NUMERICAL TECHNOLOGIES INC
Form 10-Q
April 27, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

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: 000-30005

NUMERICAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-3232104
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
70 West Plumeria Drive San Jose, California	95134-2134 (Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (408) 919-1910

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 [X] No [_]

The number of shares outstanding of the registrant's Common Stock, par value $.0001, per share as of April 16, 2001 was 32,966,914.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NUMERICAL TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	March 31, 2001	December 31, 2000

ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,869	$ 30,607
Short-term investments	24,821	23,281
Accounts receivable	6,002	4,983
Prepaid and other	2,902	3,177
Total current assets	63,594	62,048
Property and equipment, net	3,282	3,209
Goodwill and other intangible assets	163,775	175,402
Other assets	422	315
	$ 231,073	$ 240,974
LIABILITIES		
Current liabilities:		
Accounts payable	$ 3,057	$ 3,208
Accrued expenses and other liabilities	4,493	4,608
Deferred revenue	7,700	6,320
Total current liabilities	15,250	14,136
Deferred tax liability	6,789	7,704
Stockholders' equity:		
Convertible preferred stock, $0.0001 par value:		
Authorized: 5,000 shares;		
Issued and outstanding: none	--	--
Common stock, $0.0001 par value:		
Authorized: 100,000 shares;		
Issued and outstanding: 32,962 and 32,834 shares in 2001 and 2000, respectively	3	3
Additional paid in capital	319,879	319,541
Receivable from stockholders	(3,965)	(4,050)
Deferred stock compensation	(24,840)	(30,572)
Accumulated deficit	(81,947)	(65,751)
Accumulated other comprehensive loss	(96)	(37)
Total stockholder's equity	209,034	219,134
	$ 231,073	$ 240,974

See the accompanying condensed notes to these consolidated financial statements.

NUMERICAL TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

For the Three Months Ended
March 31,

	2001	2000
Revenue	$ 10,320	$ 3,456
Costs and expenses:		
Cost of revenue	923	334
Research and development	3,893	2,592
Sales and marketing	3,622	1,798
General and administrative	1,647	885
Depreciation and amortization	12,370	5,012
Amortization of deferred stock compensation(*)	5,732	5,217
Total cost and expenses	28,187	15,838
Loss from operations	(17,867)	(12,382)
Interest expense	--	(700)
Interest income	860	143
Loss before provision for income taxes	(17,007)	(12,939)
Benefit from income taxes	(811)	--
Net loss	$(16,196)	$(12,939)
Net loss per common share basic and diluted	$ (0.55)	$ (1.71)
Weighted average common shares basic and diluted	29,657	7,570
(*)Amortization of deferred stock compensation		
Cost of sales	$ 230	$ 195
Research and development	3,217	2,442
Marketing and sales	1,358	1,256
General and administrative	927	1,324
	$ 5,732	$ 5,217

See the accompanying condensed notes to these consolidated financial statements

NUMERICAL TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands, except per share data)
(unaudited)

	For the Three Months Ended March 31,	
	2001	2000

Cash flows from operating activities:		
Net loss	$(16,196)	$(12,939)
Adjustments to reconcile net loss to net provided by (cash used) in operating activities:		
Depreciation	443	219
Amortization of deferred stock compensation	5,732	5,217
Amortization of acquired intangibles	11,927	4,793
Changes in assets and liabilities:		
Accounts receivable	(1,019)	(1,554)
Prepaid and other	275	147
Other assets	(107)	132
Accounts payable	(151)	154
Accrued expenses and other liabilities	(415)	541
Deferred revenue	1,380	915
Deferred tax	(915)	--
Net cash provided by (used in) operating activities	954	(2,375)
Cash flows from investing activities:		
Proceeds from sales of short-term investments	23,169	--
Purchase of short-term investments	(24,709)	--
Purchase of property and equipment	(516)	(327)
Net cash used in investing activities	(2,056)	(327)
Cash flows from financing activities:		
Repayment on notes payable	--	(5,000)
Proceeds from exercise of common stock options	338	1,092
Repurchase of common stock	--	(13)
Repayment of notes receivable for common stock	85	--
Net cash provided by (used in) financing activities	423	(3,921)
Effect of foreign currency translation on cash flows	(59)	--
Net decrease in cash and cash equivalents	(738)	(6,632)
Cash and cash equivalents at beginning of period	30,607	13,486
Cash and cash equivalents at end of period	$ 29,869	$ 6,863
Supplemental disclosure of cash flow information:		
Stockholder notes receivable exchanged for common stock	$ --	$ 3,771

See the accompanying condensed notes to these consolidated financial tatements.

NUMERICAL TECHNOLOGIES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - GENERAL

The unaudited consolidated financial statements have been prepared by Numerical Technologies, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position, operating results and cash flows for those periods presented. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the years ended December 31, 2000, 1999 and 1998, included in the Company's form 10-K filed with the SEC on March 27, 2001. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for any other period or for the fiscal year, which ends December 31, 2001.

NOTE 2 - ACQUISITION

On October 27, 2000, the Company acquired Cadabra Design Automation Inc. (Cadabra), a limited liability company incorporated in Nova Scotia, Canada. Under the terms of the acquisition, the Company issued approximately 2,671,000 shares and 528,000 options to purchase the Company's common stock in exchange for all of the outstanding stock and as the assumption of all the outstanding options of Cadabra. The total purchase price was approximately $110.6 million, including acquisition costs of approximately $3.0 million. The acquisition was accounted for using the purchase method of accounting.

The allocation of the purchase price is as follows (in thousands):

Net tangible assets	$ 1,964
In process research and development	1,630
Developed technology	660
Customer base	5,040
Covenants not to compete	2,290
Work force	1,800
Goodwill	97,244
Total consideration	110,628
Deferred Stock Compensation	12,594
Total	$123,222

The estimated purchase price was allocated to the identifiable assets acquired and the liabilities assumed based upon the fair market value on the acquisition date. The net tangible assets consist primarily of accounts receivable, property and equipment, and other liabilities. Because the in-process technology had not reached the stage of technological feasibility at the acquisition date and had no alternative future use, the amount was immediately charged to operations. The amounts allocated to developed technology and customer base and trade name are amortized over the estimated useful life of five years. The amounts allocated to covenants not

5

to compete and work force are being amortized over the estimated useful lives of two and four years, respectively. The excess amount of the purchase price over the fair market value of the identifiable assets acquired is accounted for as goodwill and is being amortized over its estimated useful life of five years. The valuation for the intangible assets has been determined using management's assumptions and the report from an independent appraiser.

