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 July 3, 2011

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐

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 July 29, 2011: 58,222,802

MATTSON TECHNOLOGY, INC.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (unaudited)***

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
Net sales	$ 51,259	$ 32,120	$ 98,308	$ 57,315
Cost of sales	35,852	22,194	68,957	39,627
Gross margin	15,407	9,926	29,351	17,688
Operating expenses:				
Research, development and engineering	6,645	7,059	13,160	13,465
Selling, general and administrative	12,803	12,558	25,378	24,931
Restructuring charges	(13)	(93)	(78)	(77)
Total operating expenses	19,435	19,524	38,460	38,319
Loss from operations	(4,028)	(9,598)	(9,109)	(20,631)
Interest income	58	30	85	60
Interest expense	-	(30)	(48)	(62)
Other income (expense), net	(969)	1,425	(2,475)	1,883
Loss before income taxes	(4,939)	(8,173)	(11,547)	(18,750)
Provision for (benefit from) income taxes	274	207	(60)	386
Net loss	$ (5,213)	$ (8,380)	$ (11,487)	$ (19,136)
Net loss per share:				
Basic and diluted	$ (0.10)	$ (0.17)	$ (0.22)	$ (0.38)
Shares used in computing net loss per share:				
Basic and diluted	54,550	50,052	52,395	50,018

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

MATTSON TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except par value)

	July 3, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,045	$ 16,863
Short-term investments	-	2,151
Restricted cash	2,830	4,026
Accounts receivable, net of allowance for doubtful accounts of $988 as of July 3, 2011 and $681 as of December 31, 2010	17,056	24,127
Advance billings	4,060	3,177
Inventories	31,670	34,673
Prepaid expenses and other current assets	5,135	5,770
Total current assets	100,796	90,787
Property and equipment, net	12,666	15,011
Intangibles, net	875	1,000
Other assets	4,778	4,826
Total assets	$ 119,115	$ 111,624
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 16,114	$ 20,860
Accrued liabilities	19,056	13,452
Deferred revenue	6,697	5,349
Total current liabilities	41,867	39,661
Income taxes payable, non-current	4,130	4,287
Other liabilities	4,961	5,021
Total liabilities	50,958	48,969
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, 2,000 shares authorized; none issued and outstanding	-	-
Common stock, par value $0.001, 120,000 shares authorized; 62,392 shares issued and 58,211 shares outstanding as of July 3, 2011; 54,440 shares issued and 50,259 shares outstanding as of December 31, 2010	62	54
Additional paid-in capital	649,120	634,944
Accumulated other comprehensive income	23,012	20,207
Treasury stock, 4,181 shares as of July 3, 2011 and December 31, 2010	(37,986)	(37,986)
Accumulated deficit	(566,051)	(554,564)
Total stockholders' equity	68,157	62,655
Total liabilities and stockholders' equity	$ 119,115	$ 111,624

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

MATTSON TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended	
	July 3, 2011	June 27, 2010
Cash flows from operating activities:		
Net loss	$ (11,487)	$ (19,136)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Allowance for doubtful accounts	294	(711)
Depreciation and amortization	3,227	3,655
Inventory valuation charges	2,442	492
Stock-based compensation	1,403	1,267
Other non-cash items	-	72
Changes in assets and liabilities:		
Accounts receivable	6,756	(4,864)
Advance billings	(886)	(1,963)
Inventories	1,352	(400)
Prepaid expenses and other current assets	824	982
Other assets	212	746
Accounts payable	(5,004)	3,262
Accrued liabilities	4,865	(183)
Deferred revenue	1,223	2,156
Income taxes payable, non-current and other liabilities	(170)	(495)
Net cash provided by (used in) operating activities	5,051	(15,120)
Cash flows from investing activities:		
Purchases of available-for-sale investments	-	(9,329)
Maturities of available-for-sale investments	2,151	13,125
(Increase) decrease in restricted cash	1,196	(17)
Purchases of property and equipment	(496)	(428)
Net cash from investing activities	2,851	3,351
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	13,128	171
Net cash from financing activities	13,128	171
Effect of exchange rate changes on cash and cash equivalents	2,152	(2,443)
Net increase (decrease) in cash and cash equivalents	23,182	(14,041)
Cash and cash equivalents, beginning of period	16,863	45,346
Cash and cash equivalents, end of period	$ 40,045	$ 31,305

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

MATTSON TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Nature of Operations

Mattson Technology, Inc. (the "Company" or "Mattson Technology") was incorporated in California in 1988 and reincorporated in Delaware in 1997. The Company designs, manufactures, markets and globally supports semiconductor wafer processing equipment used in the fabrication of integrated circuits.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 such 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 for the year ended December 31, 2010, which are included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on March 11, 2011. Certain prior year amounts have been reclassified to conform to the current presentation.

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

The results of operations for the three and six months ended July 3, 2011 are not necessarily indicative of results that may be expected for future quarters or for the entire year ending December 31, 2011.

Fiscal Year

The Company's fiscal year ends on December 31. The Company closes its first fiscal quarter on the Sunday closest to March 31. The second and third fiscal quarters are each 13 weeks long and the fourth quarter closes on December 31.

Management Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

Liquidity and Management Plans

At July 3, 2011, the Company had an accumulated deficit of $566.1 million. The Company has incurred operating losses and generated negative cash flows for the last three years. As of July 3, 2011, the Company had cash, cash equivalents and restricted cash of $42.9 million and working capital of $58.9 million. The Company believes that these balances will be sufficient to fund its working and other capital requirements over the course of the next twelve months. The Company's operations require careful management of its cash and working capital balances. The Company's liquidity is affected by many factors including, among others, fluctuations in its revenue, gross profits and operating expenses, as well as changes in its operating assets and liabilities. The cyclicality of the semiconductor industry makes it difficult to predict the Company's future liquidity needs with certainty. Any upturn in the semiconductor industry would result in short-term uses of cash to fund inventory purchases and accounts receivable. Alternatively, any renewed softening in the demand for the Company's products or ineffectiveness of its cost reduction efforts may cause the Company to incur additional losses in the future and lower its cash balances.

The Company may need additional funds to support its working capital requirements, operating expenses or for other requirements. Historically, the Company has relied on a combination of fundraising from the sale and issuance of equity securities (such as its common stock offering in May 2011) and cash generated from product, service and royalty revenues to provide funding for its operations. The Company intends to continue to review its expected cash requirements, make commercially reasonable efforts to collect any aged receivables, and take appropriate cost reduction measures to ensure that the Company has sufficient liquidity. The Company periodically reviews its liquidity position and may decide to raise additional funds, and may seek them from a combination of sources including issuance of equity or debt securities through public or private financings. In the event additional needs for cash arise, the Company may also seek to raise these funds externally through other means, such as the sale of assets. The availability of additional financing will depend on a variety of factors, including among others, market conditions, the general availability of credit to the financial services industry and the Company's credit ratings. As a consequence, these financing options may not be available on a timely basis, or on terms acceptable to the Company, and could be dilutive to our stockholders. The Company's current liquidity position may result in risks and uncertainties affecting its operations and financial position, including the following: the Company may be required to reduce planned expenditures or investments; the Company may be unable to compete in its newer or developing markets; the Company may not be able to obtain and maintain normal terms with suppliers; suppliers may require standby letters of credit before delivering goods and services, which will result in additional demands on the Company's cash; customers may delay or discontinue entering into contracts with the Company; and the Company's ability to retain management and other key individuals may be negatively affected. Failure to generate sufficient cash flows from operations, raise additional capital or reduce spending could have a material adverse effect on the Company's ability to achieve its intended long-term business objectives.

Revenue Recognition

The Company derives revenues from the following primary sources - equipment (tool) sales, spare part sales and service and maintenance contracts. In accordance with the authoritative guidance on revenue recognition, the Company recognizes revenue on equipment sales as follows: 1) for equipment sales of existing products with new specifications and for 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, or equipment sales to new customers purchasing existing products with established reliability, the Company recognizes revenue on a multiple element approach in which revenue is recognized upon the delivery of the separate elements to the customer and when the Company receives customer acceptance or is otherwise released from its customer acceptance obligations. For multiple element arrangements initiated at or prior to December 31, 2010, the revenue relating to the undelivered elements is deferred at its estimated fair values until delivery of the deferred elements; and for arrangements initiated or materially modified subsequent to December 31, 2010 containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method, which allocates revenue to each element using the estimated selling prices for the deliverables when vendor-specific objective evidence or third-party evidence is not available. The maximum revenue the Company recognizes on a delivered element is limited to the amount that is not contingent upon the delivery of additional items such as installation and customer acceptance. Under this approach, generally 90 percent of the total invoice amount is recognized as revenue upon shipment and transfer of title; 100 percent of the associated tool costs is also recognized upon shipment; and the remaining portion, generally 10 percent of the total invoice amount, is contingent upon customer acceptance and is recognized once installation services are completed and final customer acceptance of the tool is received. From time to time, the Company allows customers to evaluate systems, with the customer maintaining the right to return the systems at its discretion with limited or no penalty. For this type of arrangement, the Company does not recognize revenue on the evaluation systems until customer acceptance is received. For spare parts, the Company recognizes revenue upon shipment. For service and maintenance contracts, the Company recognizes revenue on a straight-line basis over the service period of the related contract. In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Accounts receivable for which revenue has not been recognized are classified as advance billings.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued an amendment to its previously released guidance related to revenue recognition for sales arrangements with multiple deliverables. The amended guidance requires an entity at the inception of an arrangement to allocate the arrangement's consideration to all of its deliverables using the relative selling price method, which allows for management's best estimate of a deliverable's selling price when vendor-specific or other third-party evidence of fair value are not available. The residual method of allocating consideration, required under previous guidance, is no longer permitted. Effective January 1, 2011, the Company adopted this guidance for revenue arrangements entered into or materially modified on or after that date. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

This guidance did not change the units of accounting for the Company's revenue transactions. The Company typically recognizes revenue on equipment sales as follows: 1) for equipment sales of existing products with new specifications and for 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, or equipment sales to new customers purchasing existing products with established reliability, the Company recognizes revenue on a multiple element approach in which the Company bifurcates such sale transactions into two separate elements. For multiple element arrangements initiated at or prior to December 31, 2010, the revenue relating to the undelivered elements is deferred at its estimated fair values until delivery of the deferred elements; and for arrangements initiated or materially modified subsequent to December 31, 2010 containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method, which allocates revenue to each element using the estimated selling prices for the deliverables when vendor-specific objective evidence or third-party evidence is not available.

In May 2011, the FASB issued Accounting Standards Update ("ASU") 2011-04, an amendment to Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. This amendment will be effective for the Company's fiscal year beginning January 1, 2012. The adoption of this amendment is not expected to have a material effect on the Company's condensed consolidated financial statements, but may require certain additional disclosures.

In June 2011, the FASB issued ASU No. 2011-05, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income that contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for the Company's fiscal year beginning January 1, 2012. The adoption of this update will not have an impact on the Company's condensed consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

There were no other recent accounting pronouncements or changes in accounting pronouncements during the six months ended July 3, 2011, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, that are of significance or potential significance to the Company.

