FORMFACTOR INC
Form 10-Q
August 03, 2011
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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 June 25, 2011

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 x 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 July 27, 2011, 50,849,589 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 JUNE 25, 2011

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited)***

FORMFACTOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Revenues	$ 46,558	$ 57,640	$ 86,987	$ 97,306
Cost of revenues	36,668	53,710	73,027	95,704
Gross profit	9,890	3,930	13,960	1,602
Operating expenses:				
Research and development	10,878	15,997	22,438	31,088
Selling, general and administrative	11,154	18,725	23,541	36,592
Restructuring charges, net	(1,099)	2,513	(60)	6,063
Impairment of long-lived assets		999	351	999
Total operating expenses	20,933	38,234	46,270	74,742
Operating loss	(11,043)	(34,304)	(32,310)	(73,140)
Interest income, net	369	722	793	1,497
Other income (expense), net	584	(82)	210	35
Loss before income taxes	(10,090)	(33,664)	(31,307)	(71,608)
Provision for (benefit from) income taxes	(2,412)	200	(2,205)	440
Net loss	$ (7,678)	$ (33,864)	$ (29,102)	$ (72,048)
Net loss per share:				
Basic and Diluted	$ (0.15)	$ (0.68)	$ (0.57)	$ (1.44)
Weighted-average number of shares used in per share calculations:				
Basic and Diluted	50,773	50,084	50,705	49,989

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)

	June 25, 2011	December 25, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 130,085	$ 121,207
Marketable securities	194,142	226,028
Restricted cash	383	383
Accounts receivable, net	28,017	28,598
Inventories	21,799	25,003
Deferred tax assets	297	329
Prepaid expenses and other current assets	9,022	14,743
Total current assets	383,745	416,291
Restricted cash	297	297
Property, plant and equipment, net	35,078	37,311
Deferred tax assets	7,364	5,445
Other assets	5,110	6,710
Total assets	$ 431,594	$ 466,054
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 16,023	$ 14,948
Accrued liabilities	15,176	24,045
Income taxes payable	382	1,894
Deferred revenue	4,409	4,637
Total current liabilities	35,990	45,524
Long-term income taxes payable	4,209	4,248
Deferred rent and other liabilities	4,101	5,081
Total liabilities	44,300	54,853
Commitments and contingencies (Note 16)		
Stockholders equity:		
Preferred stock, $0.001 par value:		
10,000,000 shares authorized; no shares issued and outstanding at June 25, 2011 and December 25, 2010, respectively		
Common stock, $0.001 par value:		
250,000,000 shares authorized; 50,849,589 and 50,587,917 shares issued and outstanding at June 25, 2011 and December 25, 2010, respectively	52	52
Additional paid-in capital	655,674	651,263
Accumulated other comprehensive income	2,811	2,027
Accumulated deficit	(271,243)	(242,141)
Total stockholders equity	387,294	411,201
Total liabilities and stockholders equity	$ 431,594	$ 466,054

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)

	Six months ended	
	June 25, 2011	June 26, 2010
Cash flows from operating activities:		
Net loss	$ (29,102)	$ (72,048)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,818	16,884
Amortization of investments	243	222
Stock-based compensation expense	6,321	9,152
Deferred income tax benefit	(2,627)	(89)
Recovery of doubtful accounts receivable	(266)	(328)
Provision for excess and obsolete inventories	3,524	512
Loss (gain) on disposal of long-lived assets	(32)	503
Impairment of long-lived assets	351	999
Non-cash restructuring	(1,582)	1,034
Foreign currency transaction (gains) losses	(404)	426
Changes in assets and liabilities:		
Accounts receivable	1,065	(13,976)
Inventories	(430)	(13,247)
Prepaid expenses and other current assets	4,668	869
Refundable income taxes	(12)	26,349
Other assets	1,055	(248)
Accounts payable	1,456	1,192
Accrued liabilities	(8,467)	9,043
Income tax payable	(824)	(212)
Deferred rent	(65)	(652)
Deferred revenues	(229)	(2,205)
Net cash used in operating activities	(19,539)	(35,820)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(2,733)	(16,484)
Proceeds from sales of property, plant and equipment	33	
Purchases of marketable securities	(112,182)	(145,590)
Proceeds from maturities of marketable securities	144,165	155,225
Proceeds from sales of marketable securities		9,000
Net cash provided by investing activities	29,283	2,151
Cash flows from financing activities:		
Proceeds from issuances of common stock and awards, net of issuance costs	1,576	1,536
Purchase and retirement of common stock	(3,007)	
Net cash provided by (used in) financing activities	(1,431)	1,536
Effect of exchange rate changes on cash and cash equivalents	565	(834)
Net increase (decrease) in cash and cash equivalents	8,878	(32,967)
Cash and cash equivalents, beginning of period	121,207	122,043
Cash and cash equivalents, end of period	$ 130,085	$ 89,076

