

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 March 31, 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

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(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 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 April 28, 2007, 47,775,260 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 March 31, 2007 to reflect the restatement of its consolidated financial statements, the notes thereto, and related disclosures for the quarter ended March 31, 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 MARCH 31, 2007

INDEX

Part I.	<u>Financial Information</u>	3
Item 1.	<u>Financial Statements (Restated):</u>	3
	<u>Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2007 and April 1, 2006.</u>	3
	<u>Unaudited Condensed Consolidated Balance Sheets as of March 31, 2007 and December 30, 2006.</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and April 1, 2006.</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4.	<u>Controls and Procedures</u>	24
Part II.	<u>Other Information</u>	25
Item 1.	<u>Legal Proceedings</u>	25
Item 1A.	<u>Risk Factors</u>	25

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<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	
	March 31, 2007	April 1, 2006
	As Restated	As Restated
Revenues	\$ 102,271	\$ 81,330
Cost of revenues	47,988	41,557
Gross margin	54,283	39,773
Operating expenses:		
Research and development	14,102	9,776
Selling, general and administrative	22,928	15,748
Total operating expenses	37,030	25,524
Operating income	17,253	14,249
Interest income	5,444	1,822
Other expense, net	119	341
Income before income taxes	22,578	15,730
Provision for income taxes	7,367	5,653
Net income	\$ 15,211	\$ 10,077
Net income per share:		
Basic	\$ 0.32	\$ 0.24
Diluted	\$ 0.31	\$ 0.23
Weighted-average number of shares used in per share calculations:		
Basic	47,384	41,593
Diluted	49,060	43,473

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)

	March 31, 2007 As Restated	December 30, 2006 As Restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 277,782	\$ 284,131
Marketable securities	227,782	208,263
Accounts receivable	73,280	54,571
Inventories	22,190	18,926
Deferred tax assets	14,496	14,496
Prepaid expenses and other current assets	12,445	12,138
Total current assets	627,975	592,525
Restricted cash	2,250	2,250
Property and equipment, net	103,767	94,064
Deferred tax assets	5,660	4,689
Other assets	1,478	945
Total assets	\$ 741,130	\$ 694,473
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 38,162	\$ 31,273
Accrued liabilities	19,379	28,334
Income tax payable	279	7,979
Deferred rent	447	448
Deferred revenue and customer advances	8,485	7,273
Total current liabilities	66,752	75,307
Long term income taxes payable	9,780	
Deferred rent and other long term liabilities	5,176	5,125
Total liabilities	81,708	80,432
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred Stock, \$0.001 par value: 10,000,000 shares authorized; no shares issued and outstanding at March 31, 2007 and December 30, 2006, respectively		
Common stock, \$0.001 par value: 250,000,000 shares authorized; 47,761,821 and 46,861,334 shares issued and outstanding at March 31, 2007 and December 30, 2006, respectively		
	48	47
Additional paid-in capital	534,778	504,709
Accumulated other comprehensive loss	(144)	(244)
Retained earnings	124,740	109,529
Total stockholders' equity	659,422	614,041
Total liabilities and stockholders' equity	\$ 741,130	\$ 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)

	Three Months Ended	
	March 31, 2007 As Restated	April 1, 2006 As Restated
Cash flows from operating activities:		
Net income	\$ 15,211	\$ 10,077
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,146	4,683
Stock-based compensation expense	7,378	4,478
Deferred income taxes	(961)	(1,010)
Excess tax benefits from equity based compensation plans	(5,129)	(3,303)
Provision for excess and obsolete inventories	2,527	4,535
Loss on disposal of equipment	195	
Changes in assets and liabilities:		
Accounts receivable	(18,709)	(5,974)
Inventories	(5,868)	(5,818)
Prepaid expenses and other current assets	(307)	(1,321)
Other assets	(519)	(411)
Accounts payable	8,213	(1,872)
Accrued liabilities	(11,902)	14
Income tax payable	8,504	2,482
Deferred rent	43	(44)
Deferred revenues and customer advances	1,213	974
Net cash provided by operating activities	6,036	7,490
Cash flows from investing activities:		
Acquisition of property and equipment	(14,083)	(9,695)
Purchase of marketable securities	(62,368)	(45,133)
Proceeds from maturities and sales of marketable securities	42,624	48,383
Net cash used in investing activities	(33,827)	(6,445)
Cash flows from financing activities:		
Proceeds from issuance of common stock	16,347	187,989
Excess tax benefits from equity based compensation plans	5,129	3,303
Net cash provided by financing activities	21,476	191,292
Effect of exchange rate changes on cash and cash equivalents	(34)	22
Net increase (decrease) in cash and cash equivalents	(6,349)	192,359
Cash and cash equivalents, beginning of the period	284,131	31,217
Cash and cash equivalents, end of the period	\$ 277,782	\$ 223,576
Supplemental disclosure of significant non-cash investing activities:		
Purchases of property and equipment through accounts payable and accrued liabilities	\$ 1,613	\$ 2,212