2. Balance Sheet Details

The Company's cash and cash equivalents, short-term investments and restricted cash as of July 3, 2011 and December 31, 2010 are carried at fair market value, as shown below:

	July 3, 2011	December 31, 2010
	(thousands)	
Cash and cash equivalents:		
Cash in bank	$ 19,995	$ 13,978
Money market funds	20,050	2,885
	$ 40,045	$ 16,863
Short-term investments:		
United States agency securities	$ -	$ 2,151
Restricted cash:		
Certificates of deposit	$ 2,830	$ 4,026

As of July 3, 2011 and December 31, 2010, the Company had restricted cash of $2.8 million and $4.0 million, respectively, which is securing standby letters of credit provided to certain landlords and vendors, as more fully described in Note 6.

The Company did not have any short-term investments as of July 3, 2011. All short-term investments as of December 31, 2010 were considered available-for-sale and were marked to market, with unrealized gains and losses recorded as a component of other comprehensive income. As of December 31, 2010, all short-term investments had contractual maturities due within one year.

Components of inventories as of July 3, 2011 and December 31, 2010 are shown below:

	July 3, 2011	December 31, 2010
	(thousands)	
Inventories:		
Purchased parts and raw materials	$ 13,482	$ 14,266
Work-in-process	9,955	9,225
Finished goods	8,233	11,182
	$ 31,670	$ 34,673

Components of property and equipment as of July 3, 2011 and December 31, 2010 are shown below:

	July 3, 2011	December 31, 2010
	(thousands)	
Property and equipment, net:		
Machinery and equipment	$ 51,331	$ 52,608
Furniture and fixtures	11,268	10,741
Leasehold improvements	18,745	17,813
	81,344	81,162
Less: accumulated depreciation	(68,678)	(66,151)
	$ 12,666	$ 15,011

Components of accrued liabilities as of July 3, 2011 and December 31, 2010 are shown below:

	July 3, 2011	December 31, 2010
	(thousands)	
Accrued liabilities:		
Compensation and benefits	$ 6,764	$ 5,941
Warranty	4,085	2,539
Value-added tax	1,203	748
Restructuring	338	436
Other	6,666	3,788
	$ 19,056	$ 13,452

Components of other liabilities as of July 3, 2011 and December 31, 2010 are shown below:

	July 3, 2011	December 31, 2010
	(thousands)	
Other liabilities:		
Deferred revenue, non-current	$ 2,625	$ 2,875
Other	2,336	2,146
	$ 4,961	$ 5,021

3. Fair Value

The Company's cash and cash equivalents, short-term investments and restricted cash are carried at fair value, and its accounts receivable and accounts payable are valued at their carrying amounts which approximate fair value due to their short-term nature. The Company had no debt outstanding as of July 3, 2011.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are shown in the table below by their corresponding balance sheet caption and consisted of the following types of instruments as of July 3, 2011 and December 31, 2010:

	July 3, 2011			December 31, 2010		
	Fair Value Measurements at Reporting Date Using			Fair Value Measurements at Reporting Date Using		
	(Level 1)	(Level 2)	Total	(Level 1)	(Level 2)	Total
		(thousands)			(thousands)	
Assets measured at fair value:						
Cash equivalents:						
Money market funds	$20,050	$ -	$20,050	$ 2,885	$ -	$ 2,885
Short-term investments:						
United States agency securities	-	-	-	2,151	-	2,151
Other assets:						
Equity instruments	144	-	144	164	-	164
Total assets measured at fair value	$20,194	$ -	$20,194	$ 5,200	$ -	$ 5,200
Liabilities measured at fair value:						
Other liabilities:						
Deferred compensation	$ 144	$ -	$ 144	$ 164	$ -	$ 164

Equity instruments in the preceding table represent plan assets under the Company's Deferred Compensation Plan, which offset corresponding deferred compensation plan liabilities as of the dates presented.

4. Intangible Assets

The Company's identified intangible assets consisted of the following as of July 3, 2011 and December 31, 2010:

	July 3, 2011	December 31, 2010
	(thousands)	
Intangibles, net:		
Developed technology	$ 1,250	$ 1,250
Accumulated amortization	(375)	(250)
	$ 875	$ 1,000

For the three months ended July 3, 2011 and June 27, 2010, the Company recorded amortization expense of approximately $0.1 million each period. For the six months ended July 3, 2011 and June 27, 2010, the Company recorded amortization expense of approximately $0.1 million each period.

5. Restructuring Charges

In 2008 and 2009, the Company implemented several restructuring programs, resulting in restructuring charges principally comprised of employee severance costs and lease contract termination costs. The following table summarizes changes in the restructuring accrual for the three and six months ended July 3, 2011 and June 27, 2010:

	Three Months Ended July 3, 2011			Three Months Ended June 27, 2010		
	Employee Severance Costs	Contract Termination Costs	Total	Employee Severance Costs	Contract Termination Costs	Total
		(thousands)			(thousands)	
Beginning balance	$ -	$ 392	$ 392	$ 135	$ 477	$ 612
Payments	-	(56)	(56)	(11)	-	(11)
Reserve adjustments	-	(13)	(13)	(3)	(93)	(96)
Foreign currency changes	-	15	15	-	-	-
Ending balance	$ -	$ 338	$ 338	$ 121	$ 384	$ 505

	Six Months Ended July 3, 2011			Six Months Ended June 27, 2010		
	Employee Severance Costs	Contract Termination Costs	Total	Employee Severance Costs	Contract Termination Costs	Total
		(thousands)			(thousands)	
Beginning balance	$ 94	$ 342	$ 436	$ 89	$ 520	$ 609
Payments	-	(56)	(56)	(24)	-	(24)
Reserve adjustments	(94)	16	(78)	56	(136)	(80)
Foreign currency changes	-	36	36	-	-	-
Ending balance	$ -	$ 338	$ 338	$ 121	$ 384	$ 505

Remaining employee severance cost contingencies were resolved in the first quarter of 2011. The Company is currently engaged in an ongoing negotiation with a landlord with respect to a lease contract termination, and the payment of the lease termination expense depends on the timing of a final agreement with the landlord.

6. Commitments and Contingencies

Warranty

The following table summarizes changes in the product warranty accrual for the three and six months ended July 3, 2011 and June 27, 2010:

	Three Months Ended		Six Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
	(thousands)		(thousands)	
Beginning balance	$ 2,954	$ 1,808	$ 2,539	$ 1,310
Warranties issued in the period	988	775	2,077	1,611
Costs to service warranties	(617)	(634)	(1,610)	(928)
Warranty accrual adjustments	760	145	1,079	101
Ending balance	$ 4,085	$ 2,094	$ 4,085	$ 2,094

Guarantees

In 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 standby letters of credit are secured by certificates of deposit, which are classified as restricted cash in the accompanying condensed consolidated balance sheets. The Company has never recorded any liability in connection with these guarantee arrangements beyond what is 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 such guarantee arrangements. As of July 3, 2011, the maximum potential amount that the Company could be required to pay was $2.8 million, the total amount of outstanding standby letters of credit, which were secured by $2.8 million of certificates of deposit.

In connection with the Company's acquisition of Vortek Industries, Ltd ("Vortek") in 2004, the Company became party to an agreement between Vortek and the Canadian Minister of Industry (the "Ministry") relating to an investment in Vortek by Technology Partnerships Canada. Under the agreement, as amended, the Company or Vortek (renamed Mattson Technology, Canada, Inc. or "MTC") agreed to various conditions, including (i) payment by the Company of a royalty to the Ministry of 1.4 percent of revenues from certain Flash RTP products, up to a total of CAD 14.3 million (approximately $14.9 million based on the applicable exchange rate as of July 3, 2011), (ii) MTC maintaining a specified average workforce of employees in Canada through October 27, 2009, (iii) investment of a certain amount by October 27, 2009 and (iv) certain other provisions concerning protection of intellectual property rights and other terms. Under the provisions of this agreement, if the Company, or MTC, did not materially satisfy its obligations pursuant to the covenants, the Ministry could have demanded payment of liquidated damages in the amount of CAD 14.3 million less any royalties paid by MTC or the Company to the Ministry. The Company is no longer subject to the conditions under (ii) and (iii), as discussed above; but is still subject to the payment of royalties on revenues from the sale of Flash RTP products through 2020. If MTC is dissolved, files for bankruptcy, or MTC or the Company do not materially comply with certain material terms and conditions of the contract prior to its termination on February 15, 2021 or upon earlier payment of the maximum royalty obligations, the Company could be subject to liquidated damages in the amount of CAD 14.3 million less any royalties paid by MTC or the Company to the Ministry.

The Company is a party to various agreements, pursuant to which it may be obligated to indemnify other parties with respect to certain matters. Typically, these obligations arise in the context of contracts under which the Company may agree to hold other parties harmless against losses arising from a breach of representations or with respect to certain intellectual property, operations 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, results of operations or cash flows. The Company believes if it were to incur a loss in any of these matters, such loss would not have a material effect on its financial position, results of operations or cash flows.

Government Agencies

As an exporter, the Company must comply with various laws and regulations relating to the export of products and technology from the U.S. and other countries having jurisdiction over the Company's operations. In the U.S. these laws include the International Traffic in Arms Regulations ("ITAR"), the Export Administration Regulations ("EAR") administered by the Bureau of Industry and Security ("BIS"), and trade sanctions against embargoed countries and destinations administered by the U.S. Department of Treasury, Office of Foreign Assets Control ("OFAC"). These laws govern products, parts, technology and software which present military or weapons proliferation concerns, so-called "dual use" items. Prior to shipping certain items, the Company must obtain an export license or verify that license exemptions are available. In addition, the Company must comply with certain requirements related to documentation, record keeping, plant visits and hiring of foreign nationals. In 2008, the Company self-disclosed to BIS certain inadvertent EAR violations and this matter is pending with BIS. Any failures to comply with these laws and regulations could result in fines, adverse publicity and restrictions on the Company's ability to export its products, and repeat failures could carry more significant penalties. While at this time the Company is unable to estimate the extent of any fines or penalties or other potential losses that it may incur with respect to this matter, the Company believes that it is unlikely that the ultimate outcome would have a material adverse effect on the Company.

Litigation

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. 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 records a legal liability when it believes it is both probable that a liability has been incurred, and the amount can be reasonably estimated. The Company monitors developments in its legal matters that could affect the estimate it has previously accrued. Significant judgment is required to determine both probability and the estimated amount.

7. Stockholders' Equity

Common Stock

On May 16, 2011, the Company completed a registered public offering of 7,820,000 shares of the Company's common stock. The common stock was issued at a price to the public of $1.80 per share. The Company received net proceeds of approximately $12.6 million from the offering after deducting underwriting discounts and estimated offering expenses of $1.4 million.

Common Stock Repurchase Program

In March 2007, the Company's Board of Directors approved a common stock repurchase plan ("Repurchase Plan") that authorized the repurchase of up to $20.0 million of outstanding shares of the Company's common stock through open-market purchases or private transactions. In October 2007, the Company's Board of Directors expanded the Repurchase Plan, authorizing the repurchase of up to an additional $30 million of shares of the Company's common stock through open-market purchases or private transactions. By December 31, 2008, a total of 3.8 million shares had been repurchased against the original and expanded Repurchase Plan, at a weighted-average purchase price of $9.20 for a total purchase price of approximately $35 million. The Company's last repurchase of common stock under this plan was in the first quarter of 2008. On May 2, 2011, the Company terminated the Repurchase Plan.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of July 3, 2011 and December 31, 2010 was $23.0 million and $20.2 million, respectively, comprised primarily of cumulative translation gains.

