FORMFACTOR INC
Form 10-Q
November 05, 2009
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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 26, 2009

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 30, 2009, 49,752,726 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 26, 2009

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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 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Revenues	$ 43,773	$ 52,584	$ 102,340	$ 170,300
Cost of revenues	36,435	40,583	100,007	134,626
Gross profit	7,338	12,001	2,333	35,674
Operating expenses:				
Research and development	13,775	17,079	41,823	49,288
Selling, general and administrative	17,366	23,675	61,939	69,038
Restructuring		141	7,943	8,684
Total operating expenses	31,141	40,895	111,705	127,010
Operating loss	(23,803)	(28,894)	(109,372)	(91,336)
Interest income	694	2,805	2,571	10,808
Other income (expense), net	(415)	263	(920)	404
Loss before income taxes	(23,524)	(25,826)	(107,721)	(80,124)
Provision for (benefit from) income taxes	377	(11,785)	19,969	(29,463)
Net loss	$ (23,901)	$ (14,041)	$ (127,690)	$ (50,661)
Net loss per share:				
Basic	$ (0.48)	$ (0.29)	$ (2.59)	$ (1.04)
Diluted	$ (0.48)	$ (0.29)	$ (2.59)	$ (1.04)
Weighted-average number of shares used in per share calculations:				
Basic	49,582	48,988	49,392	48,855
Diluted	49,582	48,988	49,392	48,855

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 26, 2009	December 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 149,920	$ 337,926
Marketable securities	312,687	184,968
Accounts receivable, net of allowances for doubtful accounts of $9,260 at September 26, 2009 and $4,220 at December 27, 2008	48,233	34,127
Inventories	21,166	18,788
Deferred tax assets	3,768	23,039
Refundable income taxes	18,130	29,413
Prepaid expenses and other current assets	11,462	14,702
Total current assets	565,366	642,963
Restricted cash	680	680
Property and equipment, net	96,998	113,813
Deferred tax assets	1,928	20,580
Other assets	3,599	7,674
Total assets	$ 668,571	$ 785,710
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 27,450	$ 33,214
Accrued liabilities	16,718	25,693
Income taxes payable	105	1,904
Deferred revenue	10,001	4,946
Deferred rent	458	452
Total current liabilities	54,732	66,209
Long-term income taxes payable	6,334	7,732
Deferred rent and other liabilities	5,416	5,705
Total liabilities	66,482	79,646
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 26, 2009 and December 27, 2008, respectively		
Common stock, $0.001 par value:		
250,000,000 shares authorized; 49,752,366 and 49,062,308 shares issued and outstanding at September 26, 2009 and December 27, 2008, respectively	50	49
Additional paid-in capital	626,211	602,295
Accumulated other comprehensive income	1,720	1,922
Retained earnings (accumulated deficit)	(25,892)	101,798
Total stockholders equity	602,089	706,064
Total liabilities and stockholders equity	$ 668,571	$ 785,710

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 26, 2009	September 27, 2008
Cash flows from operating activities:		
Net loss	$ (127,690)	$ (50,661)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	24,204	24,063
Stock-based compensation expense	16,412	17,905
Deferred income tax provision (benefit)	37,952	(9,727)
Excess tax benefits from equity based compensation plans	(508)	(266)
Provision for doubtful accounts receivable	5,040	489
Provision for excess and obsolete inventories	5,639	12,307
Loss on disposal of property and equipment	743	982
Non-cash restructuring	366	
Foreign currency transaction gains	(845)	
Changes in assets and liabilities:		
Accounts receivable	(18,236)	28,900
Inventories	(7,971)	(5,302)
Prepaids and other current assets	3,487	510
Refundable income taxes	11,582	(22,942)
Other assets	6,374	830
Accounts payable	(1,475)	(3,779)
Accrued liabilities	(9,038)	(7,811)
Income tax payable	(3,198)	1,046
Deferred rent	(392)	(302)
Deferred revenues	5,050	(99)
Net cash used in operating activities	(52,504)	(13,857)
Cash flows from investing activities:		
Acquisition of property and equipment	(13,078)	(26,418)
Purchases of marketable securities	(419,600)	(181,004)
Proceeds from maturities of marketable securities	259,999	49,015
Proceeds from sales of marketable securities	31,198	277,331
Release of restricted cash		1,570
Advance payment for acquisition of assets (Refer to Note 19)	(1,731)	
Net cash provided by (used in) investing activities	(143,212)	120,494
Cash flows from financing activities:		
Proceeds from issuances of common stock and awards, net	7,119	5,678
Excess tax benefits from equity based compensation plans	508	266
Net cash provided by financing activities	7,627	5,944
Effect of exchange rate changes on cash and cash equivalents	83	(199)
Net increase (decrease) in cash and cash equivalents	(188,006)	112,382
Cash and cash equivalents, beginning of period	337,926	315,232
Cash and cash equivalents, end of period	$ 149,920	$ 427,614

