Ares Commercial Real Estate Corp
Form DEF 14A
April 30, 2014

QuickLinks -- Click here to rapidly navigate through this document

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

**ARES COMMERCIAL REAL ESTATE CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

---

# Ares Commercial Real Estate Corporation

**One North Wacker Drive, 48th Floor**
**Chicago, IL 60606**

April 30, 2014

Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders (the "Annual Meeting") of Ares Commercial Real Estate Corporation (the "Company") to be held on June 26, 2014 at 11:00 a.m., Eastern Daylight Time, at the offices of Proskauer Rose LLP, Eleven Times Square, New York, New York 10036.

At the Annual Meeting, you will be asked to (i) elect three directors of the Company and (ii) ratify the selection of Ernst &Young LLP as the Company's independent registered public accounting firm, each as more fully described in the accompanying proxy statement.

Your vote is important regardless of the number of shares you own.

This year, we will be using the "Notice and Access" method of providing proxy materials to stockholders. We believe that this process will provide a convenient and quick way to access the proxy materials, including the Company's proxy statement and 2013 annual report to stockholders, and authorize a proxy to vote your shares, while allowing us to conserve natural resources and reduce the costs of printing and distributing the proxy materials.

On or about May 8, 2014, the Company will mail to stockholders a Notice of Internet Availability of Proxy Materials, which we refer to as the Notice and Access card, containing instructions on how to access the proxy statement and 2013 annual report to stockholders and authorize a proxy to vote electronically via the Internet or by telephone. The Notice and Access card also contains instructions as to how stockholders can receive a paper copy of the proxy materials and authorize a proxy to vote by mail.

**If you hold shares of the Company's common stock in "street name" through a broker, bank or other institution or nominee, you must follow the instructions provided by your broker or other financial institution regarding how to instruct your broker or financial institution to vote your shares.**

We urge you to submit your proxy voting instructions to the Company as soon as possible even if you currently plan to attend the Annual Meeting. This will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend the Annual Meeting.

On behalf of your board of directors, thank you for your continued interest and support.

Sincerely,

/s/ JOHN B. BARTLING, JR.

John B. Bartling, Jr.
*Chairman of the Board of Directors*

# Ares Commercial Real Estate Corporation

**One North Wacker Drive, 48th Floor**
**Chicago, IL 60606**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**
**TO BE HELD ON JUNE 26, 2014**

To the Stockholders of Ares Commercial Real Estate Corporation:

Notice is hereby given that the 2014 Annual Meeting of Stockholders (the "Annual Meeting") of Ares Commercial Real Estate Corporation, a Maryland corporation (the "Company"), will be held on June 26, 2014 at 11:00 a.m., Eastern Daylight Time, at the offices of Proskauer Rose LLP, Eleven Times Square, New York, New York 10036 for the following purposes:

1. To elect three directors to serve until the Company's 2017 annual meeting of stockholders, and until their successors are duly elected and qualify;

2. To consider and vote upon the ratification of the selection of Ernst &Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2014; and

3. To consider and take action upon such other matters as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only the holders of record of shares of common stock of the Company at the close of business on the record date, April 28, 2014, will be entitled to receive notice of and vote at the Annual Meeting or any adjournment or postponement thereof.

Your vote is important regardless of the number of shares you own. Accordingly, we urge you to promptly submit your proxy voting instructions even if you currently plan to attend the Annual Meeting. This will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend the Annual Meeting.

You have the option to revoke your proxy at any time prior to the Annual Meeting, or to vote your shares personally on request if you attend the Annual Meeting. If there are not sufficient votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the Annual Meeting, the meeting may be adjourned in order to permit further solicitation of proxies by the Company.

**If you hold shares of the Company's common stock in "street name" through a broker, bank or other institution or nominee, you must follow the instructions provided by your broker or other financial institution regarding how to instruct your broker or financial institution to vote your shares.**

**Your proxy is being solicited by the Company's board of directors. The board of directors recommends that you vote FOR the election of the three directors listed in the accompanying proxy statement to serve until the Company's 2017 annual meeting of stockholders, and until their successors are duly elected and qualify and FOR the ratification of the selection of Ernst &Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2014.**

By Order of the Board of Directors,

/s/ ANTON FEINGOLD

Anton Feingold
*Secretary*

Chicago, Illinois
April 30, 2014

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held June 26, 2014:** The Proxy Statement and the Company's 2013 Annual Report are available at: http://materials.proxyvote.com/04013V.

# Ares Commercial Real Estate Corporation

**One North Wacker Drive, 48th Floor**
**Chicago, IL 60606**

**PROXY STATEMENT FOR**
**2014 ANNUAL MEETING OF STOCKHOLDERS**

This proxy statement is being furnished to stockholders in connection with the solicitation of proxies by the board of directors (the "Board") of Ares Commercial Real Estate Corporation, a Maryland corporation (the "Company," "we," "us" or "our"), for use at the 2014 Annual Meeting of Stockholders (the "Annual Meeting") to be held on June 26, 2014 at 11:00 a.m., Eastern Daylight Time, at the offices of Proskauer Rose LLP, Eleven Times Square, New York, New York 10036 or at any adjournment or postponement thereof. This proxy statement, the notice of annual meeting of stockholders and the related proxy card are first being made available to our stockholders on or about April 30, 2014.

This proxy statement is accompanied by our 2013 Annual Report which includes audited financial statements for the year ended December 31, 2013 audited by Ernst &Young LLP, our independent registered public accounting firm, and their report thereon, dated March 17, 2014.

We encourage you to vote your shares, either by voting in person at the Annual Meeting or by granting a proxy (i.e., authorizing someone to vote your shares). If you properly authorize your proxy and we receive it in time for the Annual Meeting, the persons named as proxies will vote the shares registered directly in your name in the manner that you specify. **If you return an executed proxy, but no specification is made, the votes entitled to be cast by you will be cast FOR the election of the three directors listed in the accompanying proxy statement to serve until our 2017 annual meeting of stockholders, and until their successors are duly elected and qualify and FOR the ratification of the selection of Ernst &Young LLP as our independent registered public accounting firm for the year ending December 31, 2014. As to any other business which may properly come before the Annual Meeting or any postponements or adjournments thereof, the persons named as proxy holders on your proxy card will vote the shares of common stock represented by properly submitted proxies in their discretion.**

Any stockholder "of record" (i.e., stockholders holding shares directly in their name) giving a valid proxy for the Annual Meeting may revoke it before it is exercised by giving a later-dated properly executed proxy, by giving notice of revocation to us in writing before or at the Annual Meeting or by attending the Annual Meeting and voting in person. However, the mere presence of the stockholder at the Annual Meeting does not revoke the proxy. If you hold shares of our common stock in "street name" through a broker, bank or other institution or nominee, you may vote such shares at the Annual Meeting only if you obtain proper written authority from your broker, bank or other institution or nominee and present it at the Annual Meeting. If your shares are held for your account by a broker, bank or other institution or nominee, to revoke any voting instructions prior to the time the vote is taken at the Annual Meeting, you must contact such broker, bank or other institution or nominee to determine how to revoke your vote in accordance with their policies a sufficient time in advance of the Annual Meeting.

Unless revoked as stated above, the shares of common stock represented by valid proxies will be voted on all matters to be acted upon at the Annual Meeting. With respect to the election of directors, proxies cannot be voted for a greater number of persons than the number of nominees named.

The Board is not aware of any matter to be presented for action at the Annual Meeting other than the matters set forth herein. Should any other matter requiring a vote of stockholders arise, it is the intention of the persons named in the proxy to vote in accordance with their discretion on such matters. Stockholders have no dissenters' or appraisal rights in connection with any of the proposals described herein.

The record date for determination of stockholders entitled to vote at the Annual Meeting is the close of business on April 28, 2014. As of the close of business on April 28, 2014, there were 28,589,634 shares of our common stock outstanding. Each share of common stock has one vote. The presence, in person or by proxy, of the holders of shares of common stock entitled to cast a majority of the votes entitled to be cast shall constitute a quorum for the purposes of the Annual Meeting. If there are not sufficient votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the Annual Meeting, the chairman of the meeting may adjourn the Annual Meeting in order to permit further solicitation of proxies. Abstentions and broker non-votes will be deemed to be present for the purpose of determining a quorum for the Annual Meeting. A broker non-vote occurs when a nominee holding shares for a beneficial owner (i.e. a broker) does not vote on a particular proposal because such nominee does not have discretionary voting power for that particular matter and has not received instructions from the beneficial owner. Under the rules of the New York Stock Exchange ("NYSE"), the only item to be acted upon at the Annual Meeting with respect to which a broker or nominee will be permitted to exercise voting discretion is the ratification of the appointment of Ernst &Young LLP as our independent registered public accounting firm for the year ending December 31, 2014. Therefore, if you hold your shares in "street name" and do not give the broker or nominee specific voting instructions on the election of the three directors, your shares will not be voted on those items, and a broker non-vote will occur. Broker non-votes will have no effect on the voting results for such items.

The affirmative vote of a plurality of the votes cast at a meeting at which a quorum is present is required under our Amended and Restated Bylaws (the "Bylaws") to approve Proposal 1 (the election of three directors to serve until our 2017 annual meeting of stockholders and until their successors are duly elected and qualify). This means that the nominees with the most votes are elected. Votes "withheld" from one or more nominees therefore will have no effect on the outcome of the vote with respect to the election of directors. For purposes of the vote on Proposal 1, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote.

The affirmative vote of at least a majority of all of the votes cast at a meeting at which a quorum is present is required for approval of Proposal 2 (to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm). For purposes of the vote on Proposal 2, abstentions will not be counted as votes cast and will have no effect on the result of the vote.

We will bear the cost of solicitation of proxies in relation to this proxy statement. Proxies will be solicited by mail, by telephone, by electronic mail or by facsimile, telegram or other electronic means or by requesting brokers and other custodians, nominees and fiduciaries to forward proxy soliciting material to the beneficial owners of shares of common stock held of record by such brokers, custodians, nominees and fiduciaries, each of whom we will reimburse for its expenses in so doing. In addition to the use of mail, directors, officers and regular employees of Ares Commercial Real Estate Management LLC, our external manager (our "Manager"), without special compensation therefor, may solicit proxies personally, by telephone, by electronic mail or by facsimile, telegram or other electronic means from stockholders.

**The Board recommends that you vote FOR the election of the three directors listed in this proxy statement to serve until our 2017 annual meeting of stockholders, and until their successors are duly elected and qualify and FOR the ratification of the selection of Ernst &Young LLP as our independent registered public accounting firm for the year ending December 31, 2014.**

**PROPOSAL 1: ELECTION OF DIRECTORS**

Under our charter (as amended, the "Charter") and the Bylaws (together with the Charter, the "Charter Documents"), our directors are divided into three classes. Directors are elected for a staggered term of three years each, with a term of office of only one of these three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies, or until the director's earlier resignation, death or removal.

The terms of Caroline E. Blakely, John Hope Bryant, Paul G. Joubert and Robert L. Rosen, the Class II directors, will expire at the Annual Meeting, and the nominating and governance committee has recommended, and the Board has nominated, Ms. Blakely and Messrs. Bryant and Rosen to stand for re-election at the Annual Meeting and to hold office until the annual meeting to be held in 2017 and until their successors are duly elected and qualify. Ms. Blakely and Messrs. Bryant and Rosen have agreed to serve as directors if elected and have consented to be named as nominees. The Charter Documents provide that directors shall be elected by the affirmative vote of a plurality of the votes cast at the Annual Meeting. This means that Ms. Blakely and Messrs. Bryant and Rosen must receive the most votes to be elected as our directors for the term for which they have been nominated. On April 29, 2014, Mr. Joubert, one of our Class II directors, notified us that he would not stand for reelection as a director of the Company when his current term expires at the Annual Meeting, given his appointment to the board of directors of Ares Management, L.P. Mr. Joubert has served on the Board since our initial public offering in 2012 (our "IPO"). In connection therewith, Mr. Joubert determined it was prudent to step down from the audit committee of the Board immediately but will serve the remainder of his term as a director until the Annual Meeting in order to assure a smooth transition.

