NET REVENUES: | | |
| Product sales | \$ 11,663 | \$ 7,435 |
| Service | 2,008 | 1,915 |
| Total net revenues | 13,671 | 9,350 |
| COSTS AND EXPENSES: | | |
| Cost of product sales | 5,403 | 3,659 |
| Cost of service | 1,611 | 1,886 |
| Research and development | 3,489 | 3,373 |
| Selling | 3,066 | 2,886 |
| General and administrative | 1,295 | 1,183 |
| Total costs and expenses | 14,864 | 12,987 |
| LOSS FROM OPERATIONS | (1,193) | (3,637) |
| OTHER INCOME (EXPENSE): | | |
| Interest income | 56 | 94 |
| Interest expense | (29) | (24) |
| Other, net | (3) | 3 |
| Total other income (expense), net | 24 | 73 |
| LOSS BEFORE INCOME TAXES | (1,169) | (3,564) |
| PROVISION FOR INCOME TAXES | (43) | (6,020) |
| NET LOSS | \$ (1,212) | \$ (9,584) |
| NET LOSS PER SHARE: | | |
| Basic and diluted | \$ (0.10) | \$ (0.80) |
| SHARES USED IN PER SHARE COMPUTATION: | | |
| Basic and diluted | 12,189 | 12,007 |

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Amounts in thousands) (Unaudited)

| | Three Months Ended | |
|----------------------------------------------------------------------|--------------------|-------------------|
| | April 3, 2004 | March 29, 2003 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (1,212) | \$ (9,584) |
| Reconciliation of net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 649 | 815 |
| Deferred income taxes | 96 | 5,978 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (4,758) | (2,643) |
| Inventories | (1,798) | 1,344 |
| Prepaid expenses and other | (356) | (208) |
| Accounts payable accrued and other current liabilities | 1,337 | 271 |
| Income taxes payable | (149) | 4 |
| | ----- | ----- |
| Net cash used in operating activities | (6,191) | (4,023) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of short-term investments | -- | (26,007) |
| Sales/maturities of short-term investments | 21,943 | 29,000 |
| Purchases of property, plant and equipment | (444) | (55) |
| | ----- | ----- |
| Net cash provided by investing activities | 21,499 | 2,938 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of debt obligations | 910 | 349 |
| Repayments of debt obligations | (396) | (386) |
| Sale of shares under employee stock option plan | 385 | -- |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 899 | (37) |
| | ----- | ----- |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (81) | (23) |
| | ----- | ----- |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 16,126 | (1,145) |
| CASH AND CASH EQUIVALENTS, beginning of period | 7,949 | 7,967 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, end of period | \$ 24,075 | \$ 6,822 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 29 | \$ 24 |
| | ===== | ===== |
| Cash paid for income taxes | \$ -- | \$ 41 |
| | ===== | ===== |

See Notes to Condensed Consolidated Financial Statements.

NANOMETRICS INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Condensed Consolidated Financial Statements

The condensed consolidated financial statements include the accounts of Nanometrics Incorporated and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

While the quarterly condensed consolidated financial statements are unaudited, the financial statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) which Nanometrics considers necessary for a fair presentation of the results of operations for the interim periods covered and of its financial condition at the date of the interim balance sheet. The operating results for interim periods are not necessarily indicative of the operating results that may be expected for the entire year. The information included in this report should be read in conjunction with the information included in Nanometrics' 2003 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Note 2. Significant Accounting Policies

Fiscal Period - Nanometrics uses a 52/53 week fiscal year ending on the Saturday nearest to December 31. In prior financial statements, Nanometrics presented for convenience all periods as if they ended on the month end date. To provide greater clarity, these financial statements include references to actual period end dates. All references to the quarter refer to Nanometrics' fiscal quarter. The fiscal quarters presented herein include 13 weeks.

