

*“... It seems that insurance companies can be impossible when substantial sums of money are at risk, particularly in the wafer fabrication industry. ... we realize that our recent settlement was largely based on your advice of claims presentation, documentation, substantiation and clear communication, of which, ultimately, the insurer realized it could not refuse. Based upon Micrel Inc.’s experience with this extremely complex and unique claim, we want to tell you that your performance was outstanding and exceeded our expectations.”*

**Robert J. Barker**  
Vice President of Corporate Business Development  
Micrel Semiconductor

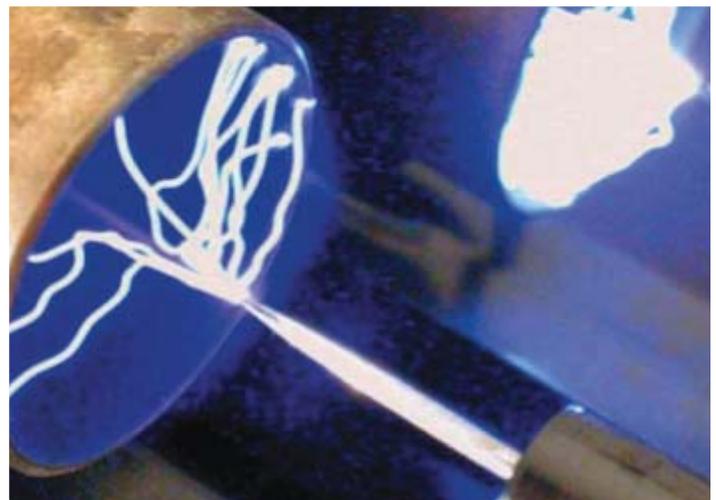
The testing division of Micrel Semiconductor Corporation in San Jose, California, learned, through assembly testing, that one of their ion implant machines in the fabrication division malfunctioned and was producing unusable wafers. The fabrication division continued to process the defective wafers for three full days of production before learning of the problem.

The casualty loss was further compounded by shutting down production for an additional 14 days to determine the cause of the malfunctioning, which caused a severe delay in meeting customers’ orders and in some cases causing the cancellation of some of them. Damages were estimated to be in the millions of dollars.

Inspection of the ion implanter failed to provide any insight as to the cause of the failure of proper implantation. Micrel and the insurer’s forensic experts were unable to replicate the defective implant sequence and no party was able to determine the cause of the defective implants. The type of damage was never experienced before by the manufacturer of the ion implanter, nor did other fabrication facilities contacted by Micrel or the insurer’s experts ever encounter this type of damage.

## Issues:

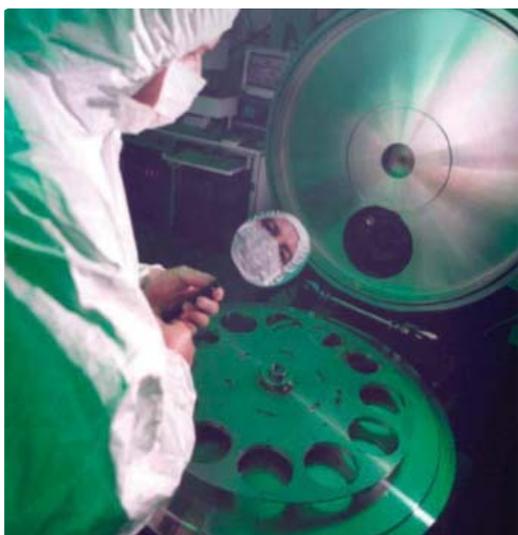
- How to overcome the insurance company’s position that the loss event was not caused by physical damage.
- Could the defective wafers be salvaged and sold as a lesser product?
- How to measure the value of the wafer losses at different stages of production.
- What was the proper measurement of inventory loss according to the policy of insurance?
- Would the 14 day total shutdown be covered for business loss of income?



## Equipment malfunction of a manufacturer causes heavy losses to its finished inventory

### Strategies for Resolution:

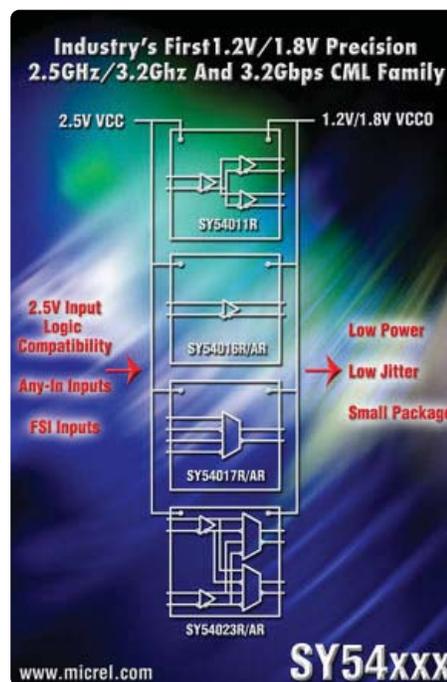
- Micrel retained Adjusters International who immediately assembled its team of adjusters, accountants and other experts to assist with the multiple areas of loss. The team included senior adjusters, accountants and equipment consultants experienced in fabrication manufacturing.
- Adjusters International team met quickly with the carrier and their consultants to outline a plan for going forward in resolving policy and quantification issues. They worked with outside consultants in conjunction with Micrel's staff to demonstrate by documentation the applicability of coverage for this loss. The policy of insurance was "all-risk" and Adjusters International queried the insurer for any indication that a policy exclusion might be asserted—and if so—which exclusion and evidence might be applicable in this instance. In addition, Adjusters International notified the carrier that Micrel was electing to make claim for the defective wafers on an "actual cash value" basis as opposed to a "replacement cost" basis. Micrel's position would be that the actual cash value and replacement value of in-process stock was the same.



The insurer retorted by taking the position that the actual cash value of in-process stock was zero until fully processed. Chris Glenister, CPA, Adjusters International's senior accountant, working alongside Micrel's accounting department, began the process of quantifying the wafer losses. This involved a detailed review of the "travelers" (a printout which documents each step of the wafer's production cycle).

The next step was to apply cost factors to each step of production. With more than 9,000 damaged wafers to analyze, the team brought in an IT specialist to create a proprietary database which would automate the arduous calculating process.

- Chris' team, after a thorough analysis of Micrel's historical financial data, prepared and submitted a business interruption claim based on the shutdown of 14 days. All of the loss components taken together were in the millions of dollars. The insurer ultimately settled the claim due to pressure brought by Adjusters International, their team, and Micrel's team all working in concert. The documentation and proof presented by Adjusters International on behalf of Micrel seemed to be the foundation of the insurer's capitulation and ultimate payment of the claim in full.



**MICREL**<sup>®</sup>  
Innovation Through Technology™