A stockholder can vote for or withhold his or her vote from such nominee. However, because directors are elected by a plurality vote, votes withheld from one or more directors will have no effect on the outcome of the vote with respect to the election of directors. In the absence of instructions to the contrary, it is the intention of the persons named as proxies to vote such proxy **FOR** the election of the three directors named herein. If any nominee should decline or be unable to serve as a director, it is intended that the proxy will be voted for the election of such person as is nominated as a replacement by the nominating and governance committee and by the Board. The Board has no reason to believe that any nominee will be unable or unwilling to serve.

**Information about the Directors**

The information set forth below was furnished to us by each director, and sets forth as of April 30, 2014, the name, age, principal occupation or employment of each such person, all positions and offices such person has held with us, and the period during which he or she has served as our director or executive officer. Ms. Blakely and Messrs. Bryant and Rosen have not been proposed for election nor has any director been selected as a director pursuant to any agreement or understanding with us or any other person.

Currently, the Board is comprised of eleven members, which are divided into three classes serving staggered terms. On February 19, 2014, Jeffrey T. Hinson, one of our Class I directors, notified us that he intends to step down as a director at the Annual Meeting due to demands on his time from other professional commitments. Mr. Hinson has served on the Board since our IPO and currently serves as a member of the Board's audit committee and as chairman of the Board's nominating and governance committee. As noted above, Mr. Joubert has also notified us that he would not stand for reelection as a director when his current term expires at the Annual Meeting. As a result, following the Annual Meeting, we expect the Board to decrease the size of the Board from 11 to nine members.

Each director generally serves until the annual meeting of stockholders held in the third year following the year of his or her election and until a successor is duly elected and qualified. The Bylaws provide that a majority of the entire Board may at any time increase or decrease the number of directors. However, unless the Bylaws are amended, the number of directors may never be less than the minimum required by the Maryland General Corporation Law (the "MGCL"), or more than 15.

We divide our directors into two groups  interested directors and independent directors. Independent directors are directors that the Board has affirmatively determined satisfy the requirements of Rule 303A.02 of the NYSE Listed Company Manual. Directors for which no such determination has been made are considered interested directors.

| Name | Age | Position(s) Held with Company and Length of Time Served |
|---|---|---|
| Michael J. Arougheti | 41 | Director (Class III Director) since September 2011(Chairman of the Board from September 2011 through March 2014) |
| John B. Bartling, Jr. | 56 | Chairman of the Board since March 2014 and Director (Class I Director) since September 2011 (Chief Executive Officer from September 2011 through June 2013 and Co-Chief Executive Officer from June 2013 through March 2014) |
| Caroline E. Blakely | 59 | Director (Class II Director) since February 2014* |
| William L. Browning | 60 | Director (Class I Director) since February 2014* |
| John Hope Bryant | 48 | Director (Class II Director) since April 2012* |
| Michael H. Diamond | 71 | Director (Class III Director) since April 2012* |
| Jeffrey T. Hinson | 59 | Director (Class I Director) since April 2012* |
| Paul G. Joubert | 66 | Director (Class II Director) since April 2012 |
| Robert L. Rosen | 67 | Director (Class II Director) since April 2012 |
| Todd S. Schuster | 53 | Director (Class I Director) since April 2012, Chief Executive Officer since March 2014 and President since December 2013 (Co-Chief Executive Officer from June 2013 through March 2014) |
| Brett White | 54 | Director (Class III Director) since April 2013* |

*
Our Board has determined that this director is independent for purposes of the NYSE corporate governance listing requirements.

Based on the recommendations of the nominating and governance committee, the Board has identified certain desired attributes for directors. Each of the directors has demonstrated high character and integrity, superior credentials and recognition in his or her respective field and the relevant expertise and experience upon which to be able to offer advice and guidance to our management. Each of the directors also has sufficient time available to devote to our affairs, is able to work with the other members of the Board and contribute to our success and can represent the long-term interests of our stockholders as a whole. The directors have been selected such that the Board represents a range of backgrounds and experience. There is no familial relationship among any of the members of the Board or executive officers.

Set forth below is biographical information for the directors as of April 30, 2014. The biographical information of each director includes a discussion of such director's particular experience, qualifications, attributes or skills, as of the date of this proxy statement, that lead us to conclude that such individual should serve as a director, in light of our business and structure.

***Nominees for Class II Directors (Current term expires at the 2014 Annual Meeting)***

**Caroline E. Blakely** is one of our Class II directors and currently serves on the nominating and governance committee and the audit committee. Ms. Blakely is a partner in the Real Estate Group at

Cassin & Cassin LLP, a law firm providing legal services that focus on real estate finance, real estate transactions and private client services. Prior to joining Cassin & Cassin LLP, Ms. Blakely served as a Vice President of the multifamily business of the Federal National Mortgage Association ("Fannie Mae") from April 1999 to October 2013. In this capacity, Ms. Blakely defined the strategic direction for Fannie Mae's growing asset management and counterparty responsibilities. In addition, Ms. Blakely was responsible for mitigating the financial and operational risk of 24 DUS Lenders, including assessing the counterparty's capital adequacy to share risk with Fannie Mae. She initiated performing note sales and negotiated the first sale of multifamily mortgage servicing rights. Ms. Blakely also served as Chief Marketing Officer of National Cooperative Bank ("NCB") and as Senior Managing Director of NCB's Corporate Banking and Commercial Real Estate Divisions from 1992 to 1999, during which time she served as a member of NCB's Executive Committee and as President of NCB Capital Corporation. In 1980, Ms. Blakely founded a law firm specializing in structured finance and real estate lending for acquisition, development and construction loans, where she practiced until 1992. Ms. Blakely currently serves as a member of the Board of Governors of the CRE Finance Council and volunteers on the Board of Trustees for Global Communities, a non-profit organization specializing in international development and microfinance. Ms. Blakely holds a B.A. in English from the University of Virginia and a J.D. from Georgetown University Law Center, where she graduated cum laude. Ms. Blakely's significant experience as a lawyer and adviser to real estate investors and real estate transaction experience provides valuable knowledge to the Board.

**John Hope Bryant** is one of our Class II directors and currently serves on the nominating and governance committee. Mr. Bryant is the founder, chairman, and chief executive officer of Operation HOPE, America's first non-profit social investment banking organization which began in May 1992 and operates as a global provider of financial dignity and economic empowerment tools and services to low-wealth individuals. Mr. Bryant is also the founder and chief executive officer of Bryant Group Companies, Inc., a private holding company which began in 1991 and invests principally in its own operations, partnerships, companies and opportunities, including Bryant Group Real Estate, LLC. Recently, Mr. Bryant was appointed by U.S. President Barack Obama as the Chairman of the Subcommittee on the Underserved and Community Empowerment for the President's Advisory Council on Financial Capability. Mr. Bryant is also the bestselling author of LOVE LEADERSHIP: The New Way to Lead in a Fear-Based World. He was the recipient of an Honorary Doctorate Degree of Human Letters from Paul Quinn College of Dallas, TX, in April 2008. Mr. Bryant's vast experience as an entrepreneur over the last twenty years provides the Board with a valuable combination of leadership and practical knowledge.

**Robert L. Rosen** is one of our Class II directors. Mr. Rosen is managing partner of RLR Capital Partners, which invests principally in the securities of publicly traded North American companies. From 1987 to present, Mr. Rosen has been CEO of RLR Partners, LLC, a private investment firm with interests in financial services, healthcare media and multi industry companies. He has served as a director of Ares Capital Corporation since 2004 and also currently serves as a director of Sapient Corporation. Mr. Rosen is also an Operating Advisor to the Ares Management Private Equity Group. In 1998, Mr. Rosen founded National Financial Partners (NYSE: NFP) ("NFP"), an independent distributor of financial services to high net worth individuals and small to medium sized corporations. He served as NFP's CEO from 1998 to 2000 and as its Chairman until January 2002. From 1989 to 1993, Mr. Rosen was Chairman and CEO of Damon Corporation, a leading healthcare and laboratory testing company that was ultimately sold to Quest Diagnostics. From 1983 to 1987, Mr. Rosen was Vice Chairman of Maxxam Group. Prior to that, Mr. Rosen spent twelve years at Shearson American Express in positions in research, investment banking and senior management, and for two years was Assistant to Sanford Weill, the then Chairman and CEO of Shearson. Mr. Rosen is a member of the NYU Stern School of Business Board of Overseers. Mr. Rosen holds an M.B.A. in finance from NYU's Stern School. Mr. Rosen's 35 years of experience as a senior executive of financial services, healthcare services and private equity funds will bring broad financial industry and specific

investment management insight and experience to the Board. In addition, Mr. Rosen's expertise in finance, which served as the basis for his appointment as an Adjunct Professor of Finance at Fordham University Graduate School of Business, provides valuable knowledge to the Board.

**The Board recommends that you vote FOR the election of Caroline E. Blakely, John Hope Bryant and Robert L. Rosen as directors of our Company for the term for which they have been nominated.**

***Directors Continuing in Office***

***Class I Directors (Current term expires at the 2016 Annual Meeting of Stockholders)***

**John B. Bartling, Jr.** serves as a Senior Partner of the Ares Management Commercial Real Estate Group and is a member of our Manager's Investment Committee. He is also one of our Class I directors and the Chairman of the Board. He previously served as our Chief Executive Officer from September 2011 through June 2013 and Co-Chief Executive Officer from June 2013 through March 2014. Mr. Bartling is Global Co-Head of Real Estate for Ares Management LLC ("Ares Management" or "Ares"), and may from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. From May 2007 to September 2010, he was Managing Partner and Chief Investment Officer of AllBridge Investments, a portfolio company of Ares Capital Corporation. AllBridge sponsored four real estate investment funds, three of which Mr. Bartling saw through to disposition, and one corporate investment, Helix Financial, a commercial real estate due diligence and analytics firm with operations in India, which AllBridge sold to BlackRock Solutions in 2010. Prior to AllBridge, Mr. Bartling founded WMC Management Company, a privately held real estate operating company with over 3,000 employees and clients including Olympus Real Estate Partners, Arnold Palmer Golf Management, or APGM, Walden, and Hyphen Solutions. Mr. Bartling took Walden private as CEO in 2000, and sold it in March 2006 to a subsidiary of Dubai Investment Group. From December 1995 to October 1999, Mr. Bartling served as the CEO and President for Lexford, f/k/a Cardinal Realty, a publicly traded, fully integrated multifamily real estate investment trust. Lexford merged with Equity Residential Properties Trust in 1999. Before Lexford, Mr. Bartling served as Director of the Real Estate Products Group of Credit Suisse First Boston. Prior to CSFB, Mr. Bartling served as an Executive Vice President of NHP Incorporated. Mr. Bartling's previous professional experience also includes Trammell Crow Residential, as a Development Principal, and Mellon Bank, N.A. as a Vice President of the Commercial Mortgage Banking Group. Mr. Bartling has served on the Board of Directors of APGM, the Children's Hospital Research for Ohio State University, the Harvard Joint Center for Housing Studies: Leadership Forum on Pension Fund and Endowment Investments in Domestic Emerging Markets, Big Brothers and Big Sisters Association of Columbus, Ohio and the NMHC Board of Directors. Additionally, he has served on the Executive Council and as Chairman of the Finance Committee for the National Multi Housing Council. Currently, Mr. Bartling is a member of Real Estate Round Table and on the Board of Directors of Texas Real Estate Council. Mr. Bartling won the BBB Business Integrity Award for Lexford, Inc in 1996 and was a judge for Ernst & Young Entrepreneur of the Year. He was the co-founder of Caring Partners for Kids, awarded the 2004 Community Service Award by Multifamily Executive, and served on the Strategic Planning Committee of Saint Michael and All Angels Episcopal Church in Dallas. Mr. Bartling received a B.S. in Marketing from Robert Morris College in Pittsburgh, Pennsylvania. Mr. Bartling's depth of experience in the origination, acquisition, management and disposition of real estate related assets gives the Board valuable industry specific knowledge and expertise on these and other matters.

