QUICKLOGIC CORPORATION
Form 10-Q
May 08, 2013
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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 31, 2013
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 3, 2013, the registrant had outstanding 44,533,145 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	
	March 31, 2013	April 1, 2012
Revenue	$3,017	$4,130
Cost of revenue	1,986	2,371
Gross profit	1,031	1,759
Operating expenses:		
Research and development	2,008	2,802
Selling, general and administrative	2,530	2,697
Restructuring costs	7	—
Income (loss) from operations	(3,514)	(3,740)
Interest expense	(9)	(13)
Interest income and other, net	(4)	(13)
Income (loss) before income taxes	(3,527)	(3,766)
Provision for (benefit from) income taxes	57	(45)
Net income (loss)	$(3,584)	$(3,721)
Net Income (loss) per share:		
Basic	$(0.08)	$(0.10)
Diluted	$(0.08)	$(0.10)
Weighted average shares:		
Basic	44,517	38,495
Diluted	44,517	38,495

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Three Months Ended	
	March 31, 2013	April 1, 2012
Net income (loss)	$(3,584)	$(3,721)
Other comprehensive gain (loss), net of tax:		
Unrealized gain (loss) on available-for-sale investments	(43)	98
Total comprehensive income (loss)	$(3,627)	$(3,623)

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)

	March 31, 2013	December 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$19,659	$22,578
Short-term investment in TowerJazz Semiconductor Ltd.	303	345
Accounts receivable, net of allowances for doubtful accounts of $51 and $20, respectively	1,392	1,242
Inventories	2,525	3,028
Other current assets	846	986
Total current assets	24,725	28,179
Property and equipment, net	2,404	2,659
Other assets	207	186
TOTAL ASSETS	$27,336	$31,024
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$1,393	$1,965
Accrued liabilities	1,289	1,214
Current portion of capital lease obligations	239	160
Total current liabilities	2,921	3,339
Long-term liabilities:		
Capital lease obligations, less current portion	135	266
Other long-term liabilities	167	141
Total liabilities	3,223	3,746
Commitments and contingencies (see Note 15)		
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; 44,533 and 44,506 shares issued and outstanding, respectively	45	45
Additional paid-in capital	205,259	204,797
Accumulated other comprehensive income (loss)	(54)	(11)
Accumulated deficit	(181,137)	(177,553)
Total stockholders' equity	24,113	27,278
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$27,336	$31,024

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 31, 2013	April 1, 2012
Cash flows from operating activities:		
Net income (loss)	$(3,584)	$(3,721)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	317	290
Stock-based compensation	452	384
Write-down of inventories	343	329
Tax effect on other comprehensive income	—	(63)
Bad Debt	31	10
Changes in operating assets and liabilities:		
Accounts receivable	(181)	(85)
Inventories	160	318
Other assets	102	(195)
Trade payables	(572)	(420)
Accrued liabilities	77	336
Deferred royalty revenue	—	(8)
Other long-term liabilities	26	(9)
Net cash provided by (used for) operating activities	(2,829)	(2,834)
Cash flows from investing activities:		
Capital expenditures for property and equipment	(62)	(69)
Net cash provided by (used for) investing activities	(62)	(69)
Cash flows from financing activities:		
Payment of debt and capital lease obligations	(35)	(116)
Net proceeds from issuance of common stock	7	39
Net cash provided by (used for) financing activities	(28)	(77)
Net increase (decrease) in cash and cash equivalents	(2,919)	(2,980)
Cash and cash equivalents at beginning of period	22,578	20,203
Cash and cash equivalents at end of period	$19,659	$17,223
Supplemental schedule of non-cash investing and financing activities :		
Capital lease obligation to finance capital expenditures	$374	$917
Purchase of equipment included in accounts payable	$—	$765

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 December 30, 2012. Operating results for the three months ended March 31, 2013 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 2013 and 2012 ended Sunday, March 31, 2013 and April 1, 2012, respectively.

