

QUICKLOGIC CORPORATION

Form 10-Q

May 04, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the Quarterly Period Ended April 1, 2012
OR

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: 000-22671

QUICKLOGIC CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)
1277 ORLEANS DRIVE SUNNYVALE, CA 94089
(Address of principal executive offices, including Zip Code)
(408) 990-4000
(Registrant's telephone number, including area code)

77-0188504
(I.R.S. Employer
Identification No.)

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 requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has 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 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 No

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.

Large accelerated filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company	<input type="checkbox"/>

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act). Yes No

As of May 1, 2012, the registrant had outstanding 38,697,218 shares of common stock, par value \$0.001.

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PART I. Financial Information

Item 1. Financial Statements

QUICKLOGIC CORPORATION
 CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except per share amounts)

	Three Months Ended	
	April 1, 2012	April 3, 2011
Revenue	4,130	5,547
Cost of revenue	2,371	1,939
Gross profit	1,759	3,608
Operating expenses:		
Research and development	2,802	1,803
Selling, general and administrative	2,697	2,607
Income (loss) from operations	(3,740)	(802)
Interest expense	(13)	(8)
Interest income and other, net	(13)	(4)
Income (loss) before income taxes	(3,766)	(814)
Provision for (benefit from) income taxes	(45)	64
Net income (loss)	\$(3,721)	\$(878)
Net Income (loss) per share:		
Basic	(0.10)	(0.02)
Diluted	(0.10)	(0.02)
Weighted average shares:		
Basic	38,495	36,495
Diluted	38,495	36,495

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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QUICKLOGIC CORPORATION
 CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (in thousands)

	Three Months Ended	
	April 1, 2012	April 3, 2011
Net income (loss)	\$ (3,721	) \$ (878
Other comprehensive gain (loss), net of tax:		
Unrealized gain (loss) on available-for-sale investments	98	(39
Total comprehensive income (loss)	\$ (3,623	) \$ (917

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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QUICKLOGIC CORPORATION
 CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS
 (in thousands, except par value amount)

	April 1, 2012	January 1, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$17,223	\$20,203
Short-term investment in TowerJazz Semiconductor Ltd.	567	406
Accounts receivable, net of allowances for doubtful accounts of \$20 and \$10, respectively	1,660	1,585
Inventories	3,117	3,764
Other current assets	1,049	613
Total current assets	23,616	26,571
Property and equipment, net	2,812	2,181
Other assets	231	211
TOTAL ASSETS	\$26,659	\$28,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	\$2,411	\$2,464
Accrued liabilities	1,417	1,118
Deferred royalty revenue	—	8
Current portion of debt and capital lease obligations	411	141
Total current liabilities	4,239	3,731
Long-term liabilities:		
Capital lease obligations, less current portion	506	146
Other long-term liabilities	139	148
Total liabilities	4,884	4,025
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 100,000 shares authorized; 38,662 and 38,636 shares issued and outstanding, respectively	39	39
Additional paid-in capital	190,485	190,025
Accumulated other comprehensive income	211	113
Accumulated deficit	(168,960	) (165,239
Total stockholders' equity	21,775	24,938
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$26,659	\$28,963

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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QUICKLOGIC CORPORATION
 CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)

	Three Months Ended	
	April 1, 2012	April 3, 2011
Cash flows from operating activities:		
Net income (loss)	\$ (3,721)	\$ (878)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	290	335
Stock-based compensation	384	443
Write-down of inventories	329	118
Tax effect on other comprehensive income	(63)	—
Bad Debt	10	—
Changes in operating assets and liabilities:		
Accounts receivable	(85)	453
Inventories	318	(736)
Other assets	(195)	(22)
Trade payables	(420)	(14)
Accrued liabilities	336	(212)
Deferred royalty revenue	(8)	125
Other long-term liabilities	(9)	5
Net cash provided by (used for) operating activities	(2,834)	(383)
Cash flows from investing activities:		
Capital expenditures for property and equipment	(69)	(310)
Net cash provided by (used for) investing activities	(69)	(310)
Cash flows from financing activities:		
Payment of debt and capital lease obligations	(116)	(165)
Proceeds from issuance of common stock	39	1,400
Net cash provided by (used for) financing activities	(77)	1,235
Net increase (decrease) in cash and cash equivalents	(2,980)	542
Cash and cash equivalents at beginning of period	20,203	21,956
Cash and cash equivalents at end of period	\$ 17,223	\$ 22,498
Supplemental schedule of non-cash investing and financing activities :		
Capital lease obligation to finance capital expenditures and related maintenance	\$ 917	\$ 243
Purchase of fixed assets included in accounts payable	\$ 765	\$ 67

