

FORMFACTOR INC
Form 10-Q/A
November 13, 2007

**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION**

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

(Mark one)

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from to

Commission file number: 000-50307

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)

Edgar Filing: FORMFACTOR INC - Form 10-Q/A

(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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of July 28, 2007, 48,016,014 shares of the registrant's common stock, par value \$0.001 per share, were outstanding.

EXPLANATORY NOTE

FormFactor, Inc. (the Company) previously announced its intention to restate its consolidated financial statements for the year ended December 30, 2006 including each of the fiscal quarters for that year and the first two quarters of fiscal 2007. The Company is filing this Quarterly Report on Form 10-Q/A (the Form 10-Q/A) for the quarter ended June 30, 2007 to reflect the restatement of its consolidated financial statements, the notes thereto, and related disclosures for the quarter ended June 30, 2007.

During October 2007, the Company completed a review of its historical practices with respect to inventory valuation. That review indicated that during fiscal 2006 and the first half of fiscal 2007 it did not consistently follow its accounting policies for valuing inventory. The Company's review indicates that the failure to adhere consistently to Company accounting policies for inventory valuation was limited to a small number of employees. The Audit Committee of the Board of Directors has determined that senior management was not aware of the noncompliance. The Company is implementing revised procedures designed to prevent a recurrence of the problem. For more information on these matters, please refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 2 of the Notes to the Condensed Consolidated Financial Statements, and Item 4, Controls and Procedures.

This Form 10-Q/A has not been updated except as required to reflect the effects of the restatement. This amendment and restatement includes changes to Part I, Items 1, 2 and 4. Except as identified in the prior sentence, no other items included in the original Form 10-Q have been amended, and such items remain in effect as of the filing date of the original Form 10-Q. Additionally, this Form 10-Q/A does not purport to provide an update or a discussion of any other developments at the Company subsequent to the original filing.

FORMFACTOR, INC.

FORM 10-Q/A FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

INDEX

<u>Part I.</u>	<u>Financial Information</u>	3
<u>Item 1.</u>	<u>Financial Statements(Restated):</u>	3
	<u>Unaudited Condensed Consolidated Statements of Income for the three and six months ended June 30, 2007 and July 1, 2006.</u>	3
	<u>Unaudited Condensed Consolidated Balance Sheets as of June 30, 2007 and December 30, 2006.</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and July 1, 2006.</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15

Edgar Filing: FORMFACTOR INC - Form 10-Q/A

<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 4.</u>	<u>Controls and Procedures</u>	23
<u>Part II.</u>	<u>Other Information</u>	24
<u>Item 1.</u>	<u>Legal Proceedings</u>	24
<u>Item 1A.</u>	<u>Risk Factors</u>	24
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	26
<u>Item 6.</u>	<u>Exhibits</u>	27
<u>Signature</u>		28
<u>Exhibit Index</u>		29

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FORMFACTOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2007 As restated	July 1, 2006 As restated	June 30, 2007 As restated	July 1, 2006 As restated
Revenues	\$ 114,124	\$ 92,433	\$ 216,395	\$ 173,763
Cost of revenues	49,966	44,822	97,954	86,379
Gross margin	64,158	47,611	118,441	87,384
Operating expenses:				
Research and development	14,384	11,627	28,485	21,403
Selling, general and administrative	23,056	17,965	45,984	33,713
Total operating expenses	37,440	29,592	74,469	55,116
Operating income	26,718	18,019	43,972	32,268
Interest income	5,557	3,889	11,001	5,711
Other income (expense), net	(61)	327	(181)	(14)
Income before income taxes	32,214	22,235	54,792	37,965
Provision for income taxes	11,109	7,678	18,476	13,332
Net income	\$ 21,105	\$ 14,557	\$ 36,316	\$ 24,633
Net income per share:				
Basic	\$ 0.44	\$ 0.32	\$ 0.76	\$ 0.56
Diluted	\$ 0.43	\$ 0.30	\$ 0.74	\$ 0.54
Weighted-average number of shares used in per share calculations:				
Basic	47,893	45,920	47,639	43,730
Diluted	49,516	48,165	49,289	45,792