Liquidity

We have financed our operations and capital investments through sales of common stock, private equity investments, capital and operating leases, bank lines of credit and cash flows from operations. As of March 31, 2013, our principal sources of liquidity consisted of our cash and cash equivalents of $19.7 million, $6.0 million in available credit under our revolving line of credit with Silicon Valley Bank, which expires June 28, 2013, and our investment in TowerJazz Semiconductor Ltd., or TowerJazz, with a fair value of approximately $303,000.

The Company anticipates that its existing cash resources will fund operations, finance purchases of capital equipment and provide adequate working capital for at least 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; 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; changes in operating assets and liabilities; the ability to obtain or renew debt financing and to remain in compliance with the terms of existing credit facilities; the ability to raise funds from the sale of shares of TowerJazz and equity in the Company; the issuance and exercise of stock options and participation in the Company's employee stock purchase plan; and other factors related to the uncertainties of the industry and global economics. Accordingly, there can be no assurance that events in the future will not require the Company to seek additional capital or, if so required, that such capital will be available on terms acceptable to the Company.

Principles of Consolidation

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

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, net in the statement of operations.

Uses of Estimates

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

Concentration of Risk

The Company's accounts receivable are denominated in U.S. dollars and are derived primarily from sales to customers located in North America, Asia Pacific, and Europe. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. See Note 13 for information regarding concentrations associated with accounts receivable. The Company's investment in TowerJazz is subject to equity risk. See Note 4 for the information regarding the Company's investment in TowerJazz Semiconductor, Ltd.

Note 2 — Significant Accounting Policies

During the first quarter of 2013, 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 30, 2012. For a discussion of the significant accounting policies, please see the Annual Report on Form 10-K for the fiscal year ended December 30, 2012, filed with the Securities Exchange Commission, or SEC, on March 8, 2013.

New Accounting Pronouncements

In February 2013, the FASB issued guidance on disclosure requirements for items reclassified out of Accumulated Other Comprehensive Income (“AOCI”). This new guidance requires entities to present (either on the face of the income statement or in the notes) the effects on the line items of the income statement for amounts reclassified out of AOCI. The new guidance is effective for the Company beginning December 15, 2012. The Company adopted this guidance in its interim period ended March 31, 2013 (see Note 11). The adoption of this guidance did not impact the Company's financial statements, as the guidance is related to disclosure only, and the Company did not have reclassifications out of accumulated other comprehensive income.

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 ended March 30, 2014. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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

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

stock options and warrants.

The following shares were not included in the calculation of diluted net income (loss) per share for the first quarter of 2013 and 2012: (i) 7.5 million and 7.7 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 and 1.9 million shares of common stock, respectively. These shares were not included as they were considered antidilutive due to the net loss the Company experienced during these periods.

Note 4 — Investment in TowerJazz Semiconductor Ltd.

As of March 31, 2013, the Company held 42,970 available-for-sale TowerJazz ordinary shares with a net unrealized loss of $54,000 recorded in accumulated other comprehensive income, or AOCI, on the balance sheet which includes tax benefits and the difference between the cost of $1.95 per share and carrying value of $7.04 per share, their fair value on the last trading day of the reporting period. The fair value of TowerJazz marketable securities as of March 31, 2013 was determined based on “Level 1” inputs as described in Note 7.

Note 5 — Balance Sheet Components

	As of March 31, 2013	December 30, 2012
	(in thousands)	
Inventories:		
Raw materials	$28	$32
Work-in-process	2,165	2,599
Finished goods	332	397
	$2,525	$3,028
Other current assets:		
Prepaid expenses	$815	$954
Other	31	32
	$846	$986
Property and equipment:		
Equipment	$12,864	$12,803
Software	5,682	5,682
Furniture and fixtures	746	746
Leasehold improvements	658	658
	19,950	19,889
Accumulated depreciation and amortization	(17,546)	(17,230)
	$2,404	$2,659
Accrued liabilities:		
Employee related accruals	$1,075	$1,035
Other	214	179
	$1,289	$1,214

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

Note 6 — Obligations

	As of March 31, 2013	December 30, 2012
	(in thousands)	
Capital lease obligations:		
Capital leases	$374	$426
	374	426
Current portion of capital lease obligations	(239)	(160)
Long term portion of capital lease obligations	$135	$266

Revolving Line of Credit

In June 2012, the Company entered into the Eighth Amendment to Second Amended and Restated Loan and Security Agreement ("Agreement") with Silicon Valley Bank. The terms of the Agreement include a $6.0 million revolving line of credit available through June 28, 2013, as long as the Company is in compliance with the loan covenants. Upon each advance, the Company can elect a fixed interest rate, which is the prime rate plus the prime rate margin, or a fixed rate which is LIBOR plus the LIBOR rate margin, as the case may be. During the first quarter of 2013, the Company had no borrowings against the line of credit.