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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QUICKLOGIC CORPORATION

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — The Company and Basis of Presentation

QuickLogic Corporation, referenced herein as QuickLogic or the Company, was founded in 1988 and reincorporated in Delaware in 1999. The Company develops and markets low power programmable solutions that enable customers to add differentiated features and capabilities to their mobile, consumer and industrial products. The Company is a fabless semiconductor company that designs, markets and supports Customer Specific Standard Products, or CSSPs, Field Programmable Gate Arrays, or FPGAs, application solutions, associated design software and programming hardware.

The accompanying interim condensed consolidated financial statements are unaudited. In the opinion of management, these statements have been prepared in accordance with generally accepted accounting principles, or GAAP, and include all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of results for the interim periods presented. The Company recommends that these consolidated financial statements be read in conjunction with the Company's Form 10-K for the year ended January 1, 2012. Operating results for the three months ended April 1, 2012 are not necessarily indicative of the results that may be expected for the full year.

QuickLogic's fiscal year ends on the Sunday closest to December 31. QuickLogic's first fiscal quarter for 2012 and 2011 ended Sunday, April 1, 2012 and April 3, 2011, respectively.

Liquidity

We have financed our operations and capital investments through sales of common stock, private equity investments, capital and operating leases, bank lines of credit and cash flows from operations. As of April 1, 2012, our principal sources of liquidity consisted of our cash and cash equivalents of \$17.2 million, \$6.0 million in available credit under our revolving line of credit with Silicon Valley Bank, which expires June 28, 2012, and our investment in TowerJazz Semiconductor Ltd., or TowerJazz, with a fair value of approximately \$567,000.

The Company anticipates that its existing cash resources will fund operations, finance purchases of capital equipment and provide adequate working capital for the next twelve months. The Company's liquidity is affected by many factors including, among others: the level of revenue and gross profit as a result of the cyclical nature of the semiconductor industry; the conversion of design opportunities into revenue; market acceptance of existing and new products including CSSPs based on our ArcticLink™ and PolarPro® resolution platforms; fluctuations in revenue as a result of product end-of-life; fluctuations in revenue as a result of the stage in the product life cycle of our customers' products; costs of securing access to and availability of adequate manufacturing capacity; levels of inventories; wafer purchase commitments; customer credit terms; the amount and timing of research and development expenditures; the timing of new product introductions; production volumes; product quality; sales and marketing efforts; the value and liquidity of our investment portfolio; changes in operating assets and liabilities; the ability to obtain or renew debt financing and to remain in compliance with the terms of existing credit facilities; the ability to raise funds from the sale of shares of TowerJazz and equity in the Company; the issuance and exercise of stock options and participation in the Company's employee stock purchase plan; and other factors related to the uncertainties of the industry and global economics. Accordingly, there can be no assurance that events in the future will not require the Company to seek additional capital or, if so required, that such capital will be available on terms acceptable to the Company.

Principles of Consolidation

The consolidated financial statements include the accounts of QuickLogic Corporation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated. The functional currency of the Company and its subsidiaries is the United States dollar.

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NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Foreign Currency

The functional currency of the Company's non-U.S. operations is the U.S. dollar. Accordingly, all monetary assets and liabilities of these foreign operations are translated into U.S. dollars at current period-end exchange rates and non-monetary assets and related elements of expense are translated using historical exchange rates. Income and expense elements are translated to U.S. dollars using average exchange rates in effect during the period. Gains and losses from the foreign currency transactions of these subsidiaries are recorded as interest income and other, net in the statement of operations.

Uses of Estimates

The preparation of these consolidated financial statements in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates, particularly in relation to revenue recognition, the allowance for doubtful accounts, sales returns, valuation of investments, valuation of long-lived assets, valuation of inventories including identification of excess quantities, market value and obsolescence, measurement of stock-based compensation awards, accounting for income taxes and estimating accrued liabilities.

Concentration of Risk

The Company's accounts receivable are denominated in U.S. dollars and are derived primarily from sales to customers located in North America, Asia Pacific, and Europe. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. See Note 11 for information regarding concentrations associated with accounts receivable. The Company's investment in TowerJazz is subject to equity risk. See Note 4 for the information regarding the Company's investment in TowerJazz Semiconductor, Ltd.

