FORMFACTOR INC
Form 10-Q
November 03, 2010
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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 September 25, 2010

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 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 October 27, 2010, 50,552,283 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 SEPTEMBER 25, 2010

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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		Nine months ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Revenues	$ 47,347	$ 43,773	$ 144,653	$ 102,340
Cost of revenues	54,541	35,803	150,244	99,375
Gross profit (loss)	(7,194)	7,970	(5,591)	2,965
Operating expenses:				
Research and development	12,825	13,775	43,913	41,823
Selling, general and administrative	16,219	17,366	52,810	61,939
Restructuring charges, net	8,539		14,603	7,943
Impairment of long-lived assets	55,402	632	56,401	632
Total operating expenses	92,985	31,773	167,727	112,337
Operating loss	(100,179)	(23,803)	(173,318)	(109,372)
Interest income, net	623	694	2,120	2,571
Other income (expense), net	3,960	(415)	3,995	(920)
Loss before income taxes	(95,596)	(23,524)	(167,203)	(107,721)
Provision for income taxes	231	377	672	19,969
Net loss	$ (95,827)	$ (23,901)	$ (167,875)	$ (127,690)
Net loss per share:				
Basic and Diluted	$ (1.90)	$ (0.48)	$ (3.35)	$ (2.59)
Weighted-average number of shares used in per share calculations:				
Basic and Diluted	50,431	49,582	50,136	49,392

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)

	September 25, 2010	December 26, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 118,554	$ 122,043
Marketable securities	252,916	327,192
Accounts receivable, net of allowance for doubtful accounts of $1,200 at September 25, 2010 and $9,260 at December 26, 2009, respectively	35,927	29,412
Inventories	29,065	25,548
Deferred tax assets	3,329	3,296
Refundable income taxes	417	26,774
Prepaid expenses and other current assets	15,203	12,346
Total current assets	455,411	546,611
Restricted cash	680	680
Property and equipment, net	35,172	97,758
Deferred tax assets	2,429	2,202
Other assets	6,059	8,717
Total assets	$ 499,751	$ 655,968
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 27,738	$ 29,250
Accrued liabilities	22,517	23,417
Income taxes payable	53	481
Deferred revenue	7,034	10,856
Total current liabilities	57,342	64,004
Long-term income taxes payable	6,423	6,423
Deferred rent and other liabilities	5,836	5,626
Deferred tax liability	2,134	2,134
Total liabilities	71,735	78,187
Commitments and contingencies (Note 16)		
Stockholders equity		
Preferred stock, $0.001 par value:		
10,000,000 shares authorized; no shares issued and outstanding at September 25, 2010 and December 26, 2009, respectively		
Common stock, $0.001 par value:		
250,000,000 shares authorized; 50,551,828 and 49,762,008 shares issued and outstanding at September 25, 2010 and December 26, 2009, respectively	52	50
Additional paid-in capital	647,533	630,333
Accumulated other comprehensive income	2,161	1,253
Retained earnings (accumulated deficit)	(221,730)	(53,855)
Total stockholders equity	428,016	577,781
Total liabilities and stockholders equity	$ 499,751	$ 655,968

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)

