

GREAT POINT PARTNERS LLC  
Form SC 13G  
August 03, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Schedule 13G**

**Under the Securities Exchange Act of 1934**

**(Amendment No. )\***

**Zogenix, Inc.**  
(Name of Issuer)

**Common Stock**  
(Title of Class of Securities)

**98978L105**  
(CUSIP Number)

**July 24, 2012**  
(Date of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- ☐ Rule 13d-1(b)
- ☒ Rule 13d-1(c)
- ☐ Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 ( " Act ") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

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**1. NAMES OF REPORTING PERSONS**

Great Point Partners, LLC

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (ENTITIES ONLY):

37-1475292

**2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP**

(a) ☐

(b) ☐

**3. SEC USE ONLY**

**4. CITIZENSHIP OR PLACE OF ORGANIZATION**

USA

**5. SOLE VOTING POWER**

NUMBER OF SHARES

0

BENEFICIALLY

**6. SHARED VOTING POWER**

5,750,000<sup>1</sup>

OWNED BY EACH

**7. SOLE DISPOSITIVE POWER**

REPORTING PERSON

0

WITH

**8. SHARED DISPOSITIVE POWER**

5,750,000<sup>1</sup>

**9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**

5,750,000<sup>1</sup>

**10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (See Instructions)**

☐

**11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)**

5.87%<sup>1, 2</sup>

**12. TYPE OF REPORTING PERSON (See Instructions)**

OO

<sup>1</sup> Does not include warrants to purchase 2,587,500 shares collectively owned by Biomedical Value Fund, LP ( BVF ), Biomedical Offshore Value Fund, Ltd. ( BOVF ), Biomedical Institutional Value Fund, LP ( BIVF ), Lyrical Multi-Manager Fund, LP ( Lyrical ), Lyrical Multi-Manager Offshore Fund, Ltd. ( Lyrical Offshore ), Class D Series of GEF-PS, LP ( GEF-PS ) and David J. Morrison ( Morrison ). The provisions of such warrants restrict the exercise of such warrants to the extent that, after giving effect to such exercise, the holder of the

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warrants and its affiliates and any other person or entities with which such holder would constitute a group would beneficially own in excess of 4.99% of the number of shares of Common Stock of the Issuer outstanding immediately after giving effect to such exercise (the Ownership Cap ).

<sup>2</sup> Based on a total of 97,872,792 shares outstanding, as reported in the Issuer's prospectus filed under Rule 424(b)(5) under the Securities Act of 1933 on July 24, 2012.

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**1. NAMES OF REPORTING PERSONS**

Dr. Jeffrey R. Jay, M.D.

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (ENTITIES ONLY):

**2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP**

(a) ☐

(b) ☐

**3. SEC USE ONLY**

**4. CITIZENSHIP OR PLACE OF ORGANIZATION**

USA

**5. SOLE VOTING POWER**

NUMBER OF SHARES

0

BENEFICIALLY

**6. SHARED VOTING POWER**

5,750,000<sup>1</sup>

OWNED BY EACH

**7. SOLE DISPOSITIVE POWER**

REPORTING PERSON

0

WITH

**8. SHARED DISPOSITIVE POWER**

5,750,000<sup>1</sup>

**9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**

5,750,000<sup>1</sup>

**10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (See Instructions)**

☐

**11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)**

5.87%<sup>1, 2</sup>

**12. TYPE OF REPORTING PERSON (See Instructions)**

IN

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**1. NAMES OF REPORTING PERSONS**

Mr. David Kroin

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (ENTITIES ONLY):

**2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP**

(a) ☐

(b) ☐

**3. SEC USE ONLY**

**4. CITIZENSHIP OR PLACE OF ORGANIZATION**

USA

**5. SOLE VOTING POWER**

NUMBER OF SHARES

0

BENEFICIALLY

**6. SHARED VOTING POWER**

5,750,000<sup>1</sup>

OWNED BY EACH

**7. SOLE DISPOSITIVE POWER**

REPORTING PERSON

0

WITH

**8. SHARED DISPOSITIVE POWER**

5,750,000<sup>1</sup>

**9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**

5,750,000<sup>1</sup>

**10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (See Instructions)**

☐

**11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)**

5.87%<sup>1,2</sup>

**12. TYPE OF REPORTING PERSON (See Instructions)**

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**Item 1.**

- (a) Name of Issuer  
Zogenix, Inc.
- (b) Address of Issuer's Principal Executive Offices  
12400 High Bluff Drive, Suite 650, San Diego, CA 92130

**Item 2.**

- (a) Name of Person Filing  
Great Point Partners, LLC  
Dr. Jeffrey R. Jay, M.D.  
Mr. David Kroin

The Reporting Persons have entered into a Joint Filing Agreement, dated August 3, 2012, a copy of which is filed with this Schedule 13G as Exhibit A, pursuant to which the Reporting Persons have agreed to file this statement jointly in accordance with the provisions of Rule 13d-1(k)(1) under the Act.