Had the acquisition of Cadabra occurred on January 1, 2000, pro forma combined revenues would have been $4,650 for the three months ended March 31, 2000. Pro forma net loss would have been $22,339,000 or $(2.39) per share. Pro forma adjustments have been added to record the amortization of identifiable intangible assets and goodwill and amortization of deferred stock compensation related to the acquisition of Cadabra as if the transaction occurred on January 1, 2000.

NOTE 3 - NET LOSS PER SHARE

Net income per share is computed in accordance with Financial Accounting Standards Board Statement No. 128 (SFAS 128), "Earnings Per Share," which requires the presentation of basic and diluted net income per share. Basic net income per share is calculated using the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated using the weighted average number of common shares and common stock equivalents, if dilutive, outstanding during the period. Common stock equivalents includes common shares issuable upon exercise of common stock, conversion of preferred stock and warrants. For the periods presented the Company had losses and therefore all common stock equivalents are excluded from the computation of diluted net loss per share because their effect is antidilutive.

NOTE 4 - COMPREHENSIVE INCOME (LOSS)

The Company adopted Statement of Financial Accounting Standards No. 130, ("FAS 130") "Reporting Comprehensive Income". FAS 130 establishes standards for reporting comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes accumulated translation adjustments. For the three month period ended March 31, 2001 and 2000, the components of comprehensive income are as follows:

	For the Three Months Ended March 31, (unaudited)	
	2001	2000
Net loss	$(16,196)	$(12,939)
Foreign currency translation adjustments	(59)	--
Total comprehensive loss	$(16,255)	$(12,939)

NOTE 5 - LITIGATION

The Company is subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. On March 14, 2000, ASML MaskTools, Inc. filed a complaint alleging we infringe two U.S. patents and have committed unfair or fraudulent business practice under the California Business and Professions Code. The Company is currently investigating the patents and allegations. This lawsuit is in early stages of discovery and no trial date has been set. Although the outcome of these claims cannot be predicted with certainty, management does not believe that any of these legal matters will have a material adverse effect on the Company's financial condition. Were an unfavorable ruling to occur, there exists the possibility of a material impact on the net income of the period in which ruling occurs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Certain information contained or incorporated by reference in this Quarterly Report on Form 10-Q is forward-looking in nature. All statements included or incorporated by reference in this Quarterly Report on Form 10-Q or made by our management, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding our future financial results, operating results, business strategies, projected costs, products, competitive positions and plans and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "would," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including without limitation those discussed in the section entitled "Factors That May Affect Our Future Results". These and many other factors could affect our future financial and operating results, and could cause actual results to differ materially from current expectations.

Results of Operations

Revenue. Revenue was $10.3 million for the three months ended March 31, 2001, representing an increase of 199% above the $3.5 million in the comparable three-month period in 2000. The increase was primarily due to the continued adoption of our software and proprietary technology solution by customers throughout the design-to-silicon flow, which was aided by our acquisition of Cadabra Design Automation, Inc., in October 2000.

Costs and Expenses

Cost of revenue. Cost of revenue for the three months ended March 31, 2001 increased 176% to $923,000 from $334,000 in the comparable three-month period in 2000. The increase was primarily due to increased cost for engineers associated with maintenance and technical services resulting from our increased customer base. Cost of revenue decreased as a percent of revenue from 10% to 9% for the three months ended March 31, 2000 and 2001 respectively. We anticipate that cost of revenue will increase in dollar amount as we support our expanding number of industry partners and customers and assist our research and development licensees to transition into production. To the extent our revenue increases or decreases due to, among other factors, those described above, our cost of revenue may increase or decrease.

Research and development. Research and development expenses for the three months ended March 31, 2001 increased 50% to $3.9 million from $2.6 million in the comparable three-month period in 2000. The increase was primarily due to increased cost associated with additional personnel acquired in the acquisition of Cadabra in October 2000 and, to a lesser degree, our expanding research and development efforts in subwavelength technologies and products. Research and development expenses decreased as a percent of revenues from 75% to 38% for the three months ended March 31, 2000 and 2001, respectively. We anticipate that we will continue to commit substantial resources to research and development in the future. We expect that research and development expenses will increase in dollar amounts to support increased research and development efforts, but decline as a percentage of revenue in the long term. Our research and development expenses, as a percentage of revenue, are dependent in part on our revenue. To the extent our revenue increases or decreases due to, among other factors, those described above, our research and development expenses as a percentage of revenue may increase or decrease.

7

Sales and marketing. Sales and marketing expenses for the three months ended March 31, 2001 increased 101% to $3.6 million from $1.8 million in the comparable three-month period in 2000. The increase was primarily due to the addition of sales and marketing personnel, increased sales commissions and higher trade show expenses, and to a lesser degree, the cost associated with additional personnel acquired in the acquisition of Cadabra in October 2000. Sales and marketing expenses decreased as a percent of revenue from 52% to 35% for the three months ended March 31, 2000 and 2001, respectively. We expect that sales and marketing expenses will increase in dollar amounts to support increased sales efforts, but decline as a percentage of revenue in the long term. Our sales and marketing expenses, as a percentage of revenue, are dependent in part on our revenue. To the extent our revenue increases or decreases due to, among other factors, those described above, our research and development expenses as a percentage of revenue may increase or decrease.

General and administrative. General and administrative expenses for the three months ended March 31, 2001 increased 86% to $1.6 million from $885,000 in the comparable three-month period in 2000. The increase was primarily the result of increased spending in personnel, personnel-related costs, professional fees and cost associated with being a public company, and to a lesser degree, the cost associated with additional personnel acquired in the acquisition of Cadabra in October 2000. General and administrative expenses decreased as a percent of revenues from 26% to 16% for the three months ended March 31, 2000 and 2001, respectively. We expect that general and administrative will increase in dollar amounts to support increased administrative efforts, but decline as a percentage of revenue in the long term. Our general and administrative expenses, as a percentage of revenue, are dependent in part on our revenue. To the extent our revenue increases or decreases due to, among other factors, those described above, our research and development expenses as a percentage of revenue may increase or decrease.