	Nine months ended September 25, 2010	Nine months ended September 26, 2009
Cash flows from operating activities:		
Net loss	$ (167,875)	$ (127,690)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	24,720	24,047
Amortization of investments	340	157
Stock-based compensation expense	13,371	16,412
Deferred income tax provision (benefit)	(87)	37,952
Excess tax benefits from equity based compensation plans		(508)
Provision for (benefit from) doubtful accounts receivable	(717)	5,040
Provision for excess and obsolete inventories	6,754	5,639
Impairment of and loss on disposal of long-lived assets	56,845	743
Non-cash restructuring	8,717	366
Gain on release of secured borrowing	(3,481)	
Foreign currency transaction gains	(206)	(845)
Changes in assets and liabilities:		
Accounts receivable	(4,664)	(18,236)
Inventories	(10,221)	(7,971)
Prepaids and other current assets	(2,490)	3,487
Refundable income taxes	26,357	11,582
Other assets	57	6,374
Accounts payable	(2,297)	(1,475)
Accrued liabilities	1,665	(9,038)
Income tax payable	(418)	(3,198)
Deferred rent	(832)	(392)
Deferred revenues	(3,820)	5,050
Net cash used in operating activities	(58,282)	(52,504)
Cash flows from investing activities:		
Acquisition of property and equipment	(22,479)	(13,279)
Proceeds from sales of property and equipment	144	201
Purchases of marketable securities	(257,106)	(419,600)
Proceeds from maturities of marketable securities	322,223	259,999
Proceeds from sales of marketable securities	9,000	31,198
Advance payment for acquisition of assets		(1,731)
Net cash provided by (used in) investing activities	51,782	(143,212)
Cash flows from financing activities:		
Proceeds from issuances of common stock and awards, net	3,635	7,119
Excess tax benefits from equity based compensation plans		508
Net cash provided by financing activities	3,635	7,627
Effect of exchange rate changes on cash and cash equivalents	(624)	83
Net decrease in cash and cash equivalents	(3,489)	(188,006)

Cash and cash equivalents, beginning of period		122,043		337,926
Cash and cash equivalents, end of period	$	118,554	$	149,920
Supplemental cash flow disclosures:				
Purchases of property and equipment through accounts payable and accruals	$	1,375	$	(4,897)
Income taxes refunded, net	$	25,023	$	25,991

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 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 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 and nine months ended September 25, 2010 are not necessarily indicative of the results that may be expected for the year ending December 25, 2010, or for any other period. The balance sheet at December 26, 2009 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 26, 2009 included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, or SEC, on February 24, 2010.

Fiscal year. We operate on a 52/53 week fiscal year, whereby the year ends on the last Saturday of December. Fiscal 2010 will end on December 25, 2010, and will consist of 52 weeks.

Reclassifications. Certain reclassifications have been made to the prior year s Condensed Consolidated Statement of Cash Flows and Statement of Operations to conform to the current year presentation. The reclassifications had no effect on the Condensed Consolidated Balance Sheets.

Out of period adjustments. During the three months ended September 25, 2010 we recorded an adjustment related to cost of revenues that resulted in $4.1 million of additional expense offset by an income tax benefit of $0.5 million. The adjustment to cost of revenues resulted from an error in the calculation of capitalized manufacturing variances starting in the first quarter of fiscal 2009 through the second quarter of fiscal 2010. The error caused the understatement of cost of revenues and the overstatement of the overhead capitalized in inventory for most quarters.

The income tax benefit resulted from higher net losses in 2009 due to higher cost of revenue expenses. We are able to carry back the increase in the 2009 loss to recover more prior year tax payments. Management and the Audit Committee believe that such amounts are not material to current and previously reported financial statements.

Note 2 Recent Accounting Pronouncements and Other Reporting Considerations

In April 2010, the FASB issued an update to amend the guidance on the milestone method in revenue recognition. The amendment provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate in research or development transactions. The amendment is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. We are currently evaluating the impact of adopting this amendment on our consolidated financial statements.

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Therefore, we have not yet adopted the guidance with respect to the roll forward activity in Level 3 fair value measurements. Other than requiring

additional disclosures, adoption of this new guidance in the first quarter of fiscal 2010 did not have a material impact on our consolidated financial statements.

Note 3 Concentration of Credit and Other Risks

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investments and trade receivables. Our cash equivalents and marketable securities are held in safekeeping by large, creditworthy 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.

We sell our products to large multinational semiconductor manufacturers primarily located in Asia and North America. Three customers represented 22%, 17% and 11% of total revenues during the three months ended September 25, 2010, and one customer represented 53% of total revenues for the three months ended September 26, 2009. Three customers represented 22%, 14% and 13% of total revenues during the nine months ended September 25, 2010, and one customer represented 55% of total revenues for the nine months ended September 26, 2009. No other customer accounted for more than 10% of total revenues in any of these fiscal periods.