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

FORMFACTOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2007 As restated	December 30, 2006 As restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 286,610	\$ 284,131
Marketable securities	239,588	208,263
Accounts receivable	78,575	54,571
Inventories	30,429	18,926
Deferred tax assets	14,565	14,496
Prepaid expenses and other current assets	14,319	12,138
Total current assets	664,086	592,525
Restricted cash	2,250	2,250
Property and equipment, net	112,352	94,064
Deferred tax assets	6,885	4,689
Other assets	1,612	945
Total assets	\$ 787,185	\$ 694,473
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 39,055	\$ 31,273
Accrued liabilities	27,498	28,334
Income taxes payable	6,322	7,979
Deferred rent	447	448
Deferred revenue and customer advances	6,371	7,273
Total current liabilities	79,693	75,307
Long term income taxes payable	11,363	
Deferred rent and other long term liabilities	5,435	5,125
Total liabilities	96,491	80,432
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred Stock, \$0.001 par value: 10,000,000 shares authorized; no shares issued and outstanding at June 30, 2007 and December 30, 2006, respectively		
Common stock, \$0.001 par value: 250,000,000 shares authorized; 47,993,399 and 46,861,334 shares issued and outstanding at June 30, 2007 and December 30, 2006, respectively		
	48	47
Additional paid-in capital	545,545	504,709
Accumulated other comprehensive loss	(744)	(244)
Retained earnings	145,845	109,529
Total stockholders' equity	690,694	614,041
Total liabilities and stockholders' equity	\$ 787,185	\$ 694,473

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

FORMFACTOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2007	July 1, 2006
	As restated	As restated
Cash flows from operating activities:		
Net income	\$ 36,316	\$ 24,633
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,616	10,436
Stock-based compensation expense	13,840	9,243
Deferred income taxes	(2,277)	(2,013)
Excess tax benefits from equity based compensation plans	(5,470)	(6,559)
Provision for excess and obsolete inventories	5,234	7,872
Loss on disposal of equipment	283	30
Changes in assets and liabilities:		
Accounts receivable	(24,004)	(909)
Inventories	(16,689)	(10,995)
Prepaid expenses and other current assets	(2,227)	(4,544)
Other assets	(499)	(294)
Accounts payable	9,625	2,844
Accrued liabilities	(2,491)	4,956
Income taxes payable	16,546	5,126
Deferred rent	102	(401)
Deferred revenues and customer advances	(902)	1,910
Net cash provided by operating activities	40,003	41,335
Cash flows from investing activities:		
Acquisition of property and equipment	(30,641)	(18,605)
Purchase of marketable securities	(120,192)	(124,853)
Proceeds from maturities and sales of marketable securities	87,718	143,774
Net cash provided by (used in) investing activities	(63,115)	316
Cash flows from financing activities:		
Proceeds from issuance of common stock	20,112	190,826
Excess tax benefits from equity based compensation plans	5,470	6,559
Net cash provided by financing activities	25,582	197,385
Effect of exchange rate changes on cash and cash equivalents	9	85
Net increase in cash and cash equivalents	2,479	239,121
Cash and cash equivalents, beginning of the period	284,131	31,217
Cash and cash equivalents, end of the period	\$ 286,610	\$ 270,338
Supplemental disclosure of significant non-cash investing activities:		
Purchases of property and equipment through accounts payable and accrued liabilities	\$ 142	\$ 1,868

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

FORMFACTOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Basis of Presentation

Basis of presentation. The accompanying unaudited condensed consolidated 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). Accordingly, the 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 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 29, 2007, or for any other period. The balance sheet at December 30, 2006 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 30, 2006 included in the Company's Annual Report on Form 10-K/A filed with the SEC.

Fiscal Year. The Company operates on a 52/53 week fiscal year, whereby the year ends on the Saturday nearest December 31. Fiscal year 2007 will end on December 29, 2007, and will consist of 52 weeks.

Note 2 Restatement of Financial Statements

Edgar Filing: FORMFACTOR INC - Form 10-Q/A

The Company completed a review of its historical practices with respect to inventory valuation. That review indicated that during fiscal 2006 and the first half of fiscal 2007 the Company did not consistently follow its accounting policies for valuing inventory resulting in a misstatement of inventory and cost of revenue. The change in inventory valuation impacted the amount of stock-based compensation capitalized into inventory due to the change in inventory turns. As a result, the Board of Directors determined on November 8, 2007 that the Company would restate its financial statements for the fiscal year ended December 30, 2006, for each of the fiscal quarters for that year, and for the fiscal quarters ended March 31 and June 30, 2007. The impacts of the adjustments including the related tax impact are described below and in the following tables.

Edgar Filing: FORMFACTOR INC - Form 10-Q/A

The following tables present the impact of the restatement adjustments on the Company's Condensed Consolidated Balance Sheets as of June 30, 2007 and July 1, 2006:

	As Previously Reported	June 30, 2007 Effect of Restatement (In thousands, except per share data)	Restated
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 286,610		\$ 286,610
Marketable securities	239,588		239,588
Accounts receivable	78,575		78,575
Inventories	32,004	\$ (1,575)	30,429
Deferred tax assets	12,569	1,996	14,565
Prepaid expenses and other current assets	14,319		