QUICKLOGIC CORPORATION
Form 10-Q
November 12, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended October 3, 2010
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 | 77-0188504 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

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

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 [x] 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, or 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 | [ ] | Accelerated Filer | [x] |
| Non-accelerated filer | [ ] (Do not check if a smaller reporting company) | Smaller Reporting Company | [ ] |

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

As of November 10, 2010, the registrant had outstanding 36,228,287 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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Revenue | $7,333 | $3,332 | $19,241 | $10,795 |
| Cost of revenue | 2,636 | 2,186 | 7,305 | 5,594 |
| Long-lived asset impairment | — | 150 | — | 150 |
| Gross profit | 4,697 | 996 | 11,936 | 5,051 |
| Operating expenses: | | | | |
| Research and development | 1,817 | 1,400 | 5,410 | 4,889 |
| Selling, general and administrative | 2,535 | 2,525 | 7,388 | 7,877 |
| Income (loss) from operations | 345 | (2,929) | (862) | (7,715) |
| Gain on sale of TowerJazz Semiconductor Ltd. Shares | — | — | 993 | — |
| Interest expense | (12) | (31) | (57) | (78) |
| Interest income and other, net | 25 | (30) | (46) | (31) |
| Income (loss) before income taxes | 358 | (2,990) | 28 | (7,824) |
| Provision for (benefit from) income taxes | (192) | 7 | (164) | (4) |
| Net income (loss) | $550 | $(2,997) | $192 | $(7,820) |
| Net Income (loss) per share: | | | | |
| Basic | $0.02 | $(0.10) | $0.01 | $(0.26) |
| Diluted | $0.01 | $(0.10) | $0.01 | $(0.26) |
| Weighted average shares: | | | | |
| Basic | 35,634 | 30,322 | 35,436 | 30,104 |
| Diluted | 38,711 | 30,322 | 37,911 | 30,104 |

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)

| | October 3, 2010 | January 3, 2010 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $19,153 | $18,195 |
| Short-term investment in TowerJazz Semiconductor Ltd. | 870 | 868 |
| Accounts receivable, net of allowances for doubtful accounts of $15 and $10, respectively | 4,009 | 2,457 |
| Inventories | 2,641 | 2,119 |
| Other current assets | 860 | 536 |
| Total current assets | 27,533 | 24,175 |
| Property and equipment, net | 2,505 | 2,693 |
| Investment in TowerJazz Semiconductor Ltd. | — | 437 |
| Other assets | 195 | 296 |
| TOTAL ASSETS | $30,233 | $27,601 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Revolving line of credit | $2,000 | $2,000 |
| Trade payables | 2,419 | 2,721 |
| Accrued liabilities | 1,028 | 1,108 |
| Current portion of debt and capital lease obligations | 406 | 249 |
| Total current liabilities | 5,853 | 6,078 |
| Long-term liabilities: | | |
| Capital lease obligations, less current portion | 37 | 264 |
| Other long-term liabilities | 119 | — |
| Total liabilities | 6,009 | 6,342 |
| Commitments and contingencies (see Notes 12 and 13) | | |
| 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; 36,011 and 35,042 shares issued and outstanding, respectively | 36 | 35 |
| Additional paid-in capital | 181,187 | 177,862 |
| Accumulated other comprehensive income | 577 | 1,130 |
| Accumulated deficit | (157,576) | (157,768) |
| Total stockholders' equity | 24,224 | 21,259 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $30,233 | $27,601 |

