FORMFACTOR INC
Form 10-Q
May 01, 2012

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

Form 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2012

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 incorporation or organization)	(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 ý 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 ý 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 ý

As of April 26, 2012, 49,610,899 shares of the registrant’s common stock, par value $0.001 per share, were outstanding.

FORMFACTOR, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

FORMFACTOR, INC.

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

	Three Months Ended	
	March 31, 2012	March 26, 2011
Revenues	$ 34,806	$ 40,428
Cost of revenues	30,650	36,359
Gross profit	4,156	4,069
Operating expenses:		
Research and development	10,847	11,560
Selling, general and administrative	11,148	12,387
Restructuring charges, net	(33)	1,038
Impairment of long-lived assets	168	351
Total operating expenses	22,130	25,336
Operating loss	(17,974)	(21,267)
Interest income, net	212	424
Other income (expense), net	410	(374)
Loss before income taxes	(17,352)	(21,217)
Provision for income taxes	102	207
Net loss	$ (17,454)	$ (21,424)
Net loss per share:		
Basic and Diluted	$ (0.35)	$ (0.42)
Weighted-average number of shares used in per share calculations:		
Basic and Diluted	49,487	50,636

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

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FORMFACTOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2012	March 26, 2011
Net loss	$ (17,454)	$ (21,424)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(538)	290
Unrealized gains (losses) on marketable securities:		
Unrealized gains (losses) arising during the period	(121)	(30)
Net (gains) losses reclassified into earnings	—	(3)
Net unrealized gains (losses) on marketable securities	(121)	(27)
Other comprehensive income (loss), net of tax	(659)	263
Comprehensive income (loss)	$ (18,113)	$ (21,161)

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)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 135,536	$ 139,049
Marketable securities	144,784	157,642
Accounts receivable, net	21,203	12,662
Inventories	20,148	18,092
Deferred tax assets	1,758	1,162
Refundable income taxes	905	910
Prepaid expenses and other current assets	7,011	7,458
Total current assets	331,345	336,975
Restricted cash	317	317
Property, plant and equipment, net	34,376	35,132
Deferred tax assets	5,794	5,954
Other assets	4,357	4,693
Total assets	$ 376,189	$ 383,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,171	$ 9,731
Accrued liabilities	14,106	13,966
Income taxes payable	181	100
Deferred revenue	5,449	4,798
Total current liabilities	34,907	28,595
Long-term income taxes payable	4,100	4,112
Deferred rent and other liabilities	4,310	3,712
Total liabilities	43,317	36,419
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, $0.001 par value:		
10,000,000 shares authorized; no shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	—	—
Common stock, $0.001 par value:		
250,000,000 shares authorized; 49,610,899 and 49,268,479 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	51	50
Additional paid-in capital	656,356	652,024
Accumulated other comprehensive income	2,041	2,700
Accumulated deficit	(325,576)	(308,122)
Total stockholders' equity	332,872	346,652
Total liabilities and stockholders' equity	$ 376,189	$ 383,071

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)

	Three Months Ended March 31, 2012	Three Months Ended March 26, 2011
Cash flows from operating activities:		
Net loss	$(17,454)	$(21,424)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,843	2,935
Amortization of investments	51	99
Stock-based compensation expense	3,043	3,969
Deferred income tax provision (benefit)	—	(45)
Provision for (recovery of) doubtful accounts receivable	30	(294)
Provision for excess and obsolete inventories	1,416	2,267
Loss (gain) on disposal and write-off of long-lived assets	32	(14)
Impairment of long-lived assets	168	351
Foreign currency transaction (gains) losses	532	(242)
Changes in assets and liabilities:		
Accounts receivable	(8,743)	5,338
Inventories	(3,374)	(165)
Prepaid expenses and other current assets	80	2,579
Refundable income taxes	(45)	(257)
Other assets	—	533
Accounts payable	5,332	1,754
Accrued liabilities	354	(8,554)
Income taxes payable	78	(1,157)
Deferred rent and other liabilities	46	(103)
Deferred revenues	651	136
Net cash used in operating activities	(14,960)	(12,294)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(1,804)	(1,537)
Proceeds from sales of property, plant and equipment	—	15
Purchases of marketable securities	(47,813)	(51,853)
Proceeds from maturities of marketable securities	60,500	60,665
Net cash provided by investing activities	10,883	7,290
Cash flows from financing activities:		
Proceeds from issuances of common stock, net of issuance costs	1,182	1,534
Purchase and retirement of common stock	—	(1,968)
Net cash provided by (used in) financing activities	1,182	(434)
Effect of exchange rate changes on cash and cash equivalents	(618)	373
Net increase (decrease) in cash and cash equivalents	(3,513)	(5,065)
Cash and cash equivalents, beginning of period	139,049	121,207
Cash and cash equivalents, end of period	$135,536	$116,142
Supplemental cash flow disclosures:		
Changes in accounts payable and accrued liabilities related to property, plant and equipment purchases	$(56)	$(653)

Income taxes paid (refunded), net	$ 99	$ 1,687

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 and Summary of Significant Accounting Policies

Basis of presentation. The accompanying unaudited condensed consolidated interim financial statements of FormFactor, Inc. and our subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (the "SEC"). Our 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 to fairly present our financial position, results of operations and cash flows have been included. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 29, 2012, or for any other period. The balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. The condensed consolidated financial statements include our accounts as well as those of our wholly-owned subsidiaries after elimination of all significant inter-company balances and transactions.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates, and material effects on our consolidated operating results and financial position may result.

These financial statements and notes should be read with the consolidated financial statements and notes thereto for the year ended December 31, 2011 included in our Annual Report on Form 10-K filed with the SEC on February 21, 2012.