We have significant accounts receivables concentrated with a few customers in the semiconductor industry. While our allowance for doubtful accounts balance is based on historical loss experience along with anticipated economic trends, unanticipated financial instability in the semiconductor industry could lead to higher than anticipated losses. As of September 25, 2010, three customers accounted for approximately 24%, 16% and 10% of gross accounts receivable. At December 26, 2009, three customers accounted for approximately 21%, 18% and 16% of gross accounts receivable. No other customer accounted for more than 10% of gross accounts receivable in any of these fiscal periods.

Note 4 Restructuring Charges

Restructuring charges include costs related to employee termination benefits, cost of long-lived assets abandoned or impaired, as well as contract termination costs. The determination of when we accrue for employee termination benefits and which standard applies depends on whether the termination benefits are provided under a one-time benefit arrangement or under an on-going benefit arrangement. For restructuring charges recorded as an on-going benefit arrangement, a liability for post-employment benefits is recorded when payment is probable, the amount is reasonably estimable, and the obligation relates to rights that have vested or accumulated. For restructuring charges recorded as a one-time benefit arrangement, we recognize a liability for employee termination benefits when a plan of termination, approved by management and establishing the terms of the benefit arrangement, has been communicated to employees. The timing of the recognition of one-time employee termination benefits is dependent upon the period of time the employees are required to render service after communication. If employees are not required to render service in order to receive the termination benefits or if employees will not be retained to render service beyond the minimum legal notification period, a liability for the termination benefits is recognized at the communication date. In instances where employees will be retained to render service beyond the minimum legal notification period, the liability for employee termination benefits is measured initially at the communication date based on the fair value of the liability as of the termination date and is recognized ratably over the future service period. We record charges related to long-lived assets to be abandoned when the assets cease to be used. We record a liability for contract termination costs that will continue to be incurred under a contract for its remaining term without economic benefit to us at the cease-use date.

We recorded net restructuring charges of $8.5 million and $14.6 million for the three and nine months ended September 25, 2010, respectively, and zero and $7.9 million in the comparable periods of fiscal 2009. The restructuring plans implemented in the first three quarters of fiscal 2010 are discussed below.

Q1 2010 Restructuring Plan

In the first quarter of fiscal 2010, we implemented a restructuring plan (the Q1 2010 Restructuring Plan) intended to align resources in continuation of our global regionalization strategy to place more decision-making in regions close to our semiconductor customers. As part of this regionalization strategy, we initiated the moving of certain assembly and test operations from our back-end manufacturing processes in Livermore, California to Asia, and planned to bring-up and qualify our back-end manufacturing operations in Singapore. As a result of this restructuring plan, our worldwide headcount was expected to be reduced by 106 full-time employees. The activities comprising the reduction in force were expected to be completed by the end of the first quarter of fiscal 2011.

We recorded $29,000 and $3.6 million in charges for the Q1 2010 Restructuring Plan in the three and nine months ended September 25, 2010, which were all related to severance and related benefits.

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Q2 2010 Restructuring Plan

In the second quarter of fiscal 2010, we announced a series of corporate initiatives, including a reduction in workforce, which represented a renewed focus on streamlining and simplifying our operations as well as reducing our quarterly operating costs (the Q2 2010 Restructuring Plan). These actions included reducing the scope of the previously contemplated manufacturing operations in Korea, resulting in a reduction of workforce of 16 employees related to the assembly and test function, and undertaking a plan to rescind the previously issued severance arrangements for certain employees impacted by the Q1 2010 Restructuring Plan. As a result of this rescission plan, as of June 26, 2010, we had reversed $3.3 million of accrual for the severance costs booked in conjunction with the Q1 2010 Restructuring Plan, including the accrued retention bonus to date. As of September 25, 2010, we have completed this rescission plan.