8. Employee Stock Plans

As of July 3, 2011, the Company had approximately 1.6 million shares available for future grants under the Company's 2005 Equity Incentive Plan (the "2005 Plan"). The following table summarizes the combined activity under all of the Company's equity incentive plans for the six months ended July 3, 2011:

	Awards Available For Grant (thousands)	Stock Options Outstanding (thousands)	Weighted-Average Exercise Price	Restricted Stock Units Outstanding (thousands)	Weighted-Average Grant Date Fair Value
Balances at December 31, 2010	2,263	6,278	$ 5.51	343	$ 3.67
Stock options:					
Granted	(1,270)	1,270	$ 2.39	-	-
Exercised	-	(47)	$ 1.01	-	-
Cancelled or forfeited	576	(576)	$ 9.09	-	-
Restricted stock units:					
Granted	-	-	-	-	-
Released	12	-	-	(18)	$ 6.14
Cancelled or forfeited	1	-	-	(1)	$ 5.65
Balances at July 3, 2011	1,582	6,925	$ 4.67	324	$ 3.53

Stock Options

Stock options granted under the 2005 Plan are for periods not to exceed seven years. Generally, options to purchase stock under the 2005 Plan are granted at exercise prices that are at least 100 percent of the fair market value of the Company's common stock on the date of grant. Generally, 25 percent of the options vest on the first anniversary of the vesting commencement date, and the remaining options vest 1/36 per month for the next 36 months thereafter.

During the three months ended July 3, 2011 and June 27, 2010, the Company granted options to purchase 0.1 million shares of common stock each period, with an estimated total grant-date fair value of $0.1 million and $0.4 million, respectively. During the six months ended July 3, 2011 and June 27, 2010, the Company granted options to purchase 1.3 million and 1.4 million shares of common stock, respectively, with an estimated total grant-date fair value of $1.9 million and $2.7 million, respectively.

Supplemental disclosure information about the Company's stock options outstanding as of July 3, 2011:

	Shares (thousands)	Weighted-Average Exercise Price	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (thousands)
Stock options:				
Outstanding options	6,925	$ 4.67	4.4	$ 1,140
Vested and exercisable options	4,339	$ 5.84	3.5	$ 876

The aggregate intrinsic value shown in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of $1.97 as of July 1, 2011, which would have been received by the option holders had all option holders exercised their "in-the-money" options at that date. The Company settles employee exercises of options with newly issued shares of common stock.

Restricted Stock Units ("RSUs")

The Company's 2005 Plan provides for grants of time-based and performance-based RSUs.

Time-Based Restricted Stock Units

Generally, 25 percent of the time-based RSUs vest on each anniversary of the vesting commencement date or date of grant. On occasion, the Company grants time-based RSUs for varying purposes with different vesting schedules. Time-based RSUs granted under the 2005 Plan are counted against the total number of shares of common stock available for grant under the plan at 1.75 shares of common stock for every one share of common stock subject thereto.

During the three and six months ended July 3, 2011 and June 27, 2010, the Company did not grant any time-based RSUs. The associated stock-based compensation expense on time-based RSUs is determined based on the fair value of the Company's common stock on the date of grant of the RSU and recognized over the vesting period.

Performance-Based Restricted Stock Units

The vesting of performance-based RSUs is contingent on the Company's achievement of certain predetermined financial goals and in some cases, the achievement of certain market performance. The amount of stock-based compensation expense recognized in any one period can vary based on the achievement or anticipated achievement of specific performance goals. If a performance goal is not met or is not expected to be met, no compensation cost would be recognized on the underlying RSUs, and any previously recognized compensation expense on those RSUs would be reversed.

During the first quarter of 2008, the Company's Board of Directors approved the grant of 0.7 million performance-based RSUs to certain of its senior-level management, with vesting in four equal tranches upon the achievement of four sequentially increasing revenue performance targets and contingent on the achievement of certain operating profit margin and stock price thresholds. By December 31, 2008, the Company determined that due to the deteriorating market conditions during the fourth quarter of 2008, it was not probable that any of the four revenue targets and the operating profit targets would be met by the specified dates. As a result, the stock-based compensation related to these RSUs was deemed unrecognizable. Since the fourth quarter of 2008, the Company has cancelled a total of 0.4 million of these performance-based RSUs based on employee terminations, leaving 0.3 million units outstanding as of July 3, 2011. If and when the Company determines that the related targets are probable of being achieved, the Company will begin recognizing expenses in the period that such determination is made. The outstanding performance-based RSUs will expire during the first quarter of 2012 if the performance targets are not achieved by then. The Company did not record any compensation expense related to these performance-based RSUs during the three and six months ended July 3, 2011 and June 27, 2010.

Supplemental disclosure information about the Company's stock options and RSUs with time-based vesting is as follows:

	Three Months Ended		Six Months Ended	
	July 3, 2011	**June 27, 2010**	**July 3, 2011**	**June 27, 2010**
	(thousands, except weighted-average fair values)		(thousands, except weighted-average fair values)	
Stock options:				
Weighted-average fair value of options granted	$ 2.22	$ 2.96	$ 2.39	$ 1.99
Intrinsic value of options exercised [(1)]	$ 15	$ 110	$ 69	$ 224
Cash received from options exercised	$ 10	$ 22	$ 48	$ 59
Restricted stock units with time-based vesting:				
Weighted-average fair value of time-based RSUs granted	$ -	$ 3.96	$ -	$ 3.96

[(1)] *Amount represents the difference between the exercise price of the option and the Company's closing stock price on the date of exercise.*

9. Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the applicable authoritative guidance, which requires the measurement of stock-based compensation on the date of grant based on the fair value of the award, and the recognition of the expense over the requisite service period for the employee.

Valuation Assumptions

The Company uses the Black-Scholes valuation model to determine the fair value of stock options. The Black-Scholes model requires the input of subjective assumptions, which are summarized in the table below for the three and six months ended July 3, 2011 and June 27, 2010:

	Three Months Ended		Six Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
Expected dividend yield	-	-	-	-
Expected stock price volatility	77%	74%	77%	74%
Risk-free interest rate	1.7%	2.2%	2.1%	2.3%
Expected life of options in years	5	5	5	5

The Company estimates the expected life of options based on an analysis of its historical experience of employee exercise and post-vesting termination behavior considered in relation to the contractual life of the option; expected volatility is based on the historical volatility of the Company's common stock; and the risk-free interest rate is equal to the U.S. Treasury rates, with maturity approximating the expected life of the option. The Company does not currently pay cash dividends on its common stock and does not anticipate doing so in the foreseeable future; accordingly, the expected dividend yield is 0 (zero) percent.

The Company's stock-based compensation expense for the three and six months ended July 3, 2011 and June 27, 2010 was as follows:

	Three Months Ended		Six Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
	(thousands)			
Stock-based compensation by type of award:				
Stock options	$ 640	$ 546	$ 1,320	$ 1,083
Restricted stock units	30	69	68	164
Employee stock purchase plan	5	10	15	20
	$ 675	$ 625	$ 1,403	$ 1,267
Stock-based compensation by category of expense:				
Cost of sales	$ 22	$ 17	$ 56	$ 35
Research, development and engineering	115	87	241	190
Selling, general and administrative	538	521	1,106	1,042
	$ 675	$ 625	$ 1,403	$ 1,267

The Company did not capitalize any stock-based compensation as inventory for the three and six months ended July 3, 2011 and June 27, 2010 as such amounts were inconsequential.

As of July 3, 2011, the Company had $3.1 million in unrecognized stock-based compensation expense related to stock options, net of estimated forfeitures, which will be recognized over a weighted-average period of 2.8 years. As of July 3, 2011, the Company had $0.1 million in unrecognized stock-based compensation expense related to unvested time-based RSUs outstanding, net of estimated forfeitures, which will be recognized over a weighted-average period of 0.5 years.

10. Reportable Segments

The Company has one reportable segment - designing, manufacturing and marketing of advanced fabrication equipment to the semiconductor manufacturing industry. All Company revenues and profits are generated from the sales of systems and services in this business segment, whose chief operating decision maker is the Company's Chief Executive Officer.

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

	Three Months Ended				Six Months Ended			
	July 3, 2011		June 27, 2010		July 3, 2011		June 27, 2010	
	(thousands)	%	(thousands)	%	(thousands)	%	(thousands)	%
Net sales:								
United States	$ 1,740	3	$ 991	3	$ 2,823	3	$ 1,950	3
Korea	21,388	42	18,848	59	43,521	44	34,841	61
Taiwan	14,378	28	4,964	15	23,332	24	5,636	10
China	3,643	7	3,207	10	10,218	10	4,387	8
Japan	3,455	7	487	2	6,234	6	1,745	3
Other Asia	2,965	6	2,074	6	4,391	5	5,869	10
Europe and others	3,690	7	1,549	5	7,789	8	2,887	5
	$ 51,259	100	$ 32,120	100	$ 98,308	100	$ 57,315	100

In the three months ended July 3, 2011, two customers accounted for 38 percent and 14 percent of net sales, respectively. In the three months ended June 27, 2010, two customers accounted for 46 percent and 14 percent of net sales, respectively. In the six months ended July 3, 2011, two customers accounted for 39 percent and 14 percent of net sales, respectively. In the six months ended June 27, 2010, two customers accounted for 50 percent and 13 percent of net sales, respectively.

As of July 3, 2011, two customers accounted for 35 percent and 27 percent of the Company's accounts receivable balance, respectively. As of December 31, 2010, four customers accounted for 19 percent, 13 percent, 11 percent and 11 percent of the Company's accounts receivable balance, respectively.

Geographical information relating to the Company's property and equipment, net, as of July 3, 2011 and December 31, 2010 is as follows:

	July 3, 2011	December 31, 2010
	(thousands)	
Property and equipment, net:		
United States	$ 7,730	$ 9,880
Germany	1,833	2,236
Canada	2,500	2,507
Others	603	388
	$ 12,666	$ 15,011

11. Income Taxes

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 (benefit) 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. For the six months ended July 3, 2011 and June 27, 2010, the Company recorded a $0.1 million benefit from income taxes and a $0.4 million provision for income taxes, respectively. The provision for (benefit from) income taxes primarily consists of provisions or benefits from foreign taxes. The $0.1 million tax benefit for the six months ended July 3, 2011 includes a $0.4 million tax benefit related to the release of uncertain tax benefits due to a lapse of the statute of limitations, offset by a tax provision of $0.3 million.

As of December 31, 2010, the Company had $27.1 million of unrecognized tax benefits exclusive of interest and penalties described below. Included in the $27.1 million are approximately $3.0 million of unrecognized tax benefits (net of federal benefit) that, if recognized, would favorably affect the effective tax rate in a future period, before consideration of changes in the valuation allowance. The Company believes that it is reasonably possible that there will be a decrease of $1.6 million in its unrecognized tax benefits exclusive of interest and penalties within the next twelve months.