Income Taxes - Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and operating loss and tax credit carryforwards measured by applying currently enacted tax laws. A valuation allowance is provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized. During the quarter ended March 29, 2003, Nanometrics recorded a valuation allowance of \$6,020,000. The valuation allowance was recorded primarily as a result of pre tax losses incurred over the past several quarters coupled with uncertainty about future expected income in the current market environment, making it not more likely than not that the deferred tax asset will be realized.

Short-Term Investments - Short-term investments consist of United States Treasury bills and are stated at fair value based on quoted market prices. Short-term investments are classified as available-for-sale based on Nanometrics' intended use. The difference between amortized cost and fair value representing unrealized holding gains or losses are recorded as a component of shareholders' equity as accumulated other comprehensive loss and was not significant as of April 3, 2004 and January 3, 2004. Gains and losses on sales of short-term investments are determined on a specific identification basis.

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Note 3. Inventories

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

| | April 3, 2004 | January 3, 2004 |
|---------------------------------|------------------|--------------------|
| | ----- | ----- |
| Raw materials and subassemblies | \$14,195 | \$15,450 |
| Work in process | 5,834 | 4,506 |
| Finished goods | 6,250 | 4,308 |
| | ----- | ----- |
| Total inventories | \$26,279 | \$24,264 |
| | ===== | ===== |

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Note 4. Other Current Liabilities

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

| | April 3, 2004 | January 3, 2004 |
|---------------------------------|------------------|--------------------|
| | ----- | ----- |
| Commission payable | \$ 32 | \$ 32 |
| Accrued warranty | 495 | 513 |
| Accrued professional services | 143 | 254 |
| Other | 732 | 637 |
| | ----- | ----- |
| Total other current liabilities | \$1,402 | \$1,436 |
| | ===== | ===== |

Note 5. Shareholders' Equity

Net Loss Per Share - The reconciliation of the share denominator used in the basic and diluted net income per share computations are as follows (in thousands):

| | Three Months Ended | |
|-------------------------------------------------------------------------------------------------|--------------------|-------------------|
| | April 3, 2004 | March 29, 2003 |
| | ----- | ----- |
| Weighted average common shares outstanding-shares used in basic net loss per share computations | 12,189 | 12,007 |
| Dilutive effect of common stock equivalents, using the treasury stock method | -- | -- |
| | ----- | ----- |
| Shares used in diluted net loss per share computation | 12,189 | 12,007 |
| | ===== | ===== |

At April 3, 2004 and March 29, 2003, respectively, diluted net loss per share excludes common equivalent shares outstanding of 2,832,000 and 1,359,000, respectively, as their effect is anti-dilutive.

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Note 6. Comprehensive Loss

Comprehensive loss, which consisted of net loss and changes in accumulated other comprehensive loss, was a loss of \$592,000 for the three months ended April 3, 2004 compared to a comprehensive loss of \$9,888,000 for the three months ended March 29, 2003. Substantially all of the accumulated other comprehensive loss consists of accumulated translation adjustments for all periods presented.

Note 7. Warranties

Nanometrics sells the majority of its products with a one-year repair or replacement warranty and records a provision for estimated claims at the time of sale. Components of the warranty accrual, which was included in the accompanying consolidated balance sheets as other current liabilities, was as follows (in thousands):

| | Three Months Ended | |
|-----------------------------------|--------------------|-------------------|
| | April 3, 2004 | March 29, 2003 |
| Balance as of beginning of period | \$ 513 | \$ 261 |
| Actual warranty costs | (138) | (150) |
| Revision to existing warranty | 18 | (85) |
| Provision for warranty | 102 | 335 |
| Balance as of end of period | \$ 495 | \$ 361 |

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Note 8. Stock-Based Compensation - As restated

Nanometrics accounts for stock-based compensation using the intrinsic value method in accordance with the provision of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, as allowed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation as amended by SFAS No. 148, Accounting for Stock Based Compensation-Transition and Disclosures, an Amendment of FASB Statement No. 123.