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

Capital Leases

In February 2012, the Company leased design software tools under a three-year capital lease at an imputed interest rate of 4.3% per annum. Terms of the agreement required the Company to make two payments of principal and interest of $9,000 in March 2012 and $18,000 in December 2012, for a total of $27,000. As of March 31, 2013, there was no liability balance outstanding under the capital lease.

In January 2012, the Company leased design software tools under a three-year capital lease at an imputed interest rate of 4.24% per annum. Terms of the agreement require the Company to make semi-annual payments of principal and interest of approximately $82,500 through July 2014, for a total of $495,000 over the three year period. As of March 31, 2013, $264,000 was outstanding under the capital lease, of which $129,000 was classified as a current liability.

In December 2011, the Company leased design software under a two-year capital lease at an imputed interest rate of 4.24% per annum. Terms of the agreement require the Company to make quarterly payments of approximately $38,000 through November 2013, for a total of $300,000. As of March 31, 2013, $110,000 was outstanding under the capital lease, all of which was classified as a current liability.

Note 7 — Fair Value Measurements

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

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

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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 March 31, 2013 and December 30, 2012, consistent with the fair value hierarchy provisions of the authoritative guidance (in thousands):

	As of March 31, 2013				As of December 30, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Money market funds [1]	$18,709	$18,709	$—	$—	$21,907	21,907	$—	$—
Investment in TowerJazz Semiconductor Ltd. [2]	303	303	—	—	345	345	—	—
Total assets	$19,012	$19,012	$—	$—	$22,252	$22,252	$—	$—

(1) Money market funds are presented as a part of cash and cash equivalents on the accompanying consolidated balance sheets as of March 31, 2013 and December 30, 2012.

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

Note 8 - Stockholders' Equity

Common and Preferred Stock

The Company is authorized to issue 100 million shares of common stock and has 10 million shares of authorized but unissued shares of undesignated 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.

Issuance of Common Stock

In June 2012, the Company issued an aggregate of 5,122,000 shares of common stock and warrants to purchase up to an aggregate of 2,304,900 shares of common stock in a confidentially marketed underwritten offering. The common stock and warrants were issued in units (the “Units”), with each Unit consisting of (i) one share of common stock and (ii) a warrant to purchase 0.45 of a share of common stock, at a price of $2.50 per Unit. The Company received total net proceeds from the offering of $11.9 million, net of underwriting discounts and other offering expenses of $929,000.

The warrants are exercisable any time for a period of 60 months from the date of issuance on June 6, 2012, and are exercisable at a price of $2.98 per share. The Company allocated the proceeds between the common stock and the warrants based on the relative fair value of each on the date of issuance. The estimated grant date fair value was $0.97 per warrant and was calculated based on the following assumptions used in the Black-Scholes model: expected term of 5 years, risk-free interest rate of 0.89%, expected volatility of 62.18% and expected dividend of zero.

Note 9 — Employee Stock Plans

1999 Stock Plan

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

2009 Stock Plan

The 2009 Stock Plan, or 2009 Plan, was amended and restated by the Board of Directors in March 2011 and approved by the Company's stockholders on April 28, 2011 to, among other things, reserve an additional 1.5 million shares of common stock for issuance under the Plan. As of March 31, 2013, approximately 6.9 million shares were reserved for issuance under the 2009 Plan. Equity awards that are cancelled, forfeited or repurchased under the 1999 Plan become available for grant under the 2009 Plan, up to a maximum of an additional 7.5 million shares. Equity awards granted under the 2009 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter. The Company may implement different vesting schedules in the future with respect to any new equity awards.

