

NANOMETRICS INC  
Form 10-K/A  
May 01, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K/A**

(Amendment No. 1)

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(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-13470

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**NANOMETRICS INCORPORATED**

(Exact name of registrant as specified in its charter)

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California  
(State or other jurisdiction of  
incorporation or organization)

1550 Buckeye Drive

94-2276314  
(I.R.S. Employer

Identification Number)

95035

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Milpitas, California  
(Address of principal executive offices)

(Zip Code)

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

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**Securities registered pursuant to Section 12(b) of the Act:**

None

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

Common Stock, no par value

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Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Securities Exchange Act of 1934) Yes  No

As of July 2, 2005, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock of the Registrant held by non-affiliates, based upon the closing sales price for the Registrant's common stock, as quoted on the Nasdaq Stock Market, was \$81,469,460. Shares of common stock held by each officer and director and by each person who owned 5% or more of the outstanding common stock have been excluded because such persons may be deemed to be affiliates as that term is defined under the rules and regulations of the Exchange Act. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

The number of shares of the Registrant's common stock outstanding as of February 28, 2006 was 13,033,438.

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**Explanatory Note**

This Amendment No. 1 on Form 10-K/A amends the Annual Report on Form 10-K for the fiscal year ended December 31, 2005 that we previously filed with the Securities and Exchange Commission on March 24, 2006. In accordance with General Instruction G to the Form 10-K, the information required by Items 10, 11, 12, 13 and 14 of Part III was omitted from our Form 10-K as filed and was to be incorporated by reference to our definitive proxy statement for our 2006 Annual Meeting of Shareholders. Since we will not in fact file our proxy statement within 120 days from the end of our fiscal year, we are filing this Amendment No. 1 solely for the purpose of providing the information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K. Unless otherwise expressly stated, this Amendment No. 1 does not reflect events occurring after the filing of the original Form 10-K, or modify or update in any way disclosures contained in the original Form 10-K.

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**PART III**
**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT****Directors and Executive Officers**

The following table sets forth certain information with respect to the directors and executive officers of Nanometrics:

| <b>Name</b>           | <b>Age</b> | <b>Position</b>  |
|-----------------------|------------|--|
| Vincent J. Coates     | 81         | Chairman of the Board, Secretary   |
| John D. Heaton        | 46         | President, Chief Executive Officer and Director                                  |
| Douglas J. McCutcheon | 57         | Executive Vice President, Finance and Administration and Chief Financial Officer |
| Quentin B. Wright     | 49         | Chief Accounting Officer   |
| Roger Ingalls, Jr.    | 44         | Senior Vice President of Standalone Sales  |
| Edmond R. Ward        | 67         | Director   |
| William G. Oldham     | 68         | Director   |
| Stephen Smith         | 59         | Director   |
| J. Thomas Bentley     | 56         | Director   |

Mr. Vincent J. Coates has been Chairman of the Board since Nanometrics was founded in 1975. He has been our Secretary since February 1989. He has also served as our Chief Executive Officer through April 1998 and President from our founding through May 1996, except for the period of January 1986 through February 1987 when he served exclusively as Chief Executive Officer. Mr. Coates has also served as Chairman of the Board of Nanometrics Japan Ltd., one of our subsidiaries, since June 1998. Prior to his employment at Nanometrics, Mr. Coates co-founded Coates and Welter Instrument Corporation, a designer of electron microscopes, which company was subsequently acquired by Nanometrics. Mr. Coates also spent over twenty years working in engineering, sales and international operations for the Perkin-Elmer Corporation, a manufacturer of analytical instruments. In 1995, he received an award that recognized his contribution to the industry from Semiconductor and Equipment and Materials International, an industry trade organization.