- (b) Address of Principal Business Office, or if none, Residence  
The address of the principal business office of each of the Reporting Persons is  
165 Mason Street, 3rd Floor  
Greenwich, CT 06830

- (c) Citizenship  
Great Point Partners, LLC is a limited liability company organized under the laws of the State of Delaware. Dr. Jeffrey R. Jay, M.D. is a citizen of the United States. Mr. David Kroin is a citizen of the United States.

- (d) Title of Class of Securities  
Common Stock

- (e) CUSIP Number  
98978L105

**Item 3. If this statement is filed pursuant to §240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:**

Not Applicable.

- (a) ☐ Broker or dealer registered under Section 15 of the Act (15 U.S.C. 78o)
- (b) ☐ Bank as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c).
- (c) ☐ Insurance company as defined in Section 3(a)(19) of the Act (15 U.S.C. 78c).
- (d) ☐ Investment Company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

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- (e) o An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E).
- (f) o An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F).
- (g) o A parent holding company or control person in accordance with §240.13d-1(b)(1)(ii)(G).
- (h) o A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813).
- (i) o A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3).
- (j) o Group, in accordance with §240.13d-1(b)(1)(ii)(J).

**Item 4. Ownership**

Biomedical Value Fund, L.P. ( BVF ) is the record owner of 1,935,000 shares of Common Stock (the BVF Shares ). Great Point Partners, LLC ( Great Point ) is the investment manager of BVF, and by virtue of such status may be deemed to be the beneficial owner of the BVF Shares. Each of Dr. Jeffrey R. Jay, M.D. ( Dr. Jay ), as senior managing member of Great Point, and Mr. David Kroin ( Mr. Kroin ), as special managing member of Great Point, has voting and investment power with respect to the BVF Shares, and therefore may be deemed to be the beneficial owner of the BVF Shares. In addition, BVF is the record owner of warrants to purchase 870,975 shares.

Biomedical Offshore Value Fund, Ltd. ( BOVF ) is the record owner of 1,224,500 shares of Common Stock (the BOVF Shares ). Great Point is the investment manager of BOVF, and by virtue of such status may be deemed to be the beneficial owner of the BOVF Shares. Each of Dr. Jay, as senior managing member of Great Point, and Mr. Kroin, as special managing member of Great Point, has voting and investment power with respect to the BOVF Shares, and therefore may be deemed to be the beneficial owner of the BOVF Shares. In addition, BOVF is the record owner of warrants to purchase 551,025 shares.

Biomedical Institutional Value Fund, L.P. ( BIVF ) is the record owner of 790,000 shares of Common Stock (the BIVF Shares ). Great Point is the investment manager of BIVF, and by virtue of such status may be deemed to be the beneficial owner of the BIVF Shares. Each of Dr. Jay, as senior managing member of Great Point, and Mr. Kroin, as special managing member of Great Point, has voting and investment power with respect to the BIVF Shares, and therefore may be deemed to be the beneficial owner of the BIVF Shares. In addition, BIVF is the record owner of warrants to purchase 355,500 shares.

Lyrical Multi-Manager Fund, LP ( Lyrical ) is the record owner of 350,000 shares of Common Stock (the Lyrical Shares ). Great Point is the investment manager of Lyrical, and by virtue of such status may be deemed to be the beneficial owner of the Lyrical Shares. Each of Dr. Jay, as senior managing member of Great Point, and Mr. Kroin, as special managing member of Great Point, has voting and investment power with respect to the Lyrical Shares, and therefore may be deemed to be the beneficial owner of the Lyrical Shares. In addition, Lyrical is the record owner of warrants to purchase 157,500 shares.

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Lyrical Multi-Manager Offshore Fund, Ltd. ( Lyrical Offshore ) is the record owner of 150,000 shares of Common Stock (the Lyrical Offshore Shares ). Great Point is the investment manager of Lyrical Offshore, and by virtue of such status may be deemed to be the beneficial owner of the Lyrical Offshore Shares. Each of Dr. Jay, as senior managing member of Great Point, and Mr. Kroin, as special managing member of Great Point, has voting and investment power with respect to the Lyrical Offshore Shares, and therefore may be deemed to be the beneficial owner of the Lyrical Offshore Shares. In addition, Lyrical Offshore is the record owner of warrants to purchase 67,500 shares.

Class D Series of GEF-PS, LP ( GEF-PS ) is the record owner of 1,250,000 shares of Common Stock (the GEF-PS Shares ). Great Point is the investment manager of GEF-PS, and by virtue of such status may be deemed to be the beneficial owner of the GEF-PS Shares. Each of Dr. Jay, as senior managing member of Great Point, and Mr. Kroin, as special managing member of Great Point, has voting and investment power with respect to the GEF-PS Shares, and therefore may be deemed to be the beneficial owner of the GEF-PS Shares. In addition, GEF-PS is the record owner of warrants to purchase 562,500 shares.

