QUICKLOGIC CORPORATION
Form 10-Q
May 11, 2017
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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 April 2, 2017
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”, “smaller reporting company” and "emerging growth 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 [ ]

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act [ ]

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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 [x]
As of May 5, 2017, the registrant had outstanding 79,561,420 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)

	April 2, 2017	January 1, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$26,674	$14,870
Accounts receivable, net of allowances for doubtful accounts of $0 in both periods	1,807	839
Inventories	2,861	2,017
Other current assets	977	1,123
Total current assets	32,319	18,849
Property and equipment, net	2,566	2,765
Other assets	233	230
TOTAL ASSETS	$35,118	$21,844
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving line of credit	$6,000	$6,000
Trade payables	2,498	2,018
Accrued liabilities	2,016	1,580
Deferred revenue	317	—
Current portion of capital lease obligations	171	209
Total current liabilities	11,002	9,807
Long-term liabilities:		
Capital lease obligations, less current portion	42	—
Other long-term liabilities	45	49
Total liabilities	11,089	9,856
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; 79,561 and 68,134 shares issued and outstanding as of April 2, 2017 and January 1, 2017, respectively	79	68
Additional paid-in capital	267,419	251,824
Accumulated deficit	(243,469)	(239,904)
Total stockholders' equity	24,029	11,988
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$35,118	$21,844

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	
	April 2, 2017	April 3, 2016
Revenue	$3,170	$2,950
Cost of revenue	1,797	1,794
Gross profit	1,373	1,156
Operating expenses:		
Research and development	2,427	3,447
Selling, general and administrative	2,414	2,693
Total operating expenses	4,841	6,140
Loss from operations	(3,468)	(4,984)
Interest expense	(61)	(38)
Interest income and other (expense), net	—	(7)
Loss before income taxes	(3,529)	(5,029)
Provision for income taxes	36	64
Net loss	$(3,565)	$(5,093)
Net loss per share:		
Basic	$(0.05)	$(0.09)
Diluted	$(0.05)	$(0.09)
Weighted average shares:		
Basic	68,794	58,371
Diluted	68,794	58,371

Note: Net Loss equals to comprehensive loss for the quarters ended April 2, 2017 and April 3, 2016.

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 2, 2017	April 3, 2016
Cash flows from operating activities:		
Net loss	$(3,565)	$(5,093)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	355	312
Stock-based compensation	318	562
Write-down of inventories	104	3
Changes in operating assets and liabilities:		
Accounts receivable	(968)	46
Inventories	(948)	(455)
Other assets	183	240
Trade payables	267	(414)
Accrued liabilities	75	348
Deferred revenue	317	—
Other long-term liabilities	(4)	(6)
Net cash used in operating activities	(3,866)	(4,457)
Cash flows from investing activities:		
Capital expenditures for property and equipment	(15)	(1,051)
Net cash used in investing activities	(15)	(1,051)
Cash flows from financing activities:		
Payment of debt and capital lease obligations	(122)	(75)
Proceeds from line of credit	—	1,000
Proceeds from issuance of common stock	17,069	10,000
Stock issuance costs	(1,242)	(1,200)
Taxes for net issuance of stock awards	(20)	(51)
Net cash provided by financing activities	15,685	9,674
Net increase in cash and cash equivalents	11,804	4,166
Cash and cash equivalents at beginning of period	14,870	19,136
Cash and cash equivalents at end of period	$26,674	$23,302
Supplemental schedule of non-cash investing and financing activities :		
Capital lease obligation to finance capital expenditures	$213	$414
Purchase of equipment included in accounts payable	$15	$385

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 ("QuickLogic" or "the Company") was founded in 1988 and reincorporated in Delaware in 1999. The Company enables Original Equipment Manufacturers, or OEMs to maximize battery life for highly differentiated, immersive user experiences with Smartphone, Wearable, Tablet and Internet-of-Things, or IoT devices. QuickLogic delivers these benefits through industry leading ultra-low power customer programmable System on Chip, or SoC semiconductor solutions, embedded software, and eFPGA IP licensing solutions for always-on voice and sensor processing, and enhanced visual experiences. The Company is a fabless semiconductor provider of comprehensive, flexible sensor processing solutions, ultra-low power display bridges, and ultra-low power Field Programmable Gate Arrays, or FPGAs.