The Company's practice is to recognize interest and/or penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2010, the Company had $1.2 million accrued for estimated interest and $0.1 million accrued for estimated penalties. For the six months ended July 3, 2011, the recorded income tax benefit included estimated interest expense of $0.1 million.

The Company and its subsidiaries are subject to United States federal income tax as well as to income taxes in various foreign and state jurisdictions. The Company's federal and state income tax returns are generally not subject to examination by tax authorities for years before 2007 and 2006, respectively. The Company had no tax audits in progress as of July 3, 2011.

12. Net Loss Per Share

The Company presents both basic and diluted earnings per share on the face of its condensed consolidated statements of operations. Basic earnings per share are computed by dividing net income by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share are computed using the weighted-average number of shares of common stock outstanding plus the effect of all dilutive securities representing potential shares of common stock outstanding during the period. For the purposes of computing diluted earnings per share, weighted average common stock equivalents do not include stock options with an exercise price that exceeded the average market price of the Company’s common stock for the period.

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

	Three Months Ended		**Six Months Ended**	
	July 3, 2011	**June 27, 2010**	**July 3, 2011**	**June 27, 2010**
	(thousands)		(thousands)	
Weighted-average shares outstanding - Basic	54,550	50,052	52,395	50,018
Diluted potential common shares from stock options and restricted stock units	-	-	-	-
Weighted-average shares outstanding - Diluted	54,550	50,052	52,395	50,018

On May 16, 2011, the Company completed a registered public offering of 7,820,000 shares of the Company’s common stock. These shares are included on a weighted-average basis for the three month and six month periods ending July 3, 2011.

All outstanding stock options and restricted stock units are potentially dilutive securities, and as of July 3, 2011 and June 27, 2010, the combined total of stock options and RSUs outstanding were 7.2 million and 6.4 million, respectively. However, since the Company had net losses for the three and six months ended July 3, 2011 and June 27, 2010, no potentially dilutive securities were included in the computation of diluted shares for those years as inclusion of such shares would have been anti-dilutive. Accordingly, basic and diluted net loss per share were the same in each period reported.

13. Comprehensive Loss

The components of comprehensive loss are:

	Three Months Ended		Six Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
	(thousands)			
Net loss	$ (5,213)	$ (8,380)	$ (11,487)	$ (19,136)
Cumulative translation adjustments	859	(2,344)	2,687	(3,669)
Unrealized investment gain (loss)	116	1	118	(8)
Comprehensive loss	$ (4,238)	$ (10,723)	$ (8,682)	$ (22,813)

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, gross margin, earnings, cash flow and cash position; growth of the industry and the size of our served available market; the timing of significant customer orders for our products; customer acceptance of delivered products and our ability to collect amounts due upon shipment and upon acceptance; end-user demand for semiconductors, including the growing mobility electronics industry; customer demand for semiconductor manufacturing equipment, including as a result of greenfield fab plans; our ability to timely manufacture, deliver and support ordered products; our ability to bring new products to market, to gain market share with such products and the overall mix of our products; customer rate of adoption of new technologies; risks inherent in the development of complex technology; the timing and competitiveness of new product releases by our competitors; margins; product development plans and levels of research, development and engineering activity; our ability to align our cost structure with market conditions, including outsourcing plans, operating expenses, and the expected effects, cost and timing of restructurings; tax expenses; excess inventory reserves, including the level of our vendor commitments as compared to our requirements; economic conditions in general and in our industry; the impact of any litigation or investigation on our operating results or financial position; any offering and sale of securities pursuant to our shelf registration statement or otherwise; 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 Part II, Item 1A under "Risk Factors" and this Part I, 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 event, or for any other reason.

This discussion should be read in conjunction with the condensed consolidated financial statements and notes presented in this Quarterly Report on 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, 2010 (the "2010 Form 10-K").

We are a supplier of semiconductor wafer processing equipment used in the fabrication of integrated circuits ("ICs"). Our manufacturing equipment is used for semiconductor manufacturing and back-end packaging. Our manufacturing equipment utilizes innovative technology to deliver advanced processing capabilities and high productivity for the fabrication of current and next-generation ICs. We were incorporated in California in 1988 and reincorporated in Delaware in 1997.

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 semiconductor equipment industry is typically characterized by wide swings in operating results as the industry moves through its cycle. In 2010, our customers responded to an increasing demand for advanced products, expanding production by shrinking the chip size thus increasing the number of chips that could be produced on the wafer. This technology-driven phase of the cycle lasted roughly through the first half of 2010. As demand for chips continued through 2010, the technology phase of the expansion was replaced by a capacity-driven phase, in which our customers added to the number of wafers being produced in their existing factories. The second half of 2010 was generally characterized by this capacity expansion phase as customers purchased equipment and in some cases filled their existing facilities. As these facilities were nearing completion, many of our larger customers started building new facilities or "greenfield" sites in preparation for their expected next round of expansion. In some cases, tool purchases for this greenfield expansion has started and we are beginning to see a new round of memory expansion primarily driven by NAND flash technology in support of the new tablet products, smartphones and the solid state drives for computing.

For 2011, our new positions in etch and RTP, added to our broad strip base, expand our available market, especially in the new greenfield fabs, and transition us from productivity-driven markets into more technology-driven markets.

Our etch products, the paradigmE and Alpine, are targeted to meet the stringent requirements of advanced dielectric etch as well as packaging applications. In the first half of 2011, we benefited from our strategic investment in our etch product line by recording and shipping many paradigmE etch orders to a leading semiconductor manufacturer for volume manufacturing of advanced etch applications. We have grown the etch business to over one-third of our total system revenue. The etch market represents a new market for us, and we believe it is significantly larger than our other market sectors. In addition, we believe our etch product line will allow us to take better advantage of future cycle ramps for technology-driven purchases in the semiconductor industry. During the second quarter of 2011, we experienced the ninth consecutive quarter of sequential revenue growth in our business. We continued to extend our etch products into new applications including shipping our paradigmE product into one of the new greenfield fabs for NAND flash and selling our Alpine etch product into a volume producer of packaging applications. Elsewhere, our low-cost, high-volume strip product strategy appears to be working as we announced a large shipment to the same greenfield NAND flash facility and in RTP our Helios product began shipping to a customer expansion, again in the NAND flash sector. We also announced a new customer penetration for our Millios milli-second anneal product at an advanced 20 nanometer facility.

As of July 3, 2011, we had an accumulated deficit of $566.1 million. We have incurred operating losses and generated negative cash flows for the last three years. As of July 3, 2011, we had cash, cash equivalents and restricted cash of $42.9 million and working capital of $58.9 million. We believe that these balances will be sufficient to fund our working and other capital requirements over the course of the next twelve months. Our operations require careful management of our cash and working capital balances. Our liquidity is affected by many factors including, among others, fluctuations in our revenue, gross profits and operating expenses, as well as changes in our operating assets and liabilities. The cyclicality of the semiconductor industry makes it difficult for us to predict our future liquidity needs with certainty. We intend to continue to review our expected cash requirements, make commercially reasonable efforts to collect any aged receivables, and take appropriate cost reduction measures to ensure that we have sufficient liquidity. We may need additional funds to support our working capital requirements, operating expenses or for other requirements. We periodically review our liquidity position and may seek to raise additional funds from a combination of sources including issuance of equity or debt securities through public or private financings (such as our common stock offering in May 2011). In the event additional needs for cash arise, we may also seek to raise these funds externally through other means, such as the sale of assets. The availability of additional financing will depend on a variety of factors, including among others, market conditions, the general availability of credit to the financial services industry and our credit ratings. As a consequence, these financing options may not be available on a timely basis, or on terms acceptable to us, and could be dilutive to our stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited. Failure to generate sufficient cash flows from operations, raise additional capital or reduce spending could have a material adverse effect on our ability to achieve our intended long-term business objectives.

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. Such factors will also include 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; (d) maintain a cost structure that will enable us to operate effectively and profitably throughout changing industry cycles and (e) generate the gross profits necessary to enable us to make the necessary investments in our business.

Results of Operations

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

	Three Months Ended				Change	
	July 3, 2011		June 27, 2010			
	(thousands)	%	(thousands)	%	(thousands)	%
Net sales	$ 51,259	100.0	$ 32,120	100.0	$ 19,139	59.6
Cost of sales	35,852	69.9	22,194	69.1	13,658	61.5
Gross profit	15,407	30.1	9,926	30.9	5,481	55.2
Operating expenses:						
Research, development and engineering	6,645	13.0	7,059	22.0	(414)	(5.9)
Selling, general and administrative	12,803	25.0	12,558	39.1	245	2.0
Restructuring charges	(13)	-	(93)	(0.3)	80	(86.0)
Total operating expenses	19,435	38.0	19,524	60.8	(89)	(0.5)
Loss from operations	(4,028)	(7.9)	(9,598)	(29.9)	5,570	(58.0)
Interest income	58	0.1	30	0.1	28	93.3
Interest expense	-	-	(30)	(0.1)	30	(100.0)
Other income (expense), net	(969)	(1.9)	1,425	4.5	(2,394)	n/m [1]
Loss before income taxes	(4,939)	(9.7)	(8,173)	(25.4)	3,234	(39.6)
Provision for income taxes	274	0.5	207	0.7	67	32.4
Net loss	$ (5,213)	(10.2)	$ (8,380)	(26.1)	$ 3,167	(37.8)

[1] *Not meaningful.*

	Six Months Ended				Change	
	July 3, 2011		June 27, 2010			
	(thousands)	%	(thousands)	%	(thousands)	%
Net sales	$ 98,308	100.0	$ 57,315	100.0	$ 40,993	71.5
Cost of sales	68,957	70.1	39,627	69.1	29,330	74.0
Gross profit	29,351	29.9	17,688	30.9	11,663	65.9
Operating expenses:						
Research, development and engineering	13,160	13.4	13,465	23.5	(305)	(2.3)
Selling, general and administrative	25,378	25.9	24,931	43.5	447	1.8
Restructuring charges	(78)	(0.1)	(77)	(0.1)	(1)	1.3
Total operating expenses	38,460	39.2	38,319	66.9	141	0.4
Loss from operations	(9,109)	(9.3)	(20,631)	(36.0)	11,522	(55.8)
Interest income	85	0.1	60	0.1	25	41.7
Interest expense	(48)	(0.1)	(62)	(0.1)	14	(22.6)
Other income (expense), net	(2,475)	(2.5)	1,883	3.3	(4,358)	n/m [1]
Loss before income taxes	(11,547)	(11.8)	(18,750)	(32.7)	7,203	(38.4)
Provision for (benefit from) income taxes	(60)	(0.1)	386	0.7	(446)	n/m [1]
Net loss	$ (11,487)	(11.7)	$ (19,136)	(33.4)	$ 7,649	(40.0)

[1] *Not meaningful.*

Net Sales

Net sales were $51.3 million for the three months ended July 3, 2011, an increase of approximately $19.2 million compared to $32.1 million for the three months ended June 27, 2010. The increase reflects continued purchases of our core products by our customers and the acceptance of the new etch position that we have entered into.

Net sales were $98.3 million for the six months ended July 3, 2011, an increase of approximately $41.0 million compared to $57.3 million for the three months ended June 27, 2010. The increase in net sales for the first half of 2011 was primarily due to significant sales of our etch products, coupled with increases in sales of substantially all of our other products.