David J. Morrison ( Morrison ) is the record owner of 50,000 shares of Common Stock (the Morrison Shares ). Great Point is the investment manager with respect to the Morrison Shares, and by virtue of such status may be deemed to be the beneficial owner of the Morrison Shares. Each of Dr. Jay, as senior managing member of Great Point, and Mr. Kroin, as special managing member of Great Point, has voting and investment power with respect to the Morrison Shares, and therefore may be deemed to be the beneficial owner of the Morrison Shares. In addition, Morrison is the record owner of warrants to purchase 22,500 shares.

The provisions of the warrants described above restrict the exercise of such warrants to the extent that, after giving effect to such exercise, the holder of the warrants and its affiliates and any other person or entities with which such holder would constitute a group would beneficially own in excess of 4.99% of the number of shares of Common Stock of the Issuer outstanding immediately after giving effect to such exercise.

Notwithstanding the above, Great Point, Dr. Jay and Mr. Kroin disclaim beneficial ownership of the BVF Shares, the BOVF Shares, the BIVF Shares, the Lyrical Shares, the Lyrical Offshore Shares, the GEF-PS Shares, the Morrison Shares and the shares underlying the warrants described above, except to the extent of their respective pecuniary interests.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

1. **Great Point Partners, LLC**

(a) Amount beneficially owned: 5,750,000<sup>3</sup>

<sup>3</sup> Does not include warrants to purchase 2,587,500 shares collectively owned by Biomedical Value Fund, LP ( BVF ), Biomedical Offshore Value Fund, Ltd. ( BOVF ), Biomedical Institutional Value Fund, LP ( BIVF ), Lyrical Multi-Manager Fund, LP ( Lyrical ), Lyrical Multi-Manager Offshore Fund, Ltd. ( Lyrical Offshore ), Class D Series of GEF-PS, LP ( GEF-PS ) and David J. Morrison ( Morrison ). The provisions of such warrants restrict the exercise of such warrants to the extent that, after giving effect to such exercise, the holder of the warrants and its affiliates and any other person or entities with which such holder would constitute a group would beneficially own in excess of 4.99% of the number of shares of Common Stock of the Issuer outstanding immediately after giving effect to such exercise (the Ownership Cap ).



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- (b) Percent of class: 5.87%<sup>3,4</sup>
- (c) Number of shares as to which the person has:
  - (i) Sole power to vote or to direct the vote: - 0 -
  - (ii) Shared power to vote or to direct the vote: 5,750,000<sup>3</sup>
  - (iii) Sole power to dispose or to direct the disposition of: - 0 -.
  - (iv) Shared power to dispose or to direct the disposition of: 5,750,000<sup>3</sup>

**2. Dr. Jeffrey R. Jay, M.D.**

- (a) Amount beneficially owned: 5,750,000<sup>3</sup>
- (b) Percent of class: 5.87%<sup>3,4</sup>
- (c) Number of shares as to which the person has:
  - (i) Sole power to vote or to direct the vote: 0.
  - (ii) Shared power to vote or to direct the vote: 5,750,000<sup>3</sup>
  - (iii) Sole power to dispose or to direct the disposition of: 0.
  - (iv) Shared power to dispose or to direct the disposition of: 5,750,000<sup>3</sup>

**3. Mr. David Kroin**

- (a) Amount beneficially owned: 5,750,000<sup>3</sup>
- (b) Percent of class: 5.87%<sup>3,4</sup>
- (c) Number of shares as to which the person has:
  - (i) Sole power to vote or to direct the vote: 0.
  - (ii) Shared power to vote or to direct the vote: 5,750,000<sup>3</sup>
  - (iii) Sole power to dispose or to direct the disposition of: 0.
  - (iv) Shared power to dispose or to direct the disposition of: 5,750,000<sup>3</sup>

**Item 5. Ownership of Five Percent or Less of a Class**

If this statement is being filed to report the fact that as of the date hereof each of the Reporting Persons has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [ ].

**Item 6. Ownership of More than Five Percent on Behalf of Another Person:**

See Item 4.

<sup>4</sup> Based on a total of 97,872,792 shares outstanding, as reported in the Issuer's prospectus filed under Rule 424(b)(5) under the Securities Act of 1933 on July 24, 2012.

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**Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company**

Not Applicable.

**Item 8. Identification and Classification of Members of the Group**

Not Applicable.

**Item 9. Notice of Dissolution of Group**

Not Applicable.

**Item 10. Certification**

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as participant in any transaction having that purpose or effect.