The accompanying interim condensed consolidated financial statements are unaudited. In the opinion of management, these statements have been prepared in accordance with United States generally accepted accounting principles, or U.S. 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 interim condensed consolidated financial statements be read in conjunction with the Company's Form 10-K for the year ended January 1, 2017, which was filed with the Securities and Exchange Commission or SEC on March 9, 2017. Operating results for the three months ended April 2, 2017 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 and the fiscal quarters each end on the Sunday closest to the end of each calendar quarter. QuickLogic's first fiscal quarters for 2017 and for 2016 ended on Sunday, April 2, 2017 and April 3, 2016, 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 April 2, 2017, the Company's principal sources of liquidity consisted of cash and cash equivalents of $26.7 million and $6.0 million available credit at Company's election under its revolving line of credit with Silicon Valley Bank, which expires on September 25, 2017. The Company has drawn down $6.0 million currently available credit under its revolving line of credit.

On September 25, 2015, the Company entered into a Second Amendment to the Third Amended and Restated Loan and Security Agreement with Silicon Valley Bank to extend the line of credit for two years through September 25, 2017. This amendment modifies some of the financial covenants. This line of credit provides for committed loan advances of up to $6.0 million, subject to increases at the Company's election of up to $12.0 million. On February 10, 2016, the Company entered into a Third Amendment to the Third and Restated Loan and Security Agreement to further modify the covenants. See Note 5 for a description of the modified covenants. The Company is in compliance with all loan covenants as of the end of the current reporting period.

On March 28, 2017, the Company issued 11.3 million shares of common stock at a price of $1.50 per share, $0.001 par value. The Company received net proceeds of approximately $15.8 million, after deducting underwriting commissions and other offering related expenses. The Company expects to use the net proceeds for working capital, to accelerate the development of next generation products and for general corporate purposes. The Company may also use a portion of the net proceeds to acquire and/or license technologies and acquire and/or invest in businesses when the opportunity arises; however, the Company currently has no commitments or agreements and are not involved in any negotiations with respect to any such transactions. The shares were offered pursuant to a shelf registration statement filed on December 9, 2016 with the Securities and Exchange Commission, or SEC, as amended on March 15, 2017, which was declared effective by the SEC on March 16, 2017, and as supplemented by a prospectus supplement dated March 23, 2017, which were filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended.

The Company currently uses its cash to fund its capital expenditures and operations. Based on past operating performance and current annual operating plans, 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 from the date the condensed unaudited consolidated financial statements as of and for the three-month period ended April 2, 2017 are available to be issued.

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 solutions based on its Sensor Processing 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 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 its 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.

Over the longer term, the Company anticipates that the generation of sales from its new product offerings, existing cash and cash equivalents, together with financial resources from its revolving line of credit with Silicon Valley Bank, assuming renewal of the line of credit or the Company entering into a new debt agreement with an alternative lender prior to the expiration of this existing revolving line of credit in September 2017, and its ability to raise additional capital in the public capital markets will be sufficient to satisfy its operations and capital expenditures. However, the Company cannot provide any assurance that it will be able to raise additional capital, if required, or that such capital will be available on terms acceptable to the Company. The inability of the Company to generate sufficient sales from its new product offerings and/or raise additional capital if needed could have a material adverse effect on the Company’s operations and financial condition, including its ability to maintain compliance with its lender’s financial covenants.

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.

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 U.S. 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 materially from those estimates, particularly in relation to revenue recognition, the allowance for doubtful accounts, sales returns, valuation of investments, valuation of long-lived assets including mask sets, 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 April 2, 2017, the Company generated 22% of its total revenue from shipments to Samsung Electronics Co., Ltd. ("Samsung"). See Note 11 for information regarding concentrations associated with customers and distributors.

