

FORMFACTOR INC  
Form 10-Q/A  
November 30, 2004

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**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 September 25, 2004**

**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)*

<b>Delaware</b>	<b>13-3711155</b>
<i>(State or other jurisdiction of incorporation or organization)</i>	<i>(I.R.S. Employer Identification No.)</i>

**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  No

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of October 31, 2004 was 38,483,078 shares.



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**EXPLANATORY NOTE**

FormFactor is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the three and nine months period ended September 25, 2004 to amend and restate certain portions of its Form 10-Q filed with the Securities and Exchange Commission on November 9, 2004. This Amendment No. 1 presents net income (loss) available to common stockholders and restates FormFactor's calculation of basic and diluted net income (loss) available to common stockholders per share for the three and nine month periods ended September 27, 2003.

The restatement does not affect FormFactor's reported net income, or its balance sheet or cash flow statements for any period.

FormFactor did not previously reflect the impact of cumulative dividend rights and participating dividend rights of its redeemable convertible preferred stock in its calculation of net income (loss) available to common stockholders or in its calculation for either basic or diluted net income (loss) available to common stockholders per share, and has adjusted its calculations according to SFAS No. 128 Earnings Per Share and EITF Topic No. D-95, Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share.

The adjustment relates to cumulative dividend rights of FormFactor's redeemable, convertible preferred stock Series B-G and participating dividend rights of FormFactor's redeemable, convertible preferred stock Series A-G, which were issued in years prior to FormFactor's initial public offering in June 2003. Such dividend rights impact the calculation of net income (loss) available to common stockholders regardless of whether a dividend was declared or paid. The contractual cumulative dividend rights and the participating dividend rights need to be considered in the calculation of basic net income (loss) available to common stockholders per share. For the calculation of diluted net income (loss) available to common stockholders per share, the convertible securities are included using the if-converted method to the extent the effect is dilutive.

Please see Note 9 to the Notes to Consolidated Financial Statements contained in this Amendment No. 1 for further information regarding the revisions to FormFactor's financial results.

This Amendment No. 1 amends and restates the following items of the initial filing of FormFactor's Form 10-Q: (i) Part I, Item 1 Unaudited Condensed Consolidated Financial Statements, (ii) Part I, Item 4 Controls and Procedures and (iii) Part II, Item 6 Exhibits.

All information in the FormFactor's Quarterly Report on Form 10-Q for the three and nine month periods ended September 25, 2004, as amended by this Amendment No. 1, speaks as of the date of the original filing of the FormFactor's Form 10-Q for such period and does not reflect any subsequent information or events, except as expressly noted in this Amendment No. 1 and except for Exhibits 31.01, 31.02, and 32.01. References to Annual Report, Form 10-K and Form 10-K/A in this Amendment No. 1 refer to FormFactor's Annual Report on Form 10-K for the fiscal year ended December 27, 2003, as amended. References to Quarterly Report and Form 10-Q in this Amendment No. 1, refer to FormFactor's Quarterly Report on Form 10-Q for the three and nine month periods ended September 25, 2004, as amended.

All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in FormFactor's reports, as amended, filed with the Securities and Exchange Commission subsequent to the date of the initial filing of FormFactor's Quarterly Report on Form 10-Q for the three and nine months ended September 25, 2004.