Note 2 — Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies for the first quarter of 2012 from its disclosure in the Annual Report on Form 10-K for the year ended January 1, 2012. For a discussion of the significant accounting policies, please see the Annual Report on Form 10-K for the fiscal year ended January 1, 2012, filed with the Securities Exchange Commission, or SEC, on March 9, 2012.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board, or FASB, issued guidance to amend certain measurement and disclosure requirements related to fair value measurements to improve consistency with international reporting standards. This guidance is effective prospectively for interim and annual reporting periods beginning after December 15, 2011, with early adoption by public entities prohibited. The adoption of this guidance in the first quarter of 2012 did not have any impact on the Company's consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. The adoption of this

guidance in the fourth quarter of 2011 did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210)-Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. ASU 2011-11 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2013. The Company currently believes there will be no significant impact on its financial statements.

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NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Note 3 — Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share was computed using the weighted average number of common shares outstanding during the period plus potentially dilutive common shares outstanding during the period under the treasury stock method. In computing diluted net income (loss) per share, the weighted average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options and warrants.

For the first quarter of 2012 and of 2011, 7.7 million and 7.8 million, respectively, of common shares associated with equity awards outstanding and the estimated number of shares to be purchased under the current offering period of the 2009 Employee Stock Purchase Plan were not included in the calculation of diluted net income (loss) per share, as they were considered antidilutive due to the net loss the Company experienced during these periods.

Note 4 — Investment in TowerJazz Semiconductor Ltd.

As of April 1, 2012, the Company held 644,543 available-for-sale TowerJazz ordinary shares with a net unrealized gain of \$211,000 recorded in AOCI on the balance sheet which includes a tax benefit and the difference between the cost of \$0.13 per share and carrying value of \$0.88 per share, their fair value on the last trading day of the reporting period. The fair value of TowerJazz marketable securities as of April 1, 2012 was determined based on “Level 1” inputs as described in Note 7. In the first quarter of 2012, the Company recorded \$63,000 of tax benefit related to accumulated other comprehensive income, or AOCI, attributable to unrealized gains on investment in TowerJazz.

Note 5 — Balance Sheet Components

	As of April 1, 2012 (in thousands)	January 1, 2012
Inventories:		
Raw materials	\$30	\$52
Work-in-process	2,666	3,261
Finished goods	421	451
	\$3,117	\$3,764
Other current assets:		
Prepaid expenses	\$1,018	\$575
Other	31	38
	\$1,049	\$613
Property and equipment:		
Equipment	\$12,584	\$12,200
Software	6,858	7,065
Furniture and fixtures	747	747
Leasehold improvements	659	659
	20,848	20,671
Accumulated depreciation and amortization	(18,036)	(18,490)
	\$2,812	\$2,181
Other assets:		

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Other long-term assets	\$231	\$211
	\$231	\$211
Accrued liabilities:		
Employee related accruals	\$1,180	\$845
Other	237	273
	\$1,417	\$1,118

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NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Note 6 — Obligations

	As of April 1, 2012 (in thousands)	January 1, 2012
Debt and capital lease obligations:		
Capital leases	917	\$287
	917	287
Current portion of debt and capital lease obligations	(411	) (141
Long term portion of debt and capital lease obligations	\$506	\$146

Revolving Line of Credit

In June 2011, the Company entered into the Seventh Amendment to Second Amended and Restated Loan and Security Agreement ("Agreement") with Silicon Valley Bank. The terms of the amended Agreement include a \$6.0 million revolving line of credit available through June 2012, as long as the Company is in compliance with the loan covenants. Upon each advance, the Company can elect a variable interest rate, which is the prime rate plus one half of one percent (0.50%), or a fixed rate which is LIBOR plus the LIBOR rate margin, as the case may be. During the first quarter of 2012, the Company had no borrowings against the line of credit.

The bank has a first priority security interest in substantially all of the Company's tangible and intangible assets to secure any outstanding amounts under the Agreement. Under the terms of the Agreement, except as noted above, the Company must maintain a minimum tangible net worth of at least \$15 million, adjusted quick ratio of 2-to-1 and a minimum cash balance of at least \$8 million with Silicon Valley Bank. The Agreement also has certain restrictions including, among others, restrictions on the incurrence of other indebtedness, the maintenance of depository accounts, the disposition of assets, mergers, acquisitions, investments, the granting of liens and the payment of dividends. The Company was in compliance with the financial covenants of the agreement as of the end of the current reporting period.