Fiscal year. We operate on a 52/53 week fiscal year, whereby the fiscal year ends on the last Saturday of December. Fiscal 2012 will end on December 29, 2012, and will consist of 52 weeks.

Significant Accounting Policies. Our significant accounting policies have not materially changed during the three months ended March 31, 2012 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Note 2 — Recent Accounting Pronouncements and Other Reporting Considerations

Fair Value

In May 2011, updated authoritative guidance to amend existing requirements for fair value measurements and disclosures was issued. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities as well as instruments classified in shareholders' equity. We have adopted this guidance effective with the first quarter of fiscal 2012 and such adoption did not have a material impact to our Condensed Consolidated Financial Statements.

Comprehensive Income

In June 2011, authoritative guidance that addresses the presentation of comprehensive income in interim and annual reporting of financial statements was issued. The standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Such changes in stockholders' equity will be required to be disclosed in either a single continuous statement of comprehensive income or in two separate but consecutive statements. We have adopted this guidance effective with the first quarter of fiscal 2012 and such adoption did not have a material impact to our Condensed Consolidated Financial Statements.

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Note 3 — Concentration of Credit and Other Risks

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, marketable securities and trade receivables. Our cash equivalents and marketable securities are held in safekeeping by large, credit worthy financial institutions. We invest our excess cash primarily in U.S. banks, government and agency bonds, money market funds and corporate obligations. We have established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity. Deposits in these banks may exceed the amounts of insurance provided on such deposits. To date, we have not experienced any losses on our deposits of cash and cash equivalents.

We market and sell our products to a narrow base of customers and generally do not require collateral. Two customers accounted for 37% and 15% of revenues during the three months ended March 31, 2012. Four customers accounted for 16%, 13%, 12%, and 11% of revenues during the three months ended March 26, 2011. No other customer accounted for more than 10% of total revenues in either of these fiscal periods.

At March 31, 2012, two customers accounted for approximately 31% and 11% of gross accounts receivable. At December 31, 2011, two customers accounted for approximately 12% and 10% of gross accounts receivable. No other customer accounted for more than 10% of gross accounts receivable in either of these fiscal periods. We operate in the intensely competitive semiconductor industry, including the Dynamic Random Access Memory, or DRAM, and Flash memory markets, which have been characterized by price erosion, rapid technological change, short product life, cyclical market patterns and heightened foreign and domestic competition. Significant technological changes in the industry could adversely affect our operating results.

Certain components for our wafer probe card products that meet our requirements are available only from a limited number of suppliers. The rapid rate of technological change and the necessity of developing and manufacturing products with short lifecycles may intensify our reliance on such suppliers. The inability to obtain components as required, or to develop alternative sources, if and as required in the future, could result in delays or reductions in product shipments, which in turn could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Note 4 — Restructuring Charges

We did not undertake any new restructuring actions during the first fiscal quarter of 2012. We did undertake several actions during fiscal 2011, the purpose of which were to improve operating efficiency, streamline and simplify our operations and reduce our operating costs. These actions are discussed below:

2011 Restructuring Activities

In the first quarter of fiscal 2011, we implemented a restructuring plan (the “Q1 2011 Restructuring Plan”) which resulted in the reduction of our global workforce by 13 full-time employees across the organization. We recorded $1.1 million in charges for severance and related benefits during the quarter related to this plan. The activities comprising this reduction in workforce were substantially completed by the end of the second quarter of fiscal 2011.

In addition to the above, we executed certain additional restructuring actions during the remainder of fiscal 2011. The ending restructuring accrual of $0.2 million as of December 31, 2011 reflects unpaid amounts related to these actions at that date.

Restructuring charges include costs related to employee termination benefits, cost of long-lived assets abandoned or impaired, as well as contract termination costs. Restructuring charges are reflected separately as ‘Restructuring charges, net’ in the Condensed Consolidated Statements of Operations. The liabilities we have accrued represent our best estimate of the obligations we expect to incur and could be subject to adjustment as market conditions change.

The remaining cash payments associated with our various reductions in workforce are expected to be paid by the end of the third quarter of fiscal 2012. As such, the restructuring accrual is recorded as a current liability within 'Accrued liabilities' in the Condensed Consolidated Balance Sheets.

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The activities in the restructuring accrual for the three months ended March 31, 2012 were as follows (in thousands):

	Employee Severance and Benefits	Contract Termination and Other	Total
Accrual at December 31, 2011	$200	$—	$200
Cash payments	(120)	—	(120)
Adjustments to restructuring charges	(37)	—	(37)
Accrual at March 31, 2012	$43	$—	$43

Note 5 — Fair Value

We use fair value measurements to record fair value adjustments to certain financial and non-financial assets and to determine fair value disclosures. Our marketable securities are financial assets recorded at fair value on a recurring basis. We also have certain manufacturing equipment held for sale which is measured at fair value on a non-recurring basis and included within ‘Prepaid expenses and other current assets’ in the Condensed Consolidated Balance Sheets.

The accounting standard for fair value defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance. The accounting standard establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. 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. We apply the following fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs, other than the quoted prices in active markets, which are observable either directly or indirectly.
- 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.

Assets Measured at Fair Value on a Recurring Basis

We measure and report certain assets and liabilities at fair value on a recurring basis, including money market funds, U.S. treasury securities, agency securities and foreign currency derivatives (see Note 17—Derivative Financial Instruments of the Notes to Condensed Consolidated Financial Statements for discussion of fair value of foreign currency derivatives). The following tables represent the fair value hierarchy for our other financial assets (cash equivalents and marketable securities):

Fair value measured on a recurring basis as of March 31, 2012 (in thousands):

	Level 1	Level 2	Total
Assets:			
Cash equivalents			
Money market funds	$99,228	$—	$99,228