FORMFACTOR INC
Form 10-Q
August 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended June 28, 2008

or

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

For the transition period from to

Commission file number: 000-50307

FormFactor, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	**13-3711155**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)

7005 Southfront Road, Livermore, California 94551

(Address of principal executive offices, including zip code)

(925) 290-4000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Large Accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of July 26, 2008, 48,871,994 shares of the registrant s common stock, par value $0.001 per share, were outstanding.

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FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2008

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

FORMFACTOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 28, 2007
Revenues	$ 52,013	$ 114,124	$ 117,716	$ 216,395
Cost of revenues	40,912	49,966	94,043	97,954
Gross margin	11,101	64,158	23,673	118,441
Operating expenses:				
Research and development	15,821	14,384	32,209	28,485
Selling, general and administrative	22,705	23,056	45,363	45,984
Restructuring charges	3,223		8,543	
Total operating expenses	41,749	37,440	86,115	74,469
Operating income (loss)	(30,648)	26,718	(62,442)	43,972
Interest income	3,128	5,557	8,003	11,001
Other income (expense)	(652)	(61)	141	(181)
Income (loss) before income taxes	(28,172)	32,214	(54,298)	54,792
Provision (benefit) for income taxes	(9,513)	11,109	(17,678)	18,476
Net income (loss)	$ (18,659)	$ 21,105	$ (36,620)	$ 36,316
Net income (loss) per share:				
Basic	$ (0.38)	$ 0.44	$ (0.75)	$ 0.76
Diluted	$ (0.38)	$ 0.43	$ (0.75)	$ 0.74
Weighted-average number of shares used in per share calculations:				
Basic	48,835	47,893	48,789	47,639
Diluted	48,835	49,516	48,789	49,289

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

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FORMFACTOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

(Unaudited)

	June 28, 2008	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 427,176	$ 315,232
Marketable securities	115,559	254,814
Accounts receivable, net	45,555	69,486
Inventories	24,718	29,309
Deferred tax assets	18,492	17,995
Refundable income taxes	18,231	2,043
Prepaid expenses and other current assets	12,841	13,461
Total current assets	662,572	702,340
Restricted cash	2,250	2,250
Property and equipment, net	126,205	130,882
Deferred tax assets	13,575	10,038
Other assets	9,587	9,812
Total assets	$ 814,189	$ 855,322
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 30,626	$ 42,893
Accrued liabilities	20,115	30,029
Income tax payable	225	1,328
Deferred revenue and customer advances	7,807	5,535
Deferred rent	458	462
Total current liabilities	59,231	80,247
Long-term income tax payable	13,089	12,248
Deferred rent and other liabilities	5,800	5,877
Total liabilities	78,120	98,372
Commitments and contingencies (Note 10)		
Stockholders equity		
Preferred stock, $0.001 par value:		
10,000,000 shares authorized; no shares issued and outstanding at June 28, 2008 and December 29, 2007, respectively		
Common stock, $0.001 par value:		
250,000,000 shares authorized; 48,871,994 and 48,642,258 shares issued and outstanding at June 28, 2008 and December 29, 2007, respectively	49	49
Additional paid-in capital	589,901	573,553
Accumulated other comprehensive income	320	929
Retained earnings	145,799	182,419
Total stockholders equity:	736,069	756,950
Total liabilities and stockholders equity	$ 814,189	$ 855,322

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

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FORMFACTOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

(Unaudited)

	Six Months Ended	
	June 28, 2008	June 30, 2007
Cash flows from operating activities:		
Net income (loss)	$ (36,620)	$ 36,316
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,776	12,616
Stock-based compensation expense	12,811	13,840
Deferred income taxes	(2,653)	(2,277)
Excess tax benefits from equity based compensation plans	(127)	(5,470)
Provision for excess and obsolete inventories	11,846	5,234
Loss on disposal and impairment of property and equipment	982	283
Changes in assets and liabilities:		
Accounts receivable	23,938	(24,004)
Inventories	(7,391)	(16,689)
Prepaid expenses and other current assets	1,911	(2,227)
Refundable income taxes	(16,062)	
Other assets	224	(499)
Accounts payable	(5,327)	9,625
Accrued liabilities	(8,735)	(2,491)
Income taxes payable	(895)	16,546
Deferred rent	(195)	102
Deferred revenues and customer advances	2,266	(902)
Net cash provided by (used in) operating activities	(8,251)	40,003
Cash flows from investing activities:		
Acquisition of property and equipment	(20,772)	(30,641)
Purchase of marketable securities	(163,568)	(120,192)
Proceeds from maturities and sales of marketable securities	301,141	87,718
Net cash provided by (used in) investing activities	116,801	(63,115)
Cash flows from financing activities:		
Proceeds from issuance of common stock	3,453	20,112
Excess tax benefits from equity based compensation plans	127	5,470
Net cash provided by financing activities	3,580	25,582
Effect of exchange rate changes on cash and cash equivalents	(186)	9
Net increase (decrease) in cash and cash equivalents	111,944	2,479
Cash and cash equivalents, beginning of the period	315,232	284,131
Cash and cash equivalents, end of the period	$ 427,176	$ 286,610
Supplemental disclosure of significant non-cash investing activities:		
Purchases of property and equipment through accounts payable and accrued liabilities	$ (9,153)	$ 142