Capital Leases

In February 2012, the Company leased design software tools and related maintenance under a three-year capital lease at an imputed interest rate of 4.3% per annum. Terms of the agreement require the Company to make two payments of principal and interest of \$9,000 in March 2012 and \$18,000 in December 2012, for a total of \$27,000. As of April 1, 2012, \$18,000 was outstanding under the capital lease, all of which was classified as a current liability.

In January 2012, the Company leased design software tools and related maintenance under a three-year capital lease at an imputed interest rate of 4.24% per annum. Terms of the agreement require the Company to make semi-annual payments of principal and interest of approximately \$138,000 through July 2014, for a total of \$825,000 over the three year period. As of April 1, 2012, \$648,000 was outstanding under the capital lease, of which \$252,000 was classified as a current liability.

In December 2011, the Company leased design software and related maintenance under a two-year capital lease at an imputed interest rate of 4.24% per annum. Terms of the agreement require the Company to make quarterly payments of approximately \$38,000 through November 2013. The Company recorded a capital asset of \$261,000 and prepaid maintenance of \$26,000 that is being amortized over the term of the agreement and a capital lease obligation of

\$287,000. As of April 1, 2012, \$251,000 was outstanding under the capital lease, of which \$141,000 was classified as a current liability.

Note 7 — Fair Value Measurements

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, 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 or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

The accounting guidance for fair value measurement also specifies a hierarchy of valuation techniques based upon

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QUICKLOGIC CORPORATION

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the company's own assumption of market participant valuation (unobservable inputs). The fair value hierarchy consists of the following three levels:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table presents the Company's financial assets that are measured at fair value on a recurring basis as of April 1, 2012, consistent with the fair value hierarchy provisions of the authoritative guidance (in thousands):

	As of April 1, 2012				As of January 1, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Money market funds ⁽¹⁾	\$15,427	\$15,427	\$—	\$—	\$18,826	\$18,826	\$—	\$—
Investment in TowerJazz Semiconductor Ltd. ⁽²⁾	567	567	—	—	406	406	—	—
Total assets	\$15,994	\$15,994	\$—	\$—	\$19,232	\$19,232	\$—	\$—

⁽¹⁾ Money market funds are presented as a part of cash and cash equivalents on the accompanying consolidated balance sheets as of April 1, 2012 and January 1, 2012.

⁽²⁾ The Company expects to sell TowerJazz marketable securities at the fair market value at such time as it deems appropriate.

Note 8 — Employee Stock Plans

1999 Stock Plan

The 1999 Stock Plan, or 1999 Plan, provided for the issuance of incentive and nonqualified options, restricted stock units and restricted stock. Equity awards granted under the 1999 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter. In March 2009, the Board adopted the 2009 Stock Plan which was approved by the Company's stockholders on April 22, 2009. Effective April 22, 2009, no further stock options may be granted under the 1999 Plan.

2009 Stock Plan

The 2009 Stock Plan, or 2009 Plan, was amended and restated by the Board of Directors in March 2011 and approved by the Company's stockholders on April 28, 2011 to, among other things, reserve an additional 1,500,000 shares of common stock for issuance under the Plan. As of April 1, 2012, approximately 6.4 million shares were reserved for

issuance under the 2009 Plan. Equity awards that are cancelled, forfeited or repurchased under the 1999 Plan become available for grant under the 2009 Plan, up to a maximum of an additional 7,500,000 shares. Equity awards granted under the 2009 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter. The Company may implement different vesting schedules in the future with respect to any new equity awards.

Employee Stock Purchase Plan

The 2009 Employee Stock Purchase Plan, or 2009 ESPP, was adopted in March 2009. The Company has reserved 2.3 million shares for issuance under the 2009 ESPP. The 2009 ESPP provides for six month offering periods. Participants purchase shares through payroll deductions of up to 20% of an employee's total compensation (maximum of 20,000 shares per

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NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

offering period). The 2009 ESPP permits the Board of Directors to determine, prior to each offering period, whether participants purchase shares at: (i) 85% of the fair market value of the common stock at the end of the offering period; or (ii) 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period. The Board of Directors has determined that, until further notice, future offering periods will be made at 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period.

Note 9 — Stock-Based Compensation

Stock-based compensation expense is recognized in the Company's consolidated statements of operations and includes compensation expense for the stock-based compensation awards granted or modified subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of the amended authoritative guidance. The impact of the amended authoritative guidance on the Company's consolidated financial statements for the first quarter of 2012 and 2011 was as follows (in thousands):

	Three Months Ended	
	April 1, 2012	April 3, 2011
Cost of revenue	\$32	\$35
Research and development	93	121
Selling, general and administrative	259	287
Total costs and expenses	\$384	\$443

The amount of stock-based compensation included in inventories for the first quarter of 2012 and 2011 was not significant.