Under the intrinsic value method, Nanometrics does not recognize any compensation expense, as the exercise price of all stock options is equal to the fair market value at the time the options are granted. Had compensation expense been recognized using the fair value-based method under SFAS No. 123, Nanometrics' pro forma consolidated loss and loss per share would have been as follows (in thousands, except per share amounts):

| Three Months Ended | |
|--------------------|-------------------|
| April 3, 2004 | March 29, 2003 |

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| | (As Restated) ----- | 2003 ----- |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|---------------|
| Net loss: | | |
| As reported | \$ (1,212) | \$ (9,584) |
| Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related income tax effects | (1,234) | (4,199) |
| | ----- | ----- |
| Pro forma | \$ (2,446) | \$ (13,783) |
| | ===== | ===== |
| Basic and diluted net loss per share: | | |
| As reported | \$ (0.10) | \$ (0.80) |
| Pro forma | \$ (0.20) | \$ (1.15) |

Subsequent to the issuance of its condensed consolidated financial statements for the quarter ended April 3, 2004, Nanometrics' management determined that the pro forma total and per share net loss had been improperly calculated for the three months ended April 3, 2004. As a result, the pro forma total and per share net loss for the three months ended April 3, 2004 have been restated from the amounts previously reported.

A summary of the effects of this restatement is follows:

| | Three Month April 3, ----- As Previously Reported ----- |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Net loss: | |
| As reported | \$ (1,212) |
| Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related income tax effects | (854) |
| | ----- |
| Pro forma | \$ (2,066) |
| | ===== |
| Basic and diluted net loss per share: | |
| Pro forma | \$ (0.17) |

Note 9. Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization. Intangible assets as of April 3, 2004 and January 3, 2004 consist of (in thousands):

| | Gross Carrying Amount ----- | Accumulated Amortization ----- | Net Intangible Assets ----- |
|---------------|--------------------------------------|--------------------------------------|--------------------------------------|
| April 3, 2004 | | | |
| Technology | \$ 2,290 | \$ 1,136 | \$ 1,154 |
| Other | 250 | 183 | 67 |

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| | | | |
|-----------------|----------------------------|----------------------------|----------------------------|
| Total | ----- \$ 2,540 ===== | ----- \$ 1,319 ===== | ----- \$ 1,221 ===== |
| | Gross | Accumulated | Net |
| January 3, 2004 | Carrying | Amortization | Intangible |
| ----- | Amount | ----- | Assets |
| Technology | \$ 2,709 | \$ 1,466 | \$ 1,243 |
| Other | 250 | 171 | 79 |
| | ----- | ----- | ----- |
| Total | \$ 2,959 ===== | \$ 1,637 ===== | \$ 1,322 ===== |

Amortization expense for the three-months ended April 3, 2004 and March 29, 2003 were \$101,000 and \$122,000 respectively.

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The estimated future amortization expense as of April 3, 2004 is as follows (in thousands):

| | |
|------------------------------|-------------------|
| Fiscal Years | |
| 2004 (remaining nine months) | \$ 296 |
| 2005 | 285 |
| 2006 | 256 |
| 2007 | 256 |
| 2008 | 128 |
| Thereafter | - |
| | ----- |
| Total amortization | \$ 1,221 ===== |

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ITEM 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

This report including the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are based upon current expectations and beliefs that involve risks and uncertainties, such as our plans, objectives and intentions, regarding, among other things: (i) customer demand for our products, which may be affected by several factors including the cyclical nature of the semiconductor and flat panel display industries served by us, patterns of capital spending by its customers, technological changes in the markets served by us and our customers, and market acceptance of our products and of our customers' products; (ii) the timing, cancellation or delay of our customer orders and shipments; (iii) competition, including competitive pressures on product prices and changes in pricing by our customers or suppliers; (iv) fluctuations in foreign currency exchange rates, particularly the Japanese yen; (v) the proportion of sales we make directly to our customers versus sales through distributors and representatives; (vi) market acceptance of new and enhanced versions of our products; (vii) the timing of new product announcements and releases of products

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by us or our competitors, including our ability to design, introduce and manufacture new products on a timely and cost effective basis; (viii) the size and timing of acquisitions of businesses, products or technologies and fluctuations in the availability and cost of components and subassemblies of our products.