**William L. Browning** is one of our Class I directors and currently serves as the Chairperson of the audit committee. Mr. Browning has dedicated his time to serving on boards of directors since January 2012. From 1999 to January 2012, Mr. Browning was a senior client service partner at Ernst & Young LLP, a global leader in assurance, tax, transaction and advisory services. From 2008 to 2012,

Mr. Browning served as the managing partner for Ernst & Young LLP's Los Angeles office, which at the time of his departure was Ernst & Young LLP's second largest practice in the Americas and the largest public accounting firm in Los Angeles with over 1,200 professionals and over $400 million in annual revenues. Mr. Browning's extensive industry sector experience includes: real estate and REITs, financial services (commercial banks, asset management, consumer finance, credit card and mortgage companies), private equity, energy (upstream/downstream, refining and natural gas), engineering and construction, and technology. Before joining Ernst & Young LLP, Mr. Browning began his professional career with Arthur Andersen & Co. in 1976, where he was admitted to partnership in 1987 and named office managing partner of its Oklahoma office in 1994. At Arthur Andersen & Co. in Oklahoma and in Los Angeles, California, Mr. Browning served clients in a wide variety of industries and led the firm's domestic banking practice and regulatory compliance practice. Mr. Browning serves on the board of directors of McCarthy Holdings, the holding company for McCarthy Building Companies, Inc., one of the top 10 U.S. commercial builders and the oldest American construction company, as well as on the board of directors of Community Bank, based in Pasadena, California. Mr. Browning is also an adjunct professor at SMU in Dallas, Texas. Mr. Browning volunteers on the board of CARE, a non-profit organization focused on assisting young adults with chemical abuse issues, as well as on the Dallas Summer Musicals board. Mr. Browning holds a B.B.A. from the University of Oklahoma and is a certified public accountant in Oklahoma, California and Texas. Mr. Browning's experience in accounting and auditing, including in the real estate and REIT industries, provides the Board and, specifically, the audit committee, with valuable knowledge, insight and experience in such matters.

**Todd S. Schuster** is our President and Chief Executive Officer. He is also one of our Class I directors and is a member of our Manager's Investment Committee. He previously served our Co-Chief Executive Officer from June 2013 through March 2014. Mr. Schuster was the founder, principal and a Member of the Board of Managers of CW Financial Services and led its merger in September 2002 with a subsidiary of the Caisse de depot et placement du Quebec, one of Canada's largest pension fund managers. He also served as the company's Chief Executive Officer from its inception in 1991 until January 2009. CW Financial Services operated primarily through three subsidiaries: CWCapital, which provided financing to owners of multifamily and commercial real estate, CWCapital Investments, which provided high yielding commercial real estate debt opportunities to institutional investors, and CWCapital Asset Management, the nation's second largest special servicer. Prior to founding CW Financial Services, Mr. Schuster was employed by Salomon Brothers and Bankers Trust in their respective Commercial Mortgage Finance units. Mr. Schuster holds a B.A. from Tufts University. His credentials provide the Board with valuable knowledge and practical experience in the commercial real estate finance industry.

***Class III Directors (Current term expires at the 2015 Annual Meeting of Stockholders)***

**Michael J. Arougheti** is one of our Class III directors. He served as the Chairman of the Board from September 2011 through March 2014. Mr. Arougheti is a Co-Founder of Ares Management, Co-Head of its Direct Lending Group and a member of its Management Committee. He serves as a director and President of Ares Management GP LLC and also serves as Chief Executive Officer and a director of Ares Capital Corporation. Mr. Arougheti may from time to time serve as an officer, director or principal of entities affiliated with Ares Management or of investment funds managed by Ares Management and its affiliates. Prior to joining Ares Management in 2004, Mr. Arougheti was employed by Royal Bank of Canada from 2001 to 2004, where he was a Managing Partner of the Principal Finance Group of RBC Capital Partners and a member of the firm's Mezzanine Investment Committee. Mr. Arougheti oversaw an investment team that originated, managed and monitored a diverse portfolio of middle-market leveraged loans, senior and junior subordinated debt, preferred equity and common stock and warrants on behalf of RBC and other third-party institutional investors. Mr. Arougheti joined Royal Bank of Canada in October 2001 from Indosuez Capital, where he was a Principal and an Investment Committee member, responsible for originating, structuring and executing

leveraged transactions across a broad range of products and asset classes. Prior to joining Indosuez in 1994, Mr. Arougheti worked at Kidder, Peabody & Co., where he was a member of the firm's Mergers and Acquisitions Group. Mr. Arougheti also serves on the boards of directors of Investor Group Services, Riverspace Arts, a not-for-profit arts organization and Operation Hope, a not-for-profit organization focused on expanding economic opportunity in underserved communities through economic education and empowerment. Mr. Arougheti received a B.A. in Ethics, Politics and Economics, cum laude, from Yale University. Mr. Arougheti's knowledge of, and extensive experience in, investment management, leveraged finance and financial services gives the Board valuable industry-specific knowledge and expertise on these and other matters.

**Michael H. Diamond** is one of our Class III directors and currently serves on the nominating and governance committee. Mr. Diamond is currently the sole member and employee of MHD Group LLC, a business that was founded by Mr. Diamond in November 2007 to provide consulting and expert witness services. Since 1994, Mr. Diamond has also been the Corporate Secretary and a member of the board of directors of Neu Holdings, Inc., a holding company that owns entities in the shipping and real estate industries. Prior to founding MHD Group LLC, Mr. Diamond was a partner at the law firm of Milbank, Tweed, Hadley & McCloy from June 2000 to October 2007. Mr. Diamond is a graduate of Brown University and holds a J.D. from Columbia University Law School where he graduated magna cum laude. In addition, Mr. Diamond's 40 years of experience as a lawyer and adviser to corporations, their officers, directors, and shareholders provides the Board with valuable knowledge in the areas of corporate governance, fiduciary duties, reporting and compliance.

**Brett White** is one of our Class III directors and currently serves on the audit committee. Mr. White was the chief executive officer of CBRE Group, Inc., the world's largest commercial real estate services and investment firm, based on 2012 revenue, from June 2005 until his retirement on November 30, 2012, after which time he joined Blum Capital Partners, L.P., as a Managing Partner. Mr. White also served as CBRE's president from September 2001 to March 2010. CBRE Group is a Fortune 500 and S&P 500 company listed on the New York Stock Exchange. Mr. White served as a member of the board of directors of CBRE Group and its predecessor company from 1998 until his appointment to the Company's board of directors. Prior to becoming CBRE's president, Mr. White was chairman of the Americas of CB Richard Ellis Services, Inc. from 1999 to 2001 and was its president of brokerage services from 1997 to 1999. Prior to that, Mr. White held various sales and management positions beginning in 1984. Mr. White serves as a member of the board of directors of Realogy Holdings, Corp., Edison International and its wholly owned subsidiary, California Edison Company, a California public utility company. Mr. White is a trustee of the University of San Francisco, and he has been involved in a number of civic and charitable organizations, including the Los Angeles Museum of Contemporary Art and Junior Achievement. Mr. White's extensive experience in the real estate industry and as a senior executive and director of publicly traded corporations provides the Board with valuable leadership, perspective and financial expertise.

***Directors Not Continuing in Office after the 2014 Annual Meeting***

**Jeffrey T. Hinson** is one of our Class I directors and currently serves as the Chairperson of the nominating and governance committee and as a member of the audit committee. On February 19, 2014, Mr. Hinson notified us that he intends to step down as a director at the Annual Meeting. Mr. Hinson is currently the President of YouPlus Media, LLC, a position which he has held since June 2009. From July 2007 to July 2009, Mr. Hinson was the President and Chief Executive Officer and a member of the board of directors of Border Media Partners, LLC. Prior to joining Border Media Partners, LLC, Mr. Hinson served as a financial consultant from January 2006 to July 2007. From March 2004 to June 2005, he was the Executive Vice President and Chief Financial Officer of Univision Communications, a Spanish language media company in the United States, where he later acted as a consultant from July 2005 to December 2005. Mr. Hinson has also served as Senior Vice President and Chief Financial

Officer of Univision Radio, the radio division of Univision Communications, from September 2003 to March 2004. From 1997 to 2003, Mr. Hinson served as Senior Vice President and Chief Financial Officer of Hispanic Broadcasting Corporation, which was acquired by Univision Communications in 2003. Currently, Mr. Hinson serves as a director and Chairman of the Board of Directors for Windstream Corporation, and as a director and Chairman of the Audit Committees of LiveNation Entertainment, Inc. and Tivo, Inc. He is also a member of the Strategy Committee of Tivo, Inc. Mr. Hinson holds a B.B.A and an M.B.A. from the University of Texas at Austin. His extensive financial and accounting experience combined with his current service on the Audit Committees of three public companies provides the Board with valuable knowledge and a broad perspective on the challenges and opportunities facing our Company.

**Paul G. Joubert** is one of our Class II directors. On April 29, 2014, Mr. Joubert notified us that he would not stand for reelection as a director when his current term expires at the Annual Meeting. He is the Founding Partner of EdgeAdvisors, a privately held management consulting organization founded in July 2008, and has been an Investing Partner in Common Angels Ventures since March 2014. Mr. Joubert also served on the Board of Directors and as the Audit Committee Chairman of Stream Global Services Inc., a public company, from July 2008 until March 2014, when it was acquired by Convergys Corporation. From 1971 until July 2008, Mr. Joubert held various positions at PricewaterhouseCoopers LLP, or PWC, an international consulting and accounting firm. During his tenure at PWC, Mr. Joubert served as a Partner in the firm's Assurance practice and led its Technology, InfoCom and Entertainment practice for the Northeast region of the United States. Prior to that, he served as Partner-in-Charge of PWC's Northeast Middle Market Group and Chief of Staff to the Vice-Chairman of PWC's domestic operations. From May 2009 to September 2010, Mr. Joubert served on the Board of Directors of Phaseforward, a publicly traded company that was acquired by Oracle in the fall of 2010. He has also been involved with a number of professional organizations and other institutions, including the Boston Museum of Science, the National Association of Corporate Directors, the Massachusetts Innovation and Technology Exchange, as a director, Sandwich Beaches, as a trustee, the Northeastern University Entrepreneurship Program and the American Institute for Certified Public Accountants. Mr. Joubert holds a B.A. from Northeastern University. His long and varied business career provides the Board with valuable knowledge, insight and experience in financial and accounting matters.

**The Board recommends that you vote FOR the election of Caroline E. Blakely, John Hope Bryant and Robert L. Rosen as directors of our Company for the term for which they have been nominated.**

**PROPOSAL 2: RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audit committee and the Board have selected Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2014 and are submitting the selection of Ernst & Young LLP to our stockholders for ratification. Ernst & Young LLP has audited our financial statements since the period from September 2011 (inception) to December 31, 2011 and has also provided us certain tax services. Neither our Charter Documents nor applicable law require stockholder ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm. However, the Board is submitting the appointment of Ernst & Young LLP to our stockholders for ratification as a matter of good corporate practice.

If our stockholders fail to ratify the selection of Ernst & Young LLP, the audit committee and the Board will consider whether or not to direct the appointment of a different independent registered public accounting firm. Even if the selection is ratified, the audit committee and the Board may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in our best interests.

We expect that a representative of Ernst & Young LLP will be present at the Annual Meeting, will have an opportunity to make a statement if he or she so chooses and will be available to answer questions.

**Principal Accountant Fees and Services**

The following are aggregate fees billed to us by Ernst & Young LLP during the fiscal year ended December 31, 2013 and during the fiscal year ended December 31, 2012:

| | Fiscal Year Ended December 31, 2013 | Fiscal Year Ended December 31, 2012 |
|---|---|---|
| Audit Fees | $ 870,000 | $ 795,000 |
| Audit-Related Fees | 300,000 | |
| Tax Fees | 285,000 | 151,000 |
| All Other Fees | | |
| Total Fees | $ 1,455,000 | $ 946,000 |

***Audit Fees***

Audit fees consist of fees billed for professional services rendered for the audit of our consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings, our registration statements and securities offerings.