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

Note 2 — Significant Accounting Policies

During the three months ended April 2, 2017, 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 January 1, 2017. For a discussion of the significant accounting policies, please see the Annual Report on Form 10-K for the fiscal year ended January 1, 2017, filed with the SEC, on March 9, 2017. In the first quarter of 2017, the Company started recognizing revenue from licensing eFPGA Intellectual Property, or IP. Following is the Company's revenue recognition policy for IP licensing.

The Company accounts for its IP license revenues and related services in accordance with FASB ASC No. 985-605, “Software Revenue Recognition.” Revenues are recognized when persuasive evidence of an arrangement exists and no further obligation exists, delivery has occurred, the license fee is fixed or determinable, and collection is reasonably assured. A license may be perpetual or time limited in its application.The Company’s IP license agreement contains multiple elements including post-contract customer support. For multiple element arrangements involving software and other software-related deliverables, vendor-specific objective evidence of fair value (“VSOE”) must exist to allocate the total fee among all delivered and non-essential undelivered elements of the arrangement. If undelivered elements of the arrangement are essential to the functionality of the product, revenue is deferred until the essential elements are delivered. If VSOE does not exist for one or more non-essential undelivered elements, revenue is deferred until such evidence exists for the undelivered elements, or until all elements are delivered, whichever is earlier. VSOE of each element is based on historical evidence of stand-alone sales of these elements to third parties including substantive renewal rate as stated in the agreement. When VSOE does not exist for undelivered items, the entire arrangement fee is recognized ratably over the performance period.

As the IP license agreement entered into during the quarter ended April 2, 2017 is the first such revenue agreement, no VSOE exists for any of the elements. Accordingly, the Company is recognizing revenue associated with this contract ratably over the performance period.

New Accounting Pronouncements

Recently adopted accounting pronouncements:

In July 2015, the Financial Accounting Standards Board or FASB issued Accounting Standards Update or ASU 2015-11, Inventory (Topic 330): Simplifying the measurement of Inventory, which amends the accounting guidance on the valuation of inventory. The guidance requires an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendment applies to inventory valued at first-in, first-out or average cost. This guidance is effective for reporting periods beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted this guidance prospectively with no material effect on the consolidated financial statements.

Recently issued accounting pronouncements not yet adopted:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. In July 2015, the FASB approved a one-year delay in the effective date by issuing ASU 2015-09, Revenue from Contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of our pending adoption of the new standard on the consolidated financial statements.

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In March 2016, the FASB issued ASU No. 2016-08, Revenue from contracts with customers (Topic 606): Principal versus Agent Considerations Reporting Revenue Gross versus Net. The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by amending certain existing illustrative examples and adding additional illustrative examples to assist in the application of the guidance. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09. Public entities should apply the amendments in ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Private entities must apply the amendments one year later. The Company is currently evaluating the impact of our pending adoption of the new standard on the consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from contracts with customers (Topic 606): Narrow Scope Improvements and Practical Expedients. This update among other things: (1) clarify the object of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior period reporting is not required to disclose the effect of the accounting change for the period of adoption. This amendment is effective for public entities for annual reports beginning after December 15, 2017, including interim periods therein. For nonpublic entities one year later. The Company is currently evaluating the impact of our pending adoption of the new standard on the consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and for interim periods therein with early adoption permitted and must be applied retrospectively to all periods presented. The Company is currently evaluating the impact of our pending adoption of the new standard on the consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity transfers of assets other than inventory. This update removes the requirement under which the income tax consequences of intra-entity transfers are deferred until the assets are ultimately sold to an outside party, except for transfers of inventory. The tax consequences of such transfers would be recognized in tax expense when the transfers occur. The standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance on the consolidated financial statements.

Other new accounting pronouncements are disclosed on the Annual Report on Form 10-K for the fiscal year ended January 1, 2017 filed with the SEC on March 9, 2017.