Mr. John D. Heaton has served as a director of Nanometrics since July 1995. Since May 1996, he has served as our President. Since April 1998, he has also served as our Chief Executive Officer. From May 1996 to April 1998, he served as our Chief Operating Officer. Mr. Heaton has also served as President of Nanometrics Japan Ltd., one of our subsidiaries, since January 1998. Beginning in 1978, Mr. Heaton served in various technical positions at National Semiconductor, a semiconductor manufacturer, prior to joining us in 1990.

Mr. Douglas J. McCutcheon has served as Executive Vice President, Finance and Administration, and Chief Financial Officer of Nanometrics since September 2005. From January 2003 until December 2004, he served as Managing Director, Senior Vice President Finance and Chief Financial Officer of Metron Technology N.V., a manufacturer and distributor of semiconductor capital equipment and provider of fab facility services. In 2002, he served in a consulting role to Metron Technology. He also served as Senior

Vice President Finance and Chief Financial Officer of Asyst Technologies, Inc., a semiconductor capital equipment automation company, from January 1996 until September 2001. From 1977 through 1995, Mr. McCutcheon held various financial management positions at Memorex Corporation, Diasonics, Inc., Toshiba America Medical Inc. and Cadence Design Systems.

Mr. Quentin B. Wright has served as Chief Accounting Officer of Nanometrics since April 2005. From November 2003 until April 2005, Mr. Wright provided financial consulting services for various technology clients in Silicon Valley. From May 1999 until November 2003, he served as Director of Accounting of Adaptec, Inc., a manufacturer of storage access solutions. He also served as corporate controller of Vascular Therapeutics, Inc., a start-up biopharmaceutical company focused on the discovery and development of novel drugs to prevent and treat cardiovascular disease from February 1998 until May 1999.

Mr. Roger Ingalls, Jr. has served as Senior Vice President of Standalone Sales of Nanometrics since January 2002. Mr. Ingalls joined Nanometrics in March 1995, serving as Vice President and Director of Sales and Marketing from October 1997 to February 1998, and as Vice President and Director of Marketing from February 1998 to January 2002. Prior to joining Nanometrics, he served as a sales engineer for Nikon Inc., a precision optical company, from March 1993 to March 1995.

Edmond R. Ward has served as a director of Nanometrics since July 1999. Beginning in January 2002, Mr. Ward has served as Chief Technical Officer of Unity Semiconductor, a semiconductor design and manufacturing company. Since April 1999, Mr. Ward has been a General Partner of Virtual Founders, a venture capital firm. From April 1992 to June 1997, Mr. Ward was the Vice President of Technology at Silicon Valley Group, Inc., a supplier of wafer processing equipment.

William G. Oldham has served as a director of Nanometrics since June 2000. Since 1964, Mr. Oldham has been a faculty member at the University of California, Berkeley, where he researches EUV and Maskless Lithography and, since 1996, has been the Director of the DARPA/SRC Research Network for Advanced Lithography. He has served as a consultant in various intellectual property matters and serves on the board of directors of Cymer, Inc., a supplier of light sources for deep ultraviolet photolithography systems used in the manufacturing of semiconductors.

Stephen Smith has served as a director of Nanometrics since April 2004. Dr. Smith has been a professor in the Department of Molecular and Cellular Physiology at the Stanford University School of Medicine since 1989, where he researches brain development and function with special interests in the dynamic and structural aspects of synapse and circuit formation and synaptic plasticity. Dr. Smith is the author of numerous research articles in the fields of cellular and molecular neuroscience.

J. Thomas Bentley has served as a director of Nanometrics since April 2004. Mr. Bentley is a co-founder of Alliant Partners, a leading merger and acquisition firm for emerging and mid-market technology companies. For the past 10 years, Mr. Bentley has worked with some of Alliant's largest clients on their strategic acquisitions and divestitures. His expertise is in financial, tax and accounting structuring of merger transactions.