Cost of Sales

Cost of sales was $35.9 million for the three months ended July 3, 2011, an increase of $13.7 million compared to $22.2 million for the three months ended June 27, 2010. The increase was primarily due to costs associated with increased product sales. We also recorded $0.8 million in incremental warranty costs associated with new product introductions during the three months ended July 3, 2011. Partially offsetting the year-over-year increase in product costs, cost of sales for the three months ended June 27, 2010 included a $0.2 million charge for under-absorbed overhead, which due to higher manufacturing volumes was not required in the current quarter.

Cost of sales was $69.0 million for the six months ended July 3, 2011, an increase of approximately $29.3 million compared to $39.6 million for the six months ended June 27, 2010. The increase was primarily due to costs associated with increased product sales. We also recorded $1.1 million in incremental warranty costs associated with new product introductions. Partially offsetting the year-over-year increase in product costs, cost of sales for the six months ended June 27, 2010 included a $1.1 million charge for under-absorbed overhead, which due to higher manufacturing volumes was not required in the current quarter.

Gross Profit

Gross profit for the three months ended July 3, 2011 was $15.4 million, an increase of $5.5 million compared to $9.9 million for the three months ended June 27, 2010. The increase was primarily due to the increase in sales and the reduction in under-absorbed overhead costs.

For the three months ended July 3, 2011 and June 27, 2010, we sold $1.8 million and $1.1 million of inventories, respectively, that were previously written-off as part of excess and obsolete inventory. The benefit derived from the sale of this inventory was partially offset by inventory valuation charges of $1.3 million and $17,000 for the three months ended July 3, 2011 and June 27, 2010, respectively, for other inventory deemed to be excess and obsolete.

Gross margin for the three months ended July 3, 2011 was approximately 30 percent, a slight decrease from the 31 percent for the three months ended June 27, 2010. The decrease was primarily due to the mix of product shipments in the quarter ended July 3, 2011, which included shipment of some of our lower margin Aspen 3 tools. The gross margin was also impacted unfavorably in the current quarter by warranty cost overruns in servicing our new products.

Gross profit for the six months ended July 3, 2011 was $29.4 million, an increase of $11.7 million compared to $17.7 million for the six months ended June 27, 2010. The increase was primarily due to the increase in sales and the reduction in under-absorbed overhead costs.

For the six months ended July 3, 2011 and June 27, 2010, we sold $3.6 million and $2.2 million of inventories, respectively, that were previously written-off as part of excess and obsolete inventory. The benefit derived from the sale of this inventory was partially offset by inventory valuation charges of $2.4 million and $0.5 million for the six months ended July 3, 2011 and June 27, 2010, respectively, for other inventory deemed to be excess and obsolete.

Gross margin for the six months ended July 3, 2011 was approximately 30 percent, a slight decrease from the 31 percent for the six months ended June 27, 2010. The decrease was primarily due to the mix of product shipments in the quarter ended July 3, 2011, which included a large shipment of our lower margin Aspen 3 tools. The gross margin was also impacted unfavorably in the current quarter by warranty cost overruns in servicing our new products.

Research, Development and Engineering

Research, development and engineering expenses were $6.6 million for the three months ended July 3, 2011, a decrease of $0.5 million, compared to $7.1 million for the three months ended June 27, 2010. The decrease is due in part to lower depreciation expense resulting from significantly lower capital expenditures in 2010 and 2011, as compared to earlier years. Otherwise, spending levels were generally flat year over year across all expense categories.

Research, development and engineering expenses were $13.2 million for the six months ended July 3, 2011, a decrease of $0.3 million, compared to $13.5 million for the six months ended June 27, 2010. The decrease is due in part to lower depreciation expense resulting from significantly lower capital expenditures in 2010 and 2011, as compared to earlier years. Otherwise, spending levels were generally flat year over year across all expense categories.

Selling, General and Administrative

Selling, general and administrative expenses were $12.8 million for the three months ended July 3, 2011, an increase of $0.2 million, compared to $12.6 million for the three months ended June 27, 2010. The year over year increase reflects the higher-level of revenues and related business activities in 2011, including a $0.8 million increase in salaries and sales commissions, a $0.1 million increase in facility-related expenses, and a $0.3 million increase to the allowance for doubtful accounts resulting from a $0.1 million increase to the reserve in the current quarter and a $0.2 million adjustment to lower the reserve in the second quarter of 2010. This increase was partially offset by a $0.6 million decrease in costs associated with supporting our evaluation tools at customer sites, which was due in part to our ability to convert certain of these evaluation tools into sales in the current quarter. We also recorded a $0.4 million decrease in customs duties, which related to a government review of our designated repair center in Korea during the second quarter of 2010.

Selling, general and administrative expenses were $25.4 million for the six months ended July 3, 2011, an increase of $0.5 million, compared to $24.9 million for the six months ended June 27, 2010. The year over year increase reflects the higher-level of revenues and related business activities in 2011, including a $1.1 million increase in salaries and sales commissions, a $0.2 million increase in facility-related expenses, a $1.0 million increase to the allowance for doubtful accounts resulting from a $0.3 million increase to the reserve during the six months ended July 3, 2011 and a $0.7 million benefit to the reserve during the six months ended June 27, 2010. This increase was partially offset by a $1.2 million decrease in costs associated with supporting our evaluation tools at customer sites, which was due in part to our ability to convert certain of these evaluation tools into sales during the six months ended July 3, 2011. We also recorded a $0.6 million decrease in customs duties and freight charges, which related in part to a government review of our designated repair center in Korea during the second quarter of 2010.

Restructuring Charges

Amounts charged to restructuring reserves for the three and six months ended July 3, 2011 and June 27, 2010 were only nominal adjustments related to the restructuring programs we implemented in 2008 and 2009.

Remaining employee severance cost contingencies were resolved in the first quarter of 2011. We are currently engaged in an ongoing negotiation with a landlord with respect to a lease termination, and the payment of any lease termination expense will depend on the timing of a final agreement with the landlord.

Interest and Other Income (Expense), Net

Interest income for the three and six months ended July 3, 2011 and June 27, 2010 were nominal, reflecting low levels of investments and the continuation of low interest rates.

Other income (expense), net was a $1.0 million expense for the three months ended July 3, 2011, which primarily consisted of foreign exchange losses related to intercompany liabilities denominated in Euros at our U.S. operations during the period when the U.S. dollar weakened 2 percent against the Euro. Other income (expense), net was $1.4 million income for the three months ended June 27, 2010, which included $0.9 million of foreign exchange gains primarily attributed to Euro-denominated liabilities as the Euro weakened approximately 9 percent against the U.S. dollar during the period.

Other income (expense), net was a $2.5 million expense for the six months ended July 3, 2011, which primarily consisted of foreign exchange losses related to intercompany liabilities denominated in Euros at our U.S. operations during the period when the U.S. dollar weakened 9 percent against the Euro. Other income (expense), net was $1.9 million income for the six months ended June 27, 2010, which included $1.2 million of foreign exchange gains primarily attributed to Euro-denominated liabilities as the Euro weakened approximately 14 percent against the U.S. dollar during the period.

Provision for Income Taxes

On a quarterly basis, we evaluate our expected income tax expense or benefit based on our year-to-date operations, and we record an adjustment in the current quarter.

The provision for income taxes was $0.3 million and $0.2 million for the three months ended July 3, 2011 and June 27, 2010, respectively, primarily related to foreign taxes. 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.

The provision for or benefit from income taxes was a $0.1 million benefit and a $0.4 million provision for the six months ended July 3, 2011 and June 27, 2010, respectively, primarily related to foreign taxes. The $0.1 million tax benefit for the six months ended July 3, 2011 includes a $0.4 million tax benefit related to the release of uncertain tax benefits due to a lapse of the statute of limitations, offset by a tax provision of $0.3 million as a results of the mix of profits earned by us and our subsidiaries in tax jurisdictions with a broad range of income tax rates.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss 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 us 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, we evaluate our 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 under different assumptions or conditions.

Consistent with our 2010 Form 10-K, we consider certain accounting policies for the following areas as critical to our business operations and an understanding of our results of operations:

- Revenue Recognition
- Allowance for Doubtful Accounts
- Warranty
- Inventories and Inventory Valuation
- Fair Value Measurement of Assets and Liabilities
- Impairment of Long-Lived Assets
- Restructuring
- Income Taxes
- Stock-based Compensation

In the first quarter of 2011, we adopted guidance related to revenue recognition for sales arrangements with multiple deliverables. The impact of this adoption on our revenue recognition policy is described in further detail in our *Recent Accounting Pronouncements and Accounting Changes* section. There have been no other material changes from the methodology applied by management for critical accounting estimates previously disclosed in our 2010 Form 10-K.

Liquidity and Capital Resources

Our cash, cash equivalents, short-term investments and restricted cash was $42.9 million as of July 3, 2011, an increase of $19.8 million from $23.0 million as of December 31, 2010. We had restricted cash of $2.8 million as of July 3, 2011, which primarily secures letters of credit provided to certain landlords and vendors. Stockholders' equity as of July 3, 2011 was $68.2 million compared to $62.7 million as of December 31, 2010. Working capital as of July 3, 2011 was $58.9 million compared to $51.1 million as of December 31, 2010.

Liquidity and Capital Resources Outlook

At July 3, 2011, we had an accumulated deficit of $566.1 million. We have incurred operating losses and generated negative cash flows for the last three years. Our operations require careful management of our cash and working capital balances. Our liquidity is affected by many factors including, among others, fluctuations in our revenue, gross profits and operating expenses, as well as changes in our operating assets and liabilities. The cyclicality of the semiconductor industry makes it difficult for us to predict our future liquidity needs with certainty. Any upturn in the semiconductor industry would result in short-term uses of our cash to fund inventory purchases and accounts receivable. Alternatively, any renewed softening in the demand for our products or ineffectiveness of our cost reduction efforts may cause us to incur additional losses in the future and lower our cash balances.

We may need additional funds to support our working capital requirements, operating expenses or for other requirements. Historically, we have relied on a combination of fundraising from the sale and issuance of equity securities (such as our common stock offering in May 2011) and cash generated from product, service and royalty revenues to provide funding for our operations. We intend to continue to review our expected cash requirements, make commercially reasonable efforts to collect any aged receivables, and take appropriate cost reduction measures to ensure that we have sufficient liquidity. We periodically review our liquidity position and may seek to raise additional funds from a combination of sources including issuance of equity or debt securities through public or private financings. In the event additional needs for cash arise, we may also seek to raise these funds externally through other means, such as the sale of assets. The availability of additional financing will depend on a variety of factors, including among others, market conditions, the general availability of credit to the financial services industry and our credit ratings. As a consequence, these financing options may not be available to us on a timely basis, or on terms acceptable to us, and could be dilutive to our stockholders. Our current liquidity position may result in risks and uncertainties affecting our operations and financial position, including the following: we may be required to reduce planned expenditures or investments; we may be unable to compete in our newer or developing markets; we may not be able to obtain and maintain normal terms with suppliers; suppliers may require standby letters of credit before delivering goods and services, which will result in additional demands on our cash; customers may delay or discontinue entering into contracts with us; and our ability to retain management and other key individuals may be negatively affected. Failure to generate sufficient cash flows from operations, raise additional capital or reduce spending could have a material adverse effect on our ability to achieve our intended long-term business objectives.