Supplemental cash flow disclosures:				
Changes in accounts payable and accrued liabilities related to property and equipment purchases	$	(406)	$	1,026
Income taxes paid (refunded)	$	1,263	$	(25,625)

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 and Summary of Significant Accounting Policies

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 U.S. 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 six months ended June 25, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, or for any other period. The balance sheet at December 25, 2010 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 25, 2010 included in our Annual Report on Form 10-K filed with the SEC on February 17, 2011.

Fiscal year. We operate on a 52/53 week fiscal year, whereby the fiscal year ends on the last Saturday of December. Fiscal 2011 will end on December 31, 2011, and will consist of 53 weeks.

Reclassifications. Certain reclassifications have been made to the prior period s Condensed Consolidated Balance Sheet, Statement of Cash Flows and Statement of Operations to conform to the current year presentation.

Significant Accounting Policies. Other than the accounting policies discussed in Note 2 Recent Accounting Pronouncements and Other Reporting Considerations, our significant accounting policies have not materially changed during the three and six months ended June 25, 2011 from those disclosed in our Annual Report on Form 10-K for the year ended December 25, 2010.

Note 2 Recent Accounting Pronouncements and Other Reporting Considerations

Fair Value

Effective December 26, 2010, as required, we adopted the guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. Specifically, we have adopted the guidance requiring the disclosure of the roll forward of activities on purchases, sales, issuances and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). Other than requiring additional disclosures, adoption of this new guidance in the first quarter of fiscal 2011 did not have a material impact on our consolidated financial statements.

Additionally, in May 2011 updated authoritative guidance to amend existing requirements for fair value measurements and disclosures was issued. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities as well as instruments classified in shareholders equity. The guidance will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and are to be applied prospectively. This new guidance impacts how we report on fair value measurements only, and will have no effect on our results of operations, financial position or liquidity upon its required adoption by us on January 1, 2012.

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Revenue Recognition

In October 2009, additional authoritative guidance that modifies accounting for revenue arrangements with multiple deliverables was issued. The guidance eliminates the residual method of revenue recognition and establishes a hierarchy for determining the selling price of a deliverable in a sale arrangement whereby the selling price for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE or TPE is available. As required, we adopted this guidance effective December 26, 2010 on a prospective basis for revenue arrangements entered into or materially modified after the adoption date. The adoption of the additional authoritative guidance modifying revenue recognition accounting standards did not have any impact on our consolidated financial position, results of operations, or cash flows for the three and six months ended June 25, 2011, nor is it expected to have a material impact on total net revenues for the year ended December 31, 2011 based on current business practices.

Comprehensive Income

In June 2011 authoritative guidance that addresses the presentation of comprehensive income in interim and annual reporting of financial statements was issued. The guidance is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. Such changes in stockholders equity will be required to be disclosed in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively for all periods presented. Early adoption is permitted. This new guidance impacts how we report comprehensive income only, and will have no effect on our results of operations, financial position or liquidity upon its required adoption by us on January 1, 2012.

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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. Four customers represented 17%, 15%, 12% and 10% of total revenues during the three months ended June 25, 2011, and four customers also represented 28%, 12%, 12% and 11% of total revenues during the three months ended June 26, 2010. Five customers represented 16%, 11%, 11%, 10% and 10% of total revenues during the six months ended June 25, 2011, and three customers represented 22%, 14% and 12% of total revenues during the six months ended June 26, 2010. 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 June 25, 2011, two customers accounted for approximately 23% and 15% of gross accounts receivable. At December 25, 2010, three customers accounted for approximately 21%, 19% and 11% of gross accounts receivable. No other customer accounted for more than 10% of gross accounts receivable in either 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. Restructuring charges are reflected separately as Restructuring charges, net in the Condensed Consolidated Statements of Operations.

