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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended July 3, 2011

OR

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

For the Transition Period From _____ To _____

COMMISSION FILE NUMBER: 000-22671

QUICKLOGIC CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

77-0188504
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of August 5, 2011, the registrant had outstanding 38,419,112 shares of common stock, par value \$0.001.

QUICKLOGIC CORPORATION
FORM 10-Q
July 3, 2011

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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		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Revenue	\$ 5,737	\$ 6,479	11,284	11,908
Cost of revenue	1,966	2,553	3,905	4,669
Gross profit	3,771	3,926	7,379	7,239
Operating expenses:				
Research and development	3,312	1,533	5,115	3,593
Selling, general and administrative	2,543	2,518	5,150	4,853
Income (loss) from operations	(2,084)	(125)	(2,886)	(1,207)
Gain on sale of TowerJazz Semiconductor Ltd. shares	—	—	—	993
Interest expense	(18)	(27)	(26)	(45)
Interest income and other, net	(13)	(50)	(17)	(71)
Income (loss) before income taxes	(2,115)	(202)	(2,929)	(330)
Provision for (benefit from) income taxes	(55)	13	9	28
Net income (loss)	\$ (2,060)	\$ (215)	\$ (2,938)	\$ (358)
Net Income (loss) per share:				
Basic	\$ (0.05)	(0.01)	\$ (0.07)	(0.01)
Diluted	\$ (0.05)	(0.01)	\$ (0.07)	(0.01)
Weighted average shares:				
Basic	38,376	35,383	38,224	35,244
Diluted	38,376	35,383	38,224	35,244

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	July 3, 2011	January 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,439	\$ 21,956
Short-term investment in TowerJazz Semiconductor Ltd.	767	909
Accounts receivable, net of allowances for doubtful accounts of \$10 and \$16, respectively	3,124	4,143
Inventories	4,051	3,344
Other current assets	722	772
Total current assets	30,103	31,124
Property and equipment, net	2,174	2,312
Other assets	178	192
TOTAL ASSETS	\$ 32,455	\$ 33,628
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	\$ 2,127	\$ 2,152
Accrued liabilities	1,086	1,303
Deferred royalty revenue	196	328
Current portion of debt and capital lease obligations	207	408
Total current liabilities	3,616	4,191
Long-term liabilities:		
Other long-term liabilities	87	124
Total liabilities	3,703	4,315
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 100,000 shares authorized; 38,419 and 37,806 shares issued and outstanding, respectively	38	38
Additional paid-in capital	188,823	186,304
Accumulated other comprehensive income	474	616
Accumulated deficit	(160,583)	(157,645)
Total stockholders' equity	28,752	29,313
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 32,455	\$ 33,628

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Six Months Ended	
	July 3, 2011	July 4, 2010
Cash flows from operating activities:		
Net income (loss)	\$ (2,938)	\$ (358)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	651	582
Stock-based compensation	879	1,285
Utilization of wafer credits from TowerJazz Semiconductor Ltd.	—	190
Write-down of inventories	176	73
(Gains) losses on TowerJazz Semiconductor Ltd. Shares	—	(993)
(Gains) losses on disposal of equipment	(12)	1
Changes in operating assets and liabilities:		
Accounts receivable	1,019	(836)
Inventories	(883)	(177)
Other assets	64	(618)
Trade payables	(25)	(765)
Accrued liabilities	(217)	(96)
Deferred royalty revenue	(132)	(6)
Other long-term liabilities	(37)	116
Net cash provided by (used for) operating activities	<u>(1,455)</u>	<u>(1,602)</u>
Cash flows from investing activities:		
Capital expenditures for property and equipment	(501)	(147)
Proceeds from sale of equipment	—	32
Proceeds from sale of TowerJazz Semiconductor Ltd. Shares	—	1,084
Net cash provided by (used for) investing activities	<u>(501)</u>	<u>969</u>
Cash flows from financing activities:		
Payment of debt and capital lease obligations	(201)	(4,193)
Proceeds from debt obligations	—	4,000
Proceeds from issuance of common stock	1,640	468
Net cash provided by (used for) financing activities	<u>1,439</u>	<u>275</u>
Net increase (decrease) in cash and cash equivalents	(517)	(358)
Cash and cash equivalents at beginning of period	21,956	18,195
Cash and cash equivalents at end of period	<u>\$ 21,439</u>	<u>\$ 17,837</u>
Supplemental schedule of non-cash investing and financing activities :		
Capital lease obligation to finance capital expenditures and related maintenance	\$ 207	\$ 604
Purchase of equipment included in accounts payable	\$ 154	\$ 68