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**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: August 3, 2012

GREAT POINT PARTNERS, LLC

By: /s/ Dr. Jeffrey R. Jay, M.D.

Dr. Jeffrey R. Jay, M.D.,  
as senior managing member

/s/ Dr. Jeffrey R. Jay, M.D.

DR. JEFFREY R. JAY, M.D.

/s/ Mr. David Kroin

MR. DAVID KROIN

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**AGREEMENT REGARDING THE JOINT FILING OF SCHEDULE 13G**

The undersigned hereby agree as follows:

(i) Each of them is individually eligible to use the Schedule 13G to which this Exhibit is attached, and such Schedule 13G is filed on behalf of each of them; and

(ii) Each of them is responsible for the timely filing of such Schedule 13G and any amendments thereto, and for the completeness and accuracy of the information concerning such person contained therein; but none of them is responsible for the completeness or accuracy of the information concerning the other persons making the filing, unless such person knows or has reason to believe that such information is inaccurate.

Date: Augsut 3, 2012

GREAT POINT PARTNERS, LLC

By: /s/ Dr. Jeffrey R. Jay, M.D.

Dr. Jeffrey R. Jay, M.D.,  
as senior managing member

/s/ Dr. Jeffrey R. Jay, M.D.

DR. JEFFREY R. JAY, M.D.

/s/ Mr. David Kroin

MR. DAVID KROIN

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8,163

20.2

Asia Pacific (1)

3,193

9.2

3,177

7.9

Europe

1,343

3.9

2,415

6.0

Total revenues

\$

34,806

100.0

%

\$

40,428

100.0

%

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(1) Asia-Pacific includes all countries in the region except Taiwan, Japan and South Korea, which are disclosed separately.

Geographic revenue information is based on the location to which we ship the customer product. For example, if a certain South Korean customer purchases through their North American subsidiary and requests the products to be shipped to an address in Asia-Pacific, this sale will be reflected in the revenues for Asia-Pacific rather than North America.

The increase in South Korea revenues for the three months ended March 31, 2012 compared to the same period in the prior year was primarily due to the industry ramp up of DDR3 and Low Power DDR2, increased market penetration of our SoC products to customers in this region, and the continued market adoption and ramp of our SmartMatrix and TouchMatrix products across both the DRAM and Flash markets. The significant decrease in Taiwan and North America was primarily driven by a decrease in DRAM shipments to that region. Europe's revenues decline were mainly in SoC, driven by unit volume. Decreased Japan revenues in the three month comparable period were the result of decreased SmartMatrix sales to the region partially offset by increase in SoC revenues driven by penetration of a new customer for our SoC products in Japan. Revenues in Asia Pacific were relatively flat for the comparable time periods.

The following customers accounted for more than 10% of our revenues for the periods indicated:

	Three Months Ended			
	March 31,	March 26,		
	2012	2011		
SK Hynix (1)	36.8	% 13.4	%	
Samsung (2)	15.3	% *		
Micron Technology (3)	*	16.4	%	
Powerchip Technology (4)	*	10.5	%	

Elpida (5)	*	12.4	%
Total	52.1	% 52.7	%

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(1) Includes SK Hynix and its consolidated subsidiary Hynix Semiconductor Co. Ltd.

(2) Includes Samsung Semiconductor, Inc. and its consolidated subsidiary Samsung Austin Semiconductor

(3) Includes Micron Technology, Inc. and its consolidated subsidiaries, including Micron Semiconductor Asia Pte.

Ltd., Micron Semiconductor Italia S.r.L., Micron Semiconductor Israel Ltd. and Micron Japan Ltd.

(4) Includes Powerchip Technology Corporation and its consolidated subsidiary PowerFlash Technology Corporation

(5) Includes Elpida Memory, Inc. and its consolidated subsidiary Rexchip Electronics Corporation

\*Less than 10% of revenues.

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The percentages above reflect customer constellations as of March 31, 2012. Prior period concentrations have been updated to reflect the current customer compositions.

## Gross Profit

	Three Months Ended			
	March 31,		March 26,	
	2012		2011	
	(In thousands, except percentages)			
Gross profit	\$ 4,156		\$ 4,069	
% of revenues	11.9	%	10.1	%

Gross margin fluctuates with revenue levels, product mix, selling prices, factory loading, and material costs. For the three months ended March 31, 2012, gross margin improved slightly compared to the same period in the prior year, primarily due to changes in product mix, as well as initiatives to reduce excess and obsolete inventory.

For the first quarter of fiscal 2012, the primary driver for the quarter over quarter improvement in gross profit was a decline in net inventory provision charges of \$0.9 million. This improvement is the result of current and on-going initiatives to improve materials planning, procurement and production processes and an improvement in the forecasted demand for our products that resulted in reductions in our excess inventory levels. Excess custom inventories are not uncommon for us because our advanced wafer probe cards are custom designs manufactured in low volumes and must be delivered on relatively short lead times. This requires us 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 our wafer probe cards. In the first quarter of fiscal 2012, the value of previously reserved materials that were used in manufacturing and shipped was \$0.5 million.