2010 Restructuring Activities

We recorded $3.6 million in restructuring charges in the three months ended March 27, 2010 as part of our then-current regionalization strategy (the Q1 2010 Restructuring Plan). These charges consisted of termination benefits related to reductions in work force of 106 full-time positions, which were all related to severance and related benefits. We recorded $3.6 million and $27,000 in charges for the Q1 2010 Restructuring Plan in the first and second quarter of fiscal 2010, which were all related to severance and related benefits.

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 a reduction in workforce impacting 67 employees spread across all functions of the organization, as well as a reduction in 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. In conjunction with this action, we also undertook 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 the existing accrual of $3.3 million for certain of the severance costs booked in conjunction with the Q1 2010 Restructuring Plan, including the accrued retention bonus to date.

We recorded $4.9 million in charges for the Q2 2010 Restructuring Plan in the second quarter of fiscal 2010 primarily for severance and related benefits. Additionally, in conjunction with the Q2 2010 Restructuring Plan we identified certain equipment and software assets related to our assembly and test operations in Korea that would no longer be utilized. As a result, we recorded an impairment charge of approximately $0.9 million, representing the net book value of these assets.

The activities comprising the above reductions in force were substantially completed by the end of fiscal 2010.

In addition to the above, we executed certain additional restructuring actions during the remainder of fiscal 2010. The ending restructuring accrual of $1.8 million as of December 25, 2010 reflects the unpaid amounts related to these actions as of that date.

2011 Restructuring Activities

In the first quarter of fiscal 2011, we implemented a restructuring plan (the Q1 2011 Restructuring Plan) which resulted in the reduction of our global workforce by 13 full-time employees across the organization. We recorded $1.1 million in charges for severance and related benefits during the quarter related to this plan. The activities comprising this reduction in workforce were substantially completed by the end of the second quarter of fiscal 2011.

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In the second quarter of fiscal 2011, we implemented a restructuring plan (the Q2 2011 Restructuring Plan) which resulted in the reduction of our global workforce by 13 full-time employees across the organization. We recorded $0.6 million in charges for severance and related benefits during the quarter related to this plan. The activities comprising this reduction in workforce are expected to be completed by the end of the third quarter of fiscal 2011.

Additionally, in the second quarter of fiscal 2011 we executed an amendment to the existing lease arrangement for our facility in Singapore which released us from our obligations related to the floor previously utilized for manufacturing in this facility. In addition, we have been granted a rent reduction for the remaining occupied facilities in this building. We previously had recorded certain asset retirement obligations and accruals related to our ceasing use of these facilities in connection with a prior restructuring action. As a result, we have recorded a benefit of $1.5 million to Restructuring charges, net in our Condensed Consolidated Statement of Operations for the three and six months ending June 25, 2011.

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 remaining cash payments associated with our various reductions in workforce are expected to be paid by the end of the third quarter of fiscal 2011. As such, the restructuring accrual is recorded as a current liability within Accrued liabilities in the Condensed Consolidated Balance Sheets.

The activities in the restructuring accrual for the six months ended June 25, 2011 were as follows (in thousands):

	Employee Severance and Benefits	Contract Termination and Other	Total
Accrual at December 25, 2010	$ 1,382	$ 451	$ 1,833
Q1 2011 Restructuring Plan charges	1,082		1,082
Cash payments	(1,633)	(53)	(1,686)
Other adjustments	(40)		(40)
Accrual at March 26, 2011	791	398	1,189
Q2 2011 Restructuring Plan charges	627		627
Singapore facility restructuring adjustments		(374)	(374)
Cash payments	(728)	(24)	(752)
Other adjustments	(345)		(345)
Accrual at June 25, 2011	$ 345	$	$ 345

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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 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 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. We apply the following fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: 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. treasury securities, agency securities and foreign currency derivatives (see Note 17 Derivative Financial Instruments of the Notes to Condensed Consolidated Financial Statements for discussion of fair value of foreign currency derivatives). The following tables represent the fair value hierarchy for our other financial assets (cash equivalents and marketable securities):

Fair value measured on a recurring basis as of June 25, 2011 (in thousands):

	Level 1	Level 2	Total
Assets:			
Cash equivalents			
Money market funds	$ 93,088	$	$ 93,088
U. S. Treasury		5,000	5,000
Agency securities		9,999	9,999
Commercial paper		5,000	5,000
Marketable securities			
U. S. Treasury		86,311	86,311
Agency securities		97,336	97,336
Commercial paper		10,495	10,495
Total	$ 93,088	$ 214,141	$ 307,229

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Fair value measured on a recurring basis as of December 25, 2010 (in thousands):

	Level 1	Level 2	Total
Assets:			
Cash equivalents			
Money market funds	$ 82,996	$	$ 82,996
Commercial paper		16,991	16,991
Marketable securities			
U. S. Treasury		105,865	105,865
Agency securities		108,173	108,173
Commercial paper		11,990	11,990
Total	$ 82,996	$ 243,019	$ 326,015

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.

