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FormFactor, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) We'll go to C.J. Muse from Lehman Brothers.

C.J. Muse – Lehman Brothers

Yes, good afternoon. Thank you for taking my question. I guess first question, could you identify 10% customers and what the percentages were?

Jean Vernet

We had in this quarter two customers about 10%. And you will see the detail of that in our 10-Q.

C.J. Muse – Lehman Brothers

Okay. And then just looking for some clarity on the 1Q results in terms of pro forma. You talked about I guess the \$750,000 pro forma expensed out on the gross margin side or COGS side, what were the pro forma SG&A and R&D?

Jean Vernet

Sorry, the \$750,000 we mentioned was the operating cash flow negative.

C.J. Muse – Lehman Brothers

No, I'm just doing the math on the 10.7% minus (inaudible) gross margin.

Jean Vernet

What was the question again, sorry?

C.J. Muse – Lehman Brothers

So, if you could help us understand pro forma was COGS and R&D and SG&A.

Jean Vernet

All right. On the gross margin, essentially what we have been seeing in the first quarter is primarily a soft revenue level versus our internal plan. So the COGS in itself is pretty much in line with what we expected. The fact that we have the revenue levels means that the under-absorption is higher and the fixed costs have a bigger impact. What we have been seeing within manufacturing cost

structure is that as the mix of the product was more towards the standard type of products in the quarter, essentially the margin was further impacted by that. For standard products, and knowing that we are increasing our market share in various key accounts, these sales are subject to most price pressure. So that impacted a little bit further the margin. In terms of our OpEx, essentially our OpEx, if you back out the \$5.2 million of bad debt, was \$31.4 million, which was roughly in line with what we expected. I mean, R&D is \$13 million of that amount. And you have to remember that in the SG&A we still have a sizable amount of ITC legal expense. It's about \$3 million for the quarter. And this should drop significantly – actually almost entirely in the second quarter.

C.J. Muse – Lehman Brothers

Okay. I mean, I apologize. For the GAAP results, you said R&D was \$14.11 million and now you just said \$13 million. So I guess was there a \$1.11 million charge related to the write-down? Is that coming out of R&D?

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