**FormFactor, Inc.  
Form 10-Q/A for the Quarterly Period Ended September 25, 2004  
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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Unaudited Condensed Consolidated Financial Statements****FORMFACTOR, INC.****CONDENSED CONSOLIDATED INCOME STATEMENTS**(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 25, 2004	September 27, 2003	September 25, 2004
	As restated		As restated	
Revenues	\$26,076	\$ 51,377	\$66,839	\$ 131,649
Cost of revenues	13,213	25,471	34,482	63,655
Stock-based compensation	163	154	451	466
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Gross margin	12,700	25,752	31,906	67,528
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating expenses:				
Research and development (1)	3,966	5,555	11,322	14,420
Selling, general and administrative (1)	4,980	7,904	13,471	20,640
Stock-based compensation	638	455	1,897	1,571
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total operating expenses	9,584	13,914	26,690	36,631
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating income	3,116	11,838	5,216	30,897
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Interest income	289	635	625	1,740
Interest expense	(11)		(38)	
Other income (expense), net	242	(156)	193	(798)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	520	479	780	942
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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Income before income taxes	3,636	12,317	5,996	31,839
Provision for income taxes	(1,395)	(4,820)	(2,300)	(12,483)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income	2,241	7,497	3,696	19,356
Preferred stock dividend			(2,340)	
Amount allocated to participating preferred stockholders			(10)	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income available to common stockholders	\$ 2,241	\$ 7,497	\$ 1,346	\$ 19,356

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

**Table of Contents****FORMFACTOR, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**(In thousands, except per share amounts)  
(Unaudited)

	<b>December 27, 2003</b>	<b>September 25, 2004</b>
	<b>As restated</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 116,305	\$ 66,226
Marketable securities	62,965	114,994
Accounts receivable, net of allowance for doubtful accounts of \$103 in 2003 and \$98 in 2004	19,698	33,642
Inventories, net	8,025	10,050
Deferred tax assets	2,825	2,825
Prepaid expenses and other current assets	2,744	3,795
	<hr/>	<hr/>
Total current assets	212,562	231,532
Restricted cash	2,550	2,250
Property and equipment, net	20,495	47,184
Deferred tax assets	1,202	1,202
Other assets	356	272
	<hr/>	<hr/>
Total assets	<b>\$ 237,165</b>	<b>\$ 282,440</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,579	\$ 17,724
Accrued liabilities	10,134	15,089
Deferred revenue and customer advances	1,005	1,402
	<hr/>	<hr/>
Total current liabilities	21,718	34,215
Deferred revenue and customer advances	433	254
	<hr/>	<hr/>
Total liabilities	<b>22,151</b>	<b>34,469</b>



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Commitments and contingencies (Note 6)

Stockholders' equity:

Common stock, \$0.001 par value	37	39
Additional paid-in capital	226,592	237,177
Notes receivable from stockholders	(661)	
Deferred stock-based compensation	(7,902)	(5,279)
Accumulated other comprehensive loss	(4)	(274)
Retained earnings (accumulated deficit)	(3,048)	16,308
	<u>          </u>	<u>          </u>
Total stockholders' equity	<u>215,014</u>	<u>247,971</u>
Total liabilities and stockholders' equity	<u>\$ 237,165</u>	<u>\$ 282,440</u>

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

Table of Contents**FORMFACTOR, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited, in thousands)**

	<b>Nine Months Ended</b>	
	<b>September 27, 2003</b>	<b>September 25, 2004</b>
	<b>As restated</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,696	\$ 19,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,834	4,422
Stock-based compensation expense	2,348	2,037
Tax benefit from employee stock option plans		3,221
Interest income from stockholders' notes receivable	(145)	
Reduction in allowance for doubtful accounts	(150)	(5)
Provision for excess and obsolete inventories	2,531	2,484
Loss on disposal of property and equipment	10	
Changes in assets and liabilities:		
Accounts receivable	(3,796)	(13,940)
Inventories	(5,860)	(4,510)
Prepaid and other current assets	1,003	(1,074)
Accounts payable	2,040	(537)
Accrued liabilities	1,132	4,972
Deferred revenues and customer advances	241	218
	<hr/>	<hr/>
Net cash provided by operating activities	6,884	16,644
	<hr/>	<hr/>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment, net	(5,728)	(23,407)
Purchase of marketable securities	(84,567)	(153,441)
Proceeds from maturities of marketable securities	68,658	101,181
Restricted cash	285	300
Other assets	11	41
	<hr/>	<hr/>
Net cash used in investing activities	(21,341)	(75,326)
	<hr/>	<hr/>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net	82,850	7,950