Valuation Assumptions

The amended authoritative guidance requires companies to estimate the fair value of stock-based compensation awards. The fair value of stock-based compensation awards is measured at the grant date and re-measured upon modification, as appropriate. The Company uses the Black-Scholes option pricing model, to estimate the fair value of employee stock options and rights to purchase shares under the Company's ESPP, consistent with the provisions of the amended authoritative guidance. Using the Black-Scholes pricing model requires the Company to develop highly subjective assumptions including the expected term of awards, expected volatility of its stock, expected risk-free interest rate and expected dividend rate over the term of the award. The Company's expected term of awards assumption is based primarily on its historical experience with similar grants. The Company's expected stock price volatility assumption for both stock options and ESPP shares is based on the historical volatility of the Company's stock, using the daily average of the opening and closing prices and measured using historical data appropriate for the expected term. The risk-free interest rate assumption approximates the risk-free interest rate of a Treasury Constant Maturity bond with a maturity approximately equal to the expected term of the stock option or ESPP shares. This fair value is expensed over the requisite service period of the award. The fair value of RSAs and RSUs is based on the closing price of the Company's common stock on the date of grant. Equity compensation awards which vest with service are expensed using the straight-line attribution method over the requisite service period.

In addition to the assumptions used in the Black-Scholes pricing model, the amended authoritative guidance requires that the Company recognize expense for awards ultimately expected to vest; therefore we are required to develop an estimate of the number of awards expected to be forfeited prior to vesting, or forfeiture rate. The forfeiture rate is

estimated based on historical pre-vest cancellation experience and is applied to all share-based awards.

The following weighted average assumptions are included in the estimated fair value calculations for stock option grants:

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NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

	Three Months Ended		
	April 1, 2012	April 3, 2011	
Expected term (years)	5.01	4.92	
Risk-free interest rate	0.89	% 2.12	%
Expected volatility	62.18	% 57.95	%
Expected dividend	—	—	

The methodologies for determining the above values were as follows:

Expected term: The expected term represents the period that the Company's stock-based awards are expected to be outstanding and is estimated based on historical experience.

Risk-free interest rate: The risk-free interest rate assumption is based upon the risk-free rate of a Treasury Constant Maturity bond with a maturity appropriate for the expected term of the Company's employee stock options.

Expected volatility: The Company determines expected volatility based on historical volatility of the Company's common stock according to the expected term of the options.

Expected dividend: The expected dividend assumption is based on the Company's intent not to issue a dividend under its dividend policy.

The weighted average estimated fair value for options granted during the first quarter of 2012 and 2011 were \$1.37 and \$3.04 per option, respectively. As of April 1, 2012, the fair value of unvested stock options, net of expected forfeitures, was approximately \$2.3 million. This unrecognized stock-based compensation expense is expected to be recorded over a weighted average period of 2.31 years.

Stock-Based Compensation Award Activity

The following table summarizes the shares available for grant under the 2009 Plan as of April 1, 2012:

	Shares Available for Grant (in thousands)
Balance at January 1, 2012	2,969
Authorized	—
Options granted	(33)
Options forfeited or expired	301
RSUs granted	(2)
RSUs forfeited or expired	—
Balance at April 1, 2012	3,235

Stock Options

The following table summarizes stock options outstanding and stock option activity under the 1999 Plan and the 2009 Plan, and the related weighted average exercise price, for the first three months of 2012:

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QUICKLOGIC CORPORATION

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance outstanding at January 1, 2012	7,483	\$2.58		
Granted	33	2.61		
Forfeited or expired	(301)	4.15		
Exercised	(26)	1.47		
Balance outstanding at April 1, 2012	7,189	\$2.52	6.37	\$3,102
Exercisable at April 1, 2012	4,838	\$2.55	5.38	\$2,356
Vested and expected to vest at April 1, 2012	6,914	\$2.52	6.27	\$3,066

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of \$2.73 as of the end of the Company's current reporting period, which would have been received by the option holders had all option holders exercised their options as of that date.