Gross margin included stock-based compensation of \$0.5 million and \$0.8 million for the three months ended March 31, 2012 and March 26, 2011, respectively, with the decrease being primarily due to declining stock prices, decreased headcount and a reduction in the number of awards granted, partially offset by expense related to current year grants.

In the future, our gross margins may be adversely impacted by lower levels of product revenues, even though we have taken significant steps to reduce our operating cost structure. Our gross margins may also be adversely affected if we are required to record additional inventory provision charges and inventory write-downs if estimated average selling prices of products held in finished goods and work in process inventories are below the manufacturing cost of those products.

## Research and Development

	Three Months Ended			
	March 31,		March 26,	
	2012		2011	
	(In thousands, except percentages)			
Research and development	\$ 10,847		\$ 11,560	
% of revenues	31.2	%	28.6	%

Research and development expenses for the three months ended March 31, 2012 decreased \$0.7 million, or 6%, compared to the same period in the prior year primarily due to the decrease in certain new technology product development related costs and the decrease in other costs as a result of our cost reduction efforts. As a percent of



revenues, research and development expenses increased in the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011 due to lower revenues.

In the three months ended March 31, 2012, costs related to our research and development activities decreased from fiscal 2011 due to reduced payroll and related costs of \$0.4 million, driven primarily by reduced headcount, and reduced materials and related costs of \$0.1 million. Stock-based compensation included within research and development expenses was \$1.0 million for the three months ended March 31, 2012 compared to \$1.3 million for the same period of fiscal 2011, with the decrease being primarily due to declining stock prices and a reduction in the number of awards granted, partially offset by expense related to current year grants.

We are continuing our strategic investments in research and development, including investments in the development of our next generation architecture and products for testing DRAM devices, new vertical technology directed to testing SoC devices, advanced MicroSpring interconnect technology, ATRE wafer test technology and new process technologies. We

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remain committed to product development in new and emerging wafer test technologies.

## Selling, General and Administrative

	Three Months Ended	
	March 31, 2012	March 26, 2011
	(In thousands, except percentages)	
Selling, general and administrative	\$ 11,148	\$ 12,387
% of revenues	32.0	% 30.6

Selling, general and administrative expenses decreased \$1.2 million, or 10%, for the three months ended March 31, 2012 compared to the three months ended March 26, 2011 primarily due to a decrease in personnel related costs and other discretionary spending. As a percent of revenues, selling, general and administrative expenses increased in the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011, primarily due to lower revenues.

For the first quarter of fiscal 2012, salary and payroll related costs, for selling, general and administrative functions, including incentive bonuses, decreased by \$0.3 million from the same period in fiscal 2011 due to reduced headcount. Our cost reduction efforts, as well as reduction in on-going legal activities, resulted in a reduction in legal and outside service fees of \$0.5 million during the first quarter of fiscal 2012 versus the same period of fiscal 2011. Stock-based compensation expenses included within selling, general and administrative expense were \$1.5 million the three months ended March 31, 2012 compared to \$1.9 million for the same period in the prior year. The decrease in stock-based compensation was primarily due to declining stock prices and a reduction in the number of awards granted, partially offset by expense related to current year grants.

## Restructuring Charges, net

	Three Months Ended	
	March 31, 2012	March 26, 2011
	(In thousands, except percentages)	
Restructuring charges, net	\$ (33 )	\$ 1,038
% of revenues	(0.1 )%	2.6 %

For the three months ended March 31, 2012, restructuring charges decreased \$1.1 million compared to the three months ended March 26, 2011. There were no new restructuring plans undertaken in the first quarter of fiscal 2012. The restructuring plan impacting the first quarter of fiscal 2011 is discussed below.

## 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. As a result of the Q1 2011 Restructuring Plan, we have realized, and expect to continue to realize, quarterly savings, excluding stock-based compensation expenses, of approximately \$0.6 million in subsequent quarters.

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 2012.

## Impairment of Long-lived Assets

	Three Months Ended			
	March 31, 2012		March 26, 2011	
	(In thousands, except percentages)			
Impairment of long-lived assets	\$	168	\$	351
% of revenues	0.5	%	0.9	%

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Impairment charges decreased \$0.2 million from the three months ended March 31, 2012 compared to the three months ended March 26, 2011. We recorded impairment charges of \$0.2 million in the first quarter of fiscal 2012 related to certain assets which were previously held for sale that were determined to no longer be saleable and would be used for internal purposes. In the first quarter of fiscal 2011, we recorded total impairments of \$0.4 million related to the termination of certain on-going projects, including certain software development for internal use that had been recorded in construction-in-progress.