#### **Audit Committee and Audit Committee Financial Expert**

Nanometrics has a separately-designated standing Audit Committee established in accordance with section 3(a)(58)(A) of the Exchange Act. The Audit Committee is composed of William Oldham, Edmond R. Ward and J. Thomas Bentley, each of whom are independent as that term is defined under the applicable Nasdaq Stock Market listing standards.

The Board of Directors has determined that Mr. Bentley, Chairman of the Audit Committee, qualifies as an audit committee financial expert as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the Nasdaq National Market. Executive officers, directors and greater than ten percent shareholders are required by Securities and Exchange Commission regulations to furnish Nanometrics with copies of all Section 16(a) forms that they file. Based solely on its review of the copies of such forms received by it or written representations from certain reporting persons, we believe that, with the exception of Quentin Wright, during the fiscal year ended December 31, 2005, our executive officers, directors and greater than 10% shareholders complied with all applicable filing requirements. Mr. Wright failed to timely report his initial statement on Form 3 and an option grant on Form 4.

### Code of Ethics

We have adopted a code of business conduct and ethics that applies to all officers and employees. We posted our code of business conduct and ethics on our website at [www.nanometrics.com](http://www.nanometrics.com). We intend to disclose any amendment to the provisions of the code of business conduct and ethics that apply specifically to officers by filing such information on a Current Report on Form 8-K with the SEC, to the extent such filing is required by The Nasdaq Stock Market's listing requirements; otherwise, we will disclose such waiver by posting such information on our website.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation of Executive Officers

The following table sets forth the compensation paid by Nanometrics during the past three fiscal years to (i) the chief executive officer, (ii) each of the four most highly compensated executive officers (or such lesser number of executive officers as Nanometrics may have) of Nanometrics not serving as chief executive officer and (iii) up to an additional two individuals that would have been included under item (ii) but for the fact that the individuals were not serving as executive officers as of December 31, 2005, all of whom are collectively referred to as the Named Officers.

Summary Compensation Table

| Name   | Fiscal Year | Annual Compensation |           |                           | Long Term Compensation Awards Securities Underlying Options (#) | All Other Compensation (2) |
|--|-------------|---------------------|-----------|---------------------------|---|----------------------------|
|  |             | Salary              | Bonus (1) | Other Annual Compensation |   |                            |
| John D. Heaton<br>President and Chief Executive Officer  | 2005        | \$ 364,400          | \$ 51,360 | \$                        |   | \$ 26,000                  |
|  | 2004        | 341,800             | 79,314    |                           | 100,000   |                            |
|  | 2003        | 342,800             |           |                           | 572,500   |                            |
| Vincent J. Coates<br>Chairman of the Board and Secretary | 2005        | 204,800             |           |                           |   |                            |
|  | 2004        | 204,800             |           |                           |   |                            |
|  | 2003        | 204,800             |           |                           |   |                            |

| Name   | Fiscal Year | Annual Compensation |           |                           | Long Term Compensation Awards Securities Underlying Options (#) | All Other Compensation (2) |
|--|-------------|---------------------|-----------|---------------------------|---|----------------------------|
|  |             | Salary              | Bonus (1) | Other Annual Compensation |   |                            |
| Roger Ingalls, Jr.<br>Senior Vice President of<br>Standalone Sales   | 2005        | 201,876             | 123,355   |                           |   |                            |
|  | 2004        | 195,265             | 29,658    |                           | 5,000   |                            |
|  | 2003        | 198,965             | 46,777    |                           | 31,500  |                            |
| Paul B. Nolan<br>Former Vice President and Chief<br>Financial Officer  | 2005        | 167,819             | 17,648    |                           |   | 159,046                    |
|  | 2004        | 183,055             | 29,864    |                           |   |                            |
|  | 2003        | 179,050             |           |                           |   |                            |
| Douglas J. McCutcheon<br>Executive Vice President, Finance<br>and Administration and Chief Financial Officer | 2005        | 80,019              | 25,000    |                           | 150,000   |                            |
|  | 2004        |                     |           |                           |   |                            |
|  | 2003        |                     |           |                           |   |                            |
| Quentin B. Wright<br>Chief Accounting Officer  | 2005        | 142,191             | 9,477     |                           | 50,000  | 41,400                     |
|  | 2004        |                     |           |                           |   |                            |
|  | 2003        |                     |           |                           |   |                            |
| Michael Weber<br>Former Vice President of<br>Engineering   | 2005        | 102,580             | 4,297     |                           | 50,000  |                            |
|  | 2004        |                     |           |                           |   |                            |
|  | 2003        |                     |           |                           |   |                            |