Additionally, we undertook a further workforce reduction of 67 employees spread across all functions of the organization to further streamline and simplify our operations and reduce operating costs. The activities comprising the reduction in force are expected to be substantially completed by the end of the fourth quarter of fiscal 2010.

We recorded $4.9 million and $0.2 million in charges for severance and related benefits for the Q2 2010 Restructuring Plan in the second and third quarter of fiscal 2010, respectively. In addition, we recorded $0.9 million and $0.1 million for property and equipment impairments as part of the same restructuring plan in the respective quarters. The impairment charges in the second quarter of fiscal 2010 were related to the impairment of certain equipment and software assets, as discussed in Note 10. The impairment charges in the third quarter of fiscal 2010 included the impairment of additional equipment in our Korea manufacturing operations for which it was determined to be excess capacity and would no longer be utilized in our operations.

Q3 2010 Restructuring Plan

In the third quarter of fiscal 2010, we announced a restructuring plan (the Q3 2010 Restructuring Plan) to cease the transition of manufacturing operations to Singapore. This decision resulted in a reduction in force of 58 employees at our Singapore facility. The manufacturing activities that were scheduled to be transitioned to Singapore will remain in Livermore, and Livermore will continue as the primary manufacturing operating location for the Company. The Company expects that the activities comprising the reduction in force will be substantially completed by the end of the first quarter of fiscal 2011. In conjunction with the Q3 2010 Restructuring Plan, we also undertook a reduction in force that involved two additional individuals in our Livermore operations.

In conjunction with the Q3 2010 Restructuring Plan, we recorded $1.0 million for the Q3 2010 Restructuring Plan for severance and related benefits and impairment charges of $7.6 million for certain equipment and leasehold improvements in Singapore that would no longer be utilized. In addition, due to the combined effect of the significant change in our business strategy in connection with the Q3 2010 Restructuring Plan, recurring operating losses and the sustained decline in the Company s stock price, we reviewed the recoverability of our long-lived assets in the third quarter of fiscal 2010, as discussed in Note 10.

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 cash payments associated with our various reductions in force are expected to be paid by the end of the first quarter of fiscal 2011.

The activities in the restructuring accrual for the nine months ended September 25, 2010 were as follows (in thousands):

	Employee Severance and Benefits	Property and Equipment Impairment	Contract Termination and Other	Total
Accrual at December 26, 2009	$ 973	$	$ 76	$ 1,049
Charges for Q1 2010 Restructuring Plan	3,550			3,550
Cash payments	(991)			(991)
Accrual at March 27, 2010	$ 3,532	$	$ 76	$ 3,608
Reversal of Charges for Q1 2010 Restructuring Plan booked in Q1 10	(3,282)			(3,282)
Charges for Q1 2010 Restructuring Plan	27			27
Charges for Q2 2010 Restructuring Plan	4,910	858		5,768
Non-cash settlement	(28)	(858)		(886)
Cash payments	(216)			(216)
Accrual at June 26, 2010	$ 4,943	$	$ 76	$ 5,019
Charges for Q1 2010 Restructuring Plan	29			29
Charges for Q2 2010 Restructuring Plan	241	85		326
Charges for Q3 2010 Restructuring Plan	975	7,590		8,565
Adjustments and non-cash settlements	(434)	(7,675)	(76)	(8,185)
Cash payments	(3,181)			(3,181)
Accrual at September 25, 2010	$ 2,573	$	$	$ 2,573

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Restructuring charges are reflected separately as Restructuring charges, net in the Condensed Consolidated Statements of Operations. The remaining accrual as of September 25, 2010 that relates to severance benefits is expected to be paid out by the end of the first quarter of fiscal 2011. As such, the restructuring accrual is recorded as a current liability within Accrued liabilities in the Condensed Consolidated Balance Sheets.

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 a building held for sale in Livermore, California and certain manufacturing equipment held for sale, which are measured at fair value on a non-recurring basis and included within Prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheets.