Depreciation and amortization. Depreciation and amortization expenses for the three months ended March 31, 2001 increased 147% to $12.4 million from $5.0 million in the comparable three-month period in 2000. The increase was primarily the result of amortization of goodwill and other intangible assets associated with the acquisition of Cadabra in October 2000.

Amortization of deferred stock compensation. Amortization of deferred stock was $5.2 million and $5.7 million for the three months ended March 31, 2000 and 2001, respectively. Deferred stock compensation represents the difference between the exercise price of options granted and the estimated fair market value of the underlying common stock on the date of the grant and to the deferred stock charge associated with the options assumed and shares issued subject to repurchase in connection with the acquisition of Cadabra in October 2000. Deferred stock compensation is being amortized over the vesting periods of the individual options or restricted stock using the multiple option method.

Interest Expense. Interest expense for the three months ended March 31, 2001 was $0 compared to $700,000 in the comparable three-month period in 2000. Interest expense related to the notes payable associated with the acquisition of Transcription Enterprises Limited in January 2000. We paid in full the outstanding principal and interest of these notes in the second quarter of 2000.

Interest income. Interest income for the three months ended March 31, 2001 increased 501% to $860,000 from $143,000 in the comparable three-month period in 2000. The increase was primarily due to higher average cash and short-term investment balances as a result of proceeds from our initial public offering in April 2000.

Benefit from income taxes. We recorded benefit for income taxes of $811,000 for the three months ended March 31, 2001, compared to $0 for the comparable three-month period in 2000. The tax benefit in 2001 is the result of the utilization of deferred tax liabilities associated with the amortization of intangible assets established as of result of acquisitions done in 2000.

Liquidity and Capital Resources

As of March 31, 2001, we had cash and cash equivalents and short term investments of $54.7 million. As of the same date, the we had working capital of $48.3 million, including deferred revenue of $7.7 million. Deferred revenue represents the excess of cash received from licensees over revenue recognized on license and maintenance contracts.

Net cash provided by operating activities was $954,000 during the three-month period ended March 31, 2001, compared with cash used in operating activities of $2.4 million in the comparable period in 2000. Net cash provided by operating activities in the three month period ended March 31, 2001 primarily reflects a net loss of $16.2 million, increases in accounts receivable of $1.0 million and decreases in deferred taxes of $915,000, offset by amortization of deferred stock compensation and intangibles of $17.7 million and increase in deferred revenue of $1.4 million.

Net cash used in investing activities was $2.1 million during the three month period ended March 31, 2001, compared with cash used in investing activities of $327,000 in the comparable period in 2000. Net cash used in the three month period ended March 31, 2001 consisted of net purchases of short term investments of $1.5 million and purchases of computer hardware and software, office furniture and equipment of $516,000. We expect to invest approximately $3.0 million in 2001 mainly for computer equipment, facilities and business systems upgrades.

Net cash provided by financing activities was $423,000 during the three month period ended March 31, 2001, compared with cash used in financing activities of $3.9 million in the comparable period in 2000. Net cash provided by financing activities in the three month period ended March 31, 2001 consisted of proceeds from common stock option activity of $338,000 and $85,000 from repayment of notes receivable from stockholders.

We are subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. On March 14, 2000, ASML MaskTools, Inc. filed a complaint alleging we infringe two U.S. patents and have committed unfair or fraudulent business practice under the California Business and Professions Code. We are currently investigating the patents and allegations. This lawsuit is in early stages of discovery and no trial date has been set. Although the outcome of these claims cannot be predicted with certainty, management does not believe that any of these legal matters will have a material adverse effect on our financial condition. Were an unfavorable ruling to occur, there exists the possibility of a material impact on the net income of the period in which ruling occurs.

We expect to experience significant growth in our operating expenses, particularly research and development and sales and marketing expenses, for the foreseeable future in order to execute our business strategy. As a result, we anticipate that such operating expenses, as well as planned capital expenditures, will constitute a material use of our cash resources. Our expenses are dependent in part on our level of revenue. In addition, we may utilize cash resources to fund acquisitions of, or investments in, complementary businesses, technologies or product lines. We believe that the net proceeds from the sale of the common stock in our initial public offering completed in April 2000, together with funds generated from operations, will be sufficient to meet our working capital requirements for at least the next 12 months. Thereafter, we may find it necessary to obtain additional equity or debt financing. In the event additional financing is required, we may not be able to raise it on acceptable terms or at all.

Factors Which May Affect Our Future Results

If key markets within the semiconductor industry, especially semiconductor manufacturers, do not adopt our proprietary technologies and software products, we may be unable to generate sales of our products.

If the four key markets within the semiconductor industry, which we believe are semiconductor manufacturing, semiconductor equipment manufacturing, photomask manufacturers and design, do not adopt our proprietary technologies and software products, our revenue could decline. We believe we design our technologies and products so that each key market within the semiconductor industry can work efficiently with the other markets. For example, if designers do not adopt our technologies and products, it will be more difficult for them to design

semiconductors which are understood and processed efficiently by mask manufacturers that do adopt our technologies and products.

In addition, we believe semiconductor manufacturers need to adopt our proprietary technologies and software products first in order to drive adoption by the other three markets. Semiconductor manufacturers define and develop the manufacturing process. While designers, mask manufacturers and equipment manufacturers are not required to adopt our technologies and products in order to work with semiconductor manufacturers that do adopt them, we believe the efficiency of the manufacturing process with respect to such designers, mask manufacturers and equipment manufacturers is diminished if they do not. If each key market of the semiconductor industry does not perceive our proprietary technologies and software products as the industry standard, our technologies and products could become less valuable and more difficult to license. Factors that may limit adoption of our subwavelength solution within the markets include:

- our current and potential industry partners and customers may fail to adopt our technologies and products;

- the semiconductor industry may not need subwavelength processes if there is a slowdown in semiconductor manufacturing or a decrease in the demand for smaller semiconductor feature sizes; and

- the industry may develop alternative methods to produce subwavelength features with existing capital equipment due to a rapidly evolving market and the likely emergence of new technologies.