***Audit Related Fees***

Audit-related fees are fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." For the year ended December 31, 2013, audit-related fees are primarily related to due diligence services in connection with our acquisition of ACRE Capital LLC.

***Tax Fees***

Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and tax compliance, customs and duties, mergers and acquisitions and tax planning.

***All Other Fees***

All other fees consist of fees for products and services other than the services reported above.

The audit committee, or the chairperson of the audit committee to whom such authority was delegated by the audit committee, must pre-approve all services provided by the independent registered public accounting firm. Any such pre-approval by the chairperson must be presented to the audit committee at its next regular quarterly meeting. The audit committee has also adopted policies and procedures for pre-approving certain non-prohibited work performed by our independent registered public accounting firm. Specifically, the committee has pre-approved the use of Ernst & Young LLP for specific types of services within the following categories: audit, audit-related, tax and other. In each case, the committee has also set a specific annual limit, which can be updated, on the amount of such services which we may obtain from our independent registered public accounting firm. The audit committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accounting firm to management.

The affirmative vote of at least a majority of the votes cast at the Annual Meeting is required for the approval of this proposal to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014. In the absence of instructions to the contrary, it is the intention of the persons named as proxies to vote such proxy **FOR** this proposal.

**The Board, based on the approval and recommendation of the audit committee, recommends a vote FOR this proposal to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014.**

*Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act of 1934, as amended (the "Exchange Act") that might incorporate future filings, including this proxy statement, in whole or in part, the following Report of the Audit Committee shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission (the "SEC"), nor shall such information be incorporated by reference into any such filings under the Securities Act or the Exchange Act.*

**REPORT OF THE AUDIT COMMITTEE**

The role of the audit committee (the "Audit Committee") of the board of directors (the "Board") of Ares Commercial Real Estate Corporation (the "Company") is to assist the Board in its oversight of: (1) the integrity of the Company's financial statements; (2) the Company's compliance with legal and regulatory requirements; (3) the qualifications and independence of any independent registered public accounting firm engaged by the Company; and (4) the performance of the Company's internal audit function and any independent registered public accounting firm. However, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate, fairly present the information shown or are in accordance with generally accepted accounting principles ("GAAP") and applicable rules and regulations. Nor is it the duty of the Audit Committee to conduct investigations or to assure compliance with any law, regulation or rule of the New York Stock Exchange ("NYSE"), or the Company's Corporate Governance Guidelines or Code of Business Conduct and Ethics. These are the responsibilities of management and the independent registered public accounting firm. Instead, the Audit Committee shall oversee the Company's accounting and financial reporting processes and the audits of the Company's financial statements.

The independent accountants are responsible for performing an independent audit of the Company's financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and expressing an opinion as to the conformity of such financial statements with GAAP.

The directors that served on the Audit Committee during the fiscal year ended December 31, 2013 (the "2013 Audit Committee") have reviewed and discussed the Company's audited financial statements with management and with Ernst & Young LLP, the Company's independent registered public accounting firm for the fiscal year ended December 31, 2013. The 2013 Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Auditing Standard No. 16, *Communications with Audit Committees*, as currently in effect (which superseded Statement on Auditing Standards No. 61), as adopted by the Public Company Accounting Oversight Board for audits of fiscal years beginning on or after December 15, 2012. The 2013 Audit Committee has received from Ernst & Young LLP the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board Rule 3526, *Communication with Audit Committees Concerning Independence*, regarding the independent accountant's communications with the 2013 Audit Committee concerning independence, and has discussed with the independent registered public accounting firm its independence.

The Board has determined that each member of the 2013 Audit Committee is independent for purposes of the NYSE Listed Company Manual. The Board has also determined that each member of the 2013 Audit Committee has the accounting or related financial management expertise required by the NYSE Listed Company Manual, and is an "audit committee financial expert" within the meaning of the rules and regulations of the Securities and Exchange Commission (the "SEC").

Based on the review and discussions referred to above, the 2013 Audit Committee has recommended to the Board that the audited consolidated financial statements for the fiscal year ended December 31, 2013 be included in the Company's Annual Report on Form 10-K for such year for filing

with the SEC. In addition, the 2013 Audit Committee has approved, and recommended to the Board that it approve, Ernst & Young LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014 and that the selection of Ernst & Young LLP be submitted to the Company's stockholders for ratification.

**The 2013 Audit Committee**
Paul G. Joubert (Chairperson)*
Jeffrey T. Hinson
Brett White

*

Mr. Joubert was a member of the Audit Committee during the fiscal year ended December 31, 2013 but, effective April 29, 2014, was no longer a member of the Audit Committee. Ms. Blakely and Mr. Browning joined the Audit Committee after December 31, 2013, and as a result do not sign the report.

## CORPORATE GOVERNANCE BOARD OF DIRECTORS AND COMMITTEES

**Board Leadership Structure**

Our business is managed by our Manager, subject to the supervision and oversight of the Board. A majority of the Board is "independent," as determined by the requirements of the NYSE corporate governance listing requirements and the rules and regulations of the SEC. Our Board has the responsibility for establishing broad corporate policies and for our overall performance and direction, but is not involved in our day-to-day operations. Our directors keep informed about our business by attending meetings of the Board and its committees and through supplemental reports and communications with our Manager and our executive officers. Our non-management directors meet regularly in an executive session without the presence of our officers or management directors to review, among other matters, the performance of our Chief Executive Officer and senior management. In addition, our non-management directors will meet in executive session at other times at the request of any non-management director. Our independent directors also meet in executive session at least once a year. In accordance with the Bylaws and the Corporate Governance Guidelines, the chairman of the nominating and governance committee currently presides at meetings of the independent directors or non-management directors.

The Board monitors and performs an oversight role with respect to our business and affairs, including with respect to investment practices and performance, compliance with regulatory requirements and the services, expenses and performance of certain of our service providers. Among other things, the Board approves the appointment of our officers and either directly or by delegation to the audit committee reviews and monitors the services and activities performed by our Manager and our officers.

Under the Bylaws, the Board may designate a chairman to preside over the meetings of the Board and meetings of the stockholders and to perform such other duties as may be assigned to him by the Board. We do not have a fixed policy as to whether the chairman of the Board should be an independent director and we believe that our flexibility to select our chairman and reorganize our leadership structure from time to time is in the best interests of our Company and our stockholders.

Presently, Mr. Bartling serves as the Chairman of the Board. Mr. Bartling is an interested director because he is on the Investment Committee of our Manager and he is the Global Co-Head of Real Estate for Ares Management, the managing member of our Manager. Mr. Bartling also served as our Chief Executive Officer from September 2011 through June 2013 and Co-Chief Executive Officer from June 2013 through March 2014. We believe that Mr. Bartling's history with our Company, familiarity with the Ares investment platform and depth of experience in real estate investing and in investment management qualifies him to serve as the chairman of the Board. Moreover, we believe that we are best served through our existing leadership structure with Mr. Bartling as chairman of the Board, as Mr. Bartling's relationship with our Manager provides an effective bridge between the Board and our Manager, thus ensuring an open dialogue between the Board and our Manager and that both groups act with a common purpose.

The Board has formed an audit committee and a nominating and governance committee and adopted charters for each of these committees, both of which are available on our website at *www.arescre.com*. The Board determined not to form a separate compensation committee because our executive officers are not expected to receive any direct compensation from us other than certain grants made to the Chief Financial Officer under our 2012 Equity Incentive Plan. The audit committee is responsible for administering our 2012 Equity Incentive Plan and overseeing the performance of our Manager and the management fees and other compensation payable to our Manager pursuant to the terms of the management agreement between us and our Manager dated April 25, 2012 (the "Management Agreement"). Each of the audit committee and the nominating and governance committee currently has four directors and is composed exclusively of independent directors, as defined

by the NYSE corporate governance listing requirements and the rules of the SEC. Following the Annual Meeting, we expect each of the audit and nominating and governance committees to be comprised of three directors in connection with Mr. Hinson's retirement from the Board.

We believe that each board of directors leadership structure must be evaluated on a case by case basis and that our existing Board leadership structure provides sufficient independent oversight over our Manager. In addition, we believe that the current governance structure, when combined with the functioning of the independent director component of the Board and our overall corporate governance structure, strikes an appropriate balance between strong and consistent leadership and independent oversight of our business and affairs. However, we continually re-examine our corporate governance policies on an ongoing basis to ensure that they continue to meet our needs.

**Board Role in Risk Oversight**

The Board performs its risk oversight function primarily through the audit committee, which reports to the entire Board and is comprised solely of independent directors. The audit committee, with input from our Manager and our General Counsel, discusses and reviews our guidelines with respect to risk assessment and risk management, including our major financial risk exposures and the steps management has taken to monitor and control such exposures. In addition, the audit committee's risk oversight responsibilities include overseeing (1) the integrity of our financial statements; (2) our compliance with legal and regulatory requirements; (3) the qualifications and independence of any independent registered public accounting firm engaged by us; and (4) the performance of our internal audit function and our independent registered public accounting firm.

In addition, the Board and the audit committee meet regularly with our Manager and considers the feedback our Manager provides concerning the risks related to our enterprise, business, operations and strategies. Our Manager regularly reports to the Board and the audit committee on our investment portfolio and the risks related thereto, asset impairments, leverage position, affiliate payments (including payments made and expenses reimbursed under the Management Agreement), compliance with applicable covenants under the agreements governing our indebtedness, compliance with our qualification as a real estate investment trust for U.S. federal income tax purposes, or "REIT," and compliance with our exemption from registration under the Investment Company Act of 1940, as amended. Members of the Board are routinely in contact with our Manager and our executive officers, as appropriate, in connection with their consideration of matters submitted for the approval of the Board or the audit committee and the risks associated with such matters. As described below in more detail under "Nominating and Governance Committee," the nominating and governance committee also assists the Board in fulfilling its risk oversight responsibilities.

We believe that the extent of the Board's (and its committees') role in risk oversight complements the Board's leadership structure because it allows our independent directors, through the two fully independent Board committees, executive sessions with the independent auditors, and otherwise, to exercise oversight of risk without any conflict that might discourage critical review.

We believe that a board of directors' role in risk oversight must be evaluated on a case by case basis and that the Board's role in risk oversight is appropriate. However, we re-examine the manner in which the Board administers its oversight function on an ongoing basis to ensure that it continues to meet our needs.

**Number of Meetings of the Board and Attendance in 2013**

During 2013, the Board held 12 formal meetings, the audit committee held nine formal meetings, and the nominating and governance committee held five formal meetings. Each director then in office attended at least 75% of the meetings of the Board. With the exceptions of Mr. Schuster, a former member of the audit committee, and Mr. Bryant, a member of the nominating and governance

committee, each director then in office attended at least 75% of the meetings of the committees of the Board on which such director served. Mr. Schuster attended two of the three audit committee meetings during the period in 2013 when he was a member of the audit committee. We expect each director serving on the Board to regularly attend meetings of the Board and the committees on which such director serves, and to review, prior to meetings, materials distributed in advance for such meetings. A director who is unable to attend a meeting is expected to notify the chairman of the Board or the chairperson of the appropriate committee in advance of such meeting. We encourage, but do not require, the directors to attend our annual meetings of stockholders. Six directors attended our 2012 annual meeting of stockholders.

**Audit Committee**

The members of the audit committee are Ms. Blakely and Messrs. Browning, Hinson and White, each of whom is independent for purposes of the NYSE corporate governance listing requirements and rules and regulations of the SEC. Mr. Browning currently serves as Chairperson of the audit committee.

The audit committee is responsible for engaging our independent accountants, reviewing with our independent accountants the plan and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. In addition, the audit committee is responsible for discussing with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies. The audit committee is also responsible for administering our 2012 Equity Incentive Plan and overseeing the performance of our Manager and the management fees and other compensation payable to our Manager pursuant to the Management Agreement. The specific responsibilities of the audit committee are set forth in its written charter, which is available for viewing on our website at *www.arescre.com*.