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 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 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 three months ended April 2, 2017 and April 3, 2016: (i) 7.3 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 2.3 million shares of common stock as of April 2, 2017 and April 3, 2016, respectively. These shares were not included as they were considered anti-dilutive due to the net loss the Company experienced during these periods.

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

Note 4 — Balance Sheet Components

The following provides details relating to certain balance sheet accounts as of April 2, 2017, and January 1, 2017:

	As of April 2, 2017	January 1, 2017
	(in thousands)	
Inventories:		
Work-in-process	$2,239	$1,538
Finished goods	622	479
	$2,861	$2,017
Other current assets:		
Prepaid expenses	$836	$960
Other	141	163
	$977	$1,123
Property and equipment:		
Equipment	$11,552	$11,524
Software	2,749	2,624
Furniture and fixtures	41	41
Leasehold improvements	708	708
	15,050	14,897
Accumulated depreciation and amortization	(12,484)	(12,132)
	$2,566	$2,765
Accrued liabilities:		
Employee related accruals	$1,632	$1,222
Other	384	358
	$2,016	$1,580

Note 5 — Financing Obligations

The following provides details relating to the Company's financing obligations as of April 2, 2017 and January 1, 2017:

	As of April 2, 2017	January 1, 2017
	(in thousands)	
Debt and capital lease obligations:		
Revolving line of credit	$6,000	$ 6,000
Capital leases	213	209
	6,213	6,209
Current portion of debt and capital lease obligations	(6,171)	(6,209)
Long term portion of debt and capital lease obligations	$42	$ —

Revolving Line of Credit

On September 25, 2015, the Company entered into the Second Amendment to the Third Amended and Restated Loan and Security Agreement dated September 25, 2015 ("the Loan Agreement") with Silicon Valley Bank (the "Bank"). The terms of the Loan Agreement include a $6.0 million revolving line of credit available through September 25, 2017, subject to increases at the Company's election of up to $12 million. Upon each advance, the Company can elect a Prime Rate advance, which is the prime rate plus the prime rate margin, or a LIBOR advance, which is LIBOR rate plus the LIBOR rate margin. As of the first quarter ended April 2, 2017, the Company had $6.0 million of revolving debt outstanding with an interest rate of 3.94%.

On February 10, 2016, the Company entered into a Third Amendment to the Third Amended and Restated Loan and Security Agreement with the Bank to amend certain covenants contained in the Loan Agreement. As amended, the Company is required to maintain, beginning in the quarter ending March 31, 2016, (i) a tangible net worth of at least $12.0 million, plus (a) 50% of the proceeds from any equity issuance, plus (b) 50% of the proceeds from any investments, tested as of the last day of each month; (ii) unrestricted cash or cash equivalents at the Bank or Bank's affiliates at all times in an amount of at least $6.0 million; and (iii) a ratio of quick assets to the results of (i) current liabilities minus (ii) the current portion of deferred revenue plus (iii) the long-term portion of the obligations of at least 2.00 to 1.00, tested as of the last day of each month. Beginning with the second fiscal quarter of 2016, the tangible net worth requirement, is reduced as follows: For the quarter ending June 30, 2016, at least $10.0 million; for the quarter ending September 30, 2016, at least $8.0 million; for the quarter ending December 31, 2016, at least $6.0 million; for the quarter ending March 31, 2017, at least $4.0 million; for the quarter ending June 30, 2017, at least $8.0 million. Beginning with the third fiscal quarter of 2016, the Company is required to maintain a ratio of quick assets to the results of (i) current liabilities minus (ii) the current portion of deferred revenue plus (iii) the long-term portion of the obligations of at least 1.50 to 1.00 in the fiscal quarters ended September 30, 2016 and December 31, 2016 and of at least 1.25 to 1.00 in the fiscal quarters ended March 31, 2017 and June 30, 2017.

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 Loan Agreement.

Capital Leases

In February 2017, the Company leased design software under a three-year capital lease at an imputed interest rate of 5.57% per annum. Terms of the agreement require the Company to make annual payments of approximately $44,300 through February 15, 2019, for a total of $132,800. As of April 2, 2017, $82,000 was outstanding under the capital lease, $40,000 of which was classified as a current liability.