Supplemental cash flow disclosures:				
Purchases of property and equipment through accounts payable and accruals	$	(4,897)	$	(11,400)
Income taxes paid (refunded), net	$	(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 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). The Company s 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 considered necessary to fairly present the Company s financial position, results of operations and cash flows have been included. Operating results for the three and nine months ended September 26, 2009 are not necessarily indicative of the results that may be expected for the year ending December 26, 2009, or for any other period. The balance sheet at December 27, 2008 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 27, 2008 included in the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2009.

Fiscal Year. The Company operates on a 52/53 week fiscal year, whereby the year ends on the last Saturday of December. Fiscal 2009 will end on December 26, 2009, and will consist of 52 weeks.

Reclassifications. Certain prior period balances have been reclassified to conform to the current financial statement presentation. None of these reclassifications had an impact on reported net loss for any periods presented.

Codification. In June 2009 the Financial Accounting Standards Board, or FASB, established the Accounting Standards Codification, or Codification, as the source of authoritative GAAP recognized by the FASB. The Codification is effective in the first interim and annual periods ending after September 15, 2009 and had no effect on the Company s unaudited condensed consolidated financial statements.

Subsequent Events. The Company has performed an evaluation of subsequent events through November 5, 2009, which is the date the financial statements were issued.

Note 2 Recent Accounting Pronouncements and Other Reporting Considerations

In August 2009, the FASB issued Accounting Standards Update titled Fair Value Measurements and Disclosures Measuring Liabilities at Fair Value which provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. The Company will adopt this guidance in the fourth quarter of fiscal 2009. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued an accounting standard intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company s involvement in variable interest entities. This standard is effective for interim and annual periods ending after November 15, 2009. The adoption of this standard is not expected to have a material impact on the Company s financial statements.

In June 2009, the FASB issued accounting guidance related to accounting for transfers and servicing of financial assets and extinguishments of liabilities. This accounting guidance requires more information about transfers of financial assets where companies have continuing exposure to the risk related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosure. This standard is effective for interim and annual periods ending after November 15, 2009. The adoption of this standard is not expected to have a material impact on the Company s financial statements.

For the quarter beginning March 29, 2009, the Company adopted the FASB accounting guidance related to recognition and presentation of other-than-temporary impairments. This accounting guidance amends the prior other-than-temporary impairment (OTTI) guidance in U.S. GAAP to make the guidance more operational and to improve the presentation of other-than-temporary impairments in a company s financial statements. Prior to its issuance, if OTTI was determined to exist, the Company recognized an OTTI charge into earnings in an amount equal to the difference between the investment s amortized cost basis and its fair value as of the balance sheet date of the reporting period. Under this accounting guidance, if OTTI has been incurred, and it is more-likely-than-not that the Company will not sell the investment security before the recovery of its amortized cost basis, then the OTTI is separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the total OTTI related to

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the credit loss is recognized in earnings. The amount of the total OTTI related to other factors is recognized in accumulated other comprehensive income (AOCI). There was no initial effect of adoption on March 28, 2009.

For the quarter beginning March 29, 2009, the Company adopted new accounting guidance issued by the FASB related to determination of fair value when the volume and level of activity for an asset or liability have significantly decreased and identification of transactions that are not orderly. This accounting guidance provides additional guidance for estimating fair value in accordance with the accounting standard on fair value measurements. The adoption of this accounting guidance did not have an impact on the Company s consolidated results of operations or financial condition.

For the quarter beginning March 29, 2009, the Company adopted accounting guidance issued by the FASB related to interim disclosures about fair value of financial instruments. This accounting guidance amends the previously issued accounting standard that related to financial instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The adoption of this accounting guidance did not have an impact on the Company s consolidated results of operations or financial condition. See Note 5 for additional disclosures included in accordance with this accounting guidance.

For the quarter beginning March 29, 2009, the Company adopted FASB s newly issued accounting standard related to subsequent events. This accounting standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. Adoption of accounting standard did not have an impact on the Company s consolidated results of operations or financial condition.