The accounting standard for fair value defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, 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 for fair value 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:

- 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. government securities, municipal bonds, agency securities and foreign currency derivatives. The following tables represent our fair value hierarchy for our financial assets (cash equivalents and marketable securities) measured at fair value on a recurring basis as of September 25, 2010 and December 26, 2009 (in thousands):

	Level 1	Level 2	Total September 25, 2010
Assets:			
Cash equivalents			
Money market funds	$ 73,998	$	$ 73,998
U. S. Treasury		6,999	6,999
Commercial paper		14,998	14,998
Marketable securities			
U. S. Treasury		114,075	114,075
Municipal bonds		206	206
Agency securities		130,656	130,656
Commercial paper		7,979	7,979
Total	$ 73,998	$ 274,913	$ 348,911

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	Level 1	Level 2	Total December 26, 2009
Assets:			
Cash equivalents			
Money market funds	$ 100,145	$	$ 100,145
U. S. Treasury			
Commercial paper		5,000	5,000
Marketable securities			
U. S. Treasury		135,294	135,294
Municipal bonds		2,089	2,089
Agency securities		172,817	172,817
Commercial paper		16,992	16,992
Total	$ 100,145	$ 332,192	$ 432,337

The Level 1 assets consist of our money market fund deposits. The Level 2 assets consist of our available-for-sale investment portfolio, which are valued utilizing a market approach. Our investments are priced by pricing vendors who provided observable inputs for their pricing without applying significant judgments. Broker s pricing is used mainly when a quoted price is not available, the investment is not priced by our pricing vendors or when a broker price is more reflective of fair values in the market in which the investment trades. Our broker-priced investments are labeled as Level 2 investments because fair values of these investments are based on similar assets without applying significant judgments. In addition, all of our investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table represents the fair value hierarchy for our long-lived assets measured at fair value on a nonrecurring basis as of September 25, 2010 (in thousands):

				Total Gains (Losses)	
	Level 2	Level 3	Total	Three Months Ended September 25, 2010	Nine Months Ended September 25, 2010
Long-lived assets held and used	$ 38,042	$	$ 38,042	$ (52,021)	$ (52,021)
Long-lived assets held for sale	1,183	418	1,601	(940)	(940)
Total	$ 39,225	$ 418	$ 39,643	$ (52,961)	$ (52,961)

In conjunction with our enterprise-wide asset impairment analysis performed in the current quarter, long-lived assets held and used with a carrying amount of $90.0 million were written down to their estimated fair value of $38.0 million in accordance with the provisions for the impairment or disposal of long-lived assets. The total impairment charge of $52.0 million was included in Impairment of long-lived assets in the Condensed Consolidated Statement of Operations for the quarter ended September 25, 2010. See Note 10 for additional information.

At the end of fiscal 2009, we had a building and certain manufacturing equipment held for sale in Livermore, California, which were classified as Level 3 as we used unobservable inputs in their valuation reflecting our assumptions that market participants would use in pricing this asset due to the absence of recent comparable market transactions and inherent lack of liquidity. During the three months ended September 25, 2010,

we determined that the carrying amount of the building that is held for sale exceeded its estimated fair value. In accordance with the provisions for the impairment or disposal of long-lived assets, this building held for sale was written down to its estimated fair value, less estimated costs to sell, of $0.8 million, resulting in a loss of $0.1 million, which was included in Impairment of long-lived assets in the Condensed Consolidated Statement of Operations for the quarter ended September 25, 2010. As of September 25, 2010 and December 26, 2009, this building held for sale was carried at $0.8 million and $0.9 million, respectively. Because the updated estimated fair value of the building was determined using inputs that reflected the assumptions market participants would use in pricing the building developed based on market data obtained from sources independent of the Company, we transferred this building from Level 3 to Level 2 during the quarter ended September 25, 2010.