In December 2015, the Company leased design software under a two-year capital lease at an imputed interest rate of 4.88% per annum. Terms of the agreement require the Company to make quarterly payments of approximately $22,750 through November 2017, for a total of $182,000. As of April 2, 2017, $67,000 was outstanding under the capital lease, all of which was classified as a current liability.

In July 2015, the Company leased design software under a three-year capital lease at an imputed interest rate of 4.91% per annum. Terms of the agreement require the Company to make annual payments of approximately $67,300 through July 2017, for a total of $202,000. As of April 2, 2017, $64,000 was outstanding under the capital lease, all of which was classified as a current liability.

In July 2014, the Company leased design software under a 41-month capital lease at an imputed interest rate of 3.15% per annum. Terms of the agreement require the Company to make payments of principal and interest of $42,000 in August 2014, $16,000 in December 2014, $58,000 in January 2016 and $58,000 in January 2017. The total payments for the lease was $174,000. The lease was fully paid off in January 2017.

In May 2014, the Company leased design software under a three-year capital lease at an imputed interest rate of 4.8% per annum. Terms of the agreement require the Company to make annual payments of approximately $84,000 through April 2016, for a total of $252,000. As of April 2, 2017, there was no balance outstanding.

Note 6 — Fair Value Measurements

The following table presents the Company's financial assets that are measured at fair value on a recurring basis as of April 2, 2017 and January 1, 2017, consistent with the fair value hierarchy provisions of the authoritative guidance (in thousands):

	April 2, 2017				January 1, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Money market funds [1]	$26,152	$16,285	$9,867	$ —	$14,692	$1,338	$13,354	$ —
Total assets	$26,152	$16,285	$9,867	$ —	$14,692	$1,338	$13,354	$ —

(1) Money market funds are presented as a part of cash and cash equivalents on the accompanying consolidated balance sheets as of April 2, 2017 and January 1, 2017.

Note 7 - Stockholders' Equity

Common Stock and Preferred Stock

As of April 2, 2017, the Company is authorized to issue 100 million shares of common stock and has 10 million shares of authorized but unissued shares of preferred stock. Without any further vote or action by the Company's stockholders, the Board of Directors has the authority to determine the powers, preferences, rights, qualifications, limitations or restrictions granted to or imposed upon any wholly unissued shares of undesignated preferred stock.

On April 26, 2017, the Company filed an Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to increase the number of authorized shares of common stock from one hundred million (100,000,000) to two hundred million (200,000,000). The proposal for the amendment was approved by the Company’s stockholders at its 2017 Annual Meeting of Stockholders held on April 26, 2017.

Issuance of Common Stock and Warrants

On December 6, 2016, the Company filed a shelf registration statement on Form S-3 as amended on March 15, 2017, under which the Company may, from time to time, sell securities in one or more offerings up to a total dollar amount of $40.0 million. The Company's shelf registration statement was declared effective on March 16, 2017.

Under the above shelf registration, in March 2017, the Company issued an aggregate of 11.3 million shares of common stock, $0.001 par value, in an underwritten public offering at a price of $1.50 per share. The Company received net proceeds from this offering of approximately $15.8 million, net of underwriter's commission and other offering expenses.

In March 2016, the Company issued an aggregate of 10.0 million shares of common stock, $0.001 par value, in an underwritten public offering at a price of $1.00 per share under the shelf registration that was effective on August 30, 2013 and expired on August 30, 2016. The Company received net proceeds from the offering of approximately $8.8 million, net of underwriter's commission and other offering expenses.

As of April 2, 2017, 2.3 million warrants were outstanding. The 2.3 million warrants with a strike price of $2.98 were issued in conjunction with a June 2012 financing. These warrants will expire in June 2017 and can only be exercised on a cashless basis.