- (1) Representing bonuses and/or commissions paid to the Named Officers.
- (2) Representing (i) payments to Mr. Heaton of \$21,200 and \$4,800, respectively, for accrued vacation time and an auto allowance; (ii) consulting fees and a severance payment of \$52,162 and \$106,884, respectively, paid to Mr. Nolan after he stepped down as an employee and (iii) consulting fees of \$41,400 paid to Mr. Wright prior to his employment.

#### Stock Options Granted in the Fiscal Year Ended December 31, 2005

The following table sets forth information with respect to stock options granted during the fiscal year ended December 31, 2005 to each of the Named Officers. Options were granted under Nanometrics' 2000 Stock Option Plan and 2005 Stock Option Plan. The potential realizable value amounts in the last two columns of the following chart represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The assumed 5% and 10% annual rates of stock price appreciation from the date of grant to the end of the option term are provided in accordance with rules of the SEC and do not represent Nanometrics' estimate or projection of the future common stock price. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock, overall market conditions and the option holder's continued employment through the vesting period.

#### Option Grants in Last Fiscal Year

| Name | Number of Securities Underlying Options | Individual Grants                          |                        |                 | Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Term |          |
|------|---|--|------------------------|-----------------|--|----------|
|      |   | % of Total Options Granted to Employees in | Exercise Price (\$/Sh) | Expiration Date | 5% (\$)  | 10% (\$) |

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|                       | Granted (#) | Fiscal Year |       |         |         |           |    |
|-----------------------|-------------|-------------|-------|---------|---------|-----------|----|
|                       | (1)         | (2)         | %     | \$      |         | \$        | \$ |
| John D. Heaton        |             |             |       |         |         |           |    |
| Vincent J. Coates     |             |             |       |         |         |           |    |
| Roger Ingalls, Jr.    |             |             |       |         |         |           |    |
| Paul B. Nolan         |             |             |       |         |         |           |    |
| Douglas J. McCutcheon | 150,000     | 18.89       | 12.03 | 9/14/12 | 734,613 | 1,711,690 |    |
| Quentin B. Wright     | 50,000      | 6.30        | 11.52 | 4/15/12 | 234,490 | 546,461   |    |
| Michael Weber         | 50,000      | 6.30        | 12.54 | 4/6/12  | 255,252 | 594,846   |    |

- (1) All options granted to the Named Officers in 2005 were granted at exercise prices equal to the fair market value of Nanometrics common stock on the dates of grant. Historically, options granted become exercisable at the rate of 33% on the first anniversary date of the option grant and 33% of the total number of option shares each full year thereafter, such that full vesting occurs three years after the date of grant. Options (whether vested or unvested) expire after 7 years or 90 days after termination of employment.
- (2) Based on 793,900 options granted during the year ended December 31, 2005.



**Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**

The following table sets forth the number of shares covered by both exercisable and unexercisable stock options held by each of the Named Officers at December 31, 2005.

| Name                  | Shares<br>Acquired on<br>Exercise (#) | Value<br>Realized (\$) (1) | Number of Securities<br>Underlying                           |  | Value of Unexercised<br>In-the-Money Options at<br>Fiscal Year-End (\$) (2) |               |
|-----------------------|---------------------------------------|----------------------------|--|--|---|---------------|
|                       |                                       |                            | Unexercised Options at<br>Fiscal Year-End (#)<br>Exercisable | Unexercised Options at<br>Fiscal Year-End (#)<br>Unexercisable | Exercisable   | Unexercisable |
| John D. Heaton        |                                       | \$                         | 572,499  | 100,001  | \$ 2,768,914  | \$ 132,336    |
| Vincent J. Coates     |                                       |                            |  |  |   |               |
| Roger Ingalls, Jr.    |                                       |                            | 33,166   | 3,334  | 168,000   | 2,100         |
| Paul B. Nolan         | 13,334                                | 75,604                     |  |  |   |               |
| Douglas J. McCutcheon |                                       |                            |  |  |   |               |
| Quentin B. Wright     |                                       |                            |  |  |   |               |
| Michael Weber         |                                       |                            |  |  |   |               |

- (1) The value realized upon exercise is (i) the fair market value of Nanometrics common stock on the date of exercise, less the option exercise price per share, multiplied by (ii) the number of shares underlying the options exercised.
- (2) The value of unexercised options is (i) the fair market value of Nanometrics common stock as of the end of 2005, as quoted on The Nasdaq Stock Market, \$11.00 per share, less the option exercise price of in-the-money options, multiplied by (ii) the number of shares underlying such options.

**Compensation of Directors**

Directors who are not also employees of Nanometrics receive an annual retainer fee of \$5,000, plus \$1,000 for each board and committee meeting attended. Directors are also eligible to participate in the company's Directors' Stock Option Plan. Each audit committee member receives an additional \$3,000 annual retainer and \$500 for attending quarterly earnings release conference calls. Additionally, the audit committee chairman receives an incremental \$2,000 retainer for serving in such capacity.

**Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

Pursuant to the terms of an agreement between Nanometrics and Vincent J. Coates, the Chairman of the Board of Nanometrics, dated May 1, 1985, as amended and restated in August 1996 and April 1998, Nanometrics is obligated to continue to pay Mr. Coates his salary and benefits for five years from the date of his resignation in the event Mr. Coates is required to resign as Chairman of the Board under certain circumstances, including a change of control.

In April 1998, Nanometrics entered into an agreement with John D. Heaton pursuant to which Nanometrics agreed to pay Mr. Heaton his annual salary (excluding bonuses) for a period of one year from the date that he is required or requested for any reason not involving good cause, including a change of control, to involuntarily relinquish his positions with Nanometrics as President, Chief Executive Officer and director. If Mr. Heaton leaves Nanometrics voluntarily, or if he is asked to leave under certain circumstances, no such severance payment is required.

In March 1995, Nanometrics entered into an agreement with Roger Ingalls, Jr. pursuant to which Nanometrics agreed to pay Mr. Ingalls his annual salary (excluding bonuses) for a period of 120 days from the date he is terminated without cause.

In September 2005, Douglas J. McCutcheon became Executive Vice President, Finance and Administration and Chief Financial Officer of Nanometrics. Nanometrics agreed to pay Mr. McCutcheon an annual base salary of \$285,000. Mr. McCutcheon also received a hiring bonus of \$25,000 and was granted options to purchase 150,000 shares of Nanometrics common stock. Furthermore, Nanometrics agreed to pay Mr. McCutcheon 12 months of continued salary at his then-effective annual rate if Nanometrics terminates him for any reason other than for good cause, provided that Mr. McCutcheon executes a general release. Termination for good cause, as used in the foregoing sentence, shall only occur if Mr. McCutcheon commits misconduct, unjustifiably neglects his duties, or acts in a way that has a direct, substantial and adverse effect on Nanometrics or its reputation.

#### **Compensation/Stock Option Committee Interlocks and Insider Participation**

Messrs. Edmond Ward, J. Thomas Bentley and Stephen Smith served on the Compensation Committee during 2005. No member of such Compensation Committee is or was at any time an officer or employee of Nanometrics or any of its subsidiaries. During 2005, none of our executive officers served on the compensation committee or board of any other company whose executive officers serve as a member of our board or compensation committee.