We depend on the growth of the semiconductor industry and the current economic slowdown in this industry may cause a decrease in the demand for our proprietary technologies and software products and revenue.

We are dependent upon the general economic cycles of the semiconductor industry. Our ability to increase or even maintain our current revenue is largely dependent upon the continued demand by semiconductor manufacturers and each other key market within the semiconductor industry for integrated circuits, or ICs, and IC-related technologies. The semiconductor industry has from time to time experienced economic downturns characterized by decreased product demand, production over-capacity, price erosion, work slowdowns and layoffs. We believe the semiconductor industry is currently experiencing such an economic downturn and, as a result, the sales of our proprietary technologies and software products may decrease.

In order for potential industry partners and customers to adopt, and expend their own resources to implement, our technologies and products, we must expend significant marketing resources, with no guarantee of success.

Our proprietary technologies and software products involve a new approach to the subwavelength gap problem. As a result, we must employ intensive and sophisticated marketing and sales efforts to educate prospective industry partners and customers about the benefits of our technologies and products. Our sales and marketing expenses increased to $1.6 million in the first quarter of 2001 from $885,000 in the first quarter of 2000. In addition, even if our industry partners and customers adopt our proprietary technologies and software products, they must devote the resources necessary to fully integrate our technologies and products into their operations. This is especially true for our industry partners so that they can begin to resell and market our solution to their customers. If they do not make these expenditures, establishing our technologies and products as the industry standard to the subwavelength gap problem will be difficult.

Our limited operating history and dependence on new technologies make it difficult to evaluate our future prospects.

We only have a limited operating history on which you can base your valuation of our business. We face a number of risks as an emerging company in a new market. For example, the key markets within the semiconductor industry may fail to adopt our proprietary technologies and software products, or we may not be able to establish distribution channels. Our company incorporated in October 1995. In February 1997, we shipped our initial software product,

IC Workbench. We have only recently begun to expand our operations significantly. For example, we grew from 109 employees as of March 31, 2000 to 207 employees as of March 31, 2001.

We have a history of losses, we expect to incur losses in the future and we may be unable to achieve profitability.

We may not achieve profitability if our revenue increases more slowly than we expect or not at all. In addition, our operating expenses are largely fixed, and any shortfall in anticipated revenue in any given period could cause our operating results to decrease. We have not been profitable in any quarter, and our accumulated deficit was approximately $81.9 as of March 31, 2001. We expect to continue to incur significant operating expenses in connection with increased funding for research and development and expansion of our sales and marketing efforts. In addition, we expect to incur additional noncash charges relating to amortization of intangibles and deferred stock compensation. As a result, we will need to generate significant revenue to achieve and maintain profitability. If we do achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis.

We recently acquired Cadabra Design Automation Inc. If we are not successful in integrating Cadabra's products and operations with ours, our revenue and operating results could decline.

Our acquisition of Cadabra will only be successful if we are able to integrate its operations with ours, which could substantially divert management's attention from the day-to-day operations of the combined company. If we encounter any difficulties in the transition process, the revenue and operating results of our company could decline. We must successfully integrate Cadabra's products with ours. One of the elements of our strategy is to integrate our subwavelength solution with the Cadabra solution in order to offer design teams fast access to the processes that incorporate our subwavelength technologies. We must also focus our research and development and sales and marketing efforts to realize the technological benefits of this combination. If we are not able to integrate these solutions effectively or successfully, research and development and sales and marketing expenses could increase with no corresponding increase in revenue and our reputation could be harmed.

In addition, the process of combining our company with Cadabra could interrupt the activities of any or all of the companies' businesses. It is possible that we will not be able to retain Cadabra's key management, technical and sales personnel. The acquisition of Cadabra could also cause our industry partners and customers to be uncertain about our ability to support the combined companies' products and technologies and the direction of the combined companies' development efforts. In particular, semiconductor manufacturers, which have previously relied on and endorsed the Cadabra solution, must continue to rely on and endorse this solution under our combined company. As a result, these semiconductor manufacturers, as well as our other industry partners and customers, may delay or cancel these orders, which could significantly decrease our revenue and limit our ability to implement our combined business strategy.

Our acquisition of Transcription Enterprises Limited may increase the focus of the semiconductor industry on the manufacturing data preparation market, which could lead to a rapid and substantial increase in competition.

Our acquisition of Transcription may increase the semiconductor industry's awareness of the market for manufacturing data preparation software, which could lead to a substantial increase in the number of start-up companies that focus on software solutions for data preparation. Manufacturing data preparation software translates semiconductor designs into instructions that control manufacturing equipment. Potential competitors could pursue and execute partnership agreements with key industry partners we intend to pursue, which could make it difficult or impossible for us to develop relationships with these potential industry partners. In addition, some of our current competitors may increase their own research and development budgets relating to data preparation, or may more aggressively market competing solutions.

If we do not continue to introduce new technologies and software products or product enhancements ahead of rapid technological change in the market for subwavelength solutions, our operating results could decline and we could lose our competitive position.

We must continually devote significant engineering resources to enable us to introduce new technologies and software products or product enhancements to address the evolving needs of key markets within the semiconductor industry in solving the subwavelength gap problem. We must introduce these innovations and the key markets within the semiconductor industry must adopt them before changes in the semiconductor industry, such as the introduction by our current and potential competitors of more advanced products or the emergence of alternative technologies, render the innovations obsolete, which could cause us to lose our competitive position. These innovations are inherently complex, require long development cycles and a substantial investment before we can determine their commercial viability. Moreover, designers, mask manufacturers and equipment manufacturers must each respond to the demand of the market to design and manufacture masks and equipment for increasingly smaller and complex semiconductors. Our innovations must be viable and meet the needs of these key markets within the semiconductor industry before the consumer market demands even smaller semiconductors, rendering the innovations obsolete. We may not have the financial resources necessary to fund any future innovations. In addition, any revenue that we receive from enhancements or new generations of our proprietary technologies and software products may be less than the costs of development.