The total intrinsic value of options exercised during the first three months of 2012 and 2011 was \$30,000 and \$1.6 million, respectively. Total cash received from employees as a result of employee stock option exercises during the first three months of 2012 and 2011 was approximately \$38,000 and \$1.4 million, respectively. The Company settles employee stock option exercises with newly issued common shares. In connection with these exercises, there was no tax benefit realized by the Company due to the Company's current loss position. Total stock-based compensation related to stock options was \$384,000 for the first quarter of 2012.

Restricted Stock Awards and Restricted Stock Units

The Company began issuing restricted stock awards, or RSAs, in the second quarter of 2007 and restricted stock units, or RSUs, in the third quarter of 2007. RSAs entitle the holder to purchase shares of common stock at par value during a short period of time, and purchased shares are held in escrow until they vest. RSUs entitle the holder to receive, at no cost, one common share for each restricted stock unit as it vests. The Company withheld shares in settlement of employee tax withholding obligations upon the vesting of restricted stock units. The stock-based compensation related to RSUs was less than \$1,000 for the first quarter of 2012. As of April 1, 2012, the Company had unrecognized compensation expense of \$3,000 related to restricted stock awards which is expected to be recognized over a weighted-average period of 0.33 years.

	RSAs and RSUs Outstanding Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	—	\$ —
Granted	2	2.52
Vested	—	—
Forfeited	—	—
Nonvested at April 1, 2012	2	\$ 2.52

Employee Stock Purchase Plan

The weighted average estimated fair value, as defined by the amended authoritative guidance, of rights issued pursuant to the Company's 2009 ESPP plan during the first quarter of 2012 and 2011 was \$0.89 and \$1.59 per right, respectively.

As of April 1, 2012, 2.3 million shares remained available for issuance under the 2009 ESPP. For the first quarter of 2012, the Company recorded compensation expense related to the ESPP of \$43,000.

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QUICKLOGIC CORPORATION

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

The fair value of rights issued pursuant to the Company's ESPP was estimated on the commencement date of each offering period using the following weighted average assumptions:

	Three Months Ended		
	April 1, 2012	April 3, 2011	
Expected term (months)	5.96	5.96	
Risk-free interest rate	0.05	% 0.17	%
Volatility	65.67	% 56.63	%
Dividend yield	—	—	

The methodologies for determining the above values were as follows:

Expected term: The expected term represents the length of the purchase period contained in the ESPP.

Risk-free interest rate: The risk-free interest rate assumption is based upon the risk-free rate of a Treasury Constant Maturity bond with a maturity appropriate for the term of the purchase period.

Expected volatility: The Company determines expected volatility based on historical volatility of the Company's common stock for the term of the purchase period.

Expected dividend: The expected dividend assumption is based on the Company's intent not to issue a dividend under its dividend policy.

As of April 1, 2012, the unrecognized stock-based compensation expense relating to the Company's ESPP was \$20,000 and is expected to be recognized over a weighted average period of approximately 1.4 months.

Note 10 — Income Taxes

In the first quarter of 2012 and 2011, the Company recorded a net income tax benefit of \$45,000 and income tax expense of \$64,000, respectively. The income tax expense and benefit were primarily from our foreign operations which are cost-plus entities. Included within the benefit from income taxes for the first quarter of 2012 was an intraperiod tax allocation which resulted from the unrealized gains on our investment in TowerJazz. Based on the available objective evidence, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, with the exception of its foreign subsidiaries, the Company has provided a full valuation allowance against the associated deferred tax assets. The Company will continue to assess the realizability of the deferred tax assets in future periods.

The Company had approximately \$78,000 and \$77,000 of unrecognized tax benefits at April 1, 2012 and January 1, 2012, respectively. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of April 1, 2012, the Company had approximately \$28,000 of accrued interest and penalties related to uncertain tax positions.

The Company is no longer subject to U.S. federal, state and non-U.S. income tax audits by taxing authorities for fiscal years through 1992.

Note 11 — Information Concerning Product Lines, Geographic Information and Revenue Concentration

The Company identifies its business segment based on business activities, management responsibility and geographic location. For all periods presented, the Company operated in a single reportable business segment.

The following is a breakdown of revenue by product line (in thousands):

	Three Months Ended	
	April 1, 2012	April 3, 2011
Revenue by product line ⁽¹⁾ :		
New products	\$ 1,639	\$ 1,220
Mature products	2,491	4,327
Total revenue	\$ 4,130	\$ 5,547

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QUICKLOGIC CORPORATION

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

(1) For all periods presented: New products represent products introduced since 2005, and include ArcticLink®, ArcticLink II, ArcticLink III, Eclipse™ II, PolarPro PolarPro II, and QuickPCI® II. Mature products include Eclipse, EclipsePlus, pASIC® 1, pASIC 2, pASIC 3, QuickFC, QuickMIPS, QuickPCI, QuickRAM®, and V3, as well as royalty revenue, programming hardware and software.