#### **Report of the Compensation/Stock Option Committee of the Board of Directors**

The following is the report of the compensation/stock option committee of our board of directors describing compensation policies and rationales applicable to certain of our executive officers with respect to the compensation paid to such executive officers for the fiscal year ended December 31, 2005. The information contained in such report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act or Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

*General.* The compensation/stock option committee is responsible for making recommendations to the board of directors with respect to cash compensation levels for certain of our executive officers. During fiscal year ended December 31, 2005, the compensation/stock option committee also was responsible for determining levels of equity-based compensation for our employees.

*Compensation Philosophy.* The compensation/stock option committee makes recommendations as to the salaries of certain of the executive officers by considering (i) the salaries of executive officers in similar positions at comparably-sized peer companies, (ii) our financial performance over the past year based upon revenues and operating results and (iii) the achievement of individual performance goals related to each executive officer's duties and areas of responsibility. The compensation/stock option committee makes recommendations as to the levels of cash bonuses awarded to certain of our executive officers and views such bonuses as being an integral part of its performance based compensation program. Such bonuses are based on our profits and are determined as a percentage of the officer's salaries.

*Equity-Based Compensation.* The compensation/stock option committee views stock options as an important part of its long-term, performance-based compensation program. The compensation/stock option committee grants stock options to all employees of Nanometrics under its 2005 Stock Option Plan, 2000 Stock Option Plan and 2002 Nonstatutory Stock Option Plan based upon the committee's estimation of each employee's contribution to our long-term growth and profitability. The stock options are intended to provide additional incentives to the executive officers to maximize shareholder value. Options are granted under the 2005 Stock Option Plan, 2000 Stock Option Plan and 2002 Nonstatutory Stock Option at the then-current market price and are generally subject to three-year vesting periods to encourage key employees to remain with us.

*Compensation of the Chief Executive Officer.* The compensation/stock option committee has reviewed all components of the chief executive officer's compensation, including salary, bonus, equity, stock options, and the obligations under our change of control severance agreement with Mr. Heaton.

Based on this review, the compensation/stock option committee found Mr. Heaton's total compensation (and, in the case of the change of control severance agreement, potential payout) in the aggregate to be reasonable and not excessive. Furthermore, as Mr. Heaton made valuable contributions during the fiscal year ended January 1, 2005, the compensation/stock option committee determined that an increase to the base salary of the chief executive officer would be appropriate. It should be noted that when the compensation/stock option committee considers any component of the chief executive officer's total compensation, the aggregate amounts and mix of all the components, including accumulated (realized and unrealized) option gains are taken into consideration in the compensation/stock option committee's decisions.

*Section 162(m).* We intend that awards granted under our 2005 Stock Option Plan, 2000 Stock Option Plan and 2002 Nonstatutory Stock Option be deductible by us under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Members of the Compensation/Stock Option Committee

Edmond Ward, Chairman

J. Thomas Bentley

Stephen J Smith

### **Stock Performance Graph**

The following graph compares the cumulative total return to shareholders of our common stock from December 31, 2000 through December 31, 2005 to the cumulative total return over such period of (i) the Nasdaq Stock Market (U.S.) Index and (ii) the RDG Technology Composite Index. The results shown assume that \$100 was invested on December 31, 2000 in our common stock and in each of the other two indices with any dividends reinvested.