Management believes it is reasonably possible that additional impairment charges that would reduce further the carrying amounts of our property, plant and equipment and intangible assets may arise in fiscal 2012 if we are unable to achieve operating results anticipated by our forecasted financial plan.

## Interest Income, Net and Other Income (Expense), Net

	Three Months Ended			
	March 31, 2012		March 26, 2011	
	(In thousands, except percentages)			
Interest income, net	\$ 212		\$ 424	
% of revenue	0.6	%	1.0	%
Other income (expense), net	\$ 410		\$ (374	)
% of revenues	1.2	%	(0.9	)%

Interest income is primarily earned on our cash, cash equivalents and marketable securities. The decrease in interest income for the three months ended March 31, 2012 as compared to the three months ended March 26, 2011 was primarily the result of lower average balances and declining yields. Cash, cash equivalents, restricted cash and marketable securities were \$280.6 million at March 31, 2012 compared to \$297.0 million at December 31, 2011. The weighted-average yield on our cash, cash equivalents and marketable securities for the first quarter of fiscal 2012 was 0.32% compared to 0.53% for the first quarter of fiscal 2011.

Other income (expense), net is comprised primarily of foreign currency impact and various other gains and losses. The change in other income (expense), net for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 was due to foreign currency gains related to Japanese Yen as well as payments received from an intellectual property settlement during the first quarter of fiscal 2012 as compared to foreign currency losses primarily related to Korean Won and Japanese Yen in the first quarter of fiscal 2011.

## Provision For Income Taxes

	Three Months Ended	
	March 31, 2012	March 26, 2011
	(In thousands, except percentages)	
Provision for income taxes	\$ 102	\$ 207
Effective tax rate	(0.6           )%	(1.0           )%

We recorded an income tax provision of \$0.1 million for the three months ended March 31, 2012, and an income tax provision of \$0.2 million for the three months ended March 26, 2011, respectively. The income tax provision recorded for the three months ended March 31, 2012 and March 26, 2011 primarily relates to taxes on our non-U.S. operations.

We recognize interest charges and penalties related to uncertain tax positions as part of the income tax provision. For the three months ended March 31, 2012 and March 26, 2011 we recognized interest charges and penalties of \$6,000 and \$7,000, respectively. We have accrued total interest and penalties related to unrecognized tax benefits of \$0.4

million as of both March 31, 2012 and March 26, 2011.

We anticipate that we will continue to record a valuation allowance against our U.S. deferred tax assets. We expect our future tax provisions, during the time such valuation allowances are recorded, will consist primarily of the tax provision of our profitable non-U.S. jurisdictions.

Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss by jurisdiction, changes to the valuation allowance, changes to U.S. Federal, state or foreign tax laws, future expansion into areas with varying

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country, state and local income tax rates, deductibility of certain costs and expenses by jurisdiction.

## Liquidity and Capital Resources

**Capital Resources:** Our working capital was \$296.4 million at March 31, 2012 and \$308.4 million at December 31, 2011. The decrease in working capital in the three months ended March 31, 2012 was primarily due to our net loss during the three months ended March 31, 2012, offset in part by an increase in our accounts receivable due to increased sales and the timing of such sales.

Cash and cash equivalents consist of deposits held at banks, money market funds, U.S. government securities and commercial papers that at the time of purchase had maturities of 90 days or less. Marketable securities consist of U.S. government and agency securities and commercial papers. We typically invest in highly-rated securities with low probabilities of default. Our 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.

Our cash, cash equivalents and marketable securities totaled approximately \$280.3 million at March 31, 2012 as compared to \$296.7 million at December 31, 2011. Cash, cash equivalents and marketable securities included \$19.2 million held by our foreign subsidiaries as of March 31, 2012. The decrease in our cash, cash equivalents and marketable securities balances was primarily due to the use of cash for operating activities in the first quarter of fiscal 2012. We believe that we will be able to satisfy our working capital requirements for the next twelve months with the liquidity provided by our existing cash, cash equivalents and marketable securities. If we are unsuccessful in improving our operating efficiency, reducing our cash outlays or increasing our available cash through financing, our cash, cash equivalents and marketable securities will further decline in fiscal 2012.

We utilize a variety of tax planning and financing strategies in an effort to manage our worldwide cash and deploy funds to locations where they are needed. As part of these strategies, we indefinitely reinvest a significant portion of our foreign earnings and our current plans do not demonstrate a need to repatriate these earnings. Should we require additional capital in the United States, we may elect to repatriate indefinitely reinvested foreign funds or raise capital in the United States through debt. If we were to repatriate indefinitely reinvested foreign funds, we would be required to accrue and pay additional United States taxes less applicable foreign tax credits.