We rely on Cadence Design Systems, Inc. for a substantial amount of our revenue, and if our contracts with Cadence were terminated or not extended or renewed, or if the fees we are to receive are reduced, we would need to replace this revenue through other sources.

We have two agreements with Cadence with initial two-year terms that run through 2002 to 2003, respectively. If these contracts were to be terminated or not extended or renewed, or if the fees we are to receive are reduced, we could lose a material portion of our revenue. We would need to replace this revenue with revenue from other customers by increasing the sale of our proprietary technologies and software products to our current customers and industry partners, or by entering into new contracts with new customers either of which would result in an unexpected diversion of management efforts and possible increases to operating expenses, with no immediate increase in revenue. For 2000, Cadence was responsible for approximately 24% of our total revenue.

Fluctuations in our quarterly operating results may cause our stock price to decline.

It is likely that our future quarterly operating results may fluctuate from time to time and may not meet the expectations of securities analysts and investors in some future period. As a result, the price of our common stock could decline. Historically, our quarterly operating results have fluctuated. We may experience significant fluctuations in future quarterly operating results. The following factors may cause these fluctuations:

- our recent acquisition of Transcription and Cadabra, as well as future potential acquisitions by us;
- the timing and structure of our product license agreements; and
- changes in the level of our operating expenses to support our projected growth.

The accounting rules regarding revenue recognition may cause fluctuations in our revenue independent of our booking position.

The accounting rules we are required to follow require us to recognize revenue only when certain criteria are met. As a result, for a given quarter it is possible for us to fall short in our revenue and/or earnings estimates even though total orders are according to our plan or, conversely, to meet our revenue and/or earnings estimates even though total orders fall short of our plan, due to revenue produced by deferred revenue. Orders for software support and professional services yield revenue over multiple quarters, often extending beyond the current fiscal year, or upon completion of performance rather than at the time of sale. The specific terms agreed to with a customer and/or any changes to the rules interpreting such terms may have the effect of requiring deferral of product revenue in whole or in part or, alternatively, of requiring us to accelerate the recognition of such revenue for products to be used over multiple years.

We intend to pursue new, and maintain our current, industry partner relationships, which could substantially divert management attention and resources, with no guarantee of success.

We expect to derive significant benefits, including increased revenue and customer awareness, from our current and potential industry partner relationships. In our pursuit to maintain and establish partner relationships within each of the key markets in the semiconductor industry, we could expend significant management attention, resources and sales personnel efforts, with no guarantee of success. To establish and maintain our partner relationships, we expend our limited financial resources on increasing our sales and business development personnel, trade shows and marketing within trade publications. If we did not have to pursue potential industry partners, we could focus these resources exclusively on direct sales to our customers. In addition, through our partner relationships, our partners resell, market, either jointly with us or unilaterally, and promote our technologies and products. If these relationships terminate, such as due to our material breach of the contracts or the partners' election to cancel the contract, which generally is permissible with prior notice to us, we would have to increase our own limited marketing and sales resources for these activities. Further, we may be unable to enter into new industry partner relationships if any of the following occur:

- current or potential industry partners develop their own solutions to the subwavelength gap problem; or

- our current or potential competitors establish relationships with industry partners with which we seek to establish a relationship.

We have only recently entered into many of our current partner relationships. These relationships may not continue or they may not be successful. We also may be unable to find additional suitable industry partners.

Many of our current competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do and as a result, they may acquire a significant market share before we do.

Our current competitors, or alliances among these competitors, may rapidly acquire significant market share. These competitors may have greater name recognition and more customers which they could use to gain market share to our detriment. We encounter direct competition from other direct providers of phase shifting, optical proximity correction, or OPC, manufacturing data and automated cell generation technologies. These competitors include such companies as Avant!, Mentor Graphics and Prolific, Inc. We also compete with companies that have developed or have the ability to develop their own proprietary phase shifting and OPC solutions, such as IBM. These companies may wish to promote their internally developed products and may be reluctant to purchase products from us or other independent vendors. Our competitors may offer a wider range of products than we do and thus may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. These competitors may also be able to undertake more extensive promotional activities, offer more attractive terms to customers than we do and adopt more aggressive pricing policies. Moreover, our competitors may establish relationships among themselves or with industry partners to enhance their services, including industry partners with which we may desire to establish a relationship.

The market for software solutions that address the subwavelength gap problem is new and rapidly evolving. We expect competition to intensify in the future, which could slow our ability to grow or execute our strategy.

We believe that the demand for solutions to the subwavelength gap problem may encourage many competitors to enter into our market. As the market for software solutions to the subwavelength gap problem proliferates, if our competitors are able to attract industry partners or customers on a more accelerated pace than we can and retain them more effectively, we would not be able to grow and execute our strategy as quickly. In addition, if customer preferences shift away from our technologies and software products as a result of the increase in competition, we must develop new proprietary technologies and software products to address these new customer demands. This could result in the diversion of management attention or our development of new technologies and products may be blocked by other companies' patents. We must offer better products, customer support, prices and response time, or a combination of these factors, than those of our potential competitors.

We are growing rapidly and must effectively manage and support our growth in order for our business strategy to succeed.

We have grown rapidly and will need to continue to grow in all areas of operation. If we are unable to successfully integrate and support our existing and new employees, including those employees added as a result of our acquisition of Cadabra, into our operations, we may be unable to implement our business strategy in the time frame we anticipate, or at all. In addition, building and managing the support necessary for our growth places significant demands on our management as well as our limited revenue. These demands have, and may continue to, divert these resources away from the continued growth of our business and implementation of our business strategy. Further, we must adequately train our new personnel, especially our technical support personnel, to adequately, and accurately, respond to and support our industry partners and customers. If we fail to do this, it could lead to dissatisfaction among our partners or customers, which could slow our growth.

We must continually attract and retain engineering personnel or we will be unable to execute our business strategy.