The Board has determined that each of Messrs. Browning, Hinson and White has the accounting or related financial management expertise required by the NYSE Listed Company Manual, and is an "audit committee financial expert" within the meaning of the rules and regulations of the SEC. In addition, the Board has determined that all of the members of the audit committee are financially literate as required by the NYSE Listed Company Manual.

**Nominating and Governance Committee**

The members of the nominating and governance committee are Ms. Blakely and Messrs. Bryant, Diamond and Hinson, each of whom is independent for purposes of the NYSE corporate governance listing requirements and rules and regulations of the SEC. Mr. Hinson currently serves as Chairperson of the nominating and governance committee and upon his retirement from the Board at the Annual Meeting, Mr. Diamond is expected to serve as Chairperson of the nominating and governance committee.

The nominating and governance committee's responsibilities include identifying individuals qualified to become Board members (consistent with the criteria approved by the Board) and recommending for selection by the Board the director nominees to stand for election at the each annual meeting of our stockholders, recommending to the Board director nominees for each committee of the Board, overseeing the evaluation of the Board and its committees; developing and recommending to the Board a set of corporate governance guidelines and recommending to the Board such other matters of corporate governance as the nominating and governance committee deems appropriate. In addition, the nominating and governance committee reviews the independence of Board members and director nominees and monitors all other activities that could interfere with such

individuals' duties to us. The specific responsibilities of nominating and governance committee are set forth in its written charter, which is available for viewing on our website at *www.arescre.com*.

In considering possible candidates for election as a director, the nominating and governance committee takes into account, in addition to such other factors as it deems relevant, the desirability of selecting directors who:

are of high character and integrity;

are accomplished in their respective fields, with superior credentials and recognition;

have relevant expertise and experience upon which to be able to offer advice and guidance to management;

have sufficient time available to devote to our affairs;

are able to work with the other members of the Board and contribute to our success;

can represent the long-term interests of our stockholders as a whole; and

are selected such that the Board represents a range of backgrounds and experience.

The nominating and governance committee may consider recommendations for nomination of directors from our stockholders. Nominations made by stockholders must be delivered to or mailed (setting forth the information required by the Bylaws) and received at our principal executive offices not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date on which we first mailed our proxy materials for the previous year's annual meeting of stockholders; provided, however, that if the date of the annual meeting has changed by more than 30 days from the prior year, the nomination must be received not earlier than the 150th day prior to the date of such annual meeting nor later than 5:00 p.m., Eastern Time, on the later of (1) the 120th day prior to the date of such annual meeting or (2) the 10th day following the day on which public announcement of such meeting date is first made.

**Compensation Committee**

Instead of having a compensation committee, we have provided that grants under our 2012 Equity Incentive Plan and the oversight of the performance of our Manager and the management fees and other compensation payable to our Manager pursuant to the Management Agreement will be separately approved by the audit committe> We intend to continue to make investments to support business growth and may require additional funds to respond to business challenges, which include the need to develop new products or enhance existing products, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financing to secure additional funds. Equity and debt financing, however, might not be available when needed or, if available, might not be available on terms satisfactory to us. If we are unable to obtain adequate financing or financing on terms satisfactory to us, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

***Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability.***

We are subject to income taxes in both the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in different jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings in

countries with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws including pending tax law changes such as the benefit from export sales and the research and development credit, changes in our business model or in our manufacturing activities, and by material audit assessments. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay could be subject to ongoing audits in various jurisdictions and a material assessment by a governing tax authority could affect our profitability.

**Risks Related to this Offering**

***The trading price of our common stock has been and is likely to continue to be volatile, and you might not be able to sell your shares at or above the price that you paid for them.***

The trading prices of the securities of technology companies have been highly volatile. From the date of our initial public offering in June 2003 through March 2, 2006, our stock price has ranged from $14.00 a share to $41.99 a share. The trading price of our common stock is likely to continue to be subject to wide fluctuations. Factors affecting the trading price of our common stock include:

variations in our operating results;

announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by us or by our competitors;

recruitment or departure of key personnel;

the gain or loss of significant orders or customers;

changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;

market conditions in our industry, the industries of our customers and the economy as a whole;

our trading volume, which has historically been low relative to our total shares outstanding; and

sales or perceived sales of substantial amounts of our common stock held by existing stockholders.

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock also might decline in reaction to events that affect other companies in our industry even if these events do not directly affect us.

***If securities analysts do not publish research or reports about our business, our stock price could decline.***

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. If one or more of the analysts who cover us downgrades our stock, our stock price would likely decline rapidly. If one or more of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our stock price to decline.

***The concentration of our capital stock ownership with insiders upon the completion of this offering will likely limit your ability to influence corporate matters.***

We anticipate that our executive officers, directors, current 5% or greater stockholders and entities affiliated with any of them will together beneficially own approximately 31% of our common stock outstanding after this offering. As a result, these stockholders, acting together, will have substantial influence over all matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. As a result, corporate actions might be taken even if other stockholders, including those who purchase shares in this offering, oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

***Our management will have broad discretion over the use of the proceeds that we receive from this offering and may not apply such proceeds in ways that increase the value of your investment.***

Our management will have broad discretion to use the proceeds that we receive from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Although we expect our management to use the proceeds that we receive from this offering as indicated under "Use of Proceeds," we have not allocated these proceeds for specific purposes. Our management might not be able to yield a significant return, if any, on any investment of these proceeds.

***Future sales of shares by existing stockholders could cause our stock price to decline.***

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline below the public offering price for this offering. Based on the shares outstanding as of December 31, 2005, and assuming 5,000,000 shares are sold in this offering, upon completion of this offering we will have outstanding approximately 45,236,686 shares of common stock. Of these shares, 41,842,693 shares are freely tradeable, without restriction, in the public market, except for any shares that are held by our affiliates. The remaining 3,393,993 shares are subject to lock-up agreements with the underwriters, subject to various exceptions. These restrictions fully expire 90 days after the date of this prospectus supplement, after which time such shares will be eligible for sale in the public market, subject to the provisions of various vesting agreements and Rule 144 under the Securities Act.

***Provisions of our certificate of incorporation and bylaws or Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.***

Delaware corporate law and our certificate of incorporation and bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that our stockholders may deem advantageous. These provisions:

establish a classified board of directors so that not all members of our board are elected at one time;

provide that directors may only be removed "for cause" and only with the approval of $66^{2}/_{3}\%$ of our stockholders;

require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;

authorize the issuance of "blank check" preferred stock by our board that could increase the number of outstanding shares and discourage a takeover attempt;

limit the ability of our stockholders to call special meetings of stockholders;

prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

provide that our board is expressly authorized to make, alter or repeal our bylaws; and

establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. In addition, each of our named executive officers and certain other executives have entered into change of control severance agreements, which were approved by our compensation committee. These agreements would likely increase the costs that an acquiror would face in purchasing us and may thereby act to discourage such a purchase.

## USE OF PROCEEDS

We estimate that the net proceeds from the sale of 5,000,000 shares will be $192.5 million, at an assumed public offering price of $40.11 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. A $1.00 increase or decrease in the assumed public price of $40.11 per share would increase or decrease the net proceeds to us from the offering by $4.8 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering to increase our manufacturing capacity, for working capital and for general corporate purposes. We may also use a portion of the proceeds to fund acquisitions of products, technologies or businesses or to obtain the right to use additional technologies. Pending such uses, we may invest the proceeds in certificates of deposit, United States government securities or certain other interest-bearing securities.

## PRICE RANGE OF COMMON STOCK

Our common stock has been listed on The Nasdaq National Market under the symbol "FORM" since June 12, 2003. Prior to June 12, 2003, there was no public market for our common stock. The following table sets forth the range of high and low sales prices per share as reported on The Nasdaq National Market for the periods indicated:

| **Fiscal 2006** | **High** | **Low** |
|---|---|---|
| First Quarter (through March 2, 2006) | $ 41.99 | $ 23.95 |
| **Fiscal 2005** | **High** | **Low** |
| First Quarter | $ 27.81 | $ 20.95 |
| Second Quarter | 29.98 | 20.49 |
| Third Quarter | 28.43 | 22.55 |
| Fourth Quarter | 28.25 | 19.63 |
| **Fiscal 2004** | **High** | **Low** |
| First Quarter | $ 22.85 | $ 17.54 |
| Second Quarter | 22.55 | 17.00 |
| Third Quarter | 22.55 | 16.00 |
| Fourth Quarter | 29.08 | 18.41 |

The closing sales price of our common stock on The Nasdaq National Market was $40.11 per share on March 2, 2006. As of February 24, 2006, there were 121 registered holders of record of our common stock.

**CAPITALIZATION**

The following table shows cash, cash equivalents, marketable securities and capitalization as of December 31, 2005, on:

an actual basis; and

an as adjusted basis to give effect to the issuance by us of 5,000,000 shares of our common stock, after deducting underwriting discounts and commissions and estimated offering expenses at an estimated public offering price of $40.11 per share, and the application of the net proceeds therefrom.

| | As of December 31, 2005 | |
|---|---|---|
| | Actual | As Adjusted(1) |
| | (in thousands) | |
| Cash and cash equivalents | $ 31,217 | $ 223,745 |
| Marketable securities | 180,391 | 180,391 |
| Stockholders' equity: | | |
| Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding, actual and as adjusted | | |
| Common stock, $0.001 par value; 250,000,000 shares authorized; 40,236,686 shares issued and outstanding, actual; 45,236,686 shares issued and outstanding, as adjusted | 40 | 45 |
| Additional paid-in capital | 268,291 | 460,814 |
| Deferred stock-based compensation, net | (2,495) | (2,495) |
| Accumulated other comprehensive loss | (359) | (359) |
| Retained earnings | 52,312 | 52,312 |
| Total stockholders' equity | 317,789 | 510,317 |
| Total capitalization | $ 317,789 | $ 510,317 |

(1) A $1.00 increase or decrease in the assumed public offering price of $40.11 per share would increase or decrease each of cash and cash equivalents, additional paid-in capital, total stockholders' equity and total capitalization by $4.8 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus supplement, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The number of shares of our common stock as issued and outstanding in the table above excludes:

6,643,359 shares of common stock issuable upon exercise of options outstanding with a weighted average exercise price of $16.91 per share;

3,306,179 shares of common stock available for future issuance under our equity incentive plan, excluding the automatic future annual increases in the number of shares authorized under this plan; and

2,086,160 shares of common stock available for future issuance under our employee stock purchase plan, excluding the automatic future annual increases in the number of shares authorized under this plan.

Unless otherwise indicated, all information in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional shares.

**UNDERWRITING**

We and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc. and Thomas Weisel Partners LLC are the representatives of the underwriters.

| Underwriters | Number of Shares |
|---|---|
| Goldman, Sachs & Co | |
| Morgan Stanley & Co. Incorporated | |
| Citigroup Global Markets Inc | |
| Thomas Weisel Partners LLC | |
| | |
| Total | 5,000,000 |

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 750,000 shares from us to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 750,000 additional shares.

Paid by FormFactor

| | No Exercise | Full Exercise |
|---|---|---|
| Per Share | $ | $ |
| Total | $ | $ |

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

We and our directors and executive officers have agreed with the underwriters, subject to certain exceptions set forth below, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of our common stock during the period from the date of this prospectus supplement continuing through the date 90 days after the date of this prospectus supplement, except with the prior written consent of the representatives. This agreement does not apply to any existing employee benefit plans. This agreement also does not apply to the sale by us of any shares or other securities in connection with a merger, acquisition, asset

purchase or similar business combination of up to 10% of our outstanding shares as of the date hereof.