Off-Balance Sheet Arrangements

As of July 3, 2011, we did not have any significant "off-balance sheet" arrangements, as defined in Item 303 (a)(4)(ii) of Regulation S-K.

Contractual Obligations

Under accounting principles generally accepted in the United States of America, 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. For further discussion of our contractual obligations, see our 2010 Form 10-K.

Cash Flows from Operating Activities

Net cash provided by operations of $5.1 million for the six months ended July 3, 2011 consisted primarily of a net loss of $11.5 million offset by $7.4 million of non-cash charges and $9.2 million of cash flow increases reflected in the net change in assets and liabilities. Non-cash charges consisted primarily of $3.2 million of depreciation and amortization, $2.4 million of inventory valuation charges, $1.4 million of stock-based compensation and $0.3 million for a provision for allowance for doubtful accounts. Cash flow increases resulting from the net change in assets and liabilities primarily consisted of a $6.8 million decrease in accounts receivable, a $4.9 million increase in accrued liabilities, a $1.4 million decrease in inventories, a $1.2 million increase in deferred revenue, a $0.8 million decrease in prepaid expenses and other current assets and a $0.2 million decrease in other assets, partially offset by a $5.0 million decrease in accounts payable, a $0.9 million increase in advanced billings and a $0.2 million decrease in income taxes payable, non-current and other liabilities.

Net cash used in operations of $15.1 million for the six months ended June 27, 2010 consisted primarily of net loss of $19.1 million and $0.3 million of cash decreases reflected in the net change in assets and liabilities, partially offset by $4.3 million of non-cash charges. Non-cash charges consisted primarily of $3.5 million of depreciation and amortization and $1.3 million of stock-based compensation, partially offset by $0.7 million of credits to the allowance for doubtful accounts resulting from collection of customer accounts previously provided for during the industry downturn. Cash flow decreases resulting from the net change in assets and liabilities primarily consisted of a $4.9 million increase in accounts payable, a $2.0 million increase in advanced billings and a $0.5 million reduction in income taxes payable, non-current and other liabilities. Cash flow increases resulting from the net change in assets and liabilities primarily consisted of a $3.3 million increase in accounts payable, a $2.2 million increase in deferred revenue, a $1.0 decrease in prepaid expenses and other current assets and a $0.7 million decrease in other assets. The increases in accounts receivable and accounts payable reflect the increase in revenue volumes during the first half of 2010. The increases in advance billings and deferred revenue were due to an increase in systems shipped during the first half of 2010 for which revenue was deferred as of June 27, 2010, in accordance with the authoritative guidance for revenue recognition. The reduction in prepaid assets resulted primarily from VAT returns filed in the second quarter of 2010.

We expect that cash provided by or used 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, inventory purchases, collection of accounts receivable and timing of payments.

Cash Flows from Investing Activities

Net cash provided by investing activities of $2.9 million for the six months ended July 3, 2011 consisted primarily of $2.2 million of proceeds from maturities of available-for-sale investments and $1.2 million from a decrease in restricted cash balances used to secure standby letters of credit provided to certain landlords and vendors, partially offset by $0.5 million of capital spending.

Net cash provided by investing activities of $3.4 million for the six months ended June 27, 2010 consisted primarily of $3.8 million of proceeds from sales and maturities of available-for-sale investments, partially offset by $0.4 million of capital spending.

Cash Flows from Financing Activities

Net cash provided by financing activities of $13.1 million for the six months ended July 3, 2011 consisted primarily of $13.0 million of proceeds from our public offering on May 16, 2011 of 7,820,000 shares of our common stock at a price to the public of $1.80 per share of common stock. The $13.0 million of proceeds is net of underwriting discounts and offering expenses of $1.1 million and does not include other estimated accrued offering costs of $0.3 million. We intend to use the net proceeds from this offering for general corporate purposes, including working capital.

Cash flows related to financing activities for the six months ended June 27, 2010 were not material.

Recent Accounting Pronouncements and Accounting Changes

In October 2009, the Financial Accounting Standards Board ("FASB") issued an amendment to its previously released guidance related to revenue recognition for sales arrangements with multiple deliverables. The amended guidance requires an entity at the inception of an arrangement to allocate the arrangement's consideration to all of its deliverables using the relative selling price method, which allows for management's best estimate of a deliverable's selling price when vendor-specific or other third-party evidence of fair value are not available. The residual method of allocating consideration, required under previous guidance, is no longer permitted. We adopted this guidance on January 1, 2011 for revenue arrangements entered into or materially modified on or after that date. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

This guidance did not change the units of accounting for our revenue transactions. We typically recognize revenue on equipment sales as follows: 1) for equipment sales of existing products with new specifications and for 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, or equipment sales to new customers purchasing existing products with established reliability, we recognize revenue on a multiple element approach in which we bifurcate such sale transactions into two separate elements. For multiple element arrangements initiated at or prior to December 31, 2010, the revenue relating to the undelivered elements is deferred at its estimated fair values until delivery of the deferred elements; and for arrangements initiated or materially modified subsequent to December 31, 2010 containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method, which allocates revenue to each element using the estimated selling prices for the deliverables when vendor-specific objective evidence or third-party evidence is not available.

In May 2011, the FASB issued Accounting Standards Update ("ASU") 2011-04, an amendment to Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. This amendment will be effective for our fiscal year beginning January 1, 2012. The adoption of this amendment is not expected to have a material effect on our condensed consolidated financial statements, but may require certain additional disclosures.

In June 2011, the FASB issued ASU No. 2011-05, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, we must report comprehensive income in either a single continuous statement of comprehensive income that contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for our fiscal year beginning January 1, 2012. The adoption of this update will not have an impact on our condensed consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

There are no other recent accounting pronouncements or changes in accounting pronouncements during the six months ended July 3, 2011 that are of significance or potential significance to us.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

As of July 3, 2011, our $20.1 million investment portfolio consisted entirely of highly liquid money market funds, which we classify as cash equivalents. Based on the short-term nature of cash equivalents, we believe we currently have only nominal risk of fluctuations in interest rates. Historically, we have also invested in marketable securities with maturity dates within one year from date of purchase, which have a greater exposure to potential losses arising from changes in interest rates.

Our investment objective is to achieve the maximum return compatible with capital preservation and our liquidity requirements. Our strategy is to invest our cash in a manner that preserves capital, maintains sufficient liquidity to meet our cash requirements and maximizes yields consistent with approved credit risks. We place our investments with high credit quality issuers and, by policy, limit the amount of our credit exposure to any one issuer. Our portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. We consider investments in instruments purchased with an original maturity of 90 days or less to be cash equivalents and we classify our short-term investments as available-for-sale.

Our cash equivalents and short-term investment portfolios strategy is to invest primarily in money market funds, commercial paper, corporate debt securities, and U.S. government and government-sponsored debt securities. Our short-term investments are reported at fair value with unrealized gains and losses, net of tax, included in accumulated other comprehensive income within stockholders' equity in the condensed consolidated balance sheets. The amortization of premiums and discounts on the investments, realized gains and losses, and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income (expense), net in the condensed consolidated statements of operations.

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. Foreign currency transaction gains and losses are recognized in the condensed consolidated statements of operations as they are incurred. Because much of our revenues and capital spending are transacted in U.S. dollars, we are subject to fluctuations in foreign currency exchange rates that could have a material adverse affect on our overall financial position, results of operations or cash flows, depending on the strength of the U.S. dollar relative to the currencies of other countries in which we operate. Exchange rate fluctuations of greater than ten percent, primarily for the U.S. dollar relative to the Euro or the Canadian dollar, could have a material impact on our financial statements.

The U.S dollar weakened 9 percent against the Euro during the six months ended July 3, 2011. Realized foreign currency exchange losses of $1.8 million for the six months ended July 3, 2011, included in the condensed consolidated statements of operations, were primarily related to liabilities denominated in Euros at our U.S. operations during the period. Cumulative translation adjustment gains of $2.7 million, included in comprehensive loss for the six months ended July 3, 2011, were primarily due to assets denominated in Euros at our foreign operations, which resulted in an increase in cumulative translation adjustments to $23.0 million as of July 3, 2011, compared to $20.3 million as of December 31, 2010.

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 SEC'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 timely decisions regarding required disclosures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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 second quarter of 2011 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. 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*

Because of the following factors, as well as other variables affecting our operating results, cash flows and financial condition, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in the future periods. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations, cash flows and financial condition.

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

We are dependent on our revenue and the success of our cost reduction measures to ensure adequate liquidity and capital resources during the next twelve months.

As of July 3, 2011, we had an accumulated deficit of $566.1 million. We have incurred operating losses and generated negative cash flows for the last three years. As of July 3, 2011, we had cash, cash equivalents and restricted cash of $42.9 million and working capital of $58.9 million. Our operations require careful management of our cash and working capital balances. Our liquidity is affected by many factors including, among others, fluctuations in our revenue, gross profits and operating expenses, as well as changes in our operating assets and liabilities. The cyclicality of the semiconductor industry makes it difficult for us to predict our future liquidity needs with certainty. Any upturn in the semiconductor industry would result in short-term uses of our cash to fund inventory purchases and accounts receivable. Alternatively, any renewed softening in the demand for our products or ineffectiveness of our cost reduction efforts may cause us to incur additional losses in the future and lower our cash balances.

We may need additional funds to support our working capital requirements, operating expenses or for other requirements. Historically, we have relied on a combination of fundraising from the sale and issuance of equity securities (such as our common stock offering in May 2011) and cash generated from product, service and royalty revenues to provide funding for our operations. We periodically review our liquidity position and may seek to raise additional funds from a combination of sources including issuance of equity or debt securities through public or private financings. In the event additional needs for cash arise, we may also seek to raise these funds externally through other means, such as the sale of assets. The availability of additional financing will depend on a variety of factors, including among others, market conditions, the general availability of credit to the financial services industry and our credit ratings. As a consequence, these financing options may not be available to us on a timely basis, or on terms acceptable to us, and could be dilutive to our stockholders. Our current liquidity position may result in risks and uncertainties affecting our operations and financial position, including the following:

- we may be required to reduce planned expenditures or investments;
- we may be unable to compete in our newer or developing markets;
- we may not be able to obtain and maintain normal terms with suppliers;
- suppliers may require standby letters of credit before delivering goods and services, which will result in additional demands on our cash;
- customers may delay or discontinue entering into contracts with us; and

- our ability to retain management and other key individuals may be negatively affected.

Failure to generate sufficient cash flows from operations, raise additional capital or reduce spending could have a material adverse effect on our ability to achieve our intended long-term business objectives.

We are dependent on a highly concentrated customer base, and any cancellation, reduction or delay of purchases by these customers could harm our business. Additionally, we may not achieve anticipated revenue levels if we are not selected as "vendor of choice" for new or expanded customer fabrication facilities.