In addition to the manufacturing equipment in Livermore that had been previously identified as held for sale, during the quarter ended September 25, 2010 we identified certain furniture and fixtures that were determined to be held for sale. In accordance with the provisions for the impairment or disposal of long-lived assets, these furniture and fixtures were written down to their estimated fair value, less estimated costs to sell, resulting in a loss of $0.2 million, which was included in Impairment of long-lived assets in the Condensed Consolidated Statement of Operations for the quarter ended September 25, 2010. As of September 25, 2010, our held for sale assets in Livermore were valued at $0.4 million and continued to be classified as Level 3 based on the fact that we used unobservable inputs in its valuation reflecting our assumptions that market participants would use in pricing this asset due to the absence of recent comparable market transactions and inherent lack of liquidity.

During the quarter ended September 25, 2010, in conjunction with the Q3 2010 Restructuring Plan, manufacturing equipment at our Singapore facility with a carrying amount of $1.0 million was determined to be held for sale. In accordance with the provisions for the impairment or disposal of long-lived assets, this equipment held for sale was written down to its estimated fair value of $0.4

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million, less estimated costs to sell, resulting in a loss of $0.6 million, which was included in Restructuring charges, net in the Condensed Consolidated Statement of Operations for the quarter ended September 25, 2010. This equipment was classified as Level 2 as of September 25, 2010 because its estimated fair value was determined using inputs that reflected the assumptions market participants would use in pricing the manufacturing equipment developed based on market data obtained from sources independent of the Company.

The total value of our held for sale assets was $1.6 million at September 25, 2010 and $1.5 million at December 26, 2009.

Our fair value processes include controls that are designed to ensure appropriate fair values are recorded. Such controls include model validation, review of key model inputs, and analysis of period-over-period fluctuations and independent recalculation of prices.

Note 6 Marketable Securities

We classify our marketable debt securities as available-for-sale . All marketable securities represent the investment of funds available for current operations, notwithstanding their contractual maturities. Such marketable securities are recorded at fair value and unrealized gains and losses are recorded to accumulated other comprehensive income until realized.

Marketable securities at September 25, 2010 consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U. S. Treasury	$ 113,568	$ 518	$ (11)	$ 114,075
Agency Securities	130,586	88	(18)	130,656
Obligations of states and political subdivisions	205	1		206
Commercial Paper	7,979			7,979
	$ 252,338	$ 607	$ (29)	$ 252,916

Marketable securities at December 26, 2009 consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U. S. Treasury	$ 135,061	$ 300	$ (67)	$ 135,294
Agency Securities	172,670	339	(192)	172,817
Commercial Paper	16,992			16,992
Obligations of states and political subdivisions	2,071	18		2,089
	$ 326,794	$ 657	$ (259)	$ 327,192

The marketable securities with gross unrealized losses have been in a loss position for less than 12 months as of September 25, 2010 and December 26, 2009, respectively.

We typically invest in highly-rated securities with low probabilities of default. Our investment policy requires investments to be rated single-A or better, limits the types of acceptable investments, concentration as to security holder and duration of the investment. The net unrealized gains and losses on the Company s investments during the three and nine months ended September 26, 2009 and September 25, 2010, respectively, were caused primarily by changes in interest rates. When evaluating the investments for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below the amortized cost basis, review of current market liquidity, interest rate risk, the financial condition of the issuer, as well as credit rating downgrades.

Contractual maturities of marketable securities as of September 25, 2010 were as follows (in thousands):

	Amortized Cost	Market Value
Due in one year or less	$ 111,657	$ 111,817
Due after one year to three years	140,681	141,099
	$ 252,338	$ 252,916

Realized gains and losses on sales and maturities of marketable securities were immaterial for the three and nine months ended September 25, 2010 and September 26, 2009, respectively.