In some cases, forward-looking statements can be identified by words such as "believe," "expect," "anticipate," "plan," "potential," "continue" or similar expressions. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain risk factors, including those set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Operating Results" in Nanometrics' 2003 Annual Report on Form 10-K. We believe that it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to predict accurately or over which we have no control. You should be aware that the occurrence of the events described in such risk factors and elsewhere in this report could materially and adversely affect our business, operating results, financial condition and cash flows.

All forward-looking statements included in this report are based on information available to us on the date hereof. We undertake no obligation to update forward-looking statements made in this report to reflect events or circumstances after the date of this report or to update reasons why actual results could differ from those anticipated in such forward-looking statements.

Overview

We are a leader in the design, manufacture, marketing and support of high-performance process control metrology systems used in the manufacture of semiconductors and flat panel displays. Our systems precisely measure a wide range of film types deposited on substrates during manufacturing in order to control manufacturing processes and increase production yields.

Critical Accounting Policies

Income Tax Assets and Liabilities - We account for income taxes based on Statement of Financial Accounting Standards (SFAS) No. 109 Accounting for Income Taxes, whereby deferred tax assets and liabilities must be recognized using enacted tax rates for the effect of temporary differences between the book and tax accounting for assets and liabilities. Also, deferred tax assets must be reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized in the future. We evaluate the

deferred tax assets on a quarterly basis to determine whether or not a valuation allowance is appropriate. Factors used in this determination include future expected income and the underlying asset or liability which generated the temporary tax difference.

Our income tax provision is based on estimates of our effective income tax rate for the year. The effective tax rate is generally estimated based on the geographic distribution of profits, the tax rates in different regions and the availability of tax credits.

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Results of Operations

Total net revenues for the first quarter of 2004 were \$13,671,000, an increase of \$4,321,000 or 46% from the same quarter in 2003. Product sales of \$11,663,000 for the first quarter of 2004, increased \$4,228,000 or 57% compared to the same period in 2003. Sales of integrated systems increased in the first quarter of 2004 from their first quarter 2003 levels. The increase in product sales resulted from stronger demand for semiconductor process control metrology equipment, particularly in the U.S. and the Far East. This increased demand is driven in part by the semiconductor industry's continued shift from the manufacture of 200 millimeter wafers to 300 millimeter wafers, which requires new products that can handle the larger wafers. Service revenue of \$2,008,000 increased \$93,000 or 5% in the first quarter of 2004 compared to the same period in 2003 primarily due to higher sales of parts and services in the U.S. and the Far East resulting in part from a larger installed base of systems that have passed their warranty periods.

Cost of product sales as a percentage of product sales decreased to 46% in the first quarter of 2004 from 49% in the first quarter of 2003 due primarily to increased product sales volume resulting in lower per unit manufacturing costs. Cost of service as a percentage of service revenue decreased to 80% in the first quarter of 2004 from 98% in the first quarter of 2003 primarily as a result of the mix of services provided to customers which resulted in lower materials costs in the first quarter of 2004.

Research and development expenses for the first quarter of 2004 increased \$116,000 or 3% compared to the same period in 2003 primarily as a result of higher materials expenses as we continued to invest in the development of new and enhanced products.

Selling expenses for the first quarter of 2004 increased by \$180,000 or 6% compared to the same period in 2003 primarily due to higher travel expenses and other expenses incurred promoting our products to existing and potential customers.

General and administrative expenses for the first quarter of 2004 increased by \$112,000 or 9% compared to the same period in 2003 primarily as a result of increased headcount, higher insurance costs and higher information technology costs.