We did not have any significant transfers of assets measured at fair value on a recurring basis to or from Level 1 and Level 2 during the periods ended June 25, 2011 and June 26, 2010.

Assets Measured at Fair Value on a Nonrecurring Basis

All of our long-lived assets measured at fair value on a nonrecurring basis were classified as Level 3 assets within the fair value hierarchy. We did not recognize any realized gains or losses on such assets during the three and six months ended June 25, 2011, respectively.

At the end of fiscal 2010, we had a building held for sale in Livermore, California, which was classified as Level 2 because the 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 us. During the quarter ended March 26, 2011 we placed this building back into service at its carrying value of $0.8 million, resulting in a reclassification of the balance from Prepaid expenses and other current assets to Property and equipment, net in the Condensed Consolidated Balance Sheet. See Note 10 Long-lived Assets of the Notes to the Condensed Consolidated Financial Statements for more information.

At the end of fiscal 2010, we also had certain manufacturing equipment held for sale in Livermore, California which was 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. As of both June 25, 2011 and December 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 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.

Other than the building previously held for sale that was put into service during the three months ended March 26, 2011, we did not have any assets that were transferred to or from Level 3 during the three and six months ended June 25, 2011 and June 26, 2010.

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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 in accumulated other comprehensive income until realized.

Marketable securities at June 25, 2011 consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury	$ 85,957	$ 354	$	$ 86,311
Agency Securities	97,188	151	(3)	97,336
Commercial Paper	10,496		(1)	10,495
	$ 193,641	$ 505	$ (4)	$ 194,142

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury	$ 105,513	$ 372	$ (20)	$ 105,865
Agency Securities	108,361	36	(224)	108,173
Commercial Paper	11,988	2		11,990
	$ 225,862	$ 410	$ (244)	$ 226,028

The marketable securities with gross unrealized losses have been in a loss position for less than 12 months as of June 25, 2011 and December 25, 2010, respectively.

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. We believe that the unrealized losses are not other-than-temporary. We do not have a foreseeable need to liquidate the portfolio and anticipate recovering the full cost of the securities either as market conditions improve, or as the securities mature.

Contractual maturities of marketable securities as of June 25, 2011 were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 93,420	$ 93,605
Due after one year to three years	100,221	100,537
	$ 193,641	$ 194,142

Realized gains and losses on sales and maturities of marketable securities were immaterial for the three and six months ended June 25, 2011 and June 26, 2010, respectively.

Note 7 Allowance for Doubtful Accounts

We recorded a reduction in provision for doubtful accounts of $0.6 million in the first quarter of fiscal 2011 primarily due to the receipt of payments totaling $0.3 million for accounts receivable previously reserved and the write-off of previously reserved accounts receivable in the amount of $0.3 million. We did not record any significant new allowances in the second quarter of fiscal 2011, nor did we release any previously reserved bad debts. A reconciliation of the changes in our allowance for doubtful accounts receivable consisted of the following activity for our quarterly fiscal periods ended June 25, 2011 and June 26, 2010, respectively (in thousands):

	Allowance for Doubtful Accounts Receivable Activity for fiscal quarters ended:	
	June 25, 2011	June 26, 2010
Beginning balance	$ 847	$ 9,260
Additions		
Deductions	(610)	(147)
First fiscal quarter ending balance	237	9,113
Additions	28	315
Deductions		(496)
Second fiscal quarter ending balance	$ 265	$ 8,932

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Note 8 Inventories

Inventories consisted of the following (in thousands):

	June 25, 2011	December 25, 2010
Raw materials	$ 6,139	$ 2,736
Work-in-progress	9,865	16,807
Finished goods	5,795	5,460
	$ 21,799	$ 25,003

We record provisions for excess and obsolete inventory based on forecasts of future demand. While management believes the estimates and assumptions underlying its current forecasts are reasonable, there is risk that additional charges may be necessary if current forecasts are greater than actual demand.