The information contained in the performance graph shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act or Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG NANOMETRICS INCORPORATED, THE NASDAQ STOCK MARKET (U.S.) INDEX AND THE RDG TECHNOLOGY COMPOSITE INDEX**

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**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS****Equity Compensation Plan Information**

The following table gives information about the common stock that may be issued under all of our existing equity compensation plans as of December 31, 2005.

| Plan category   | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average  | Number of securities remaining  |
|---|--|---|---|
|   |  | exercise price of outstanding options, warrants and rights<br>(b) | available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
| Equity compensation plans approved by security holders        | 1,773,702  | \$ 10.78  | 1,864,927   |
| Equity compensation plans not approved by security holders(1) | 797,056  | \$ 8.32   | 114,834   |
| <b>Total</b>  | <b>2,570,758</b>   | <b>\$ 10.01</b>   | <b>1,979,761</b>  |

(1) The material features of each plan adopted without the approval of security holders is set forth in Footnote 9 to the consolidated financial statements included in the Company's Form 10-K for the fiscal year ended December 31, 2005, and is incorporated by reference herein.

**Nanometrics Principal Shareholders**

The following table sets forth beneficial ownership of Nanometrics common stock as of April 24, 2006, by each director, by each of the executive officers, by all directors and executive officers as a group, and by all persons known to Nanometrics to be the beneficial owners of more than 5% of Nanometrics stock. Unless otherwise indicated, the address of each executive officer or director of Nanometrics is 1550 Buckeye Drive, Milpitas, CA 95035. As of the close of business on April 24, 2006, there were 13,085,332 shares of common stock outstanding.

| Name of Beneficial Owner   | Amount and Nature of |  |                                       | Percent of Class |
|--|----------------------|--|---------------------------------------|------------------|
|  | Shares               | Beneficial Ownership(1) Shares<br>Stock Options<br>Exercisable<br>within 60 days<br>of 4/24/06 | Total Shares<br>Beneficially<br>Owned |                  |
| Dimensional Fund Advisors, Inc. (2)<br><br>1299 Ocean Avenue, 11th Floor<br><br>Santa Monica, CA 90401 | 1,100,500            |  | 1,100,500                             | 8.4%             |
| Royce and Associates, LLC (3)<br><br>1414 Avenue of the Americas<br><br>New York, NY 10019             | 698,300              |  | 698,300                               | 5.3%             |

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|                            |           |           |       |
|----------------------------|-----------|-----------|-------|
| The TCW Group (4)          | 1,445,780 | 1,445,780 | 11.1% |
| 865 South Figueroa Street  |           |           |       |
| Los Angeles, CA 90017      |           |           |       |
| Wasatch Advisors, Inc. (5) | 730,671   | 730,671   | 5.6%  |
| 150 Social Hall            |           |           |       |
| Salt Lake City, UT 84111   |           |           |       |

| Name of Beneficial Owner                                 | Amount and Nature of |  |                                       |                     |
|--|----------------------|--|---------------------------------------|---------------------|
|  | Shares               | Beneficial Ownership(1) Shares<br>Stock Options<br>Exercisable<br>within 60 days<br>of 4/24/06 | Total Shares<br>Beneficially<br>Owned | Percent of<br>Class |
| J. Thomas Bentley  |                      | 13,333   | 13,333                                | *                   |
| Vincent J. Coates (6)                                    | 3,376,154            |  | 3,376,154                             | 25.8%               |
| John D. Heaton   |                      | 555,832  | 555,832                               | 4.1%                |
| Roger Ingalls, Jr.                                       | 9,000                | 33,166   |                                       | *                   |
| Douglas J. McCutcheon                                    | 985                  |  | 985                                   | *                   |
| William G. Oldman  |                      | 29,999   | 29,999                                | *                   |
| Stephen J Smith  |                      | 9,999  | 9,999                                 | *                   |
| Edmond R. Ward   | 2,000                | 29,999   | 31,999                                | *                   |
| Quentin B. Wright  |                      | 16,666   | 16,666                                | *                   |
| Paul B. Nolan  | 5,000                |  | 5,000                                 | *                   |
| Michael Weber  |                      |  |                                       | *                   |
| All named officers and directors as a group (10 persons) | 3,392,154            | 652,327  | 4,044,481                             | 29.7%               |

\* Less than 1%.