In September 2009, the Financial Accounting Standards Board ratified accounting guidance regarding revenue arrangements with multiple deliverables. In absence of vendor-specific objective evidence (VSOE) or other third party evidence (TPE) of the selling price for the deliverables in a multiple-element arrangement, this accounting guidance requires companies to use an estimated selling price (ESP) for the individual deliverables. Companies shall apply the relative-selling price model for allocating an arrangement s total consideration to its individual elements. Under this model, the ESP is used for both the delivered and undelivered elements that do not have VSOE or TPE of the selling price. This accounting guidance will be applied on a prospective basis for revenue arrangements entered into or materially modified beginning in fiscal 2011, with earlier application permitted. Since the Company will apply this accounting guidance on a prospective basis, it is currently unable to evaluate its effect on its consolidated financial statements.

Note 3 Concentration of Credit and Other Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, investments and trade receivables. The Company s cash equivalents and marketable securities are held in safekeeping by large, creditworthy financial institutions. The Company invests its excess cash primarily in U.S. banks, government and agency bonds, money market funds and corporate obligations. The Company has established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity.

The Company sells its products to large multinational semiconductor manufacturers primarily located in Asia and North America. During the three months ended September 26, 2009 and September 27, 2008 one customer represented 53.0% and 15.5%, respectively, of total revenues. No other customer represented greater than 10% of total revenues for these fiscal periods. One customer represented 55.0% of total revenues during the nine months ended September 26, 2009, and three customers represented 23.4%, 13.1%, and 13.0% of total revenues for the nine months ended September 27, 2008. No other customer accounted for more than 10% of total revenues in either of these fiscal periods.

The Company has significant accounts receivables concentrated with a few customers in the semiconductor industry. While the Company s 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 26, 2009, three customers accounted for greater than 10% of gross accounts receivable. As of December 27, 2008, four of the Company s customers accounted for greater than 10% of gross accounts receivable.

Note 4 Restructuring Charges

Restructuring charges include costs related to one-time employee termination benefits, cost of long-lived assets abandoned, as well as contract termination costs. The Company recognizes 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.

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The timing of the recognition of one-time employee termination benefits is dependant 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. The Company records charges related to long-lived assets to be abandoned when the assets cease to be used. The Company records a liability for contract termination costs that will continue to be incurred under a contract for its remaining term without economic benefit to the Company at the cease-use date.

The Company recorded restructuring charges of $0.1 million for the three months ended September 27, 2008 and $7.9 million and $8.7 million for the nine months ended September 26, 2009 and September 27, 2008, respectively. There were no restructuring charges incurred in the three months ended September 26, 2009. The restructuring plan implemented in the first quarter of 2009 is discussed in detail below. For a complete discussion of all restructuring actions that were implemented prior to fiscal 2009, please refer to the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K filed on February 27, 2009.

In the first quarter of fiscal 2009, the Company implemented a global reorganization and cost reduction plan (the Q1 2009 Restructuring Plan) designed to lower the Company s cash breakeven level in the current market environment. The Q1 2009 Restructuring Plan extended the global cost reduction plans implemented during fiscal 2008 and included workforce reductions of 178 employees spread across all functions of the organization. The Q1 2009 Restructuring Plan also included other actions such as the elimination of 24 contractor positions as well as non-replacement of certain voluntary employee terminations. The Company recorded $7.7 million in charges for this restructuring plan in the first quarter of fiscal 2009 of which $7.3 million related to severance and related benefits and $0.4 million related to write-down of certain assets taken out of service. The Company incurred approximately $0.3 million in connection with this restructuring plan in the second quarter of fiscal 2009 related to severance and related benefits. The following table summarizes the activity related to the Q1 2009 Restructuring Plan as of September 26, 2009 (in thousands):

	Employee Severance and Benefits	Property and Equipment Write-down	Contract Termination and Other	Total
Accrual at December 27, 2008	$ 77	$	$ 71	$ 148
Q1 09 Restructuring charges	7,332	366	(19)	7,679
Cash payments	(5,287)		19	(5,268)
Non-cash settlements	(217)	(366)		(583)
Accrual at March 28, 2009	1,905		71	1,976
Q2 09 Restructuring charges	250		14	264
Cash payments	(776)			(776)
Accrual at June 27, 2009	1,379		85	1,464
Q3 09 Restructuring charges				
Cash payments	(1,120)			(1,120)
Accrual at September 26, 2009	$ 259	$	$ 85	$ 344

Restructuring charges are reflected separately as Restructuring in the accompanying Condensed Consolidated Statements of Operations. The remaining accrual as of September 26, 2009 relates primarily to severance benefits which will be paid within the next six months. As such, the restructuring accrual is recorded as a current liability within Accrued Liabilities in the Condensed Consolidated Balance Sheets.