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Net income (loss)	\$ (2,060)	\$ (215)	\$ (2,938)	\$ (358)
Other comprehensive gain (loss), net of tax:				
Unrealized gain (loss) on available-for-sale investments	(103)	(200)	(142)	(325)
Total comprehensive income (loss)	\$ (2,163)	\$ (415)	\$ (3,080)	\$ (683)

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

The accompanying interim condensed consolidated financial statements are unaudited. In the opinion of management, these statements have been prepared in accordance with generally accepted accounting principles, or GAAP, and include all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of results for the interim periods presented. The Company recommends that these consolidated financial statements be read in conjunction with the Company's Form 10-K for the year ended January 2, 2011. Operating results for the six months ended July 3, 2011 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 second fiscal quarter for 2011 and 2010 ended Sunday, July 3, 2011 and July 4, 2010, 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 July 3, 2011, our principal sources of liquidity consisted of our cash and cash equivalents of \$21.4 million, available credit under our revolving line of credit with Silicon Valley Bank of \$6.0 million, which expires June 28, 2012, and our investment in TowerJazz Semiconductor Ltd., or TowerJazz, with a fair value of approximately \$0.8 million.

The Company anticipates that its existing cash resources will fund operations, finance purchases of capital equipment and provide adequate working capital for the next twelve months. The Company's liquidity is affected by many factors including, among others, the level of revenue and gross profit as a result of the cyclical nature of the semiconductor industry, the conversion of design opportunities into revenue, market acceptance of existing and new products including CSSPs based on our ArcticLink™ and PolarPro® 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 covenants of existing credit facilities, the ability to raise funds from the sale of shares of TowerJazz, the equity in the Company, the issuance and exercise of stock options and participation in the Company's employee stock purchase plan, and other factors related to the uncertainties of the industry and global economics. Accordingly, there can be no assurance that events in the future will not require the Company to seek additional capital or, if so required, that such capital will be available on terms acceptable to the Company.

Principles of Consolidation

The consolidated financial statements include the accounts of QuickLogic Corporation and its wholly owned subsidiaries, QuickLogic Canada Company, QuickLogic International, Inc, QuickLogic Kabushiki Kaisha, and QuickLogic Software (India) Private Ltd.

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

Foreign Currency

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

Uses of Estimates

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

Concentration of Risk

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

Note 2 — Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies for the second quarter of 2011 from its disclosure in the Annual Report on Form 10-K for the year ended January 2, 2011. For a discussion of the significant accounting policies, please see the Annual Report on Form 10-K for the fiscal year ended January 2, 2011, filed with the Securities Exchange Commission, or SEC, on March 11, 2011.

New Accounting Pronouncements

In May 2011, the FASB issued guidance to amend certain measurement and disclosure requirements related to fair value measurements to improve consistency with international reporting standards. This guidance is effective prospectively for public entities for interim and annual reporting periods beginning after December 15, 2011, with early adoption by public entities prohibited. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its 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 stock options and warrants.

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

For the second quarter of 2011 and of 2010, 7.3 million and 9.5 million, respectively, common shares associated with equity awards outstanding and the estimated number of shares to be purchased under the current offering period of the 2009 Employee Stock Purchase Plan were not included in the calculation of diluted net income (loss) per share, as they were considered antidilutive due to the net loss the Company experienced during these periods.

Note 4 — Investment in TowerJazz Semiconductor Ltd.