- (1) As determined in accordance with Rule 13d-3 under the Securities and Exchange Act of 1934.
- (2) According to a 13G/A filed with the SEC on February 6, 2006, Dimension Fund Advisors, Inc. may be deemed to be the beneficial owner of 1,100,500 shares of common stock.
- (3) According to a Schedule 13G filed with the SEC on January 30, 2006, Royce & Associates, LLC may be deemed to be the beneficial owner of 698,300 shares of common stock.
- (4) According to a Schedule 13G/A filed with the SEC on March 10, 2006, The TCW Group, Inc., may be deemed to be the beneficial owner of 1,445,780 shares of common stock.
- (5) According to a 13G/A filed with the SEC on February 14, 2006, Wasatch Advisors, Inc. may be deemed to be the beneficial owner of 730,671 shares of common stock.
- (6) Includes 3,376,154 shares of common stock held of record by the Vincent J. Coates Separate Property Trust, U/D/T dated August 7, 1981, for which Mr. Coates acts as trustee.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes the aggregate fees that we expect to pay BDO Seidman, LLP for fiscal 2005 and 2004.

| Type of Fees           | Fiscal 2005  | Fiscal 2004 |
|------------------------|--------------|-------------|
| Audit Fees (1)         | \$ 1,851,356 | \$ 375,215  |
| Audit-Related Fees (2) | 291,514      | 4,400       |
| Tax Fees (3)           | 3,956        |             |
| All Other Fees         |              |             |
| Total Fees             | \$ 2,146,826 | \$ 379,615  |

- (1) Fees for audit services consist of:  
Audit of our annual financial statements including management's assessment of internal controls over financial reporting

Reviews of our quarterly financial statements  
Restatement of annual and quarterly financial statements  
Statutory and regulatory audits, consents and other services

- (2) Fees for audit-related services billed in fiscal 2005 consisted of (i) consultations and due diligence related to our withdrawn effort to merge with August Technology Corporation (\$281,891, an amount that was subsequently reimbursed to us by August Technology Corporation); and (ii) consultation concerning financial accounting and reporting standards (\$9,623). Fees for audit-related services billed in 2004 consisted of consultations on SEC comment letters.
- (3) This figure relates to consultation concerning ex-patriot tax issues.

In considering the nature of the services provided by the independent registered public accountants, the audit committee determined that such services are compatible with the provision of independent audit services. The audit committee discussed these services with the independent registered public accountants and our management to determine that they are permitted under the rules and regulations concerning auditors independence promulgated by the Securities and Exchange Commission to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

#### **Audit Committee Pre-Approval Policy**

Pursuant to our audit committee charter, our audit committee must pre-approve all audit and non-audit services, and the related fees, provided to us by our independent auditors, or subsequently approve non-audit services in those circumstances where a subsequent approval is necessary and permissible under the Exchange Act or the rules of the Securities and Exchange Commission. Accordingly, the audit committee pre-approved all services and fees provided by BDO Seidman, LLP during the year ended December 31, 2005 and has concluded that the provision of these services is compatible with the accountants independence.



**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**Exhibits.**

The following exhibits are filed with this Annual Report on Form 10-K/A:

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| <b>31</b>          | <b>Rule 13a-14(a)/15d-14(a) Certifications</b>   |
| 31.1               | Certification of John D. Heaton, principal executive officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2               | Certification of Douglas J. McCutcheon, principal financial officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| <b>32</b>          | <b>Section 1350 Certifications</b>   |
| 32.1               | Certification of John D. Heaton, principal executive officer of the Registrant, and Douglas J. McCutcheon, principal financial officer of the Registrant pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: May 1, 2006

**NANOMETRICS INCORPORATED**

By: /s/ DOUGLAS J. McCUTCHEON  
Douglas J. McCutcheon  
Chief Financial Officer