QUICKLOGIC CORPORATION
Form 10-Q
May 07, 2014
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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 March 30, 2014
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 [x] 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	[ ]	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 May 5, 2014, the registrant had outstanding 55,143,777 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 BALANCE SHEETS
(in thousands, except par value amount)

	March 30, 2014	December 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$37,112	$37,406
Accounts receivable, net of allowances for doubtful accounts of $0 and $0, respectively	3,327	3,261
Inventories	5,224	4,136
Other current assets	924	1,272
Total current assets	46,587	46,075
Property and equipment, net	2,568	2,840
Other assets	216	211
TOTAL ASSETS	$49,371	$49,126
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving line of credit	$1,000	$1,000
Trade payables	2,485	3,578
Accrued liabilities	2,644	3,519
Current portion of capital lease obligations	209	177
Total current liabilities	6,338	8,274
Long-term liabilities:		
Capital lease obligations, less current portion	100	133
Other long-term liabilities	115	121
Total liabilities	6,553	8,528
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; 55,119 and 53,788 shares issued and outstanding, respectively	55	54
Additional paid-in capital	234,703	230,373
Accumulated deficit	(191,940)	(189,829)
Total stockholders' equity	42,818	40,598
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$49,371	$49,126

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Three Months Ended	
	March 30, 2014	March 31, 2013
Revenue	$11,164	$3,017
Cost of revenue	7,106	1,986
Gross profit	4,058	1,031
Operating expenses:		
Research and development	2,641	2,008
Selling, general and administrative	3,465	2,530
Restructuring costs	—	7
Total operating expenses	6,106	4,545
Loss from operations	(2,048)	(3,514)
Interest expense	(16)	(9)
Interest income and other expense, net	(26)	(4)
Loss before income taxes	(2,090)	(3,527)
Provision for income taxes	20	57
Net loss	$(2,110)	$(3,584)
Net loss per share:		
Basic	$(0.04)	$(0.08)
Diluted	$(0.04)	$(0.08)
Weighted average shares:		
Basic	54,433	44,517
Diluted	54,433	44,517

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Three Months Ended	
	March 30, 2014	March 31, 2013
Net loss	$(2,110)	$(3,584)
Other comprehensive loss, net of tax:		
Unrealized loss on available-for-sale investments	—	(43)
Total comprehensive loss	$(2,110)	$(3,627)

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	
	March 30, 2014	March 31, 2013
Cash flows from operating activities:		
Net loss	$(2,110)	$(3,584)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	362	317
Stock-based compensation	732	452
Write-down of inventories	64	343
Gains on disposal of equipment	(2)	—
Allowance for doubtful accounts	—	31
Changes in operating assets and liabilities:		
Accounts receivable	(66)	(181)
Inventories	(1,152)	160
Other assets	343	102
Trade payables	(1,172)	(572)
Accrued liabilities	162	77
Other long-term liabilities	(6)	26
Net cash provided by (used for) operating activities	(2,845)	(2,829)
Cash flows from investing activities:		
Capital expenditures for property and equipment	(12)	(62)
Proceeds from sale of fixed assets	2	—
Net cash provided by (used for) investing activities	(10)	(62)
Cash flows from financing activities:		
Payment of debt and capital lease obligations	—	(35)
Net proceeds from issuance of common stock	2,561	7
Net cash provided by (used for) financing activities	2,561	(28)
Net increase (decrease) in cash and cash equivalents	(294)	(2,919)
Cash and cash equivalents at beginning of period	37,406	22,578
Cash and cash equivalents at end of period	$37,112	$19,659
Supplemental schedule of non-cash investing and financing activities :		
Capital lease obligation to finance capital expenditures	$309	$374
Purchase of equipment included in accounts payable	$79	$—

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

QUICKLOGIC CORPORATION
NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — The Company and Basis of Presentation

QuickLogic Corporation ("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 condensed consolidated financial statements be read in conjunction with the Company's Form 10-K for the year ended December 29, 2013. Operating results for the three months ended March 30, 2014 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 2014 and for 2013 ended on Sunday, March 30, 2014 and March 31, 2013, respectively.

