

NANOMETRICS INCORPORATED
RECONCILIATION OF GAAP TO NON-GAAP RESULTS
(In thousands, except per share amounts)
(Unaudited)

	Fiscal 2012					Fiscal 2013					Fiscal 2014		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Reconciliation of GAAP gross profit to non-GAAP gross profit													
GAAP gross profit	\$ 25,066	\$ 24,759	\$ 22,152	\$ 11,951	\$ 83,928	\$ 10,486	\$ 14,480	\$ 15,801	\$ 21,909	\$ 62,676	\$ 24,149	\$ 22,908	\$ 11,416
Inventory write-down	-	-	-	-	-	-	-	2,439	-	2,439	-	-	-
Amortization of intangible assets	637	637	629	646	2,549	658	647	658	670	2,633	674	677	688
Non-GAAP gross profit	\$ 25,703	\$ 25,396	\$ 22,781	\$ 12,597	\$ 86,477	\$ 11,144	\$ 15,127	\$ 18,898	\$ 22,579	\$ 67,748	\$ 24,823	\$ 23,585	\$ 12,104
Reconciliation of GAAP operating income (loss) to non-GAAP operating income (loss)													
GAAP gross profit	\$ 25,066	\$ 24,759	\$ 22,152	\$ 11,951	\$ 83,928	\$ 10,486	\$ 14,480	\$ 15,801	\$ 21,909	\$ 62,676	\$ 24,149	\$ 22,908	\$ 11,416
Total operating expenses	20,960	20,463	18,538	18,489	78,450	20,089	20,636	23,043	20,617	84,385	22,133	22,162	22,025
GAAP operating income (loss)	\$ 4,106	\$ 4,296	\$ 3,614	\$ (6,538)	\$ 5,478	\$ (9,603)	\$ (6,156)	\$ (7,242)	\$ 1,292	\$ (21,709)	\$ 2,016	\$ 746	\$ (10,609)
Non-GAAP adjustments to operating income (loss):													
Inventory write-down	-	-	-	-	-	-	-	2,439	-	2,439	(b)	-	-
Amortization of intangible assets included in cost of revenues	637	637	629	646	2,549	658	647	658	670	2,633	674	677	688
Amortization of intangible assets included in operating expenses	192	195	193	196	776	198	195	195	113	701	108	107	103
Restructuring	-	-	-	-	-	-	-	1,740	-	1,740	(c)	-	1,715
Total non-GAAP adjustments to operating income (loss)	829	832	822	842	3,325	856	842	5,032	783	7,513	782	784	2,506
Non-GAAP operating income (loss)	\$ 4,935	\$ 5,128	\$ 4,436	\$ (5,696)	\$ 8,803	\$ (8,747)	\$ (5,314)	\$ (2,210)	\$ 2,075	\$ (14,196)	\$ 2,798	\$ 1,530	\$ (8,103)
Reconciliation of GAAP net income (loss) to non-GAAP net income (loss)													
GAAP operating income (loss)	\$ 4,106	\$ 4,296	\$ 3,614	\$ (6,538)	\$ 5,478	\$ (9,603)	\$ (6,156)	\$ (7,242)	\$ 1,292	\$ (21,709)	\$ 2,016	\$ 746	\$ (10,609)
Other income (expense)	(392)	(280)	(355)	168	(859)	(161)	(822)	(445)	(428)	(1,856)	166	(170)	(134)
GAAP income (Loss) before income taxes	3,714	4,016	3,259	(6,370)	4,619	(9,764)	(6,978)	(7,687)	864	(23,565)	2,182	576	(10,743)
Provision (benefit) for income taxes	2,011	(490)	1,356	(2,723)	154	(4,182)	(2,412)	(3,133)	308	(9,419)	587	(12)	17,919
GAAP net income (loss)	\$ 1,703	\$ 4,506	\$ 1,903	\$ (3,647)	\$ 4,465	\$ (5,582)	\$ (4,566)	\$ (4,554)	\$ 556	\$ (14,146)	\$ 1,595	\$ 588	\$ (28,662)
Non-GAAP adjustments to net income (loss):													
Total non-GAAP adjustments to non-GAAP operating income (loss)	829	832	822	842	3,325	856	842	5,032	783	7,513	782	784	2,506
Valuation allowance on deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	21,141
Tax effect of non-GAAP adjustments to operating income (loss)	(303)	(304)	(300)	(307)	(1,214)	(306)	(299)	(1,785)	(317)	(2,706)	(282)	(281)	(877)
Discrete tax adjustment	655	(1,955)	-	-	(1,300)	(a)	-	-	-	-	-	-	-
Non-GAAP net income (loss)	\$ 2,884	\$ 3,079	\$ 2,425	\$ (3,112)	\$ 5,276	\$ (5,032)	\$ (4,023)	\$ (1,307)	\$ 1,022	\$ (9,339)	\$ 2,095	\$ 1,091	\$ (5,892)
Per share data:													
GAAP net income (loss) per diluted share	\$ 0.07	\$ 0.19	\$ 0.08	\$ (0.16)	\$ 0.19	\$ (0.24)	\$ (0.20)	\$ (0.20)	\$ 0.02	\$ (0.61)	\$ 0.07	\$ 0.02	\$ (1.19)
Non-GAAP net income (loss) per diluted share	\$ 0.12	\$ 0.13	\$ 0.10	\$ (0.13)	\$ 0.22	\$ (0.22)	\$ (0.17)	\$ (0.06)	\$ 0.04	\$ (0.40)	\$ 0.09	\$ 0.05	\$ (0.24)
Shares used in non-GAAP diluted income per share calculation	23,981	23,877	23,760	23,408	23,845	23,341	23,138	23,261	23,913	23,290	24,159	24,220	24,132

Notes:

(a) Reflects the tax benefit for certain first quarter foreign losses related to entity classification elections that were approved by the IRS in the second quarter. The tax benefit of these first quarter losses was recorded as a decrease to the second quarter tax provision on a GAAP basis. The discrete tax adjustment for the second quarter also excludes the one-time benefit associate with the recognition of deferred tax assets related to the entity classification elections, resulting in a combined first and second quarter Non-GAAP tax rate of approximately 36.5%.

(b) Represents charges associated with writing down inventory related to a discontinued product line.

(c) Includes severance and RSU modification charges accrued in connection with the notification of future closure of our Nanometrics Germany Inc office (Nanda).

(d) Includes severance, facility lease termination and other costs associated with consolidating UK engineering operations into the U.S.

(e) Reflects a non-cash valuation allowance related to certain deferred US tax assets.