Note 5 Fair Value

The Company uses 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. The Company also has a building held for sale in Livermore, CA as well as 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 Sheet.

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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, the Company considers the principal or most advantageous market in which it 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, that 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.

The Company adopted accounting standard for fair value as of the beginning of its fiscal 2008 year for its financial assets and financial liabilities, and as of the beginning of its 2009 fiscal year as it relates to nonrecurring fair value measurement requirements for non-financial assets and liabilities.

Assets Measured at Fair Value on a Recurring Basis

The Company measures and reports 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 the Company s fair value hierarchy for its financial assets (cash equivalents and marketable securities):

Fair value measured on a recurring basis as of September 26, 2009 (in thousands):

	Level 1	Level 2	Total
Assets:			
Cash equivalents			
Money market funds	$ 128,275	$	$ 128,275
Commercial paper		5,000	5,000
Marketable securities			

U. S. Treasury		91,444	91,444
Municipal bonds		7,379	7,379
Agency securities		208,867	208,867
Commercial paper		4,997	4,997
Total	$ 128,275	$ 317,687	$ 445,962

Fair value measured on a recurring basis as of December 27, 2008 (in thousands):

	Level 1	Level 2	Total
Assets:			
Cash equivalents			
Money market funds	$ 183,765	$	$ 183,765
U. S. Treasury		20,000	20,000
Agency securities		79,977	79,977
Marketable securities			
U. S. Treasury		105,285	105,285
Municipal bonds		17,928	17,928
Agency securities		61,755	61,755
Total	$ 183,765	$ 284,945	$ 468,710

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The Level 1 assets consist of the Company s money market fund depositsThe Level 2 assets consist of the Company s available-for-sale debt investment portfolio. The Company s 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 the Company s pricing vendors or when a broker price is more reflective of fair values in the market in which the investment trades. The Company s investments are labeled as Level 2 investments because fair values for these investments are based on similar assets without applying significant judgments. In addition, all of the Company s 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 building held for sale is classified as Level 3 as the Company used unobservable inputs in its valuation reflecting the Company s assumptions that market participants would use in pricing this asset due to the absence of recent comparable market transactions and inherent lack of liquidity. The building held for sale was valued at $900,000 as of September 26, 2009. The Company also classified certain manufacturing equipment as held for sale as of September 26, 2009. The equipment was classified as Level 3 as the Company used unobservable inputs in its valuation reflecting the Company s assumptions that market participants would use in pricing this asset due to the absence of observable market data on pricing and inherent lack of liquidity. The manufacturing equipment held for sale was valued at $250,000 at September 26, 2009.

The Company s 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

The Company classifies its 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 (loss) until realized.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U. S. Treasury	$ 91,142	$ 316	$ (14)	$ 91,444
Agency Securities	208,353	526	(12)	208,867
Obligations of states and political subdivisions	7,340	38		7,379
Commercial Paper	4,997			4,997
	$ 311,832	$ 880	$ (26)	$ 312,687

Marketable securities at December 27, 2008 consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U. S. Treasury	$ 104,817	$ 468	$	$ 105,285
Agency Securities	60,943	836	(24)	61,755
Obligations of states and political subdivisions	17,862	126	(60)	17,928
	$ 183,622	$ 1,430	$ (84)	$ 184,968

The Company typically invests in highly-rated securities with low probabilities of default. The Company s 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 losses on the Company s investments during the three and nine months ended September 26, 2009 were caused primarily by changes in interest rates. When evaluating the investments for other-than-temporary impairment, the Company reviews 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.

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The Company believes that the unrealized losses are not other-than-temporary. The Company does not have a foreseeable need to liquidate the portfolio and anticipates recovering the full cost of the securities either as market conditions improve, or as the securities mature.