Liquidity

The Company has financed its operations and capital investments through sales of common stock, capital and operating leases, and bank lines of credit. As of March 30, 2014, the Company's principal sources of liquidity consisted of cash and cash equivalents of $37.1 million and $5.0 million in available credit under its revolving line of credit with Silicon Valley Bank which expires on June 27, 2014.

The Company currently uses its cash to fund its capital expenditures and operating losses. Based on past performance and current expectations, the Company believes that its existing cash and cash equivalents, together with available financial resources from the revolving line of credit with Silicon Valley Bank will be sufficient to fund its operations and capital expenditures and provide adequate working capital for the next twelve months.

Over the longer term, based on current expectations regarding revenue growth and margin improvement, the Company believes that its existing cash and cash equivalents, together with financial resources from its revolving line of credit with Silicon Valley Bank and its ability to sell additional shares to capital markets will be sufficient to satisfy its operations and capital expenditures.

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; the conversion of design opportunities into revenue; market acceptance of existing and new products including CSSPs based on its 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 its customers' products; costs of securing access to and availability of adequate manufacturing capacity; levels of inventories; wafer and finished goods 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 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 and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

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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 the 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 expense, net in the condensed unaudited consolidated statements 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.

For the three months ended March 30, 2014, the Company generated 70% of its total revenue from shipments to a tier one customer, Samsung Electronics Co., Ltd. ("Samsung"). See Note 11 for information regarding concentrations associated with customers and distributors.

Out of Period Adjustment

During the three months ended March 30, 2014, we recorded an out-of-period adjustment to increase compensation expense by $281,000 and cost of sales by $105,000, which related to the fourth quarter of fiscal 2013. The Company assessed the impact of this adjustment on previously reported financial statements and for the year ended December 28, 2014, and concluded that the adjustment was not material, either individually or in the aggregate, to previously reported consolidated financial statements.

Note 2 — Significant Accounting Policies

During the three months ended March 30, 2014, there were no changes in the Company's significant accounting policies from its disclosure in the Annual Report on Form 10-K for the year ended December 29, 2013. For a discussion of the significant accounting policies, please see the Annual Report on Form 10-K for the fiscal year ended December 29, 2013, filed with the Securities Exchange Commission, or SEC, on March 6, 2014.

New Accounting Pronouncements

In March 2013, the FASB issued guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The Company will adopt the new guidance in its interim period ending March 30, 2014. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In July 2013, the FASB issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. This guidance is

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

effective for the Company beginning after December 15, 2013. Other than the change in presentation within the Consolidated Balance Sheet, this new guidance will not have an impact on the consolidated financial statements.

Note 3 — Net Loss Per Share

Basic loss per share is computed by dividing net 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.

The following shares were not included in the calculation of diluted net loss per share for the first quarter of 2014 and 2013: (i) 6.9 million and 7.5 million 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, respectively, and (ii) warrants to purchase up to 4.2 million shares of common stock for each period. These shares were not included as they were considered antidilutive due to the net loss the Company experienced during these periods.

Note 4 — Balance Sheet Components

	As of March 30, 2014	December 29, 2013
	(in thousands)	
Inventories:		
Raw materials	$—	$19
Work-in-process	1,620	1,343
Finished goods	3,604	2,774
	$5,224	$4,136
Other current assets:		
Prepaid expenses	$846	$845
Other	78	427
	$924	$1,272
Property and equipment:		
Equipment	$13,325	$13,294
Software	3,096	3,349
Furniture and fixtures	710	710
Leasehold improvements	640	640
	17,771	17,993
Accumulated depreciation and amortization	(15,203)	(15,153)
	$2,568	$2,840
Accrued liabilities:		
Employee related accruals	$1,640	$2,821
Other	1,004	698
	$2,644	$3,519

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

Note 5 — Obligations

	As of March 30, 2014	December 29, 2013