We have experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled engineers with appropriate qualifications to support our rapid growth and expansion. We must continually enhance and introduce new generations of our phase shifting and OPC technologies. As a result, our future success depends in part on our ability to identify, attract, retain and motivate qualified engineering personnel with the requisite educational background and industry experience. If we lose the services of a significant number of our engineers, it could disrupt our ability to implement our business strategy. Competition for qualified engineers is intense, especially in the Silicon Valley where our headquarters are located.

Our chief executive officer and chief technology officer, as well as the co-founders of Transcription and the key executive officers of Cadabra, are critical to our business and they may not remain with us in the future.

Our future success will depend to a significant extent on the continued services of Y. C. (Buno) Pati, our President and Chief Executive Officer; Yao-Ting Wang, our Chief Technology Officer and Senior Vice President of Engineering; Roger Sturgeon, one of our directors and a senior executive of Transcription; Kevin MacLean, Senior Vice President and General Manager of Transcription; Faysal Sohail, Senior Vice President of Worldwide Field Operations and Martin Lefebrve, a member of our Office of Technology and senior executive of Cadabra. If we lose the services of any of these key executives, it could slow our product development processes and searching for their replacements could divert our other senior management's time and increase our operating expenses. In addition, our industry partners and customers could become concerned about our future operations, which could injure our reputation. We do not have long-term employment agreements with these executives and we do not maintain any key person life insurance policies on their lives.

If we fail to protect our intellectual property rights, competitors may be able to use our technologies which could weaken our competitive position, reduce our revenue or increase our costs.

Our success depends heavily upon proprietary technologies, specifically our patent portfolio. The rights granted under our patents and patent applications may not provide competitive advantages to us. In addition, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. As a result of any such litigation, we could lose our proprietary rights and incur substantial unexpected operating costs. Litigation could also divert our resources, including our managerial and engineering resources. We rely primarily on a combination of patents, copyrights, trademarks and trade secrets to protect our proprietary rights and prevent competitors from using our proprietary technologies in their products. These laws and procedures provide only limited protection. Our pending patent applications may not result in issued patents, and our existing and future patents may not be sufficiently broad to protect our proprietary technologies. Also, patent protection in foreign countries may be limited or unavailable where we have filed for and need such protection. Furthermore, if we fail to adequately protect our trademark rights, this could impair our brand identity and ability to compete effectively. If we do not successfully protect our trademark rights, this could force

us to incur costs to re-establish our name or our product names, including significant marketing activities.

If third parties assert that our proprietary technologies and software products infringe their intellectual property rights, this could injure our reputation and limit our ability to license or sell our proprietary technologies or software products.

Third parties, for competitive or other reasons, could assert that our proprietary technologies and software products infringe their intellectual property rights. These claims could injure our reputation and decrease or block our ability to license or sell our software products. For example, on March 14, 2000, ASML MaskTools, Inc. filed a complaint alleging we infringe two U.S. patents and have committed unfair or fraudulent business practice under the California Business and Professions Code. We are currently investigating the patents and allegations. The defense of these claims could divert management's attention from the day to day operations of our company, as well as divert resources from current planned uses, such as hiring and supporting additional engineering personnel. Litigation is inherently uncertain, and an adverse decision could limit our ability to offer some features in our OPC product. In addition, third parties have advised us of literature which they believe to be relevant to our patents. It is possible that this literature or literature we may be advised of in the future could negatively affect the scope or enforceability of our present or future patents and/or result in costly litigation. In addition, we are aware of and are evaluating certain patents with which our products, patents or patent applications may conflict. If any of these patents are found to be valid, and we are unable to license such patents on reasonable terms, or if our products, patents, or patent applications are found to conflict with these patents, we could be prevented from selling our products, our patents may be declared invalid or our patent applications may not result in issued patents. In addition, a company could invite us to take a patent license. If we do not take the license, the requesting company could contact our industry partners or customers and suggest that they not use our software products because we are not licensed under their patents. This action by the requesting company could affect our relationships with these industry partners and customers and may prevent future industry partners and customers from licensing our software products. The intensely competitive nature of our industry and the important nature of our technologies to our competitors' businesses may contribute to the likelihood of being subject to third party claims of this nature.

Any potential dispute involving our patents or other intellectual property could include our industry partners and customers, which could trigger our indemnification obligations with them and result in substantial expense to us.

In any potential dispute involving our patents or other intellectual property, our licensees could also become the target of litigation. This could trigger our technical support and indemnification obligations in some of our license agreements which could result in substantial expense to us. In addition to the time and expense required for us to supply such support or indemnification to our licensees, any such litigation could severely disrupt or shut down the business of our licensees, which in turn could hurt our relations with our customers and cause the sale of our proprietary technologies and software products to decrease.

Defects in our proprietary technologies and software products could decrease our revenue and our competitive market share.

If our industry partners and customers discover any defects after they implement our proprietary technologies and software products, these defects could significantly decrease the market acceptance and sales of our software products, which could decrease our competitive market share. Any actual or perceived defects with our proprietary technologies and software products may also hinder our ability to attract or retain industry partners or customers, leading to a decrease in our revenue. These defects are frequently found during the period following introduction of new products or enhancements to existing products. Despite testing prior to introduction, our software products may contain software errors not discovered until after customer implementation. If our software products contain errors or defects, it could require us to expend significant resources to alleviate these problems, which could result in the diversion of technical and other resources from our other development efforts.

We face operational and financial risks associated with international operations.

We derive an increasingly significant portion of our revenue from international sales. In the first quarter of 2001, compared to the first quarter of 2000, the breakdown of our revenue by geographic region, as a percentage of our total revenue, was North America, 54% and 64%, Asia, 36% and 28%, Europe, 8% and 7%, and other, 2% and 1%, respectively. In addition, as a result of our acquisition of Cadabra, a Nova Scotia limited liability company, 50 of our 207 employees as of March 31, 2001 were located in Ontario, Canada. We have only limited experience in developing, marketing, selling and supporting our proprietary technologies and software products, and managing our employees and operations, internationally. We may not succeed in maintaining or expanding our international operations, which could slow our revenue growth. We are subject to risks inherent in doing business in international markets. These risks include:

- fluctuations in exchange rates which may negatively affect our operating results;

- export controls which could prevent us from shipping our software products into and from some markets;

- changes in import/export duties and quotas could affect the competitive pricing of our software products and reduce our market share in some countries;

- compliance with and unexpected changes in a wide variety of foreign laws and regulatory environments with which we are not familiar;

- greater difficulty in collecting accounts receivable resulting in longer collection periods; and

- economic or political instability.

