

# MYSTERIOUS EQUIPMENT MALFUNCTION LEADS TO HEAVY INVENTORY LOSS

## Introduction

The good news for Micrel Semiconductor Corporation in San Jose, California, was that the testing division caught the error: One of its ion implant machines in the fabrication division was producing defective wafers. The bad news, as it unfolded, was that production of the unusable wafers had been going on for three days.



## Case Description

The equipment malfunction had produced 9,000 defective wafers over the three-day period, but management ordered a shutdown for an additional 14 days to find the problem. Customer orders were impacted by the long delay, and some orders were cancelled.

Micrel and the insurance carrier's forensic experts were unable to determine the exact cause of the malfunction. With no real concrete cause, the starting point for this case was to define the problem and activate Micrel's insurance policy to cover the inventory and business loss.

## List of Issues

'All risk' or no risk at all? How to overcome the insurance company's position that the equipment malfunction was not caused by covered physical damage?

What was the proper value of the inventory loss according to the insurance policy?

Could the value of the wafer losses be measured at different stages of production?

Would the 14-day shutdown be covered by a business interruption claim?

CASE STUDY



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## Solutions Applied

Adjusters International put into action a team of adjusters, accountants, and other experts. As with many manufacturing clients represented by Adjusters International, Micrel's wafer claim required a high level of unique, technical expertise and precision. Adjusters International brought in equipment consultants experienced in fabrication manufacturing to help the facility define and calculate its multiple areas of loss.

Adjusters International addressed the issue of policy coverage, immediately meeting with Micrel's insurance carrier to draw up a plan to resolve the outstanding issues. The first step was to reach an agreement with the insurance carrier about any policy exclusions that would be applied.



Adjusters International announced that Micrel would be seeking a claim for the "actual cash value" (ACV) of the loss, as opposed to "replacement cost." The team then set out to quantify the value of the production process.

Adjusters International's accountant began quantifying the ACV of the wafer loss by reviewing the "travelers"—computer-generated status reports that document each stage of production—that ultimately detailed the damage. The next step was to apply cost factors to each step. The team brought in an IT specialist to write a software program that would automate the task.

## Outcome

After a thorough analysis of Micrel's historical financial data, Adjusters International was able to measure the cost factors of production and calculate the value of the loss. Adjusters International prepared and submitted a business interruption claim based on the full 14-day shutdown.

Adjusters International's precise documentation formed the foundation for a strong claim by Micrel for payment in full on a multimillion-dollar loss. Adjusters International maintained the necessary presence with the insurance carrier to get the loss paid.

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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, which ultimately, the insurer realized it could not refute.

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