Total other income, net decreased \$49,000 or 67% during the first quarter of 2004 compared to the same period in 2003 due primarily to lower interest income as a result of lower interest rates and lower cash and short-term investments balances.

A provision for income taxes of \$6,020,000 was recorded in the first quarter of 2003, which primarily represents a charge to record a valuation allowance against deferred income tax assets. This charge was taken primarily as a result of pretax losses incurred over the past several quarters coupled with uncertainty about future expected income in the current market environment, making it not more likely than not that the deferred tax asset will be realized.

As a result of the factors discussed above, our loss from operations was \$1,193,000 and our net loss was \$1,212,000 or \$0.10 per diluted share in the first quarter of 2004 compared to a loss from operations of \$3,637,000 and a net loss of \$9,584,000 or \$0.80 per diluted share in the first quarter of 2003.

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At April 3, 2004, our cash and cash equivalents totaled \$24,075,000. At April 3, 2004, we had working capital of \$59,117,000 compared to \$59,587,000 at January 3, 2004. The current ratio at April 3, 2004 was 5.9 to 1. We believe that our working capital, including cash, cash equivalents and short-term investments will be sufficient to meet our needs at least through the next twelve months.

Operating activities for the first three months of 2004 used cash of \$6,191,000 primarily from the net loss and higher accounts receivable, which resulted from increased sales and the timing of shipments and receipts, and increased inventory needed to support our higher sales. Investing activities provided \$21,499,000 primarily due to sales of short-term investments of \$21,943,000 offset to some extent by capital expenditures of \$444,000 used to continue the process of internalizing our manufacturing capacity in the United States. Financing activities provided \$899,000 primarily due to short term borrowing of \$910,000 in Japan, which was offset to some extent by repayment of long-term debt in Japan, and by stock issuances from the exercise of stock options by employees.

We have evaluated and will continue to evaluate the acquisition of products, technologies or businesses that are complementary to our business. These activities may result in product and business investments, which may affect our cash position and working capital balances.

ITEM 3. Quantitative And Qualitative Disclosures About Market Risk

We are exposed to financial market risks, which include changes in foreign currency exchange rates and interest rates. We do not use derivative financial instruments. Instead, we actively manage the balances of current assets and liabilities denominated in foreign currencies to minimize currency fluctuation risk. As a result, a hypothetical 10% change in the foreign currency exchange rates at April 3, 2004 would not have had a material impact on our results of operations. At April 3, 2004, our total debt obligations were \$4,415,000 with a long-term portion of \$2,490,000. A hypothetical 10% change in interest rates at April 3, 2004 would not have had a material impact on our results of operations.

ITEM 4. Controls And Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the periodic reports filed by us with the Securities and Exchange Commission (the "Commission") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and that such information is accumulated and communicated to our management. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their most recent evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended) are effective as of the end of the period covered by this Quarterly Report on Form 10-Q. There were not any significant changes in

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internal controls or in other factors that could significantly affect our internal controls during our last fiscal quarter.

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NANOMETRICS INCORPORATED
PART II

OTHER INFORMATION

ITEM 1. Legal Proceedings

Not applicable.

ITEM 2. Changes in Securities and Use of Proceeds

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits and Reports on Form 8-K

A. Exhibits.

See Exhibit Index.

B. Reports on Form 8-K.

A current report on Form 8-K was furnished on February 19, 2004 with an attached press release.

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NANOMETRICS INCORPORATED

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.

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NANOMETRICS INCORPORATED
(Registrant)

/s/ VINCENT J. COATES

Vincent J. Coates
Chairman of the Board

/s/ JOHN HEATON

John Heaton
Chief Executive Officer

/s/ PAUL B. NOLAN

Paul B. Nolan
Chief Financial Officer

Dated: August 23, 2004

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Exhibit Index

| No. | Exhibit Title |
|------|---------------------------------------------------------------------------------------------------------------------------------|
| --- | ----- |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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