Employee Stock Purchase Plan

The 2009 Employee Stock Purchase Plan, or 2009 ESPP, was adopted in March 2009. The Company has reserved 2.3 million shares for issuance under the 2009 ESPP. The 2009 ESPP provides for six month offering periods. Participants purchase shares through payroll deductions of up to 20% of an employee's total compensation (maximum of 20,000 shares per offering period). The 2009 ESPP permits the Board of Directors to determine, prior to each offering period, whether participants purchase shares at: (i) 85% of the fair market value of the common stock at the end of the offering period; or (ii) 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period. The Board of Directors has determined that, until further notice, future offering periods will be made at 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period.

Note 10 — Stock-Based Compensation

The equity incentive program in the Company is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. The Company provides stock-based incentive compensation, or awards, to eligible employees and non-employee directors. Awards that may be granted under the program include non-qualified and incentive stock options, restricted stock units, or RSUs, performance-based restricted stock units, or PRSUs, and stock bonus units. To date, awards granted under the program consist of stock options, RSUs and PRSUs. The majority of stock-based awards granted under the program vest over four years. Stock options granted under the program have a maximum contractual term of ten years.

The stock-based compensation expense included in the Company's consolidated financial statements for the first quarter of 2013 and 2012 was as follows (in thousands):

	Three Months Ended	
	March 31, 2013	April 1, 2012
Cost of revenue	$30	$32
Research and development	166	93
Selling, general and administrative	256	259
Total costs and expenses	$452	$384

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

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Valuation Assumptions

The Company uses the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under the Company's 2009 ESPP. Using the Black-Scholes pricing model requires the Company to develop highly subjective assumptions including the expected term of awards, expected volatility of its stock, expected risk-free interest rate and expected dividend rate over the term of the award. The Company's expected term of awards assumption is based primarily on its historical experience with similar grants. The Company's expected stock price volatility assumption for both stock options and ESPP shares is based on the historical volatility of the Company's stock, using the daily average of the opening and closing prices and measured using historical data appropriate for the expected term. The risk-free interest rate assumption approximates the risk-free interest rate of a Treasury Constant Maturity bond with a maturity approximately equal to the expected term of the stock option or ESPP shares. This fair value is expensed over the requisite service period of the award. The fair value of RSUs and PRSUs is based on the closing price of the Company's common stock on the date of grant. Equity compensation awards which vest with service are expensed using the straight-line attribution method over the requisite service period.

In addition to the assumptions used in the Black-Scholes pricing model, the Company is required to develop an estimate of the number of awards expected to be forfeited prior to vesting, or forfeiture rate. The forfeiture rate is estimated based on historical pre-vest cancellation experience and is applied to all share-based awards.

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

	Three Months Ended			
	March 31, 2013		April 1, 2012	
Expected term (years)	4.91		5.01	
Risk-free interest rate	0.82	%	0.89	%
Expected volatility	65.22	%	62.18	%
Expected dividend yield	—		—	

The weighted average estimated fair value for options granted during the first quarter of 2013 and 2012 were $1.27 and $1.37 per option, respectively. As of March 31, 2013, the fair value of unvested stock options, net of expected forfeitures, was approximately $1.9 million. This unrecognized stock-based compensation expense is expected to be recorded over a weighted average period of 2.46 years.

Stock-Based Compensation Award Activity

The following table summarizes the shares available for grant under the 2009 Plan as of March 31, 2013:

	Shares Available for Grant (in thousands)	
Balance at December 30, 2012	2,920	
Authorized	—	
Options granted	(16	)

Options forfeited or expired	37
RSUs granted	(2)
PRSUs forfeited or expired	5
Balance at March 31, 2013	2,944

Stock Options

The following table summarizes stock options outstanding and stock option activity under the 1999 Plan and the 2009

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Plan, and the related weighted average exercise price, for the first three months of 2013:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance outstanding at December 30, 2012	6,960	$2.55		
Granted	16	2.36		
Forfeited or expired	(37)	2.81		
Exercised	(18)	1.42		
Balance outstanding at March 31, 2013	6,921	$2.55	6.13	$2,188
Exercisable at March 31, 2013	5,204	$2.53	5.33	$1,990
Vested and expected to vest at March 31, 2013	6,601	$2.55	6.00	