During the first quarter of fiscal year 2010, the Company sold 700,000 TowerJazz ordinary shares which resulted in a gain of \$993,000. As of July 3, 2011, the Company held 645,000 available-for-sale TowerJazz ordinary shares with an unrealized gain of \$0.5 million recorded in accumulated other comprehensive income on the balance sheet, representing the difference between the carrying value of \$0.13 per share and \$1.19 per share, their fair value on the last trading day of the reporting period. The fair value of TowerJazz marketable securities as of July 3, 2011 was determined based on “Level 1” inputs as described in Note 7.

Note 5 — Balance Sheet Components

	As of	
	July 3, 2011	January 2, 2011
(in thousands)		
Inventories:		
Raw materials	\$ 26	\$ 17
Work-in-process	3,449	3,028
Finished goods	576	299
	<u>\$ 4,051</u>	<u>\$ 3,344</u>
Other current assets:		
Prepaid expenses	\$ 660	\$ 690
Other	62	82
	<u>\$ 722</u>	<u>\$ 772</u>
Property and equipment:		
Equipment	\$ 12,874	\$ 12,413
Software	7,101	7,072
Furniture and fixtures	769	769
Leasehold improvements	762	760
	21,506	21,014
Accumulated depreciation and amortization	(19,332)	(18,702)
	<u>\$ 2,174</u>	<u>\$ 2,312</u>
Other assets:		
Other long-term assets	\$ 178	\$ 192
	<u>\$ 178</u>	<u>\$ 192</u>
Accrued liabilities:		
Employee related accruals	\$ 874	\$ 1,003
Other	212	300
	<u>\$ 1,086</u>	<u>\$ 1,303</u>

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

Note 6 — Obligations

	As of	
	July 3, 2011	January 2, 2011
	(in thousands)	
Debt and capital lease obligations:		
Current portion of capital lease obligations	\$ 207	\$ 408
Total capital lease	\$ 207	\$ 408

Revolving Line of Credit

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

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

Capital Leases

In January 2010, the Company leased design software and related maintenance under a two-year capital lease at an imputed interest rate of 5.75% per annum. Terms of the agreement require the Company to make quarterly payments of approximately \$38,000 through November 2011. The Company recorded a capital asset of \$233,000 and prepaid maintenance of \$51,000 that is being amortized over the term of the agreement and a capital lease obligation of \$284,000. As of July 3, 2011, \$73,000 was outstanding under the capital lease, all of which was classified as a current liability.

In January 2009, the Company leased design software tools and related maintenance under a three-year capital lease at an imputed interest rate of 5.75% per annum. Terms of the agreement require the Company to make semi-annual payments of principal and interest of approximately \$138,000 through August 2011, for a total of approximately \$825,000 over the three year period. As of July 3, 2011, \$134,000 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 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

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

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 July 3, 2011, consistent with the fair value hierarchy provisions of the authoritative guidance (in thousands):

	As of July 3, 2011				As of January 2, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Money market funds ⁽¹⁾	\$ 20,324	\$ 20,324	\$ —	\$ —	\$ 19,722	\$ 19,722	\$ —	\$ —
Investment in TowerJazz Semiconductor Ltd.	767	767	—	—	909	909	—	—
Total assets	\$ 21,091	\$ 21,091	\$ —	\$ —	\$ 20,631	\$ 20,631	\$ —	\$ —

⁽¹⁾ Money market funds are presented as a part of cash and cash equivalents on the accompanying consolidated balance sheets as of July 3, 2011 and January 2, 2011.

As of July 3, 2011, there is no material difference between the fair value and the carrying amount of the debt outstanding under the Company's line of credit and capital leasing arrangements.

Note 8 — Employee Stock Plans

1999 Stock Plan

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

2009 Stock Plan

The 2009 Stock Plan, or 2009 Plan, was amended and restated by the Board of Directors in March 2011 and approved by the Company's stockholders on April 28, 2011 to, among other things, reserve an additional 1,500,000 shares of common stock for issuance under the Plan. As of July 3, 2011, approximately 6.0 million shares were reserved for issuance under the 2009 Plan. Equity awards that are cancelled, forfeited or repurchased under the 1999 Plan become available for grant under the 2009 Plan, up to a maximum of an additional 7,500,000 shares. Equity awards granted under the 2009 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter. The Company may implement different vesting schedules in the future with respect to any new equity awards.