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

| | Nine Months Ended October 3, 2010 | Nine Months Ended September 27, 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $192 | $(7,820) |
| Adjustments to reconcile net income (loss) to net cash used for operating activities: | | |
| Depreciation and amortization | 910 | 1,347 |
| Stock-based compensation | 1,853 | 1,809 |
| Utilization of wafer credits from TowerJazz Semiconductor Ltd. | 126 | 278 |
| Write-down of inventories | 90 | 467 |
| Long-lived asset impairment | — | 261 |
| Gain on TowerJazz Semiconductor Ltd. Shares | (993) | — |
| Tax effect on other comprehensive income | (209) | — |
| Gain/loss on disposal of equipment | 18 | — |
| Write-off of equipment | 8 | — |
| Bad debt expense | 5 | — |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,557) | (235) |
| Inventories | (612) | (411) |
| Other assets | (349) | 337 |
| Trade payables | (85) | (76) |
| Accrued liabilities | (81) | (360) |
| Deferred income | 1 | (275) |
| Other long-term liabilities | 119 | — |
| Net cash used for operating activities | (564) | (4,678) |
| Cash flows from investing activities: | | |
| Capital expenditures for property and equipment | (696) | (89) |
| Proceeds from sale of fixed assets | 15 | — |
| Proceeds from sale of TowerJazz Semiconductor Ltd. Shares | 1,084 | — |
| Net cash provided by (used for) investing activities | 403 | (89) |
| Cash flows from financing activities: | | |
| Payment of debt and capital lease obligations | (6,354) | (6,819) |
| Proceeds from debt obligations | 6,000 | 6,000 |
| Proceeds from issuance of common stock | 1,473 | 96 |
| Net cash provided by (used for) financing activities | 1,119 | (723) |
| Net increase/(decrease) in cash and cash equivalents | 958 | (5,490) |
| Cash and cash equivalents at beginning of period | 18,195 | 19,376 |
| Cash and cash equivalents at end of period | $19,153 | $13,886 |
| | | |
| Supplemental schedule of non-cash investing and financing activities : | | |
| Capital lease obligation | $443 | $513 |
| Purchase of equipment included in accounts payable | $55 | $220 |

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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Net income (loss) | $550 | $(2,997) | $192 | $(7,820) |
| Other comprehensive gain (loss), net of tax: | | | | |
| Unrealized gain (loss) on available-for-sale investments | (228) | 807 | (553) | 1,062 |
| Total comprehensive Income (loss) | $322 | $(2,190) | $(361) | $(6,758) |

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 3, 2010. Operating results for the three and nine months ended October 3, 2010 are not necessarily indicative of the results that may be expected for the full year.

Included within the three month and nine month period ended October 3, 2010 were out of period adjustments in the amount of $209,000 (relating to provision for income taxes) and $131,000 that had the effect of increasing net income for those periods.  The adjustments were related to prior periods and are not considered to be material to either the interim or annual periods to which they relate or the period in which the adjustments were recorded.

QuickLogic's fiscal year ends on the Sunday closest to December 31. QuickLogic's third fiscal quarter for 2010 and 2,009 ended Sunday, October 3, 2010 and September 27, 2009, respectively.

Liquidity

We have financed our operations and capital investments through sales of common stock, private equity investments, capital and operating leases, and a bank line of credit. As of October 3, 2010, our principal sources of liquidity consisted of our cash and cash equivalents of $19.2 million, available credit under our revolving line of credit with Silicon Valley Bank of $4.0 million, which expires June 29, 2011, and our investment in TowerJazz Semiconductor Ltd. (formerly known as Tower Semiconductor Ltd.), or TowerJazz, with a fair value of approximately $0.9 million.

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 cyclicality of the semiconductor industry and the rate of recovery, if any, from the global economic recession, the conversion of design opportunities into revenue, market acceptance of existing and new products including CSSPs based on our ArcticLink™ and PolarPro® solution 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, the amount and financing arrangements for purchases of capital equipment, changes in operating assets and liabilities, the ability to obtain or renew debt financing and to remain in compliance with the covenants of existing credit facilities, the ability to raise funds from the sale of shares of TowerJazz , the 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, QuickLogic Canada Company, QuickLogic International, Inc., QuickLogic Kabushiki Kaisha and QuickLogic Software (India) Private Ltd. All inter-company transactions and balances have been eliminated in the accompanying interim condensed financial statements.

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QUICKLOGIC CORPORATION

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, Europe and Asia Pacific. 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.

Note 2 — Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies for the third quarter of 2010 from its disclosure in the Annual Report on Form 10-K for the year ended January 3, 2010. For a discussion of the significant accounting policies, please see the Annual Report on Form 10-K for the fiscal year ended January 3, 2010, filed with the Securities Exchange Commission, or SEC, on March 12, 2010.

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 third quarter and the first nine months of 2010, options for the purchase of 617,000 common shares, respectively, were excluded from the weighted average diluted shares outstanding calculation, because their effect was anti-dilutive. For the third quarter and the first nine months of 2009, 9.5 million common shares, respectively, 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 2009.