Note 9 Warranty

We offer warranties on certain products and record a liability for the estimated future costs associated with 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 Statement of Operations as a cost of revenues. A reconciliation of the changes in our warranty accrual liability (included in Accrued liabilities in the Condensed Consolidated Balance Sheets) consisted of the following activity for our quarterly fiscal periods ended June 25, 2011 and June 26, 2010, respectively (in thousands):

	Warranty Accrual Activity for fiscal quarters ended:	
	June 25, 2011	June 26, 2010
Beginning balance	$ 433	$ 732
Accrual (release) of warranties during the period	(180)	(396)
Settlements made during the period	(64)	(29)
First fiscal quarter ending balance	189	307
Accrual (release) of warranties during the period	322	254
Settlements made during the period	(193)	(154)
Second fiscal quarter ending balance	$ 318	$ 407

Note 10 Long-lived Assets

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

	June 25, 2011	December 25, 2010
Building	$ 790	$
Machinery and equipment	123,564	115,847
Computer equipment and software	35,511	35,493
Furniture and fixtures	6,063	6,180
Leasehold improvements	70,212	69,934
	236,140	227,454
Less: Accumulated depreciation, amortization and enterprise-wide impairment	(213,927)	(207,992)
	22,213	19,462
Construction-in-progress	12,865	17,849
	$ 35,078	$ 37,311

During the quarter ended March 26, 2011 we placed a building previously identified as held for sale back into service at its carrying value of $0.8 million. This amount represents the lesser of its carrying amount before the building was classified as held for sale, adjusted for any depreciation that would have been recognized had the building been continuously classified as held and used, or the fair value at the date of the subsequent decision not to sell. The building is being depreciated over its estimated remaining useful life of ten years.

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During the three and six months ended June 25, 2011 we wrote-off fully depreciated assets with an acquired cost of $0.2 million and $0.4 million, respectively. In addition, during the three months ended March 26, 2011 we recorded an impairment of $0.4 million related to the termination of aspects of an on-going project related to certain software development for internal use that had been recorded in construction-in-progress. This impairment charge is included in Impairment of long-lived assets in the Condensed Consolidated Statements of Operations for the six months ended June 25, 2011.

At June 25, 2011, the carrying amount of our intangible asset, which consists of purchased intellectual property, was $3.8 million, with $5.9 million as the gross amount and $2.1 million as the accumulated amortization. We recorded $0.3 million and $0.6 million amortization expense for our intangible asset during the three and six months ended June 25, 2011, respectively, all of which was charged to cost of revenues. The intangible asset had a remaining amortization period of 3.3 years at June 25, 2011. The intangible asset is included in Other assets in the Condensed Consolidated Balance Sheets.

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		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Net loss	$ (7,678)	$ (33,864)	$ (29,102)	$ (72,048)
Unrealized gain on investments, net	237	336	210	350
Cumulative translation adjustments	284	89	574	(29)
Comprehensive loss	$ (7,157)	$ (33,439)	$ (28,318)	$ (71,727)

Components of accumulated other comprehensive income was as follows (in thousands):

	June 25, 2011	December 25, 2010
Unrealized gain (loss) on marketable securities, net of tax of $428 at June 25, 2011 and $299 at December 25, 2010, respectively	$ 74	$ (136)
Cumulative translation adjustments	2,737	2,163
Accumulated other comprehensive income	$ 2,811	$ 2,027

Note 12 Stockholders Equity

Common Stock Repurchase Program

On October 20, 2010, our Board of Directors authorized a program to repurchase up to $50.0 million of outstanding common stock. Under the authorized stock repurchase program, we may repurchase shares from time to time on the open market; the pace of repurchase activity will depend on levels of cash generation, current stock price, and other factors. The stock repurchase program was announced on October 26, 2010 and expires on October 19, 2011. The program may be modified or discontinued at any time. During fiscal year 2010 we repurchased and retired 70,000 shares of common stock for $0.6 million under this repurchase authorization. During the first fiscal quarter of 2011 we repurchased and retired an additional 262,712 shares for $2.3 million, and during the second fiscal quarter of 2011 we repurchased and retired an additional 117,437 shares for $1.0 million.