**Days Sales Outstanding:** Days sales outstanding from receivables, or DSO, were 40 days at March 31, 2012 compared with 42 days at December 31, 2011. Our DSO calculation is calculated using the countback method and is based on gross accounts receivable (including accounts receivable for amounts in deferred revenue). The decrease in DSO is primarily due to our collection efforts as well as shortened payment terms for certain customers.

	Three Months Ended	
	March 31, 2012	March 26, 2011
	(In thousands)	
Net cash used in operating activities	\$(14,960 )	\$(12,294 )
Net cash provided by investing activities	10,883	7,290
Net cash provided by (used in) financing activities	1,182	(434 )

**Cash flows from operating activities:** Net cash used in operating activities for the three months ended March 31, 2012 was primarily attributable to our net loss of \$17.5 million offset in part by \$8.1 million of non-cash charges consisting primarily of \$3.0 million of stock-based compensation, \$2.8 million of depreciation and amortization and \$1.4 million of provision for excess and obsolete inventories. The net change in operating assets and liabilities for the three months ended March 31, 2012 was a use of cash of \$5.6 million comprising an increase in our accounts receivable of \$8.7 million due to an increase in sales as well as the timing of transactions closer to our quarter end and an increase in inventory of \$3.4 million to support higher forecasted demand in future quarters, offset in part by an increase of \$5.3 million in accounts payable driven by the timing of invoice receipt and payments to vendors.

Net cash used in operating activities for the three months ended March 26, 2011 was primarily attributable to our net loss of \$21.4 million offset in part by \$9.0 million of non-cash charges consisting primarily of \$2.9 million of depreciation and amortization, \$4.0 million of stock-based compensation and \$2.3 million of provision for excess and obsolete inventories. The net change in operating assets and liabilities for the three months ended March 26, 2011 provided cash of \$0.1 million consisting primarily of the decrease in accounts receivable of \$5.3 million due to strong cash collections in the first quarter of

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fiscal 2011 as well as a reduction in prepaid expenses and other current assets due to the collection of certain amounts received in relation to the liquidation of Electroglas as part of the finalization of its bankruptcy proceedings. These sources of cash were offset by decreases in accrued liabilities, primarily those related to payroll and bonus, as well as income taxes paid in various foreign tax jurisdictions.

Cash flows from investing activities: Net cash provided by investing activities for the three months ended March 31, 2012 was primarily related to \$60.5 million proceeds from maturities of marketable securities offset by purchases of marketable securities totaling \$47.8 million and \$1.8 million cash used in the acquisition of property and equipment. We carefully monitor our investments to minimize risks and have not experienced other than temporary investment losses. Except for experiencing declining yields, our investment portfolio has not been negatively impacted by the economic turmoil in the credit markets in the recent past.

Net cash provided by investing activities for the three months ended March 26, 2011 was primarily related to \$60.7 million proceeds from maturities and sales of marketable securities partially offset by purchases of marketable securities totaling \$51.9 million and \$1.5 million cash used in the acquisition of property and equipment for new product technology.

Cash flows from financing activities: Net cash used in financing activities for the three months ended March 31, 2012 included \$1.3 million in proceeds received from purchases under our 2002 Employee Stock Purchase Plan, or ESPP, offset by stock withheld in lieu of payment of employee taxes related to the release of restricted stock units.

Net cash used in financing activities for the three months ended March 26, 2011 included \$2.0 million used for the repurchase and retirement of common stock in connection with our stock repurchase program partially offset by \$1.7 million in proceeds received from purchases under our ESPP, offset by stock withheld in lieu of payment of employee taxes related to the release of restricted stock units.

Our cash, cash equivalents and marketable securities declined in the first quarter of fiscal 2012. We continue to focus on improving our operating efficiency to achieve break even operating cash flow. Our actions have included operational expense reduction initiatives, re-timing or eliminating certain capital spending and research and development projects and re-negotiating longer payment terms with our vendors. We believe that we will be able to satisfy our cash requirements for the next twelve months with the liquidity provided by our existing cash, cash equivalents and marketable securities. To the extent necessary, we may also consider establishing manufacturing and technology partnerships, or to seek short and long-term debt obligations, or to obtain new financing facilities which may not be available on terms favorable to us or at all. Our future capital requirements may vary materially from those now planned. However, if we are unsuccessful in improving our operating efficiency, executing our cost reduction plan, reducing our cash outlays or increasing our available cash through financing, our cash, cash equivalents and marketable securities will further decline in the remaining fiscal quarters of 2012.

### Off-Balance Sheet Arrangements

Historically, we have not participated in transactions that have generated relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of March 31, 2012, we were not involved in any such off-balance sheet arrangements.