The following is a breakdown of revenue by shipment destination (in thousands):

	Three Months Ended	
	April 1, 2012	April 3, 2011
Revenue by geography:		
United States	\$1,310	\$2,761
Japan	880	575
Malaysia	608	480
China	512	772
Europe	482	719
Rest of Asia Pacific	231	155
Rest of North America	107	85
Total revenue	\$4,130	\$5,547

The following distributors and customers accounted for 10% or more of the Company's revenue for the periods presented:

	Three Months Ended			
	April 1, 2012		April 3, 2011	
Distributor "A"	32	%	37	%
Distributor "B"	*		11	%
Distributor "C"	18	%	*	
Distributor "D"	16	%	13	%
Customer "B"	20	%	16	%

*Represents less than 10% of revenue for the period presented.

The following distributors and customers accounted for 10% or more of the Company's accounts receivable as of the dates presented:

	April 1, 2012		January 1, 2012	
Distributor "A"	33	%	30	%
Distributor "B"	15	%	*	
Distributor "D"	19	%	*	
Customer "C"	*		23	%

*Represents less than 10% of accounts receivable as of the date presented.

As of April 1, 2012, less than 10% of the Company's long-lived assets, including property and equipment and other assets, were located outside the United States.

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QUICKLOGIC CORPORATION

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Note 12 — Commitments and Contingencies

Certain wafer manufacturers require the Company to forecast wafer starts several months in advance. The Company is committed to take delivery of and pay for a portion of forecasted wafer volume. As of April 1, 2012 and January 1, 2012, the Company had \$853,000 and \$532,000, respectively, of outstanding commitments for the purchase of wafer inventory.

The Company has purchase obligations with certain suppliers for the purchase of goods and services entered in the ordinary course of business. As of April 1, 2012, total outstanding purchase obligations were \$2.2 million, primarily due within the next 12 months.

The Company leases its primary facility under a non-cancelable operating lease that expires at the end of 2012. In addition, the Company rents development facilities in Canada and India as well as sales offices in Europe and Asia. Total rent expense, net of sublease income, for the first quarter of 2012 and 2011 was approximately \$125,000 and \$116,000, respectively.

Future minimum lease commitments under the Company's operating leases, excluding property taxes and insurance are as follows:

Fiscal Years	Operating Leases (in thousands)
2012	\$404
2013	53
2014 and thereafter	—
	\$457

Note 13 — Litigation

None.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as information contained in "Risk Factors" in Part II, Item 1A and elsewhere in this Quarterly Report on Form 10-Q, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend that these forward-looking statements be subject to the safe harbors created by those provisions. Forward-looking statements are generally written in the future tense and/or are preceded by words such as "will," "may," "should," "forecast," "could," "expect," "suggest," "believe," "anticipate," "intend," "plan," or other similar words. Forward-looking statements include statements regarding (1) our revenue levels, including the commercial success of our Customer Specific Standard Products, or CSSPs, and new products, (2) the conversion of our design opportunities into revenue, (3) our liquidity, (4) our research and development efforts, (5) our gross profit and breakeven revenue level and factors that affect gross profit and the breakeven revenue level, (6) our level of operating expenses, (7) our partners and suppliers and (8) industry trends. The following discussion should be read in conjunction with the attached condensed unaudited consolidated financial statements and notes thereto, and with our audited consolidated financial statements and notes thereto for the fiscal year ended January 1, 2012, found in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 9, 2012.

Overview

We develop and market low power customizable semiconductor solutions that enable customers to add new differentiated features to, extend battery life in, and improve their visual experience with their mobile, consumer and enterprise products. Our targeted mobile market segments include Tablets, Smartphones, Broadband Access Data cards, Secure Access Data cards, and Mobile Enterprise. We are a fabless semiconductor company designing Customer Specific Standard Products, or CSSPs, which are complete, customer-specific solutions that include a combination of silicon solution platforms; Proven System Blocks, or PSBs; customer-specific logic; software drivers; and firmware. Our main platform families, ArcticLink and PolarPro, are standard silicon products. PSBs are developed in numerous categories including Video and Imaging, Storage, Intelligence, Networking and Security. PSBs that have been developed and that are available to customers include our Visual Enhancement Engine, or VEE, Display Power Optimizer, or DPO, Intelligent Brightness Control, or IBC, and Background Color Compensator (BCC) technologies; SDHD/eMMC Host Controllers; USB 2.0 On-The-Go with PHY; MIPI Host/Device with DPHY, LVDS, MDDI Client with PHY; High Speed UARTs; Pulse Width Modulators; SPI and I2C hosts, display-specific functions such as RGB-split and Frame Recyclers; and Data Performance Manager, or DPM, for accelerated sideload times.