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Note 7 Allowance for Doubtful Accounts

A majority of our trade receivables are derived from sales to large multinational semiconductor manufacturers throughout the world. In order to monitor potential credit losses, we perform ongoing credit evaluations of our customers financial condition. An allowance for doubtful accounts is maintained for probable credit losses based upon our assessment of the expected collectability of all accounts receivable. The allowance for doubtful accounts is reviewed on a quarterly basis to assess the adequacy of the allowance. We take into consideration (1) any circumstances of which we are aware of a customer s inability to meet its financial obligations; and (2) our judgments as to prevailing economic conditions in the industry and their impact on our customers. If circumstances change, and the financial condition of our customers are adversely affected and they are unable to meet their financial obligations to us, we may need to take additional allowances, which would result in an increase in our net loss.

We recorded a reduction in provision for doubtful accounts of $0.1 million in the first quarter of fiscal 2010 primarily due to the payment of accounts receivable that was previously reserved. In the second quarter of fiscal 2010, we provided additional allowance for doubtful accounts of $0.3 million for accounts determined to be uncollectible and a reduction in provision for doubtful accounts of $0.5 million due to the receipt of payments for accounts receivable that were previously reserved. In the third quarter of fiscal 2010, we recorded a reduction in provision for doubtful debts of $7.7 million primarily due to a reduction of $6.7 million related to the dismissal of a complaint against a customer resulting in the write-off of previously reserved accounts receivable, a write-off of $0.5 million uncollectable debts that was previously reserved and receipt of payments totaling $0.4 million for accounts receivable that was previously reserved. The allowance for doubtful accounts consisted of the following activity for the three and nine months ended September 25, 2010 (in thousands):

		Allowance for Doubtful Accounts Receivable
Balance at December 26, 2009	$	9,260
Additions		
Deductions		(147)
Balance at March 27, 2010	$	9,113
Additions		315
Deductions		(496)
Balance at June 26, 2010	$	8,932
Additions		
Deductions		(7,732)
Balance at September 25, 2010	$	1,200

Note 8 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. Provision for estimated excess and obsolete inventories is made based on our management s analysis of inventory levels and future sales forecasts. Once the value is adjusted, the original cost of our 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.

We design, manufacture and sell custom advanced wafer probe cards into a market that has been subject to cyclicality and significant demand fluctuations. Probe cards are complex products, custom to a specific chip design and must be delivered on short lead-times. Probe cards are

manufactured in low volumes, but material and component purchases are often subject to minimum purchase order quantities in excess of the actual demand. It is not uncommon for us to acquire production materials and start certain production activities based on estimated production yields and forecasted demand prior to or in excess of actual demand for our wafer probe cards. These factors make inventory valuation adjustments part of our normal recurring cost of revenue. During the three months ended September 25, 2010, we recorded charges of $6.2 million to the inventory provision for the increased level of materials held in excess of actual and expected demand. We recorded net charges for inventory write downs and valuation adjustments of $6.8 million and $5.6 million for the nine months ended September 25, 2010 and September 26, 2009, respectively. We retain a portion of the excess inventory until the customer s design is discontinued. The inventory may be used to satisfy customer warranty obligations.

When our products have been delivered, but the revenue associated with that product is deferred because the related revenue recognition criteria have not been met, we defer the related cost of revenue. The deferred inventory costs do not exceed the deferred revenue amounts.

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Inventories consisted of the following (in thousands):

	September 25, 2010	December 26, 2009
Raw materials	$ 1,782	$ 2,405
Work-in-progress	19,905	11,457
Finished goods:		
Deferred cost of revenue	2,331	6,097
Manufactured finished goods	5,047	5,589
	$ 29,065	$ 25,548

Note 9 Warranty

We offer warranties on our products, other than certain evaluation and early adopter products that are not offered with warranty unless and until such time that such evaluation and early adopter products are qualified and utilized by our customers for commercial manufacturing. We also record a liability for the estimated future costs associated with customer warranty claims, which is based upon historical experience and our 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 our warranty liability (included in Accrued liabilities in the Condensed Consolidated Balance Sheets) is as follows (in thousands):

Three Months Ended