With respect to our directors and executive officers, the restrictions described in the immediately preceding paragraph do not apply to (i) the transfer of shares as a bona fide gift or gifts, provided that the donee or donees thereof agree to be bound in writing by the restrictions set forth herein; (ii) the transfer of shares to certain trusts, provided that the relevant trustee agrees to be bound in writing by the restrictions to which the transferor was subject; (iii) the transfer or sale of shares pursuant to a written sales plan designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and entered into prior to the date of this prospectus supplement; (iv) the entry by any director or executive officer into a written sales plan designed to comply with Rule 10b5-1 under the Exchange Act with respect to such person's shares or any portion thereof, so long as no sales or transfers of such person's shares occur pursuant to such plan during the period ending 90 days after the date of this prospectus supplement; (v) the transfer or sale of shares to the Company pursuant to the withholding of shares by the Company to satisfy certain tax withholding obligations and/or the payment of the exercise price associated with the conversion/exercise of restricted stock units and/or options; (vi) with respect to our executive officers, the transfer or sale of up to 40,237 additional shares on or after the second full trading day following the release of our earnings results for the first quarter of 2006; or (vii) the transfer or sale of shares with the prior written consent of Goldman, Sachs & Co. on behalf of the underwriters.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from the company in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of our common stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on The Nasdaq National Market, in the over-the-counter market or otherwise.

Each of the underwriters has represented and agreed that:

(a) it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (the "FSMA") except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority (the "FSA");

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to the company; and

(c) it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of shares to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the

shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $500,000. The underwriters have agreed to reimburse our estimated expenses, excluding underwriting discounts and commissions, up to an aggregate of $500,000 in connection with the offering.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the company, for which they received or will receive customary fees and expenses.

A prospectus in electronic format may be made available on the web sites maintained by one or more underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

**LEGAL MATTERS**

The validity of the common stock in respect of which this prospectus is being delivered will be passed on for us by Davis Polk & Wardwell, Menlo Park, California. The underwriters have been represented by Simpson Thacher & Bartlett LLP, Palo Alto, California.

**PROSPECTUS**

# Common Stock Preferred Stock
# Debt Securities

We may offer from time to time common stock, preferred stock or debt securities in one or more offerings. This prospectus describes the general terms of these securities and the general manner in which we will offer them. We will provide the specific terms of any securities that we offer and describe the specific manner in which we will offer such securities in supplements to this prospectus. We may also add, update or change information contained in this prospectus in the prospectus supplements. You should read this prospectus and any prospectus supplement carefully before you invest.

Our common stock is quoted on the Nasdaq National Market under the symbol "FORM." On March 2, 2006, the reported last sale price of our common stock on the Nasdaq National Market was $40.11 per share.

**Investing in these securities involves risks. See "Risk Factors" in the accompanying prospectus supplement and in the documents we incorporate by reference in this prospectus.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We may offer the securities in amounts, at prices and on terms determined at the time of the offering. We may sell the securities directly to you, through agents we select or through underwriters and dealers we select. If we use agents, underwriters or dealers to sell the securities, we will name them and describe their compensation in a prospectus supplement. We will also set forth in the applicable prospectus supplement our net proceeds from the sale of securities.

**The date of this prospectus is March 3, 2006**

**TABLE OF CONTENTS**



You should rely only on the information contained in or incorporated by reference in this prospectus or in any free writing prospectus that we file with the Securities and Exchange Commission in connection with an offering of securities under this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus or any filed free writing prospectus is accurate as of any date other than the date on the front of this prospectus. Unless the context otherwise requires, all references in this prospectus to "FormFactor," "the company," "we," "us," "the Registrant," "our," or similar words are to FormFactor, Inc. and its subsidiaries.

**Summary**

*This summary highlights information contained elsewhere or incorporated by reference in this prospectus and may not contain all of the information that may be important to you. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we refer you. You should read the following summary together with the more detailed information and financial statements and the notes to those statements incorporated by reference in this prospectus.*

We design, develop, manufacture, sell and support precision, high performance advanced semiconductor wafer probe cards. Semiconductor manufacturers use our wafer probe cards to perform wafer test in the final stage of the semiconductor front-end manufacturing process. Semiconductor designs change frequently due to new device applications, architecture changes and technology transitions, and our wafer probe cards are custom-designed for each manufacturer's unique semiconductor designs. We sell and support our products worldwide through our direct sales force, a distributor and an independent sales representative to leading global semiconductor manufacturers of dynamic random access memory, or DRAM, flash memory and logic semiconductor devices.

Our principal executive offices are located at 7005 Southfront Road, Livermore, California 94551, and our telephone number at that address is (925) 290-4000. We maintain a website at www.formfactor.com where general information about us is available. The contents of our website are not part of this prospectus.

FormFactor, the FormFactor logo, MicroSpring, and HARMONY are trademarks of FormFactor in the United States and other countries. All other trademarks, trade names or service marks appearing in this prospectus are the property of their respective owners.

**About This Prospectus**

This prospectus is part of a registration statement that we filed with the SEC utilizing a "shelf" registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus from time to time in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and the applicable prospectus supplement, you must rely on the information in the prospectus supplement. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading "Where You Can Find More Information."

**Risk Factors**

You should carefully consider all of the information in this prospectus and, in particular, you should evaluate the specific risk factors set forth in the prospectus supplement accompanying this prospectus and in the documents we incorporate by reference in this prospectus.

**SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, which are subject to risks, uncertainties and assumptions that are difficult to predict. The forward-looking statements include statements, among other things, concerning our business strategy, including anticipated trends and developments in, and management plans for, our business and the markets in which we operate, financial results, operating results, revenues, gross margin, operating expenses, products, projected costs and capital expenditures, research and development programs, sales and marketing initiatives and competition. In some cases, you can identify these statements by forward-looking words, such as "may," "might," "will," "could," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend" and "continue," the negative or plural of these words and other comparable terminology.

These forward-looking statements are only predictions based on our current expectations and our projections about future events. All forward-looking statements included in this prospectus are based upon information available to us as of its filing date. You should not place undue reliance on these forward-looking statements. Except as required by law, we undertake no obligation to update any of these statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these statements. These factors include, and you should carefully consider, the risks and uncertainties discussed in the prospectus supplement accompanying this prospectus and in the documents we incorporate by reference in this prospectus.

## USE OF PROCEEDS

We intend to use the net proceeds from the sale of the securities for working capital and general corporate purposes. Pending such uses, we may also invest the proceeds in certificates of deposit, United States government securities or certain other interest-bearing securities. If we decide to use the net proceeds from a particular offering of securities for a specific purpose, we will describe that in the related prospectus supplement.

## DIVIDENDS

We have never declared or paid cash dividends on our common stock. Because of certain features of our preferred stock outstanding prior to our initial public offering in June 2003, we were required to record non-cash dividends on our preferred stock during this period. We currently expect to retain all available funds and any future earnings for use in the operation and development of our business. Accordingly, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

## RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges and our ratio of earnings to combined fixed charges and preferred stock dividends:

| | Year Ended | | | | |
|---|---|---|---|---|---|
| | **Dec. 31, 2005** | **Dec. 25, 2004** | **Dec. 27, 2003** | **Dec. 28, 2002** | **Dec. 29, 2001** |
| Ratio of earnings to fixed charges | 37.7 | 38.1 | 12.4 | 7.1 | 1.7 |
| Ratio of earnings to combined fixed charges and preferred stock dividends | 37.7 | 38.1 | 12.4 | 7.1 | 1.7 |

For purposes of calculating our ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends, earnings consist of income from continuing operations before income taxes, fixed charges and amortization of capitalized interest, less capitalized interest. Fixed charges consist of interest expense, capitalized interest and an estimate of the interest within our rental expense. We have not paid or been required to pay any preference security dividends during our last five fiscal years.

## DESCRIPTION OF COMMON STOCK

The following description of our common stock is based upon our certificate of incorporation, our bylaws and applicable provisions of law. We have summarized certain portions of our certificate of incorporation and bylaws below. The summary is not complete. Our certificate of incorporation and bylaws have been filed as exhibits to the registration statement of which this prospectus is a part. You should read our certificate of incorporation and bylaws for the provisions that are important to you.

Certain provisions of the Delaware General Corporation Law, our certificate of incorporation and our bylaws may have an anti-takeover effect. This may delay, defer or prevent a tender offer or takeover attempt that a securityholder might consider in its best interests, including those attempts that might result in a premium over the market price for shares of our common stock.

Our authorized capital stock consists of 250,000,000 shares of common stock, $0.001 par value per share, and 10,000,000 shares of undesignated preferred stock, $0.001 par value per share. As of December 31, 2005, we had outstanding 40,236,686 shares of our common stock and zero shares of our preferred stock. As of February 24, 2006, we had 121 stockholders of record.

**Dividend Rights**

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available at the times and in the amounts that our board of directors may determine from time to time.

**Voting Rights**

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. We have not provided for cumulative voting for the election of directors in our certificate of incorporation. This means that the holders of a majority of the shares voted can elect all of the directors then standing for election. In addition, our certificate of incorporation and bylaws provide that certain actions require the approval of two-thirds, rather than a majority, of the shares entitled to vote. For a description of these actions, see " Anti-Takeover Effects of Delaware Law and our Certificate of Incorporation and Bylaws" below.

**No Preemptive, Conversion or Redemption Rights**

Our common stock is not entitled to preemptive rights and is not subject to conversion or redemption.

**Right to Receive Liquidation Distributions**

Upon our liquidation, dissolution or winding-up, the holders of common stock are entitled to share in all assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock. Each outstanding share of common stock is, and all shares of common stock to be issued in this offering when they are paid for will be, fully paid and nonassessable.

**Piggyback Registration Rights**

Some of our stockholders have rights to include their shares in registered offerings of our common stock, subject to specified exceptions. We refer to these rights as piggyback registration rights. The underwriters of any underwritten offering have the right to limit the number of shares registered by these holders for marketing reasons. We must pay all expenses, except for underwriters' discounts and commissions and the expenses of legal counsel for the selling stockholders, incurred in connection with these piggyback registration rights. The piggyback registration rights will not expire until we and the stockholders who hold these rights agree to terminate them.

**Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws**

Certain provisions of Delaware law and our certificate of incorporation and bylaws may have the effect of delaying, deferring or discouraging another party from acquiring control of us.

***Delaware Law***

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

the transaction is approved by the board before the date the interested stockholder attained that status;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or

on or after the date the business combination is approved by the board and authorized at a meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines "business combination" to include the following:

any merger or consolidation involving the corporation and the interested stockholder;

any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

A Delaware corporation may opt out of this provision either with an express provision in its original certificate of incorporation or in an amendment to its certificate of incorporation or bylaws approved by its stockholders. We have not opted out of this provision. Section 203 could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

***Certificate of Incorporation and Bylaws***

Our certificate of incorporation and bylaws provide that:

no action can be taken by stockholders except at an annual or special meeting of the stockholders called in accordance with our bylaws, and stockholders may not act by written consent;

the approval of holders of two-thirds of the shares entitled to vote at an election of directors is required to adopt, amend or repeal our bylaws or amend or repeal the provisions of our certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action;

our board of directors is expressly authorized to make, alter or repeal our bylaws;

stockholders may not call special meetings of the stockholders or fill vacancies on the board;

our board of directors is divided into three classes serving staggered three-year terms. This means that only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective terms;

our board of directors is authorized to issue preferred stock without stockholder approval;

directors may only be removed for cause by the holders of two-thirds of the shares entitled to vote at an election of directors; and

we will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A..

**Listing**

Our common stock is quoted on the Nasdaq National Market under the trading symbol "FORM."

## DESCRIPTION OF PREFERRED STOCK

Our board of directors is authorized, subject to limitations imposed by Delaware law, to issue up to a total of 10,000,000 shares of preferred stock in one or more series, without stockholder approval, unless stockholder approval is required by applicable law or by the rules of a stock exchange or quotation system on which any series of our stock may be listed or quoted. Our board is authorized to establish from time to time the number of shares to be included in each series and to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions. Our board can also increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

This prospectus describes certain general terms and provisions of our preferred stock. When we offer to sell a particular series of preferred stock, we will describe the specific terms of the securities in a supplement to this prospectus. The prospectus supplement will also indicate whether the general terms and provisions described in this prospectus apply to the particular series of preferred stock. The preferred stock will be issued under a certificate of designations relating to each series of preferred stock and is also subject to our certificate of incorporation. The certificate of designations will be filed with the SEC in connection with an offering of preferred stock.