Contractual maturities of marketable securities as of September 26, 2009 were as follows (in thousands):

	Amortized Cost	Market Value
Due in one year or less	$ 221,350	$ 221,731
Due after one year to three years	90,483	90,956
	$ 311,833	$ 312,687

Realized gains on sales and maturities of marketable securities were immaterial for the three and nine months ended September 26, 2009. Realized losses on sales and maturities of marketable securities were immaterial for the three months ended September 27, 2008 and were $0.5 million for the nine months ended September 27, 2008.

Note 7 Allowance for Doubtful Accounts

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

The Company recorded a provision for doubtful accounts of $5.2 million in the first quarter of fiscal 2009 primarily due to the heightened risk of non-payment of accounts receivable by certain customers facing financial difficulty. The Company recorded a reduction to provision for doubtful accounts of $0.3 million in the second quarter of fiscal 2009 and a provision for doubtful accounts of $0.1 million in the third quarter of fiscal 2009. The allowance for doubtful accounts consisted of the following activity for the three and nine months ended September 26, 2009 (in thousands):

	Allowance for Doubtful Accounts Receivable
Balance at December 27, 2008	$ 4,220
Net additions/(reductions) to provision	5,246
Deductions	
Balance at March 28, 2009	9,466
Net additions/(reductions) to provision	(315)
Deductions	

Balance at June 27, 2009		9,151
Net additions/(reductions) to provision		109
Deductions		
Balance at September 26, 2009	$	9,260

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. Provisions for estimated excess and obsolete inventories are made based on management s analysis of inventory levels and future sales forecasts. Once the value is adjusted, the original cost of the Company s 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.

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The Company designs, manufactures and sells a fully custom product into a market that is 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; therefore, material purchases are often subject to minimum purchase order quantities in excess of the actual demand. It is not uncommon for the Company 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 the Company s wafer probe cards. These factors make inventory valuation adjustments part of the Company s normal recurring cost of revenue. Excess and obsolete inventory write downs were $5.6 million, and $12.3 million for the nine months ended September 26, 2009, and September 27, 2008, respectively. The Company retains a portion of the excess inventory until the customer s design is discontinued. The inventory may be used to satisfy customer warranty obligations.

When the Company s products have been delivered, but the revenue associated with that product is deferred because the related revenue recognition criteria have not been met, the Company defers the related inventory costs. The deferred inventory costs do not exceed the deferred revenue amounts.

Inventories consisted of the following (in thousands):

	September 26, 2009	December 27, 2008
Raw materials	$ 1,841	$ 2,147
Work-in-progress	8,131	7,120
Finished goods:		
Deferred cost of revenue	5,591	1,765
Manufactured finished goods	5,603	7,756
	$ 21,166	$ 18,788

Note 9 Warranty

The Company offers warranties on its products and records a liability for the estimated future costs associated with customer warranty claims, which is based upon historical experience and the Company s 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 the Company s warranty liability (included in accrued liabilities in the Condensed Consolidated Balance Sheets) is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Warranty accrual beginning balance	$ 634	$ 1,480	$ 1,098	$ 1,383
Accrual for warranties issued during the period	41	1,398	13	3,886
Settlements made during the period	(79)	(985)	(515)	(3,376)
Warranty accrual ending balance	$ 596	$ 1,893	$ 596	$ 1,893

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Note 10 Property and Equipment

Property and equipment consisted of the following (in thousands):

	Useful Life (in years)	September 26, 2009	December 27, 2008
Machinery and equipment	5 to 7	$ 112,278	$ 109,808
Computer equipment and software	3 to 5	34,833	28,378
Furniture and fixtures	5	7,088	6,860
Leasehold improvements	1 to 15	70,726	70,699
		224,925	215,745
Less: Accumulated depreciation and amortization		(139,761)	(116,900)
		85,164	98,845
Construction-in-progress		11,834	14,968
		$ 96,998	$ 113,813

In fiscal 2007, as part of its global manufacturing plan, the Company entered into a land lease offer agreement to establish a manufacturing facility in Singapore. During fiscal 2008, the Company decided not to proceed with the construction of the new manufacturing facility at this proposed site in Singapore. Accordingly in the first quarter of fiscal 2009, the Company entered into a contract for the early termination of the land lease offer agreement in Singapore and received $6.7 million in exchange for surrendering to the lessor the lease offer and related land.

Note 11 Comprehensive loss

Comprehensive loss includes foreign currency translation adjustments and unrealized gains (losses) on available-for-sale securities, the impact of which has been excluded from net income and reflected as components of stockholders equity.

Components of comprehensive loss were as follows (in thousands):

	Three Months Ended	Nine Months Ended