Repurchased shares are retired upon the settlement of the related trade transactions. Our policy related to repurchases of our common stock is to charge the excess of cost over par value to additional paid-in capital. All repurchases were made in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

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Equity Incentive Plans

We have four equity incentive plans for which we have reserved shares for issuance upon the exercise of stock options: the 1996 Stock Option Plan, the Incentive Option Plan and the Management Incentive Option Plan (together, the Prior Plans), and the 2002 Equity Incentive Plan (the 2002 Plan), which became effective in April 2002. Upon the effectiveness of the 2002 Plan, we ceased granting any equity awards under the Prior Plans, although forfeited, repurchased, cancelled or terminated Prior Plan shares are transferred to the 2002 Plan.

Stock Options

Stock option activity under the Prior Plans and the 2002 Plan during the six months ended June 25, 2011 is set forth below:

	Options Outstanding		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years		Aggregate Intrinsic Value
Balances, December 25, 2010	5,318,387	$	14.53			
Options granted	202,250		8.94			
Options exercised	(12,515)		6.23			
Options cancelled:						
Forfeited	(70,275)		9.86			
Expired	(105,289)		29.18			
Balances, March 26, 2011	5,332,558		14.11			
Options granted	257,500		10.33			
Options exercised	(7,485)		6.50			
Options cancelled:						
Forfeited	(74,993)		9.34			
Expired	(274,166)		21.67			
Balances, June 25, 2011	5,233,414	$	13.61	4.66	$	1,390,870
Vested and expected to vest at June 25, 2011	4,742,994	$	14.00	4.52	$	1,307,436
Exercisable at June 25, 2011	1,779,537	$	21.01	2.20	$	741,670

The intrinsic value of option exercises during the three and six months ended June 25, 2011 was $17,000 and $60,000, respectively. Cash received from stock option exercises during the three and six months ended June 25, 2011 was $39,000 and $0.1 million, respectively. We did not realize any gross tax benefits in connection with these exercises.

Restricted Stock Units

Restricted stock unit activity under the 2002 Plan during the six months ended June 25, 2011 is set forth below:

	Units		Weighted Average Grant Date Fair Value
Non-vested restricted stock units at December 25, 2010	1,372,912	$	16.29
Awards granted	51,600		8.89
Awards released	(103,525)		17.92
Awards cancelled	(112,118)		17.08
Non-vested restricted stock units at March 26, 2011	1,208,869		15.77
Awards granted	585,655		10.28
Awards released	(313,741)		16.50
Awards cancelled	(54,654)		15.40
Non-vested restricted stock units at June 25, 2011	1,426,129	$	13.37

Note 13 Stock-Based Compensation

We account for all stock-based compensation to employees and directors, including grants of stock options, as stock-based compensation costs in the Condensed Consolidated Financial Statements based on the fair value measured as of the date of grant. These costs are recognized as an expense in the Condensed Consolidated Statements of Operations over the requisite service period and increase additional paid-in capital.

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The table below shows the stock-based compensation charges included in the Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Stock-based compensation expense included in:				
Cost of revenues	$ 758	$ 994	$ 1,603	$ 1,965
Research and development	951	1,963	2,212	3,356
Selling, general and administrative	644	937	2,507	3,831
Restructuring		176		176
Total stock-based compensation	2,353	4,070	6,322	9,328
Tax effect on stock-based compensation				
Total stock-based compensation, net of tax	$ 2,353	$ 4,070	$ 6,322	$ 9,328

Stock Options

During the three and six months ended June 25, 2011, we granted 257,500 and 459,750 stock options, respectively, under the 2002 Plan with a weighted average grant-date fair value of $4.34 and $4.06, respectively. During the three months ended June 26, 2010, we granted 420,570 stock options under the 2002 Plan with a weighted average grant-date fair value of $6.37 and no stock options under the 2002 Plan were granted during the quarter ended March 27, 2010. The following weighted-average assumptions were used in the estimated grant-date fair value calculations for stock options:

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Stock Options:				
Dividend yield	%	%	%	%
Expected volatility	50.54%	49.74%	50.30%	49.74%
Risk-free interest rate	1.65%	1.91%	1.67%	1.91%
Expected term (in years)	4.29	4.47	4.26	4.47

Employee Stock Purchase Plan

There were no shares issued under the Employee Stock Purchase Plan (ESPP) during the three months ended June 25, 2011 and June 26, 2010, respectively. During the six months ended June 25, 2011 and June 26, 2010, we issued 228,737 shares and 157,961 shares, respectively, under the ESPP. The following weighted-average assumptions were used in estimating the fair value of employee s purchase rights under the ESPP:

	Three Months Ended	Six months ended
	June 25,	