We may be unable to continue to market our proprietary technologies and software products successfully in international markets.

Our operations are primarily located in California and, as a result, are subject to power loss and other natural disasters.

Our business operations depend on our ability to maintain and protect our facilities, computer systems and personnel, which are primarily located in or near our principal headquarters in San Jose, California. California is currently experiencing power outages due to a shortage in the supply of power within the state. In the event of an acute power shortage, California has on some occasions implemented, and may in the future continue to implement, rolling blackouts throughout California. We currently do not have backup generators or alternate sources of power in the event of a blackout, and our current insurance does not provide coverage for any damages we or our customers or industry partners may suffer as a result of any interruption in our power supply. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at our facilities. Any such interruption in our ability to continue operations at our facilities could damage our reputation, harm our ability to retain existing customers and industry partners, or obtain new customers or industry partners, and could result in loss of revenue. Furthermore, the deregulation of the energy industry in California has caused power prices to increase. If wholesale prices continue to increase, our operating expenses will likely increase. In addition, San Jose exists on or near a known earthquake fault zone. Our facilities are susceptible to damage from earthquakes and other natural disasters, such as fires, floods and similar events. Although we maintain general business insurance against fires and some general business interruptions, there can be no assurance that the amount of coverage will be adequate in any particular case.

We may need to raise additional funds to support our growth or execute our strategy and if we are unable to do so, we may be unable to develop or enhance our proprietary technologies and software products, respond to competitive pressures or acquire desired businesses or technologies.

We currently anticipate that our available cash resources will be sufficient to meet our presently anticipated working capital and capital expenditure requirements for at least the next 12 months. However, we may need to raise additional funds in order to:

- support more rapid expansion;
- develop new or enhanced products;
- respond to competitive pressures; or
- acquire complementary businesses or technologies.

These factors will impact our future capital requirements and the adequacy of our available funds. We may need to raise additional funds through public or private financings, strategic relationships or other arrangements.

We may be unable to consummate other potential acquisitions or investments or successfully integrate them with our business, which may slow our ability to expand the range of our proprietary technologies and software products.

To expand the range of our proprietary technologies and software products, we recently acquired Transcription and Cadabra, and we may acquire or make investments in additional complementary businesses, technologies or products if appropriate opportunities arise. We may be unable to identify suitable acquisition or investment candidates at reasonable prices or on reasonable terms, or consummate future acquisitions or investments, each of which could slow our growth strategy. If we do acquire additional companies or make other types of acquisitions, we may have difficulty integrating the acquired products, personnel or technologies. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses.

The market price of our common stock has been and may continue to be volatile and could decline.

The market price of our common stock has fluctuated in response to factors, some of which are beyond our control, including:

- changes in market valuations of other technology companies;
- conditions or trends in the semiconductor industry;
- actual or anticipated fluctuations in our operating results;
- any deviations in net revenue or in losses from levels expected by securities analysts;
- announcements by us or our competitors of significant technical innovations, contracts, acquisitions or partnerships;
- volume fluctuations, which are particularly common among highly volatile securities of technology related companies; and
- departures of key personnel.

General political or economic conditions, such as recession or interest rate or currency rate fluctuations in the United States or abroad, also could cause the market price of our common stock to decline.

The fluctuations in our stock price could result in securities class action litigation, which could result in substantial costs and diversion of our resources.

Volatility in the market price of our common stock could result in securities class action litigation. Any litigation would likely result in substantial costs and a diversion of management's attention and resources. The share prices of technology companies' stocks have been highly volatile and have recorded lows well below their historical highs. As a result, investors in these companies often buy the stock at high prices only to see the price drop a short time later, resulting in a drop in value in the stock holdings of these investors. Our stock may not trade at the same levels as other technology stocks, or at its historical prices.

Item 3. Quantitative and Qualitative Disclosure about Market Risk.

Our exposure to market risk for changes in interest rates relate primarily to our investment portfolio. We do not use derivative financial instruments for speculative or trading purposes. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy. The policy also limits the amount of credit exposure to any one issuer and type of instrument. We do not expect any material loss with respect to our investment portfolio.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

(d) Use of Proceeds from Registered Securities

In April 2000, we sold a total of 6,364,100 shares of common stock (the total amount registered) at $14.00 per share through our initial public offering pursuant to a registration statement on Form S-1 declared effective by the Securities and Exchange Commission on April 6, 2000 (333-95695). The initial public offering commenced on April 7, 2000 and the net proceeds, after underwriters' commission and fees and other costs of an estimated $7.9 million associated with the offering, totaled approximately $81.2 million.

Since April 12, 2000 (the closing date of the initial public offering), we have used an estimated $35.9 million of the net proceeds from the Company's initial public offering to fund operating expenses and increase working capital, $2.1 million to purchase and install machinery and equipment, and $30.2 million to pay the balance of principal and accrued interest under the notes payable issued in connection with the acquisition of Transcription in January 2000. We have placed approximately $13.0 million in short-term, interest-bearing, investment grade securities pending future use.

No payments constituted direct or indirect payments to our directors, officers, general partners or their associates, or to persons owning ten percent or more of any class of our equity securities or our affiliates.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

The exhibits listed in the accompanying Index to Exhibits are incorporated by reference as part of this Form 10-Q.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the quarter ending March 31, 2001.

SIGNATURES

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

NUMERICAL TECHNOLOGIES, INC.