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Repayment of notes receivable from stockholders	2,058	661
Repurchase of common stock	(200)	
Proceeds from issuance of bank line of credit	1,000	
Repayment of notes payable and bank line of credit	(2,500)	
	<hr/>	<hr/>
Net cash provided by financing activities	83,208	8,611
	<hr/>	<hr/>
Effect of exchange rate changes on cash and cash equivalents	24	(8)
Net increase (decrease) in cash and cash equivalents	68,775	(50,079)
Cash and cash equivalents, beginning of the period	26,786	116,305
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	\$ 95,561	\$ 66,226
	<hr/>	<hr/>
<b>Supplemental disclosure of significant non-cash investing activities:</b>		
Purchases of property and equipment through accounts payable	\$	\$ 7,692

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

Table of Contents**FORMFACTOR, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****Note 1 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 for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. 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 presentation have been included. Operating results for the three and nine months ended September 25, 2004 are not necessarily indicative of the results that may be expected for the year ending December 25, 2004, or for any other period. The balance sheet at December 27, 2003 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 financial statements and notes thereto for the year ended December 27, 2003 included in the Company's Annual Report on Form 10-K/A Amendment No. 2 for the year ended December 27, 2003, filed with the Securities and Exchange Commission.

**Note 2 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. Reserves for potentially excess and obsolete inventory are made based on inventory levels and future sales forecasts.

Inventories, net of reserves, consisted of the following (in thousands):

	<b>December 27, 2003</b>	<b>September 25, 2004</b>
	<hr/>	<hr/>
Raw materials	\$3,128	\$ 4,079
Work-in-progress	4,628	5,845
Finished goods	269	126
	<hr/>	<hr/>
	<b>\$8,025</b>	<b>\$10,050</b>
	<hr/>	<hr/>

**Note 3 Warranty**

The Company offers warranties on certain products and records a liability for the estimated future costs associated with customer claims, which is based upon historical experience and the Company's estimate of the level of future costs. Warranty costs are reflected in the income statement as a cost of revenues. A reconciliation of the changes in the Company's warranty liability is as follows (in thousands):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 27, 2003</u>	<u>September 25, 2004</u>	<u>September 27, 2003</u>	<u>September 25, 2004</u>
Beginning balance	\$ 536	\$ 494	\$ 679	\$ 446
Reserve for warranties issued during the period	198	180	663	606
Settlements made during the period	(198)	(180)	(806)	(558)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Ending balance	<u>\$ 536</u>	<u>\$ 494</u>	<u>\$ 536</u>	<u>\$ 494</u>

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**FORMFACTOR, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**Note 4 Stock-Based Compensation**

The Company uses the intrinsic value method of Accounting Principles Board Opinion No. 25 ( APB No. 25 ), Accounting for Stock Issued to Employees, in accounting for its employee stock options, and presents disclosure of the pro forma information required under SFAS No. 123 ( SFAS No. 123 ), Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. The Company uses the Black-Scholes option pricing model to compute its pro forma net income and pro forma option expense.

Had compensation cost for the Company's stock option grants, Employee Stock Purchase Plan to employees been determined based on the fair values of the stock option at the date of grant consistent with the provisions of SFAS No. 123, the Company's net income and net income (loss) available to common stockholders per share would have been changed to the pro-forma amounts as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 25, 2004	September 27, 2003	September 25, 2004
	As restated	As restated	As restated	As restated
	(In thousands, except per share amounts)			
Reported net income (see Note 9)	\$ 2,241	\$ 7,497	\$ 3,696	\$ 19,356
Add: Stock-based employee compensation expense included in reported net, net of tax	609	472	1,811	1,558
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(2,431)	(2,259)	(4,721)	(6,937)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Pro forma net income	<u>\$ 419</u>	<u>\$ 5,710</u>	<u>\$ 786</u>	<u>\$ 13,977</u>
Net income (loss) available to common stockholders per share:				
Basic:				
As reported	\$ 0.07	\$ 0.20	\$ 0.08	\$ 0.52
Pro forma	\$ 0.01	\$ 0.15	\$ (0.09)	\$ 0.37
Diluted:				
As reported	\$ 0.06	\$ 0.19	\$ 0.06	\$ 0.48
Pro forma	\$ 0.01	\$ 0.14	\$ (0.09)	\$ 0.35