Note 8 — Employee Stock Plans

2009 Stock Plan

The 2009 Stock Plan, or 2009 Plan, was amended and restated by the Board of Directors in January 2015 and approved by the Company's stockholders on April 23, 2015 to, among other things, reserve an additional 2.5 million shares of common stock for issuance under the 2009 Plan. As of April 2, 2017, approximately 10.2 million shares were reserved for issuance under the 2009 Plan. On April 26, 2017, Company's stockholders among other things, approved to reserve an additional 1.5 million shares of common stock for issuance under the 2009 Plan.

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. RSUs typically vest at a rate of 25% one year after the vesting commencement date, and one eighth every six months 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. In January 2015, the 2009 ESPP was amended by the Board of Directors and approved by the Company's stockholders on April 23, 2015 to reserve an additional 1.0 million shares of common stock for issuance under the 2009 ESPP. As of April 2, 2017, approximately 3.3 million shares were reserved for issuance under the 2009 ESPP Plan. On April 26, 2017, Company's stockholders among other things, approved to reserve an additional 1.5 million shares of common stock for issuance under the 2009 ESPP Plan.

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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Note 9 — Stock-Based Compensation

The stock-based compensation expense included in the Company's consolidated financial statements for the three months ended April 2, 2017 and April 3, 2016 was as follows (in thousands):

	Three Months Ended	
	April 2, 2017	April 3, 2016
Cost of revenue	$33	$ 38
Research and development	139	291
Selling, general and administrative	146	233
Total costs and expenses	$318	$ 562

No stock-based compensation was capitalized during any period presented above.

No stock options were granted in the first quarter of 2017 and 2016. As of April 2, 2017 and April 3, 2016, the fair value of unvested stock options, net of expected forfeitures, was approximately $413,000 and $656,000, respectively. This unrecognized stock-based compensation expense is expected to be recorded over a weighted average period of 2.91 years.

Stock-Based Compensation Award Activity

The following table summarizes the activity in the shares available for grant under the 2009 Plan during the three months ended April 2, 2017:

	Shares Available for Grant (in thousands)
Balance at January 1, 2017	2,632
Options forfeited or expired	80
RSUs granted	(136)
RSUs forfeited or expired	101
Balance at April 2, 2017	2,677

Stock Options

The following table summarizes stock options outstanding and stock option activity under the 2009 Plan, and the related weighted average exercise price, for the first three months of 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Balance outstanding at January 1, 2017	4,979	$ 2.35		

Forfeited or expired	(80	)	$ 3.01		
Exercised	(53	)	1.31		
Balance outstanding at April 2, 2017	4,846		$ 2.35	3.88	$ 1,136
Exercisable at April 2, 2017	3,976		$ 2.61	2.74	$ 449
Vested and expected to vest at April 2, 2017	4,685		$ 2.39	3.70	$ 999

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of $1.78 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.

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The total intrinsic value of options exercised during the first three months of 2017 and 2016 was $27,000 and $0, respectively. Total cash received from employees as a result of employee stock option exercises during the first three months of 2017 and 2016 was approximately $70,000 and $0 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 $62,000 for the three months ended April 2, 2017.

Restricted Stock Units and Performance-based Restricted Stock Units

The Company began issuing RSUs and PRSUs in the third quarter of 2007. RSUs entitle the holder to receive, at no cost, one common share for each RSU as it vests. In general, the Company's policy is to withhold shares in settlement of employee tax withholding obligations upon the vesting of RSUs. The stock-based compensation related to RSUs and PRSUs was $156,000 and $0 for the three months ended April 2, 2017, respectively. As of April 2, 2017 and April, 3, 2016, there was $1.0 million and $1.7 million, respectively, in unrecognized compensation expense related to RSUs and PRSUs.

A summary of activity for the Company's RSUs and PRSUs for the three months ended April 2, 2017 and information regarding RSUs and PRSUs outstanding and expected to vest as of April 2, 2017 is as follows:

	RSUs & PRSUs Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Nonvested at January 1, 2017	1,370	$ 1.68
Granted	136	1.70
Vested		