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

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FORMFACTOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Basis of Presentation

Basis of presentation. The accompanying unaudited condensed consolidated interim financial statements of FormFactor, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the SEC). The Company s interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. Operating results for the three and six months ended June 28, 2008 are not necessarily indicative of the results that may be expected for the year ending December 27, 2008, or for any other period. The balance sheet at December 29, 2007 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements and notes should be read with the consolidated financial statements and notes thereto for the year ended December 29, 2007 included in the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2008, and with the interim financial statements and notes included in the Company s Report on Form 10-Q for the period ended March 29, 2008.

Fiscal Year. The Company operates on a 52/53 week fiscal year, whereby the year ends on the Saturday nearest December 31. Fiscal year 2008 will end on December 27, 2008, and will consist of 52 weeks.

Note 2 Significant Accounting Policies

The Company s significant accounting policies are disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended December 29, 2007. As described in Note 4, the Company adopted certain provisions of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements as of the first day of the first quarter of fiscal 2008.

Note 3 Restructuring Charges

Fiscal 2008 Quarter 1 Cost Reduction Plan

On February 5, 2008, the Company announced a cost reduction plan that included reducing its global workforce. The worldwide reduction in workforce involved approximately 114 employees, or 14% of the headcount prior to the reduction. The plan was designed to restructure the Company to better align with the market environment. The majority of the activities comprising the quarter 1 cost reduction plan were completed by the end of the first quarter of fiscal 2008 and consisted primarily of global workforce reductions and property and equipment impairments. During the three months ended March 29, 2008 the Company recorded a charge of $5.3 million related to the quarter 1 cost reduction plan. In addition, the Company and Jorge L. Titinger, its former Senior Vice President, Product Business Group, mutually agreed to eliminate Mr. Titinger s position as part of

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the Company s quarter 1 restructuring activities in light of market and business conditions. In connection with his departure, at March 29, 2008, the Company recorded charges of approximately $613,000, consisting primarily of a severance payment of $204,000 and approximately $287,000 in stock-based compensation resulting from the accelerated vesting of a portion of his unvested restricted stock units representing an aggregate of 18,680 shares. These charges were recorded as components of restructuring in the Condensed Consolidated Statements of Operations.

During the three months ended June 28, 2008, the Company paid approximately $2.3 million related to accrued severance, benefits and other costs. Additionally, the Company recognized a reduction of $345,000 as adjustments to costs previously accrued for the quarter 1 cost reduction plan. These charges are recorded as components of restructuring in the Condensed Consolidated Statements of Operations.

Fiscal 2008 Quarter 2 Cost Reduction Plan

On April 8, 2008, the Company announced its commitment to implement a second global cost reduction plan that included reducing its global workforce by approximately 12%, with reductions primarily coming from the Company s North America operations. The plan also included the consolidation of a facility in Livermore, California. The plan was designed to restructure the Company to better align with the market environment. A substantial portion of the activities comprising the quarter 2 cost reduction plan was completed by the end of the second quarter of fiscal 2008 with the remaining activities to be completed in the third quarter of fiscal 2008.

During the three months ended June 28, 2008, the Company recorded a charge of approximately $3.6 million related to the quarter 2 cost reduction plan which includes approximately $328,708 associated with the facility consolidation. The Company paid approximately $2.8 million related to accrued severance, benefits and other costs and $88,302 related to the facility consolidation. These charges are recorded as components of restructuring in the Condensed Consolidated Statements of Operations.

