FORMFACTOR INC
Form 10-Q
August 06, 2009
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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 27, 2009

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 (State or other jurisdiction of incorporation or organization)	**13-3711155** (I.R.S. Employer 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 submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o 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 definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer o	Accelerated filer x
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 31, 2009, 49,469,534 shares of the registrant s common stock, par value $0.001 per share, were outstanding.

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FORMFACTOR, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 27, 2009

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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 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Revenues	$ 31,198	$ 52,013	$ 58,567	$ 117,716
Cost of revenues	32,524	40,912	63,572	94,043
Gross profit (loss)	(1,326)	11,101	(5,005)	23,673
Operating expenses:				
Research and development	13,938	15,821	28,047	32,209
Selling, general and administrative	18,263	22,705	44,574	45,363
Restructuring	264	3,223	7,943	8,543
Total operating expenses	32,465	41,749	80,564	86,115
Operating loss	(33,791)	(30,648)	(85,569)	(62,442)
Interest income	762	3,128	1,877	8,003
Other income (expense), net	(89)	(652)	(505)	141
Loss before income taxes	(33,118)	(28,172)	(84,197)	(54,298)
Provision for (benefit from) income taxes	32,728	(9,513)	19,592	(17,678)
Net loss	$ (65,846)	$ (18,659)	$ (103,789)	$ (36,620)
Net loss per share:				
Basic	$ (1.33)	$ (0.38)	$ (2.11)	$ (0.75)
Diluted	$ (1.33)	$ (0.38)	$ (2.11)	$ (0.75)
Weighted-average number of shares used in per share calculations:				
Basic	49,394	48,835	49,297	48,789
Diluted	49,394	48,835	49,297	48,789

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 27, 2009	December 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 183,106	$ 337,926
Marketable securities	303,712	184,968
Accounts receivable, net of allowances for doubtful accounts of $9,151 at June 27, 2009 and $4,220 at December 27, 2008	34,214	34,127
Inventories	18,560	18,788
Deferred tax assets	7,085	23,039
Refundable income taxes	14,791	29,413
Prepaid expenses and other current assets	8,717	14,702
Total current assets	570,185	642,963
Restricted cash	680	680
Property and equipment, net	100,898	113,813
Deferred tax assets	1,815	20,580
Other assets	1,248	7,674
Total assets	$ 674,826	$ 785,710
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 20,562	$ 33,214
Accrued liabilities	16,229	25,693
Income taxes payable	190	1,904
Deferred revenue	9,771	4,946
Deferred rent	455	452
Total current liabilities	47,207	66,209
Long-term income taxes payable	6,153	7,732
Deferred rent and other liabilities	5,424	5,705
Total liabilities	58,784	79,646
Commitments and contingencies (Note 14)		
Stockholders equity		
Preferred stock, $0.001 par value:		
10,000,000 shares authorized; no shares issued and outstanding at June 27, 2009 and December 27, 2008, respectively		
Common stock, $0.001 par value:		
250,000,000 shares authorized; 49,467,371 and 49,062,308 shares issued and outstanding at June 27, 2009 and December 27, 2008, respectively	49	49
Additional paid-in capital	616,926	602,295
Accumulated other comprehensive income	1,058	1,922
Retained earnings (deficit)	(1,991)	101,798
Total stockholders equity	616,042	706,064
Total liabilities and stockholders equity	$ 674,826	$ 785,710