We derive most of our revenues from the sale of systems to a relatively small number of customers, which makes our relationship with each customer critical to our business. For example, in the years ended December 31, 2010, 2009 and 2008, our three largest customers accounted for 59 percent, 55 percent and 39 percent of our revenues, respectively. We currently depend on one customer for a significant portion of our revenues, and the loss of, or a significant reduction in, orders from this customer would significantly reduce our revenue and adversely impact our operating results. 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 performance. Customer order cancellations could result in the loss of anticipated sales without allowing us sufficient time to reduce our inventory and operating expenses. In addition, changes in forecasts or the timing of orders from customers could expose us to the risks of inventory shortages or excess inventory. This in turn could cause our operating results to fluctuate. If customer relationships are disrupted for inability to deliver sufficient products or for any other reason, it could have a significant negative impact on our business.

A large percentage of our sales are concentrated among customers in the memory market, representing 60 percent and 54 percent of systems sales in the years ended December 31, 2010 and 2009, respectively. As a result, a downturn or an upturn in memory spending could impact us more than it would impact competitors who are more diversified with logic and foundry customers.

Once a semiconductor manufacturer selects a particular vendor's capital equipment, the manufacturer generally relies upon equipment from this "vendor of choice" ("VOC") for the specific production line application. In addition, the semiconductor manufacturer frequently will attempt to consolidate 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. 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.

Although we maintain a backlog of customer orders with expected shipment dates within the next 12 months, customers may request cancellations or delivery delays. Customers in some regions place orders a few weeks before the shipment. 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.

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 the installed base;
- breadth of product line;
- delivery speed; and
- customer support.

Competitive pressure has been increasing in several areas. In addition to increased price competition, 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. Some of 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.

Growth in the semiconductor equipment industry is increasingly concentrated in the largest companies, resulting in increasing industry consolidation. Semiconductor companies are consolidating their vendor base and prefer to purchase from vendors with a strong, worldwide support infrastructure.

In addition, to expand our sales we must often displace the systems of our competitors or sell new systems to customers of our competitors. Our competitors may develop new or enhanced competitive products that 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.

The recent natural disaster in Japan could disrupt our customers' and suppliers' operations and adversely affect our results of operations.

Certain of our customers and suppliers have headquarters and/or manufacturing facilities in Japan that have closed or limited operations resulting from the recent earthquake and tsunami in Japan. In addition, our customers' and suppliers' supply chains and customer-base may be affected by the consequences of the natural disaster that has affected Japan, which have included rolling blackouts, decreased access to raw materials, limited ability to ship inventory and the risk of nuclear contamination. As a result, our customers in Japan, as well as our customers who depend on their customer-base and suppliers in Japan, may defer, delay, cancel or otherwise not place orders with us, and our suppliers may defer, delay, cancel or otherwise not deliver components or subassemblies to us, each of which would cause our revenues to decline in the second half of 2011 and negatively impact our results of operations.

The cyclical nature of the semiconductor industry has caused us to experience losses and reduced liquidity, and it may continue to negatively impact our financial performance.

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 decreased demand for our products and increased price competition.

The semiconductor industry has historically experienced periodic downturns due to general economic changes or due to 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. This could result in significant under utilization in our factories. If existing customer fabrication facilities are not expanded and new facilities are not built, we may be unable to generate significant new orders and sales for our systems. 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 for us. Increased price competition may also result as we compete for the smaller demand in the market, causing pressure on our gross margin and net income.

The weakness in the global economy during 2008 and 2009 and the relatively modest recovery exhibited during 2010 and 2011 may continue to negatively impact our financial performance.

The recessionary conditions of 2008 and 2009 in the global economy and the slowdown in the semiconductor industry impacted customer demand for our products and correspondingly, negatively impacted our financial performance. While the global economy has seen a modest recovery during 2010 and 2011, there remains high unemployment in developed countries, concerns regarding the availability of credit and uncertainty about a sustained economic recovery. We cannot ensure that any of the recent economic improvements will be sustainable or sufficient to extend to our specific operations or markets.

Demand for semiconductor equipment depends on consumer spending. Continued economic uncertainty may lead to a decrease in consumer spending and may cause certain of our customers to cancel or delay orders. In addition, if our customers have difficulties in obtaining capital or financing, this could result in lower sales. Customers with liquidity issues could lead to charges to our bad debt expense if we are unable to collect accounts receivables. These conditions could also affect our key suppliers, which could affect their ability to supply parts to us, and result in delays of the completion of our systems and the shipment of these systems to our customers.

Because of the economic downturn and the uncertainty of a full recovery, we may have to take further actions to reduce costs, which could reduce our ability to invest in research and development at levels we believe are desirable. If we are unable to effectively align our cost structure with prevailing market conditions, we will experience additional losses and additional reductions in our cash and cash equivalents. If we are not able to suitably adapt to these economic conditions in a timely manner or at all, our performance, cash flows, results of operations and ability to access capital could be materially and adversely impacted.

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 risks, additional costs and delays in revenue recognition. Technical and manufacturing difficulties experienced in the introduction of new products could be costly and could adversely affect our customer relationships.

The markets in which our customers and we 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 industry standards and customer requirements and that compete effectively on the basis of price and performance.

Our development 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 system 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 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.

Our products are complex, and we may experience technical or manufacturing inefficiencies, delays or difficulties in the prototype introduction of new systems and enhancements, or in achieving volume production of new systems or enhancements that meet customer requirements. Our inability, or the inability of our outsourced partners, 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.

Our revenue recognition policies require that during the initial evaluation phase of a new product, customer acceptance needs to be obtained before we can recognize revenue on the product. Customer acceptances may not be completed in a timely manner for a variety of reasons, whether or not related to the quality and performance of our products. Any delays in customer acceptance may result in revenue recognition delays and have an adverse impact on our results of operations.

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. The costs associated with our warranties may be significant, and in the event our projections and estimates of these costs 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.

Significant fluctuations in our operating results are difficult to predict due to our lengthy sales cycle, and our results may fall short of anticipated levels, which could cause our stock price to decline.

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. Also, any unexpected delays in orders could impact our revenue and operating results. 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.

Our quarterly and annual 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. We incurred significant net losses between 2001 and 2003, yet were profitable for each of the years 2004 to 2007. Again, we incurred net losses for the years ended December 31, 2008, 2009 and 2010, of $92.2 million, $67.0 million and $33.4 million, respectively, due to declining demand as a result of the weakness in the semiconductor equipment market and the global economic crisis. In the quarter ended July 3, 2011 we also incurred a net loss of $5.2 million. We may not achieve profitability in future years. We will need to generate significant sales to achieve profitability, and we may not be able to do so. A substantial percentage of our operating expenses are fixed in the short term and we may continue to be unable to adjust spending to compensate for shortfalls in revenues. As a result, we may continue to incur losses, which could cause the price of our common stock to decline further or remain at a low level for an extended period of time.

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

International sales accounted for 95 percent, 92 percent and 91 percent of our net sales in the years ended December 31, 2010, 2009 and 2008, respectively. We anticipate international sales will continue to account for the vast majority 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, South Korea, Taiwan and other Asian countries accounted for 90 percent, 82 percent, and 81 percent of our net sales in the years ended December 31, 2010, 2009 and 2008, respectively. Because of our continuing dependence upon international sales, we are subject to a number of risks associated with international business activities, including:

- burdensome governmental controls, laws, regulations, tariffs, duties, taxes, restrictions, embargoes or export license requirements;
- unexpected changes in laws or regulations prompted by economic stress, such as protectionism, and other attempts to rectify real or perceived international trade imbalances;
- exchange rate volatility;
- the need to comply with a wide variety of foreign and U.S. customs and export laws;
- political and economic instability;
- government-sponsored competition;
- differing labor regulations;
- reduced protection for, and increased misappropriation of, intellectual property;
- difficulties in accounts receivable collections;

- increased costs for product shipments and potential difficulties from shipment delays;
- difficulties in managing distributors or representatives; and
- difficulties in staffing and managing foreign subsidiary operations.

Many of the challenges noted above are applicable in China, which is a developing market for the semiconductor equipment industry and therefore an area of potential significant growth for our business. The required export licenses to supply any of our export controlled products to Chinese customers may be denied by U.S. export control authorities, and as the business volume between China and the rest of the world grows, there is inherent risk, based on the complex relationships between China, Taiwan, Japan, South Korea and the United States, that political and diplomatic influences might lead to trade disruptions which would adversely affect our business with China and/or Taiwan and perhaps the entire Asian region. A significant trade disruption in these areas could have a material adverse impact on our future revenue and profits.

In addition, we are subject to a number of risks specific to doing business and selling our products in South Korea, including among other things, substantial competition from local sources, our ability to obtain or retain the requisite legal permits to continue to sell or continue operations in the country and political instability due to tension and any conflict among North Korea, South Korea and the United States. In the event that we become subject to any of these risks, our business and results of operations could be materially adversely affected.

Our sales to date have been denominated primarily in U.S. dollars; however future sales to Asian customers may be denominated in the customer’s local currency. 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.

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. Our ability to attract employees may be harmed by our recent financial losses, which has impacted our available cash and our ability to provide performance-based annual cash incentives. Also, part of our total compensation program includes share-based compensation. Share-based compensation is an important tool in attracting and retaining employees in our industry. If the market price of our common shares declines or remains low, it may adversely affect our ability to attract or retain employees.

During periods of growth in the semiconductor industry, 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. 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, we could fail to meet our delivery commitments or we could experience deterioration in service levels or decreases in customer satisfaction.

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, securities litigation, or hostile or otherwise unfavorable takeover offers.

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 18 months ended July 3, 2011, the price range for our common stock was \$1.52 to \$5.52 per share.

The relatively low stock price makes us attractive to hedge funds and other short-term investors. This could result in substantial volatility of the stock price and cause fluctuations in trading volumes for our stock. 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. 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.

Our stock price has been below the five-year peak of $11.76 for several years, and if revenue does not return to the peak 2007 levels or we do not return to profitability in the near term, we could be an attractive target for acquisition or be impacted by mergers or acquisition by another company or consolidation in the industry. An acquisition or merger could be hostile or on terms unfavorable to us, and may result in substantial costs and potential disruption to our business.

We are subject to significant risks related to our manufacturing operations.

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

We have outsourced core product manufacturing and spare parts logistics functions to third-party service providers, and 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 has a number of risks and reduces our control over the performance of the outsourced functions. We may continue to outsource more of our products, and there could be a risk of additional production delays during the transition period as we move such production to our service providers, which could result in delayed revenue recognition. 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. Where we have not qualified a second vendor to manufacture a certain product, we would quickly need to identify and qualify substitute service providers or increase our internal capacity, which could be expensive and time-consuming, and could result in unforeseen operational problems and late deliveries to our customers. Substitute service providers might not be available, or, if available, might be unwilling or unable to offer services on acceptable terms.

Under certain of our agreements with third-party outsourced providers, we are required to purchase minimum levels of production from such providers and may be liable to purchase inventory of assemblies and modules that exceed customer demand for such products. Conversely, 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, or face part shortages 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 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 the 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. We generally acquire these components on a purchase order basis and not under long-term supply contracts. 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. 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 is an extremely complex process and requires long lead times. If we are unable to obtain adequate and timely deliveries of our required components, we may have to seek alternative sources of supply or manufacture such components internally. This could delay our ability to manufacture or ship our systems in a timely manner, causing us to lose sales, incur additional costs, delay new product introductions and harm our reputation. Historically, we have not experienced any significant delays in manufacturing due to an inability to obtain components, and we are not currently aware of any specific problems regarding the availability of components that might significantly delay the manufacturing of our systems in the future, however, certain suppliers may be affected by the consequences of the natural disaster that has affected Japan and we are unable to predict the impact, if any, this will have on our business. Any inability to obtain adequate deliveries, or any other circumstance that would require us to seek alternative sources of supply or to manufacture such components internally, could delay our ability to ship our systems and could have a material adverse effect on us.