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The Company has adopted the disclosure only provisions of SFAS No. 123. Prior to the Company's initial public offering, the Company calculated the fair value of each option on the date of grant using the minimum value method as prescribed by SFAS No. 123. Therefore, the pro forma net income and pro forma net income (loss) per share may not be representative for future periods. The weighted-average assumptions used are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2003</b>	<b>September 25, 2004</b>	<b>September 27, 2003</b>	<b>September 25, 2004</b>
<b>Stock Options</b>				
Dividend yield				
Risk-free interest rate	3.37%	3.50%	2.99%	3.46%
Expected life (in years)	5	5	5	5
Expected volatility	67%	50%	67%	46%
<b>ESPP</b>				
Dividend yield				
Risk-free interest rate	1.52%	1.64%	1.52%	1.64%
Expected life (in years)	0.5	0.5	0.5	0.5
Expected volatility	67%	58%	67%	58%

The weighted-average per share grant date fair value of options granted during the three and nine months ended September 27, 2003 was \$11.31 and \$7.61, and was \$8.73 and \$8.43 for the three and nine months ended September 25, 2004, respectively. The weighted-average per share estimated fair value of purchase rights granted under the 2002 Employee Stock Purchase Plan was \$7.74 for the three and nine months ended September 25, 2004.

**Note 5 Net Income per Share**

Basic net income available to common stockholders per share is computed by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding for the period. The net income available to common stockholders is calculated by deducting the cumulative preferred stock dividends, if any, and dividends allocable to participating preferred stockholders, if any, from net income to determine the net income available to common stockholders.

Diluted net income available to common stockholders per share is computed giving effect in all potential diluted common stock, including options, warrants and common stock subject to repurchase using the treasury stock method and all convertible securities using the if-converted method to the extent the effect is dilutive.

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net income available to common stockholders per share follows (in thousands):

<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
<b>Sept. 27, 2003</b>	<b>Sept. 25, 2004</b>	<b>Sept. 27, 2003</b>	<b>Sept. 25, 2004</b>
<b>As restated</b>		<b>As restated</b>	

**Basic net income per share (see Note 9)**

Numerator:

Net income available to common stockholders	\$ 2,241	\$ 7,497	\$ 1,346	\$ 19,356
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Denominator:

Weighted-average common stock outstanding	34,246	37,769	16,654	37,691
Less weighted-average shares subject to repurchase	(164)	(137)	(173)	(107)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Weighted-average shares used in computing basic net income per share	34,082	37,632	16,481	37,584
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



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	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sept. 27, 2003</b>	<b>Sept. 25, 2004</b>	<b>Sept. 27, 2003</b>	<b>Sept. 25, 2004</b>
	<b>As restated</b>		<b>As restated</b>	
<b>Diluted net income per share</b>				
Numerator:				
Net income available to common stockholders	\$ 2,241	\$ 7,497	\$ 1,346	\$19,356
Add preferred dividends for each Series considered dilutive			117	
Net income available to common stockholders	<b>\$ 2,241</b>	<b>\$ 7,497</b>	<b>\$ 1,463</b>	<b>\$19,356</b>
Denominator:				
Weighted-average shares used in computing basic net income per share	34,082	37,632	16,481	37,584
Add stock options, warrants and common stock subject to repurchase	3,008	2,867	2,160	2,906
Add preferred shares for each Series considered dilutive			5,838	
Weighted-average shares used in computing diluted net income per share	37,090	40,499	24,479	40,490