Note 4 — Investment in TowerJazz Semiconductor Ltd.

During the first quarter of fiscal year 2010, the Company sold 700,000 of the TowerJazz ordinary shares. As of October 3, 2010, the Company held 645,000 available-for-sale TowerJazz ordinary shares with an unrealized gain of $0.6 million recorded in accumulated other comprehensive income on the balance sheet, representing the difference between the carrying value of $0.13 per share and $1.35 per share, their fair value on the last trading day of the reporting period. The fair value of TowerJazz marketable securities as of October 3, 2010 was determined based on “Level 1” inputs as described in Note 7. The Company plans to continue to hold at least 450,000 of the TowerJazz ordinary shares until the end of 2010 in order to receive preferred product pricing under the agreements with TowerJazz and has recorded these shares as a short-term investment on the balance sheets.

During the years of 2001 and 2002, the Company also received $4.7 million in prepaid wafer credits in partial consideration for the investment. Subsequently, the Company has utilized $1.8 million of these credits and impaired their value by $2.9 million. The Company has guaranteed capacity at TowerJazz through December 2010. These credits can be applied toward wafer purchases from TowerJazz at 15% of the value of purchases made through 2010. As of October 3, 2010, the Company had a zero carrying value for these wafer credits.

Note 5 — Balance Sheet Components

| | As of October 3, 2010 | January 3, 2010 |
|---|---|---|
| | (in thousands) | |
| Inventories: | | |
| Raw materials | $19 | $3 |
| Work-in-process | 2,406 | 1,889 |
| Finished goods | 216 | 227 |
| | $2,641 | $2,119 |
| Other current assets: | | |
| Prepaid expenses | $707 | $390 |
| Other | 153 | 146 |
| | $860 | $536 |
| Property and equipment: | | |
| Equipment | $12,285 | $12,317 |
| Software | 7,067 | 8,451 |
| Furniture and fixtures | 769 | 780 |
| Leasehold improvements | 760 | 800 |
| | 20,881 | 22,348 |
| Accumulated depreciation and amortization | (18,376) | (19,655) |
| | $2,505 | $2,693 |
| Other assets: | | |
| Prepaid wafer credits | $— | $254 |
| Other | 195 | 42 |
| | $195 | $296 |
| Accrued liabilities: | | |
| Employee related accruals | $776 | $858 |

| | | |
|---|---|---|
| Other | 252 | 250 |
| | $1,028 | $1,108 |

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

Note 6 — Obligations

| | As of October 3, 2010 | January 3, 2010 |
|---|---|---|
| | (in thousands) | |
| Debt and capital lease obligations: | | |
| Revolving line of credit | $2,000 | $2,000 |
| Capital leases | 443 | 513 |
| | 2,443 | 2,513 |
| Current portion of debt and capital lease obligations | (2,406) | (2,249) |
| | $37 | $264 |

Revolving Line of Credit

In June 2010, the Company entered into the Sixth Amendment to Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank. The terms of the amended agreement include a $6 million revolving line of credit available through June 2011, 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 third quarter of 2010, the Company repaid and borrowed $2.0 million of revolving debt with an interest rate of 4.5%.

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, 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 January 2010, the Company leased design software and related maintenance under a two-year capital lease at an imputed interest rate of 5.75% per annum. Terms of the agreement require the Company to make quarterly payments of approximately $38,000 through November 2011. The Company recorded a capital asset of $233,000 and prepaid maintenance of $51,000 that is being amortized over the term of the agreement and a capital lease obligation of $284,000. As of October 3, 2010, $180,000 was outstanding under the capital lease, of which $143,000 was classified as a current liability.
In January 2009, the Company leased design software tools and related maintenance under a three-year capital lease at an imputed interest rate of 5.75% per annum. Terms of the agreement require the Company to make semi-annual payments of principal and interest of approximately $138,000 through August 2011, for a total of approximately $825,000 over the three year period. As of October 3, 2010, $263,000 was outstanding under the capital lease, all of which was classified as a current liability.

Note 7 — Fair Value Measurements

The guidance for the fair value option for financial assets and financial liabilities provides companies the option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings or equity. The Company has not elected to measure any financial assets or liabilities at fair value that were not previously required to be measured at fair value.