The following table summarizes the activities related to both cost reduction plans as of June 28, 2008 (in thousands):

	Fiscal 2008 Restructuring				
	Quarter 1 Cost Reduction Plan		**Quarter 2 Cost Reduction Plan**		
	Employee Severance and Benefits	**Property and Equipment Impairment**	**Employee Severance and Benefits**	**Contract Termination and Other**	**Total**
Accrual at December 29, 2007	$	$	$	$	$
Restructuring charges	4,680	640			5,320
Cash payments	(1,508)				(1,508)
Non-cash settlements	(477)	(640)			(1,117)
Accrual at March 29, 2008	$ 2,695	$	$	$	$ 2,695
Restructuring charges (reversals)	(345)		3,239	329	3,223
Cash payments	(2,277)		(2,781)	(88)	(5,146)
Non-cash settlements			(173)		(173)
Accrual at June 28, 2008	$ 73	$	$ 285	$ 241	$ 599

The charges above have been reflected separately as restructuring in the Condensed Consolidated Statements of Operations. The remaining accrual, as of June 28, 2008 relates to severance benefits and other costs associated with the facility consolidation which will be paid within the next twelve months. As such, the restructuring accrual is recorded as a current liability within accrued liabilities in the Condensed Consolidated Balance Sheets.

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Note 4 Fair Value

Effective December 30, 2007, the Company adopted SFAS No. 157, Fair Value Measurements. In February 2008, FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. The Company adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs, the first two of which are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company measures and reports certain financial assets and liabilities at fair value on a recurring basis, including money market funds, U. S. government securities, municipal bonds, U. S. government sponsored enterprise securities or agency securities and foreign currency derivatives. In accordance with SFAS 157, the following table represents the Company s fair value hierarchy for its financial assets (cash equivalents and marketable securities) measured at fair value on a recurring basis as of June 28, 2008:

	Level 1	Level 2 (In thousands)	Total
Cash Equivalents			
Money Market funds	$ 366,991	$	$ 366,991
Marketable Securities			
U. S. Government securities		26,677	26,677
Municipal bonds		33,584	33,584
Agency securities		55,298	55,298
Total Cash Equivalents and Marketable Securities	$ 366,991	$ 115,559	$ 482,550

Note 5 Inventories

Inventories are stated at the lower of cost (principally standard cost which approximates actual cost on a first-in, first-out basis) or market value. Adjustments for potential excess and obsolete inventory are made based on management s analysis of inventory levels and future sales forecasts. Once the value is adjusted, the original cost of the Company s inventory less the related inventory write-down represents the new cost basis of such products. Reversal of these write-downs is recognized only when the related inventory has been scrapped or sold.

Inventories consisted of the following:

	June 28, 2008	December 29, 2007
	(In thousands)	
Raw materials	$ 6,124	$ 12,442
Work-in-progress	11,458	12,971
Finished goods	7,136	3,896
	$ 24,718	$ 29,309

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Note 6 Warranty

The Company offers warranties on its products, other than certain evaluation and early adopter products that are not offered with warranty, and records a liability for the estimated future costs associated with customer warranty claims, which is based upon historical experience and the Company s estimate of the level of future costs. Warranty costs are reflected in the Condensed Consolidated Statements of Operations as a cost of revenues. A reconciliation of the changes in the Company s warranty liability (included in accrued liabilities in the Condensed Consolidated Balance Sheets) for the three and six months ended June 28, 2008 and June 30, 2007, respectively, follows:

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
	(In thousands)			
Warranty accrual beginning balance	$ 2,303	$ 822	$ 1,383	$ 778
Accrual for warranties issued during the period	648	1,795	2,488	2,634
Settlements made during the period	(1,471)	(1,477)	(2,391)	(2,272)
Warranty accrual ending balance	$ 1,480	$ 1,140	$ 1,480	$ 1,140

Note 7 Stock-Based Compensation

The Company recorded stock-based compensation for the three and six months ended June 28, 2008 and June 30, 2007 as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
	(In thousands)		(In thousands)	
Stock-based compensation expense by type of award:				
Employee stock options (1) (2)	$ 5,343	$ 5,844	$ 9,567	$ 11,439
Employee stock purchase plan	689	713	1,821	1,603
Restricted stock units (3) (4)	694	32	1,282	848
Net change in amounts capitalized as inventory	(32)	(127)	141	(50)
Total stock-based compensation	6,694	6,462	12,811	13,840
Tax effect on stock-based compensation	(2,210)	(2,049		