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 27, 2009	Six Months Ended June 28, 2008
Cash flows from operating activities:		
Net loss	$ (103,789)	$ (36,620)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,989	15,776
Stock-based compensation expense	11,909	12,811
Deferred income tax provision (benefit)	34,642	(2,653)
Excess tax benefits from equity based compensation plans	(437)	(127)
Provision for doubtful accounts receivable	4,931	489
Provision for excess and obsolete inventories	5,818	11,846
Loss on disposal of property and equipment	144	982
Non-cash restructuring	366	
Changes in assets and liabilities:		
Accounts receivable	(4,976)	23,449
Inventories	(5,545)	(7,391)
Prepaids and other current assets	5,858	1,911
Refundable income taxes	14,683	(16,062)
Other assets	6,389	224
Accounts payable	(8,252)	(5,327)
Accrued liabilities	(8,752)	(8,735)
Income tax payable	(3,285)	(895)
Deferred rent	(257)	(195)
Deferred revenues	4,821	2,266
Net cash used in operating activities	(29,743)	(8,251)
Cash flows from investing activities:		
Acquisition of property and equipment	(8,753)	(20,772)
Purchases of marketable securities	(287,616)	(163,568)
Proceeds from maturities of marketable securities	149,430	147,352
Proceeds from sales of marketable securities	18,905	153,789
Net cash provided by (used) in investing activities	(128,034)	116,801
Cash flows from financing activities:		
Proceeds from issuances of common stock and awards, net	2,565	3,453
Excess tax benefits from equity based compensation plans	437	127
Net cash provided by financing activities	3,002	3,580
Effect of exchange rate changes on cash and cash equivalents	(45)	(186)
Net increase (decrease) in cash and cash equivalents	(154,820)	111,944
Cash and cash equivalents, beginning of period	337,926	315,232
Cash and cash equivalents, end of period	$ 183,106	$ 427,176
Supplemental cash flow disclosures:		
Purchases of property and equipment through accounts payable and accruals	$ (5,065)	$ (9,153)
Income taxes paid (refunded), net	$ (26,576)	$

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 considered necessary to fairly present the Company s financial position, results of operations and cash flows have been included. Operating results for the three and six months ended June 27, 2009 are not necessarily indicative of the results that may be expected for the year ending December 26, 2009, or for any other period. The balance sheet at December 27, 2008 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 27, 2008 included in the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2009.

Fiscal Year. The Company operates on a 52/53 week fiscal year, whereby the year ends on the last Saturday of December. Fiscal 2009 will end on December 26, 2009, and will consist of 52 weeks.

Reclassifications. Certain prior period balances have been reclassified to conform to the current financial statement presentation. None of these reclassifications had an impact on reported net loss for any periods presented.

Subsequent Events. The Company has performed an evaluation of subsequent events through August 6, 2009, which is the date the financial statements were issued.

Note 2 Recent Accounting Pronouncements and Other Reporting Considerations

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification (the Codification) as the single source of authoritative nongovernmental U.S. GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard will not have a material impact on the Company s financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company s involvement in variable interest entities. This standard is effective for interim and annual periods ending after November 15, 2009. The adoption of this standard is not expected to have a material impact on the Company s financial statements.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS 166). SFAS 166 is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , and will require more information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosure. This standard is effective for interim and annual periods ending after November 15, 2009. The adoption of this standard is not expected to have a material impact on the Company s financial statements.

For the quarter beginning March 29, 2009, the Company adopted FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2). FSP FAS 115-2 amends the other-than-temporary impairment (OTTI) guidance in U.S. GAAP to make the guidance more operational and to improve the presentation of other-than-temporary impairments in a company s financial statements. Prior to FSP FAS 115-2, if OTTI was determined to exist, the Company recognized an OTTI charge into earnings in an amount equal to the difference between the investment s amortized cost basis and its fair value as of the balance sheet date of the reporting period. Under FSP 115-2, if OTTI has been incurred, and it is more-likely-than-not that the Company will not sell the investment security

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before the recovery of its amortized cost basis, then the OTTI is separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the total OTTI related to the credit loss is recognized in earnings. The amount of the total OTTI related to other factors is recognized in accumulated other comprehensive income (AOCI). There was no initial effect of adoption on March 28, 2009.

For the quarter beginning March 29, 2009, the Company adopted FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for an asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of FSP FAS 157-4 did not have an impact on the Company s consolidated results of operations or financial condition.

For the quarter beginning March 29, 2009, the Company adopted FSP FAS 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures About Fair Value of Financial Instruments (FSP FAS 107-1). FSP FAS 107-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements and also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. The adoption of FSP FAS 107-1 did not have an impact on the Company s consolidated results of operations or financial condition. See Note 4 for additional disclosures included in accordance with FSP FAS 107-1.

For the quarter beginning March 29, 2009, the Company adopted FASB Statement No. 165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. Adoption of SFAS 165 did not have an impact on the Company s consolidated results of operations or financial condition.

The Emerging Issues Task Force (EITF) No. 08-1, Revenue Arrangements with Multiple Delivera