The authoritative guidance specifies a hierarchy of valuation techniques based upon 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 October 3, 2010, consistent with the fair value hierarchy provisions of the authoritative guidance (in thousands):

| | As of October 3, 2010 | | | | As of January 3, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | | | |
| Money market funds [1] | $15,721 | $15,721 | $— | $— | $14,369 | $14,369 | $— | $— |
| Investment in TowerJazz Semiconductor Ltd. | 870 | 870 | — | — | 1,305 | 1,305 | — | — |
| Total assets | $16,591 | $16,591 | $— | $— | $15,674 | $15,674 | $— | $— |

(1) Money market funds which were invested in a U.S. Treasury money market fund, are presented as a part of cash and cash equivalents on the accompanying consolidated balance sheets as of October 3, 2010 and January 3, 2010.

As of October 3, 2010, there is no material difference between the fair value and the carrying amount of the debt outstanding under the Company's line of credit and capital leasing arrangements.

Note 8 — Employee Stock Plans

1999 Stock Plan

The Company adopted the 1999 Stock Plan, or 1999 Plan, in September 1999. The 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 terms of up to ten years. Options typically vest over a period of four years at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter.

2009 Stock Plan

The 2009 Stock Plan, or 2009 Plan, was adopted in March 2009. As of October 3, 2010, approximately 3.7 million shares were reserved for issuance under the 2009 Plan. Equity awards that are cancelled, forfeited or repurchased under the 1999 Plan also 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 over a period of four years 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 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.

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

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 third quarter of 2010 and 2009 was as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Cost of revenue | $34 | $110 | $120 | $232 |
| Research and development | 147 | 213 | 502 | 439 |
| Selling, general and administrative | 387 | 535 | 1,231 | 1,138 |
| Total costs and expenses | $568 | $858 | $1,853 | $1,809 |

The amount of stock-based compensation included in inventories for the third quarter of 2010 and 2009 was not significant.

Valuation Assumptions

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

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | October 3, 2010 | | September 27, 2009 | | October 3, 2010 | | September 27, 2009 | |
| Expected term (years) | 5.42 | | 4.47 | | 5.42 | | 5.14 | |
| Risk-free interest rate | 2.40 | % | 2.19 | % | 2.40 | % | 1.97 | % |
| Expected volatility | 58.02 | % | 48.67 | % | 58.02 | % | 50.99 | % |
| Expected dividend | — | | — | | — | | — | |

The weighted average estimated fair value for options granted during the third quarter of 2010 and 2009 were $1.48 and $0.66 per option, respectively. The weighted average estimated fair value for options granted during the first nine months of 2010 and 2009 was $1.48 and $0.74 per option, respectively. As of October 3, 2010, the fair value of unvested stock options, net of expected forfeitures, was approximately $3.2 million. This unrecognized stock-based compensation expense is expected to be recorded over a weighted average period of 2.65 years.

Stock-Based Compensation Award Activity

The following table summarizes the shares available for grant under the 2009 Plan as of October 3, 2010:

| | Shares Available for Grant (in thousands) |
|---|---|
| Balance at January 3, 2010 | 2,619 |
| Authorized | — |

| | |
|---|---|
| Options granted | (1,739 ) |
| Options forfeited or expired | 603 |
| RSUs granted | (170 ) |
| RSUs forfeited or expired | — |
| Balance at October 3, 2010 | 1,313 |

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

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 nine months of 2010:

| | Number of Shares (in thousands) | Weighted Average Exercise Price | Weighted Average Remaining Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Balance outstanding at January 3, 2010 | 8,331 | $3.37 | | |
| Granted | 1,739 | 2.79 | | |
| Forfeited or expired | (603) | 9.41 | | |
| Exercised | (486) | 1.86 | | |
| Balance outstanding at October 3, 2010 | 8,981 | $2.93 | 6.27 | $20,281 |
| Exercisable at October 3, 2010 | 5,279 | $3.42 | 4.45 | $9,884 |
| Vested and expected to vest at October 3, 2010 | 8,502 | $2.97 | 6.11 | $18,959 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of $5.05 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 nine months of 2010 was $656,000. Total cash received from employees as a result of employee stock option exercises during the first nine months of 2010 was approximately $907,000. 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. There were no stock option exercises during the first nine months of 2009. Total stock-based compensation related to stock options were $542,000 and $1,335,000 for the third quarter and first nine months of 2010, respectively.