Our gross margins may be impacted if we do not effectively manage our inventory and associated inventory reserves.

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. For both the inventories that support manufacture of our products and our spare parts inventories, if the anticipated customer demand does not materialize in a timely manner, we will incur increased carrying costs and some inventory could become excess or obsolete, resulting in write-offs, which would adversely affect our cash position and results of operations. In the past, we have recorded inventory valuation charges for excess and obsolete inventory of $0.8 million in 2010, $14.2 million in 2009, and $7.1 million in 2008. The sale of this inventory during periods of increasing revenue could temporarily impact our gross margins favorably due to the adjusted carrying value of this inventory, and could result in future unpredictability in our gross margin estimates.

Our gross margins for sales of products that we manufacture in Germany and/or South Korea may fluctuate due to changes in the value of the Euro and South Korean won.

We develop and manufacture a significant portion of our products in Germany, where our costs for labor and materials are primarily denominated in Euros, and anticipate increased manufacturing activities in South Korea in 2011, where our costs for labor are primarily denominated in won. Future increases in the strength of the Euro or won, if any, could increase our development costs, our costs to manufacture systems, and our costs to purchase spare parts for products from our suppliers, which would make it more difficult for us to compete and could adversely affect our results of operations.

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, including earthquakes in California, 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.

We self-insure certain risks including earthquake risk. If one or more of the uninsured events occurs, we could suffer major financial losses.

We purchase insurance to help mitigate the economic impact of certain insurable risks; however, certain other risks are uninsurable or are insurable only at significant cost or cannot be mitigated with insurance. An earthquake could significantly disrupt our principal manufacturing operations in Fremont, California, an area highly susceptible to earthquakes. It could also significantly delay our research and development efforts on new products, a significant portion of which is conducted in California. While we take steps intended to minimize the damage that would be caused by an earthquake, there is no certainty that our efforts will prove successful in the event of an earthquake. We self-insure earthquake risks because we believe this is a prudent financial decision based on the high cost and limited coverage available in the earthquake insurance market. If a major earthquake occurs, we could suffer a major financial loss and face significant disruption in our business.

We are exposed to various risks relating to compliance with the regulatory environment in the countries in which we operate. We are subject to export control laws and noncompliance could result in fines, adverse publicity and restrictions on our ability to export our products. We are exposed to several material contracts, non-performance of which could result in liquidated damages.

We are subject to various risks related to (1) disagreements and disputes between national and regional regulatory agencies related to international trade; (2) new, inconsistent and conflicting rules by regulatory agencies in the countries in which we operate; and (3) interpretation and application of different laws and regulations. If we are found by a court or regulatory agency to not be in compliance with the laws and regulations, our business, financial condition and results of operations could be adversely affected.

As an exporter, we must comply with various laws and regulations relating to the export of products and technology from the U.S. and other countries having jurisdiction over our operations. In the U.S. these laws include the International Traffic in Arms Regulations ("ITAR"), the Export Administration Regulations ("EAR") administered by the Bureau of Industry and Security ("BIS"), and trade sanctions against embargoed countries and destinations administered by the U.S. Department of Treasury, Office of Foreign Assets Control ("OFAC"). These laws govern products, parts, technology and software which present military or weapons proliferation concerns, so-called "dual use" items. Prior to shipping certain items, we must obtain an export license or verify that license exemptions are available. In addition, we must comply with certain requirements related to documentation, record keeping, plant visits and hiring of foreign nationals. In 2008, we self-disclosed to BIS certain inadvertent EAR violations and this matter is pending with BIS. Any failures to comply with these laws and regulations could result in fines, adverse publicity and restrictions on our ability to export our products, and repeat failures could carry more significant penalties.

We are a party to several governmental and private-party contracts that provide for liquidated damages in the event that we fail to comply with the covenants or requirements under any of these contracts. These liquidated damage payments could be significant and we could incur significant legal fees if we were to renegotiate these contracts. Any such damage amounts or legal expenses may adversely impact our financial condition or results of operations.

If we are unable to protect our intellectual property, we may lose valuable assets and experience reduced market share. Efforts to protect our intellectual property may be costly to resolve, require additional costly litigation and could divert management attention. Our obligation to indemnify customers increases during a downturn.

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, we may from time to time be subject to claims of infringement of other parties' patents or other proprietary rights. 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. As we outsource more of our activities, we are less able to protect our intellectual property ourselves, and rely more on our service providers to do so. Our service providers may not always be able to assure that their employees or former employees do not use our intellectual property for their own account to compete with us. 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.

On occasion we receive notification from customers who believe that we are required to indemnify them or we have other financial obligations to them because of claims of intellectual property infringement made against them 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 commercial relationships with customers become more risky when market conditions give each customer greater leverage in negotiating with us. In the normal course of business, we indemnify customers with respect to certain matters, for example if our tool infringes the intellectual property rights of any third party or if we breach any promise in our contract with the customer. During downturns in general or industry specific economic conditions, our customers may require that the extent and scope of our obligation to indemnify them be expanded. In the future, we may be compelled to enter into or accrue for settlements under such indemnification provisions. We may be compelled in the future to enter into or accrue for settlements of alleged indemnification obligations. Our financial performance could be materially adversely affected if we expend significant amounts in defending or settling any purported claims.

Our failure to comply with environmental or safety 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 and workplace safety. These laws, rules and regulations govern the use, storage, discharge and disposal of hazardous chemicals during manufacturing, research and development and sales demonstrations, as well as governmental standards for workplace safety. If we fail to comply with present or future regulations, especially in our manufacturing facilities in the United States, Germany, Canada and South Korea, we could be subject to substantial liability for cleanup efforts, personal injury, 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, we could be required to acquire costly remediation equipment or incur other significant expenses.

Any future business acquisitions or divestitures may disrupt our business, diminish 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 and possible impairments caused by this;
- 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.

We may also seek to divest of certain assets or businesses from time to time, especially if we need additional liquidity or capital resources. When we make a decision to sell assets or a business, we may encounter difficulty completing the transaction as a result of a range of possible factors such as new or changed demands from the buyer. These circumstances may cause us to incur additional time or expense or to accept less favorable terms, which may adversely affect the overall benefits of the transaction.

Acquisitions, divestitures, and other transactions are inherently risky, and we cannot provide any assurance that our previous or future transactions will be successful. The inability to effectively manage the risks associated with these transactions could materially and adversely affect our business, financial condition or results of operations.

Changes in tax rates or tax liabilities could affect results.

We are subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Our future annual and quarterly tax rates could be affected by numerous factors, including changes in the applicable tax laws, composition of earnings in countries with differing tax rates or our valuation and utilization of deferred tax assets and liabilities. In addition, we are subject to regular examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different from the treatment reflected in our historical income tax provisions and accruals, which could materially and adversely affect our results of operations.

We may be required to record additional impairment charges that will adversely impact our results of operations.

We review our goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable, and also review goodwill balances annually. For example, during the year ended December 31, 2008, we recorded impairment charges of $18.1 million and $6.6 million related to the write-off of goodwill and certain intangible assets, respectively. The write-offs were triggered by the significant decline in our revenue and cash flows. The resulting assessment indicated a material decline in our market valuation and projected revenues, causing a decrease in the anticipated future cash flows attributable to these assets relative to the cash flow expectations when the assets were acquired. In the event that we determine in a future period that impairment of our intangible assets exists for any reason, we would record additional impairment charges in the period such determination is made, which would adversely impact our financial position and results of operations.

Our restated certificate of incorporation and restated bylaws, our stockholder rights plan and Delaware law contain provisions that could discourage transactions resulting in a change in control, which may negatively affect the market price of our common stock.

Our restated certificate of incorporation, our restated bylaws, our stockholder rights plan and Delaware law contain provisions that might enable our management to discourage, delay or prevent a change in control. In addition, these provisions could limit the price that investors would be willing to pay in the future for shares of our common stock. Pursuant to such provisions:

- our board of directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as “blank check” preferred stock, with rights senior to those of common stock;
- our board of directors is staggered into three classes, only one of which is elected at each annual meeting;
- stockholder action by written consent is prohibited;
- nominations for election to our board of directors and the submission of matters to be acted upon by stockholders at a meeting are subject to advance notice requirements;
- certain provisions in our bylaws and certificate of incorporation such as notice to stockholders, the ability to call a stockholder meeting, advance notice requirements and action of stockholders by written consent may only be amended with the approval of stockholders holding 66 2/3 percent of our outstanding voting stock;
- the ability of our stockholders to call special meetings of stockholders is prohibited; and
- subject to certain exceptions requiring stockholder approval, our board of directors is expressly authorized to make, alter or repeal our bylaws.

In addition, the provisions in our stockholder rights plan could make it more difficult for a potential acquiror to consummate an acquisition of our company. We are also subject to Section 203 of the Delaware General Corporation Law, which provides, subject to enumerated exceptions, that if a person acquires 15 percent or more of our outstanding voting stock, the person is an “interested stockholder” and may not engage in any “business combination” with us for a period of three years from the time the person acquired 15 percent or more of our outstanding voting stock.

Item 6. ***Exhibits***

Exhibit Number	Description
3.1 (1)	Amended and Restated Certificate of Incorporation of the Company.
3.2 (2)	Amended and Restated Bylaws of the Company.
10.1 (3)	Severance and Executive Change of Control Agreement for David Dutton, President and Chief Executive Officer.
10.2 (3)	Executive Change of Control Agreement for Andy Moring, Chief Financial Officer, Secretary and Executive Vice President – Finance.
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.
101.INS (4) *	XBRL Instance Document
101.SCH (4) *	XBRL Taxonomy Extension Schema Document
101.CAL (4) *	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (4) *	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (4) *	XBRL Taxonomy Extension Label Linkbase Document
101.PRE (4) *	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL Interactive Data File will be filed by amendment to this Form 10-Q within 30 days of the filing date of this Form 10-Q, as permitted by Rule 405(a)(2)(ii) of Regulation S-T.

(1) Incorporated by reference from the Company's Current Report on Form 8-K/A filed on January 30, 2001.
(2) Incorporated by reference from the Company's Current Report on Form 8-K filed on December 22, 2010.
(3) Incorporated by reference from the Company's Current Report on Form 8-K filed on June 1, 2011.
(4) The financial information contained in these XBRL documents is unaudited and these are not the official publicly filed financial statements of Mattson Technology. The purpose of submitting these XBRL documents is to test the related format and technology, and, as a result, investors should continue to rely on the official filed version of the furnished documents and not rely on this information in making investment decisions. In accordance with Rule 402 of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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 hereunto duly authorized.

MATTSON TECHNOLOGY, INC.
(Registrant)

Date: August 5, 2011

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

Date: August 5, 2011

By: /s/ ANDY MORING
Andy Moring
Chief Financial Officer, Secretary and Executive Vice-President - Finance
(Principal Financial and Accounting Officer)