The prospectus supplement will describe the terms of any preferred stock being offered, including:

the number of shares and designation or title of the shares;

any liquidation preference per share;

any date of maturity;

any redemption, repayment or sinking fund provisions;

any dividend rate or rates and the dates of payment (or the method for determining the dividend rates or dates of payment);

any voting rights;

if other than the currency of the United States, the currency or currencies, including composite currencies, in which the preferred stock is denominated and/or in which payments will or may be payable;

the method by which amounts in respect of the preferred stock may be calculated and any commodities, currencies or indices, or value, rate or price, relevant to such calculation;

whether the preferred stock is convertible or exchangeable and, if so, the securities or rights into which the preferred stock is convertible or exchangeable, and the terms and conditions of conversion or exchange;

the place or places where dividends and other payments on the preferred stock will be payable; and

any additional voting, dividend, liquidation, redemption and other rights, preferences, privileges, limitations and restrictions.

All shares of preferred stock offered will be fully paid and non-assessable. Any shares of preferred stock that are issued will have priority over the common stock with respect to dividend or liquidation rights or both.

The transfer agent for each series of preferred stock will be described in the relevant prospectus supplement.

## DESCRIPTION OF DEBT SECURITIES

This prospectus describes certain general terms and provisions of debt securities that we may offer. The debt securities will be issued under an indenture in the form filed as an exhibit to this registration statement, which we refer to as the "indenture." The indenture will be entered into between us and a trustee to be named prior to the issuance of any debt securities, which we refer to as the "trustee." The indenture will not limit the amount of debt securities that can be issued thereunder and will provide that the debt securities may be issued from time to time in one or more series pursuant to the terms of one or more securities resolutions or supplemental indentures creating such series.

We have summarized below the material provisions of the indenture and the debt securities or indicated which material provisions will be described in the related prospectus supplement for any offering of debt securities. These descriptions are only summaries, and you should refer to the indenture for the particular offering of debt securities itself which will describe completely the terms and definitions of the offered debt securities and contain additional information about the debt securities.

All references in this section, "Description of Debt Securities," to "FormFactor," "the company," "we," "us," "the Registrant," "our," or similar words are solely to FormFactor, Inc., and not to its subsidiaries.

### Terms

When we offer to sell a particular series of debt securities, we will describe the specific terms of the securities in a prospectus supplement. The prospectus supplement will set forth the following terms, as applicable, of the debt securities offered thereby: (1) the designation, aggregate principal amount, currency or composite currency and denominations; (2) the price at which such debt securities will be issued and, if an index formula or other method is used, the method for determining amounts of principal or interest; (3) the maturity date and other dates, if any, on which principal will be payable; (4) the interest rate (which may be fixed or variable), if any; (5) the date or dates from which interest will accrue and on which interest will be payable, and the record dates for

the payment of interest; (6) the manner of paying principal and interest; (7) the place or places where principal and interest will be payable; (8) the terms of any mandatory or optional redemption by us or any third party including any sinking fund; (9) the terms of any conversion or exchange; (10) the terms of any redemption at the option of holders or put by the holders; (11) any tax indemnity provisions; (12) if the debt securities provide that payments of principal or interest may be made in a currency other than that in which debt securities are denominated, the manner for determining such payments; (13) the portion of principal payable upon acceleration of a Discounted Debt Security (as defined below); (14) whether and upon what terms debt securities may be defeased; (15) any events of default or covenants in addition to or in lieu of those set forth in the indenture; (16) provisions for electronic issuance of debt securities or for debt securities in uncertificated form; and (17) any additional provisions or other special terms not inconsistent with the provisions of the indenture, including any terms that may be required or advisable under United States or other applicable laws or regulations, or advisable in connection with the marketing of the debt securities.

Debt securities of any series may be issued as registered debt securities or uncertificated debt securities, in such denominations as specified in the terms of the series.

Securities may be issued under the indenture as Discounted Debt Securities to be offered and sold at a substantial discount from the principal amount thereof. Special United States federal income tax and other considerations applicable thereto will be described in the prospectus supplement relating to such Discounted Debt Securities. "Discounted Debt Security" means a security where the amount of principal due upon acceleration is less than the stated principal amount.

We are not obligated to issue all debt securities of one series at the same time and, unless otherwise provided in the prospectus supplement, we may reopen a series, without the consent of the holders of the debt securities of that series, for the issuance of additional debt securities of that series. Additional debt securities of a particular series will have the same terms and conditions as outstanding debt securities of such series, except for the date of original issuance and the offering price, and will be consolidated with, and form a single series with, such outstanding debt securities.

**Ranking**

The debt securities will be unsecured and will rank on a parity with all of our existing and future unsecured senior debt. The debt securities will be senior to any existing and future indebtedness which by its terms is made subordinate to the debt securities.

We have only a stockholder's claim on the assets of our subsidiaries. This stockholder's claim is junior to the claims that creditors of our subsidiaries have against our subsidiaries. Holders of our debt securities will be our creditors and not creditors of any of our subsidiaries. As a result, all the existing and future liabilities of our subsidiaries, including any claims of their creditors, will effectively be senior to the debt securities with respect to the assets of our subsidiaries. In addition, to the extent that we issue any secured debt, the debt securities will be effectively subordinated to such secured debt to the extent of the value of the assets securing such secured debt.

The debt securities will be obligations exclusively of FormFactor, Inc. To the extent that our ability to service our debt, including the debt securities, may be dependent upon the earnings of our subsidiaries, our ability to do so will be dependent on the ability of our subsidiaries to distribute those earnings to us as dividends, loans or other payments.

**Certain Covenants**

Any covenants that may apply to a particular series of debt securities will be described in the prospectus supplement relating thereto.

**Successor Obligor**

The indenture provides that, unless otherwise specified in the securities resolution or supplemental indenture establishing a series of debt securities, we shall not consolidate with or merge into, or transfer all or substantially all of our assets to, any person in any transaction in which we are not the survivor, unless: (1) the person is organized under the laws of the United States or a jurisdiction within the United States, (2) the person assumes by supplemental indenture all of our obligations under the indenture, the debt securities and any coupons, (3) immediately after the transaction no Default (as defined below) exists and (4) we deliver to the trustee a certificate and opinion of counsel stating that the transaction complies with the foregoing requirements. In such event, the successor will be substituted for us, and thereafter all of our obligations under the indenture, the debt securities and any coupons will terminate.

**Exchange of Debt Securities**

Registered debt securities may be exchanged for an equal aggregate principal amount of registered debt securities of the same series and date of maturity in such authorized denominations as may be requested upon surrender of the registered debt securities at an agency of the company maintained for such purpose and upon fulfillment of all other requirements of such agent.

**Default and Remedies**

Unless the securities resolution or supplemental indenture establishing the series otherwise provides (in which event the prospectus supplement will so state), an "Event of Default" with respect to a series of debt securities will occur if:

(1) we default in any payment of interest on any debt securities of such series when the same becomes due and payable and the default continues for a period of 30 days;

(2) we default in the payment of the principal and premium, if any, of any debt securities of such series when the same becomes due and payable at maturity or upon redemption, acceleration or otherwise and such default shall continue for five or more days;

(3) we default in the performance of any of our other agreements applicable to the series and the default continues for 30 days after the notice specified below;

(4) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law (as defined below) that:

(A) is for relief against us in an involuntary case,

(B) appoints a Custodian (as defined below) for us or for all or substantially all of our property, or

(C) orders the liquidation of us, and the order or decree remains unstayed and in effect for 90 days;

(5) we pursuant to or within the meaning of any Bankruptcy Law:

(A) commence a voluntary case,

(B) consent to the entry of an order for relief against us in an involuntary case,

(C) consent to the appointment of a Custodian for us or for all or substantially all of our property, or

(D) make a general assignment for the benefit of our creditors; or

(6) there occurs any other Event of Default provided for in such series.

The term "Bankruptcy Law" means Title 11 of the United States Code or any similar Federal or State law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator or a similar official under any Bankruptcy Law.

"Default" means any event which is, or after notice or passage of time would be, an Event of Default. A Default under subparagraph (3) above is not an Event of Default until the trustee or the holders of at least 25% in principal amount of the series notify us of the Default and we do not cure the Default within the time specified after receipt of the notice.

The trustee may require indemnity satisfactory to it before it enforces the indenture or the debt securities of the series. Subject to certain limitations, holders of a majority in principal amount of the debt securities of the series may direct the trustee in its exercise of any trust or power with respect to such series. Except in the case of Default in payment on a series, the trustee may withhold from securityholders of such series notice of any continuing Default if the trustee determines that withholding notice is in the interest of such Securityholders. We are required to furnish the trustee annually a brief certificate as to our compliance with all conditions and covenants under the indenture.

The indenture does not have a cross-default provision. Thus, a default by us on any other debt, including any other series of debt securities, would not constitute an Event of Default.

**Amendments and Waivers**

The indenture and the debt securities or any coupons of the series may be amended, and any Default may be waived as follows:

Unless the securities resolution or supplemental indenture otherwise provides (in which event the applicable prospectus supplement will so state), the debt securities and the indenture may be amended with the consent of the holders of a majority in principal amount of the debt securities of all series affected voting as one class. Unless the securities resolution or supplemental indenture otherwise provides (in which event the applicable prospectus supplement will so state), a Default other than a Default in payment on a particular series may be waived with the consent of the holders of a majority in principal amount of the debt securities of the series. However, without the consent of each securityholder affected, no amendment or waiver may (1) change the fixed maturity of or the time for payment of interest on any debt security, (2) reduce the principal, premium or interest payable with respect to any debt security, (3) change the place of payment of a debt security or the currency in which the principal or interest on a debt security is payable, (4) change the provisions for calculating any redemption or repurchase price with respect to any debt security, (5) reduce the amount of debt securities whose holders must consent to an amendment or waiver, (6) make any change that materially adversely affects the right to convert any debt security, (7) waive any Default in payment of principal of or interest on a debt security or (8) adversely affect any holder's rights with respect to redemption or repurchase of a debt security.

Without the consent of any securityholder, the indenture or the debt securities may be amended to provide for assumption of our obligations to securityholders in the event of a merger or consolidation requiring such assumption; to cure any ambiguity, omission, defect or inconsistency; to conform the terms of the debt securities to the description thereof in the prospectus and prospectus supplement offering such debt securities; to create a series and establish its terms; to

provide for assumption of our obligations to securityholders in the event of a merger or consolidation requiring such assumption; to make any change that does not adversely affect the rights of any securityholder; to add to our covenants; or to make any other change to the indenture so long as no debt securities are outstanding.

**Conversion Rights**

Any securities resolution or supplemental indenture establishing a series of debt securities may provide that the debt securities of such series will be convertible at the option of the holders thereof into or for our common stock or other equity or debt instruments. The securities resolution or supplemental indenture may establish, among other things, (1) the number or amount of shares of common stock or other equity or debt instruments for which $1,000 aggregate principal amount of the debt securities of the series is convertible, as may be adjusted pursuant to the terms of the indenture and the securities resolution and (2) provisions for adjustments to the conversion rate and limitations upon exercise of the conversion right. The indenture provides that we will not be required to make an adjustment in the conversion rate unless the adjustment would require a cumulative change of at least 1% in the conversion rate. However, we will carry forward any adjustments that are less than 1% of the conversion rate and take them into account in any subsequent adjustment of the conversion rate.

**Legal Defeasance and Covenant Defeasance**

Debt securities of a series may be defeased in accordance with their terms and, unless the securities resolution or supplemental indenture establishing the terms of the series otherwise provides, as set forth below. We at any time may terminate as to a series all of our obligations (except for certain obligations, including obligations with respect to the defeasance trust and obligations to register the transfer or exchange of a debt security, to replace destroyed, lost or stolen debt securities and coupons and to maintain paying agencies in respect of the debt securities) with respect to the debt securities of the series and any related coupons and the indenture, which we refer to as legal defeasance. We at any time may terminate as to a series our obligations with respect to any restrictive covenants which may be applicable to a particular series, which we refer to as covenant defeasance.