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. During the first quarter of 2010, the Company granted RSUs under the 2009 Plan, in lieu of cash compensation, that vest in one tranche on May 11, 2010. Total stock-based compensation related to RSUs was $7,000 and $414,000 for the third quarter and first nine months of 2010. The Company withheld shares in settlement of employee tax withholding obligations upon the vesting of restricted stock units. A summary of the Company's RSA and RSU activity and related information are as follows:

| | RSAs and RSUs Outstanding | |
|---|---|---|
| | Number of Shares (in thousands) | Weighted Average Grant Date Fair Value |
| Nonvested at January 3, 2010 | — | $ — |
| Granted | 170 | 2.76 |

| | | |
|---|---|---|
| Vested | (170) | 2.76 |
| Forfeited | — | — |
| Nonvested at October 3, 2010 | — | $ — |

As of October 3, 2010, all RSUs were fully vested.

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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 third quarter of 2010 and 2009 was $1.03 and $0.63 per right, respectively.

As of October 3, 2010, 2,031,000 shares under the 2009 ESPP remained available for issuance. For the third quarter and first nine months of 2010, the Company recorded compensation expense related to the ESPP of $19,000 and $104,000, respectively.

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 | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | October 3, 2010 | | September 27, 2009 | | October 3, 2010 | | September 27, 2009 | |
| Expected term (months) | 6.00 | | 6.00 | | 6.00 | | 6.00 | |
| Risk-free interest rate | 0.22 | % | 0.29 | % | 0.22 | % | 0.29 | % |
| Expected volatility | 65.00 | % | 126.98 | % | 65.00 | % | 126.98 | % |
| Expected dividend | — | | — | | — | | — | |

As of October 3, 2010, the unrecognized stock-based compensation expense relating to the Company's ESPP was $9,000 and is expected to be recognized over a weighted average period of approximately 1.5 months.

Note 10 — Income Taxes

In the third quarter of 2010 and 2009, the Company recorded an income tax benefit of $192,000 and an income tax expense of $7,000, respectively, which consisted primarily of income taxes on foreign operations offset by the monetization of prior year federal research credits and the tax effects of items credited directly to other comprehensive income (OCI). In the first nine months of 2010 and 2009, the Company recorded an income tax benefit of $164,000 and $4,000, respectively, which consisted primarily of income taxes on foreign operations offset by the monetization of prior year federal research credits, and the tax effects of items credited directly to OCI. Included within the benefit from income taxes for the third quarter is an out of period adjustment relating to an intraperiod tax allocation resulted from the unrealized gains on our investment in TowerJazz. The adjustment in the third quarter had the impact of increasing the benefit from income taxes by $209,000 for the quarter.

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 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 $73,000 and $70,000 of unrecognized tax benefits at October 3, 2010 and January 3, 2010, respectively. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of October 3, 2010, the Company had approximately $18,000 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. It is reasonably possible that the Company's unrecognized tax benefits could decrease by $32,000 within the next twelve months, depending on the outcome of certain statutes of limitation in foreign jurisdictions.

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

The Company identifies its business segments 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):

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| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Revenue by product line [1]: | | | | |
| New products | $2,764 | $1,363 | $7,135 | $2,837 |
| Legacy products | 4,569 | 1,969 | 12,106 | 7,958 |
| Total revenue | $7,333 | $3,332 | $19,241 | $10,795 |

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[1] For all periods presented: New products represent products introduced since 2005, and include ArcticLink, ArcticLink II, Eclipse™ II, PolarPro, PolarPro II, and QuickPCI® II. Legacy 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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Revenue by geography: | | | | |
| United States | $2,466 | $1,455 | $6,640 | $4,910 |
| Europe | 757 | 650 | 2,640 | 2,211 |
| Taiwan | 230 | 9 | 424 | 20 |
| Japan | 746 | 219 | 2,148 | 1,034 |
| China | 2,565 | 782 | 5,596 | 1,455 |
| Rest of North America | 82 | 125 | | |