The variety of PSBs offered by us allows system designers to combine multiple discrete chips onto a single CSSP, simplifying design and board layout, lowering BOM cost, and accelerating time-to-market. The programmable fabric of the platforms is used for adding differentiated features and also provides flexibility to address hardware-based product requirements quickly.

Utilizing a focused customer engagement model, we market CSSPs to Original Equipment Manufacturers, or OEMs, and Original Design Manufacturers, or ODMs, that offer differentiated mobile products. Our solutions enable OEMs and ODMs to add new features, extend battery life, and improve the visual experience of their handheld mobile devices. In addition to working directly with our customers, we partner with other companies with expertise in certain technologies to develop additional intellectual property, reference platforms and system software to provide application solutions. We also work with mobile processor manufacturers and companies that supply storage, networking or graphics components for embedded systems.

We continue to transition from being a broad-based supplier of FPGA devices to being a supplier of CSSPs. In order to grow our revenue from its current level, we will be dependent upon increased revenue from our new products including existing new product platforms and platforms still in development. We expect our business growth to be

driven by CSSPs and our CSSP revenue growth needs to be strong enough to enable us to sustain profitability while we continue to invest in the development, sales, and marketing of our new solution platforms, PSBs and CSSPs. The gross margin associated with our CSSPs is generally lower than the gross margin of our FPGA products, due primarily to the price sensitive nature of the higher volume mobile consumer opportunities that we are pursuing with CSSPs. During the first quarter of 2012, we generated total revenue of \$4.1 million which represents a 26% decrease from the first quarter of 2011. Our new product revenue was \$1.6 million which represents a 34% increase while our mature product revenue was \$2.5 million which represents a 42% decrease year over year. We shipped our new products into three out of our five target mobile market segments: Smartphones, Broadband Access Data Cards and Mobile Enterprise. Demand for our mature products declined in fiscal 2011 and remained flat in the first quarter of 2012. We anticipate that our revenue from

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — (Continued)

mature products will not increase to former levels, but will continue to decline over time. Overall, we reported a net loss of \$3.7 million for the first quarter of 2012.

Critical Accounting Estimates

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our consolidated financial statements. The SEC has defined critical accounting policies as those that are most important to the portrayal of our financial condition and results of operations and require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our critical policies include revenue recognition, valuation of inventories including identification of excess quantities and product obsolescence, valuation of investments, valuation of long-lived assets, measurement of stock-based compensation, and estimating accrued liabilities. We believe that we apply judgments and estimates in a consistent manner and that this consistent application results in consolidated financial statements and accompanying notes that fairly represent all periods presented. However, any factual errors or errors in these judgments and estimates may have a material impact on our financial statements. For a discussion of critical accounting policies and estimates, please see Item 7 in our Annual Report on Form 10-K for the fiscal year ended January 1, 2012, filed with the SEC on March 9, 2012.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — (Continued)

Results of Operations

The following table sets forth the percentage of revenue for certain items in our statements of operations for the periods indicated:

	Three Months Ended			
	April 1, 2012	%	April 3, 2011	%
Revenue	100.0	%	100.0	%
Cost of revenue	57.4	%	35.0	%
Gross profit	42.6	%	65.0	%
Operating expenses:				
Research and development	67.8	%	32.5	%
Selling, general and administrative	65.3	%	47.0	%
Income (loss) from operations	(90.5	)%	(14.5)%
Interest expense	(0.3	)%	(0.1)%
Interest income and other, net	(0.3	)%	(0.1)%
Income (loss) before income taxes	(91.1	)%	(14.7)%
Provision for (benefit from) income taxes	(1.1	)%	1.2	%
Net Income (loss)	(90.0	)%	(15.9)%

Three Months Ended April 1, 2012 and April 3, 2011

Revenue

The table below sets forth the changes in revenue for the three months ended April 1, 2012 as compared to the three months ended April 3, 2011 (in thousands, except percentage data):