### Recent Accounting Pronouncements

For a discussion on the impact of recently issued accounting pronouncements, please refer to Note 2 — Recent Accounting Pronouncements and Other Reporting Considerations of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

### Critical Accounting Policies and Estimates



Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. Our critical accounting policies have not materially changed during the quarter ended March 31, 2012.

Furthermore, the preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Our management believes that we consistently apply these judgments and estimates and the consolidated financial statements and accompanying notes fairly

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represent all periods presented. However, any differences between these judgments and estimates and actual results could have a material impact on our consolidated statements of income and financial position.

Critical accounting estimates, as defined by the Securities and Exchange Commission, are those that are most important to the portrayal of our consolidated financial condition and results of operations and require our management's most difficult and subjective judgments and estimates of matters that are inherently uncertain. Our critical accounting estimates include those regarding (1) revenue recognition and the fair value of revenue elements, (2) fair value of marketable securities, (3) accruals for liabilities, including restructuring charges, (4) warranty accruals, (5) valuation of inventories, including obsolete and slow moving inventory, (6) allowance for doubtful accounts, (7) valuation of our long-lived assets as well as the assessment of recoverability of such long-lived assets, (8) provision for income taxes, tax liabilities and valuation allowance for deferred tax assets, and (9) valuation and recognition of stock-based compensation. For a discussion of our critical accounting estimates, see Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2011.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Item 7A: "Quantitative and Qualitative Disclosures about Market Risk" contained in Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Our exposure to market risk has not changed materially since December 31, 2011.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Limitations on the Effectiveness of Controls

Control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems' objectives are being met. Further, the design of any control systems must reflect the fact that there are resource constraints, and the benefits of all controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or

mistake. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

#### CEO and CFO Certifications

We have attached as exhibits to this Quarterly Report on Form 10-Q the certifications of our Chief Executive Officer and Chief Financial Officer, which are required in accordance with the Exchange Act. We recommend that this Item 4 be read in conjunction with the certifications for a more complete understanding of the subject matter presented.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information relating to “Legal Matters” set forth under Note 16 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

The following risk factor is updated from that discussed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Periodic global economic and semiconductor industry downturns could continue to negatively affect our business, results of operations, and financial condition.

The recent and historical global economic and semiconductor industry downturns negatively affected and could continue to negatively affect our business, results of operations and financial condition. We may experience continued declines in demand for our probe cards resulting from our customers continuing to conserve cash by cutting production, postponing the implementation of tooling cycles and delaying the ramp of new technology nodes in response to slow demand for consumer and other products incorporating devices tested with our wafer probe cards. We may experience continued pricing pressure on certain of our products, which may reduce our gross margins. A protracted downturn could cause customers to file for bankruptcy protection. This occurred during the first quarter of 2012 with our customer Elpida and in 2009 with our customers Spansion and Qimonda. Such bankruptcies may result in our loss of revenue. In the past environment, customers were seeking extended payment terms or delaying payment for our products past their original due dates, which could impact their payment histories resulting in our deferral of revenue and which could increase our potential bad debt exposure. In fiscal 2009, we recorded a \$5.0 million pre-tax expense to increase our allowance for doubtful accounts as a result of the heightened non-payment risk of accounts receivable primarily related to three customers.

We may also experience the insolvency of key suppliers, leading to delays in the development and shipment of our products, increased expense and loss of revenue. In addition, we may experience increased impairment charges due to declines in the fair values of marketable debt securities, or charges based upon underutilization of our factory.

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2011. If any of the identified risks actually occur, our business, financial condition and results of operations could suffer. The trading price of our common stock could decline and you may lose all or part of your investment in our common stock. The risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2011 and this Quarterly Report on Form 10-Q are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchase of Common Stock

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 had a scheduled expiration date of October 19, 2011. The program may be modified or discontinued at any time.

On October 12, 2011, our Board of Directors authorized the extension of this repurchase program through October 19, 2012. Under the existing program, we may repurchase up to \$40.5 million of outstanding common stock during the program period. The terms and conditions of the extended repurchase program remain the same as those in the original program approved in fiscal 2010.

During fiscal years 2010 and 2011, we repurchased and retired 70,000 and 2,332,740 shares of common stock for \$0.6 million and \$16.4 million, respectively, under this repurchase authorization. During the first quarter of fiscal 2012 we did not repurchase any shares under the program.

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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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## Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form      Date      Number	Filed Herewith
31.01	Certification of Chief Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		X
31.02	Certification of Chief Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		X
32.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		*
101.INS	XBRL Instance Document		X
101.SCH	XBRL Taxonomy Extension Schema Document		X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document		X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document		X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document		X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document		X

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This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FormFactor, Inc.

Date: May 1, 2012 By: /s/ Michael M. Ludwig

Michael M. Ludwig  
Chief Financial Officer  
(Duly Authorized Officer, Principal Financial  
Officer, and Principal Accounting Officer)



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