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 months ended March 31, 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

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 the 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.

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The following table presents the impact of the restatement adjustments on the Company's Consolidated Balance Sheet as of March 31, 2007 and April 1, 2006:

	March 31, 2007		
	As Previously Reported	Effect of Restatement	Restated
(In thousands, except per share data)			
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 277,782		\$ 277,782
Marketable securities	227,782		227,782
Accounts receivable	73,280		73,280
Inventories	27,463	\$ (5,273)	22,190
Deferred tax assets	12,500	1,996	14,496
Prepaid expenses and other current assets	12,360	85	12,445
Total current assets	631,167	(3,192)	627,975
Restricted cash	2,250		2,250
Property and equipment, net	103,767		103,767
Deferred tax assets	5,660		5,660
Other assets	1,478		1,478
Total assets	\$ 744,322	\$ (3,192)	\$ 741,130
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 38,162		\$ 38,162
Accrued liabilities	19,379		19,379
Income tax payable	279		279
Deferred rent	447		447
Deferred revenue and customer advances	8,485		8,485
Total current liabilities	66,752		66,752
Long term income taxes payable	9,780		9,780
Deferred rent and other liabilities	5,176		5,176
Total liabilities	81,708		81,708
Commitments and contingencies			
Stockholders' equity			
Preferred stock, \$0.001 par value:			
Common stock, \$0.001 par value:	48		48
Additional paid-in capital	534,778		534,778
Accumulated other comprehensive loss	(144)		(144)
Retained earnings	127,932	\$ (3,192)	124,740
Total stockholders' equity:	662,614	(3,192)	659,422
Total liabilities and stockholders' equity	\$ 744,322	\$ (3,192)	\$ 741,130

	April 1, 2006		
	As Previously Reported	Effect of Restatement	Restated
(In thousands, except per share data)			
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 223,576		\$ 223,576
Marketable securities	176,546		176,546
Accounts receivable	49,944		49,944
Inventories	21,098	\$ (1,057)	20,041
Deferred tax assets	11,339		11,339

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Prepaid expenses and other current assets	8,493		8,493
Total current assets	490,996	(1,057)	489,939
Restricted cash	2,250		2,250
Property and equipment, net	84,728		84,728
Deferred tax assets	5,521		5,521
Other assets	868		868
Total assets	\$ 584,363	\$ (1,057)	\$ 583,306

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:			
Accounts payable	\$ 23,205		\$ 23,205
Accrued liabilities	15,710		15,710
Income tax payable	12,544	\$ (366)	12,178
Deferred rent	313		313
Deferred revenue and customer advances	4,562		4,562
Total current liabilities	56,334		55,968
Long term income taxes payable			
Deferred rent and other liabilities	3,668		3,668
Total liabilities	60,002		59,636
Stockholders equity			
Preferred stock, \$0.001 par value:			
Common stock, \$0.001 par value:	46		46
Additional paid-in capital	461,915		461,915
Accumulated other comprehensive loss	(680)		(680)
Retained earnings	63,080	(691)	62,389
Total stockholders equity:	524,361	(691)	523,670
Total liabilities and stockholders equity	\$ 584,363	\$ (1,057)	\$ 583,306

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The following table presents the impact of the restatement adjustments on the Company's Consolidated Statement of Income for the three months ended March 31, 2007:

	As Previously Reported	Three Months Ended March 31, 2007 Effect of Restatement		Restated
		(In thousands, except per share data)		
Revenues	\$ 102,271			\$ 102,271
Cost of revenues	48,567	\$ (579)		47,988
Gross margin	53,704	579		54,283
Operating expenses:				
Research and development	14,102			14,102
Selling, general and administrative	22,928			22,928