We may exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option. If we exercise our legal defeasance option, a series may not be accelerated because of an Event of Default. If we exercise our covenant defeasance option, a series may not be accelerated by reference to any covenant which may be applicable to a series.

To exercise either defeasance option as to a series, we must (1) irrevocably deposit in trust with the trustee (or another trustee) money or U.S. Government Obligations (as defined below), deliver a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal and interest when due on the deposited U.S. Government Obligations, without reinvestment, plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay the principal and interest when due on all debt securities of such series to maturity or redemption, as the case may be and (2) comply with certain other conditions. In particular, we must obtain an opinion of tax counsel that the defeasance will not result in recognition of any gain or loss to holders for federal income tax purposes.

"U.S. Government Obligations" means direct obligations of the United States or any agency or instrumentality of the United States, the payment of which is unconditionally guaranteed by the United States, which, in either case, have the full faith and credit of the United States pledged for

payment and which are not callable at the issuer's option, or certificates representing an ownership interest in such obligations.

**Regarding the Trustee**

Unless otherwise indicated in a prospectus supplement, the trustee will also act as depository of funds, transfer agent, paying agent and conversion agent, as applicable, with respect to the debt securities. We may remove the trustee as the trustee under the indenture with or without cause if we so notify the trustee three months in advance and if no Default occurs during the three-month period. The indenture trustee may also provide additional unrelated services to us as a depository of funds, registrar, trustee and similar services.

**Governing Law**

The indenture and the debt securities will be governed by New York law, except to the extent that the Trust Indenture Act of 1939 is applicable.

**Forms of Securities**

Each debt security will be represented either by a certificate issued in definitive form to a particular investor or by one or more global securities representing the entire issuance of securities. Certificated securities in definitive form and global securities will be issued in registered form. Definitive securities name you or your nominee as the owner of the security, and in order to transfer or exchange these securities or to receive payments other than interest or other interim payments, you or your nominee must physically deliver the securities to the trustee, registrar, paying agent or other agent, as applicable. Global securities name a depositary or its nominee as the owner of the debt securities represented by these global securities. The depositary maintains a computerized system that will reflect each investor's beneficial ownership of the securities through an account maintained by the investor with its broker/dealer, bank, trust company or other representative, as we explain more fully below.

***Global Securities***

We may issue the registered debt securities in the form of one or more fully registered global securities that will be deposited with a depositary or its nominee identified in the applicable prospectus supplement and registered in the name of that depositary or nominee. In those cases, one or more registered global securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal or face amount of the securities to be represented by registered global securities. Unless and until it is exchanged in whole for securities in definitive registered form, a registered global security may not be transferred except as a whole by and among the depositary for the registered global security, the nominees of the depositary or any successors of the depositary or those nominees.

If not described below, any specific terms of the depositary arrangement with respect to any securities to be represented by a registered global security will be described in the prospectus supplement relating to those securities. We anticipate that the following provisions will apply to all depositary arrangements.

Ownership of beneficial interests in a registered global security will be limited to persons, called participants, that have accounts with the depositary or persons that may hold interests through participants. Upon the issuance of a registered global security, the depositary will credit, on its book-entry registration and transfer system, the participants' accounts with the respective principal or face amounts of the securities beneficially owned by the participants. Any dealers, underwriters or agents participating in the distribution of the securities will designate the accounts

to be credited. Ownership of beneficial interests in a registered global security will be shown on, and the transfer of ownership interests will be effected only through, records maintained by the depositary, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants. The laws of some states may require that some purchasers of securities take physical delivery of these securities in definitive form. These laws may impair your ability to own, transfer or pledge beneficial interests in registered global securities.

So long as the depositary, or its nominee, is the registered owner of a registered global security, that depositary or its nominee, as the case may be, will be considered the sole owner or holder of the securities represented by the registered global security for all purposes under the applicable indenture. Except as described below, owners of beneficial interests in a registered global security will not be entitled to have the securities represented by the registered global security registered in their names, will not receive or be entitled to receive physical delivery of the securities in definitive form and will not be considered the owners or holders of the securities under the applicable indenture. Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depositary for that registered global security and, if that person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of a holder under the applicable indenture. We understand that under existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a registered global security desires to give or take any action that a holder is entitled to give or take under the applicable indenture, the depositary for the registered global security would authorize the participants holding the relevant beneficial interests to give or take that action, and the participants would authorize beneficial owners owning through them to give or take that action or would otherwise act upon the instructions of beneficial owners holding through them.

Principal, premium, if any, and interest payments on debt securities represented by a registered global security registered in the name of a depositary or its nominee will be made to the depositary or its nominee, as the case may be, as the registered owner of the registered global security. None of us, the trustee or any other agent of us or of the trustee will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial ownership interests in the registered global security or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

We expect that the depositary for any of the securities represented by a registered global security, upon receipt of any payment of principal, premium, interest or other distribution of underlying securities or other property to holders on that registered global security, will immediately credit participants' accounts in amounts proportionate to their respective beneficial interests in that registered global security as shown on the records of the depositary. We also expect that payments by participants to owners of beneficial interests in a registered global security held through participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of those participants.

If the depositary for any of these securities represented by a registered global security is at any time unwilling or unable to continue as depositary or ceases to be a clearing agency registered under the Securities Exchange Act of 1934, and a successor depositary registered as a clearing agency under the Securities Exchange Act of 1934 is not appointed by us within 90 days, we will issue securities in definitive form in exchange for the registered global security that had been held by the depositary. Any securities issued in definitive form in exchange for a registered global security will be registered in the name or names that the depositary gives to the relevant trustee or other relevant agent of ours or theirs. It is expected that the depositary's instructions will be based upon directions received by the depositary from participants with respect to ownership of beneficial interests in the registered global security that had been held by the depositary.

**PLAN OF DISTRIBUTION**

We may sell the securities through underwriters or dealers, directly to one or more purchasers, through agents or in any combination of these three ways. The prospectus supplement will set forth the terms of the offering of such securities, including:

- the name or names of any underwriters, dealers or agents and the amounts of securities underwritten or purchased by each of them;
- the initial public offering price of the securities and the proceeds to us and any discounts, commissions or concessions allowed or reallowed or paid to dealers;
- the names of selling securityholders, if any; and
- any securities exchanges on which the securities may be listed.

Any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

If underwriters or dealers are used in the sale of any securities, the securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price, at market prices prevailing at the time of sale or at prices related to such prevailing market prices, or at varying prices determined at the time of sale. The securities may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters' obligations to purchase the securities will be subject to certain conditions precedent. The underwriters will be obligated to purchase all of the securities if they purchase any of the securities.

We may sell the securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

To the extent that we make sales to or through one or more underwriters or agents in at-the-market offerings, we will do so pursuant to the terms of a distribution agreement between us and the underwriters or agents. If we engage in at-the-market sales pursuant to a distribution agreement, we will issue and sell shares of our common stock to or through one or more underwriters or agents, which may act on an agency basis or on a principal basis. During the term of any such agreement, we may sell shares on a daily basis in exchange transactions or otherwise as we agree with the underwriters or agents. The distribution agreement will provide that any shares of our common stock sold will be sold at prices related to the then-prevailing market prices for our common stock. Therefore, exact figures regarding proceeds that will be raised or commissions to be paid cannot be determined at this time and will be described in a prospectus supplement. Pursuant to the terms of the distribution agreement, we also may agree to sell, and the relevant underwriters or agents may agree to solicit offers to purchase, blocks of our common stock or other securities. The terms of each such distribution agreement will be set forth in more detail in a prospectus supplement to this prospectus. In the event that any underwriter or agent acts as principal, or broker-dealer acts as underwriter, it may engage in certain transactions that stabilize, maintain or otherwise affect the price of our securities. We will describe any such activities in the prospectus supplement relating to the transaction.

Offers to purchase the securities offered by this prospectus may be solicited, and sales of the securities may be made, by us of those securities directly to institutional investors or others, who may be deemed to be underwriters within the meaning of the Securities Act with respect to any resales of the securities. The terms of any offer made in this manner will be included in the prospectus supplement relating to the offer.

In connection with offerings made through underwriters or agents, we may enter into agreements with such underwriters or agents pursuant to which we receive our outstanding securities in consideration for the securities being offered to the public for cash. In connection with these arrangements, the underwriters or agents may also sell securities covered by this prospectus to hedge their positions in these outstanding securities, including in short sale transactions. If so, the underwriters or agents may use the securities received from us under these arrangements to close out any related open borrowings of securities.

We may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth any commissions we pay for solicitation of these contracts.

Agents and underwriters may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third parties may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment).

We may loan or pledge securities to a financial institution or other third party that in turn may sell the securities using this prospectus. Such financial institution or third party may transfer its short position to investors in our securities or in connection with a simultaneous offering of other securities offered by this prospectus.

One or more firms, referred to as "remarketing firms," may also offer or sell the securities, if the prospectus supplement so indicates, in connection with a remarketing arrangement upon their purchase. Remarketing firms will act as principals for their own accounts or as agents for us. These remarketing firms will offer or sell the securities in accordance with a redemption or repayment pursuant to the terms of the securities. The prospectus supplement will identify any remarketing firm and the terms of its agreement, if any, with us and will describe the remarketing firm's compensation. Remarketing firms may be deemed to be underwriters in connection with the securities they remarket. Remarketing firms may be entitled under agreements that may be entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, and may be customers of, engage in transactions with or perform services for us in the ordinary course of business.

If indicated in the applicable prospectus supplement, we will authorize underwriters, dealers or agents to solicit offers by certain institutional investors to purchase securities from us pursuant to contracts providing for payment and delivery at a future date. Institutional investors with which these contracts may be made include, among others, commercial and savings banks, insurance companies, pension funds, investment companies and educational and charitable institutions.

In all cases, these purchasers must be approved by us. Unless otherwise set forth in the applicable prospectus supplement, the obligations of any purchaser under any of these contracts will not be subject to any conditions except that:

- the purchase of the securities must not at the time of delivery be prohibited under the laws of any jurisdiction to which that purchaser is subject; and

- if the securities are also being sold to underwriters, we must have sold to these underwriters the securities not subject to delayed delivery.

Underwriters and other agents will not have any responsibility in respect of the validity or performance of these contracts. Some of the underwriters, dealers or agents used by us in any offering of securities under this prospectus may be customers of, engage in transactions with, and perform services for us in the ordinary course of business.

## VALIDITY OF SECURITIES

The validity of the securities in respect of which this prospectus is being delivered will be passed on for us by Davis Polk & Wardwell, Menlo Park, California.

## EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2005 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov from which interested persons can electronically access the registration statement including the exhibits and schedules thereto. Our other filings with the SEC are also available on the SEC's Internet site.

The SEC allows us to "incorporate by reference" in this prospectus the information in other documents that we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. The information that we file later with the SEC will automatically update and supersede information contained in documents filed earlier with the SEC or contained in this prospectus or a prospectus supplement. We incorporate by reference the documents listed below, all filings that we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), after the date of the initial registration statement and prior to the effectiveness of the registration statement, and all documents subsequently filed with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering under this prospectus:

- our Annual Report filed on Form 10-K for the year ended December 31, 2005; and

- our Current Reports filed on Form 8-K on March 2, 2006 and March 3, 2006 (except with respect to the section entitled "Compensation Committee Report" beginning on page 9 of Exhibit 99.01 thereto).

You may request copies of these filings at no cost by writing or telephoning FormFactor, Inc., 7005 Southfront Road, Livermore, California 94551, telephone (925) 290-4000, attention: Investor Relations.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying prospectus are offers to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

**TABLE OF CONTENTS**
**Prospectus Supplement**



## 5,000,000 Shares

# FormFactor, Inc.

Common Stock

**Goldman, Sachs & Co.**
**Morgan Stanley**
**Citigroup**
**Thomas Weisel Partners LLC**

QuickLinks