Dated April 27, 2001

By: /s/ Richard S. Mora
Richard S. Mora
Chief Financial Officer
(duly authorized officer and principal financial accounting officer)

INDEX TO EXHIBITS

These Exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K:

EXHIBIT NUMBER	DESCRIPTION
2.1	Agreement and Plan of Reorganization, dated as of December 21, 1999, between the registrant, Transcription Enterprises Limited, Transcription Enterprises, Inc., Kevin MacLean and Roger Sturgeon.*
2.2	Agreement and Plan of Merger between the registrant and Numerical Technologies, Inc., a Delaware corporation.*
2.3	Agreement and Plan of Amalgamation, dated as of September 5, 2000, by and among Numerical Technologies, Inc., Numerical Nova Scotia Company, Numerical Acquisition Limited, 3047725 Nova Scotia Limited, Cadabra Design Automation Inc., Martin Lefebvre, and Faysal Sohail. ***
3.2	Amended and Restated Certificate of Incorporation of registrant.*
3.3	Bylaws of registrant.*
4.1	Form of registrant's common stock certificate.*
4.2	1999 Second Amended and Restated Shareholders Rights Agreement, dated January 1, 2000, between the registrant and the parties named therein, as amended on January 14, 2000.*
10.1	Form of Indemnification Agreement entered into by registrant with each of its directors and executive officers.*
10.2	2000 Stock Plan and related agreements.*
10.3	1997 Stock Plan and related agreements.*
10.4	2000 Employee Stock Purchase Plan and related agreements.*
10.5	Lease Agreement, dated June 15, 1999, by and between the registrant and CarrAmerica Realty Corporation.*
10.6	Lease Agreement, dated May 10, 1990, between Transcription Enterprises, Inc. and Los Gatos Business Park.*

10.7 Employment Agreement, dated January 1, 2000, by and between Transcription Enterprises, Inc. and Roger Sturgeon.*
10.8 Employment Agreement, dated January 1, 2000, by and between Transcription Enterprises, Inc. and Kevin MacLean.*
10.9 Non-Competition Agreement, dated January 1, 2000, by and between Numerical Technologies, Inc., Transcription Enterprises, Inc., Transcription Enterprises Limited and Roger Sturgeon.*
10.10 Non-Competition Agreement, dated January 1, 2000, by and between Numerical Technologies, Inc., Transcription Enterprises, Inc., Transcription Enterprises Limited and Kevin MacLean.*
10.11 Stock Option Agreement--Early Exercise, dated November 2, 1999, by and between the registrant and William Davidow.*
10.12 Stock Option Agreement--Early Exercise, dated May 26, 1999, by and between the registrant and Richard Mora.*
10.13 Stock Option Agreement--Early Exercise, dated December 27, 1999, by and between the registrant and Richard Mora.*
10.14 Stock Option Agreement--Early Exercise, dated March 31, 1999, by and between the registrant and Atul Sharan.*
10.15 Stock Option Agreement--Early Exercise, dated December 27, 1999, by and between the registrant and Atul Sharan.*
10.16 Stock Option Agreement--Early Exercise, dated February 3, 1999, by and between the registrant and Lars Herlitz.*
10.17 Stock Option Agreement--Early Exercise, dated December 27, 1999, by and between the registrant and Lars Herlitz.*
10.18 Stock Option Agreement--Early Exercise, dated November 17, 1999, by and between the registrant and John Traub.*
10.19 Stock Option Agreement--Early Exercise, dated December 27, 1999, by and between the registrant and John Traub.*
10.20 Stock Option Agreement--Early Exercise, dated July 15, 1998, between the registrant and Harvey Jones.*
10.21 License Agreement, dated as of October 1, 1999, between registrant and

Cadence Design Systems, Inc.*+
10.22 OEM Software License Agreement, dated December 31, 1997, between registrant and Zygo Corporation (fka Technical Instrument Company).*+
10.23 Addendum to OEM Software License Agreement, dated March 25, 1999, between registrant and Zygo Corporation.*
10.24 Software Production and Distribution Agreement, dated January 9, 1998, between registrant and KLA-Tencor Corporation.*+
10.25 License Agreement, dated December 23, 1999, between registrant and Seiko Instruments, Inc.*#
10.26 Development and Distribution Agreement, dated October 1, 1991, between Transcription Enterprises Limited and KLA Instruments Corporation.*+
10.27 Addendum Number One to Development and Distribution Agreement, dated December 27, 1999, between Transcription Enterprises Limited and KLA Instruments Corporation.*+
10.28 Stock Option Agreement--Early Exercise, dated February 1, 2000, by and between the registrant and Roger Sturgeon.*
10.29 Stock Option Agreement--Early Exercise, dated February 1, 2000, by and between the registrant and Kevin MacLean.*
10.30 Stock Option Agreement--Early Exercise, dated February 10, 2000, by and between the registrant and Y.C. (Buno) Pati.*
10.31 Stock Option Agreement--Early Exercise, dated February 10, 2000, by and between the registrant and Yao-Ting Wang.*
10.32 Stock Option Agreement--Early Exercise, dated October 23, 1998, by and between the registrant and Atul Sharan.*
10.33 Amendment No. 1 to Lars Herlitz' Stock Option Agreements dated February 3, 1999 and December 27, 1999, dated as of January 24, 2000, by and between the registrant and Lars Herlitz.*

10.34 Amendment No. 1 to Atul Sharan's Stock Option Agreements dated October 23, 1998, March 31, 1999 and December 27, 1999, dated as of January 24, 2000, by and between the registrant and Atul Sharan.*

10.35 Amendment No. 1 to John Traub's Stock Option Agreements dated November 17, 1999 and December 27, 1999, dated as of January 24, 2000, by and between the registrant and John Traub.*

10.36 Stock Option Agreement--Early Exercise, dated February 10, 2000, by and between the registrant and Naren Gupta.*

10.37 PSM Software Development and License Agreement, dated as of March 10, 2000, by and between registrant and Cadence Design Systems, Inc.*+

10.38 License Agreement, dated March 1, 2000, between registrant and Motorola, Inc.**+

10.39 Production License Agreement, dated December 31, 2000, between registrant and United Microelectronics Corporation.****+

* Incorporated by reference to registration statement on Form S-1 (333-95695) as declared effective by the Securities and Exchange Commission on April 6, 2000.

** Incorporated by reference to registration statement on Form 10-Q as filed with the Securities and Exchange Commission on May 12, 2000.

*** Incorporated by reference to the current report on Form 8-K as filed with the Securities and Exchange Commission on September 15, 2000.

**** Incorporated by reference to the registrant's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 27, 2001.

+ Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.