Employee Stock Purchase Plan

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

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

Note 9 — Stock-Based Compensation

Stock-based compensation expense is recognized in the Company's consolidated statements of operations and includes compensation expense for the stock-based compensation awards granted or modified subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of the amended authoritative guidance. The impact of the amended authoritative guidance on the Company's consolidated financial statements for the second quarter of 2011 and 2010 was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Cost of revenue	\$ 35	\$ 39	\$ 70	\$ 86
Research and development	119	180	240	355
Selling, general and administrative	282	414	569	844
Total costs and expenses	\$ 436	\$ 633	\$ 879	\$ 1,285

The amount of stock-based compensation included in inventories for the second quarter of 2011 and 2010 was not significant.

Valuation Assumptions

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

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

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Expected term (years)	4.93	5.42	4.93	5.42
Risk-free interest rate	1.99%	2.40%	2.00%	2.40%
Expected volatility	58.69%	58.01%	58.50%	58.02%
Expected dividend	—	—	—	—

The methodologies for determining the above values were as follows:

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

- Expected term: The expected term represents the period that the Company's stock-based awards are expected to be outstanding and is estimated based on historical experience.
- Risk-free interest rate: The risk-free interest rate assumption is based upon the risk-free rate of a Treasury Constant Maturity bond with a maturity appropriate for the expected term of the Company's employee stock options.
- Expected volatility: The Company determines expected volatility based on historical volatility of the Company's common stock according to the expected term of the options.
- Expected dividend: The expected dividend assumption is based on the Company's intent not to issue a dividend under its dividend policy.

The weighted average estimated fair value for options granted during the second quarter of 2011 and 2010 were \$1.82 and \$1.48 per option, respectively. The weighted average estimated fair value for options granted during the first half of 2011 and 2010 were \$2.12 and \$1.48 per option, respectively. As of July 3, 2011, the fair value of unvested stock options, net of expected forfeitures, was approximately \$2.1 million. This unrecognized stock-based compensation expense is expected to be recorded over a weighted average period of 2.12 years.

Stock-Based Compensation Award Activity

The following table summarizes the shares available for grant under the 2009 Plan as of July 3, 2011:

	Shares Available for Grant (in thousands)
Balance at January 2, 2011	1,542
Authorized	1,500
Options granted	(20)
Options forfeited or expired	751
RSUs granted	—
RSUs forfeited or expired	—
Balance at July 3, 2011	<u>3,773</u>

Stock Options

The following table summarizes stock options outstanding and stock option activity under the 1999 Plan and the 2009 Plan, and the related weighted average exercise price, for the first six months of 2011:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance outstanding at January 2, 2011	8,069	\$ 2.74		
Granted	20	4.17		
Forfeited or expired	(751)	4.49		
Exercised	(528)	2.68		
Balance outstanding at July 3, 2011	<u>6,810</u>	<u>\$ 2.56</u>	<u>6.32</u>	<u>\$ 7,981</u>
Exercisable at July 3, 2011	<u>4,420</u>	<u>\$ 2.74</u>	<u>5.28</u>	<u>\$ 4,593</u>
Vested and expected to vest at July 3, 2011	<u>6,810</u>	<u>\$ 2.56</u>	<u>6.32</u>	<u>\$ 7,981</u>

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of \$3.62 as of the end of the Company's current reporting period, which would have been received by the option holders had all option holders exercised their options as of that date.

The total intrinsic value of options exercised during the first six months of 2011 and 2010 was \$1.6 million and

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

\$409,000, respectively. Total cash received from employees as a result of employee stock option exercises during the first six months of 2011 and 2010 was approximately \$1.4 million and \$458,000, 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 \$436,000 and \$879,000 for the second quarter and first half of 2011, respectively.

Restricted Stock Awards and Restricted Stock Units

The Company began issuing restricted stock awards, or RSAs, in the second quarter of 2007 and restricted stock units, or RSUs, in the third quarter of 2007. RSAs entitle the holder to purchase shares of common stock at par value during a short period of time, and purchased shares are held in escrow until they vest. RSUs entitle the holder to receive, at no cost, one common share for each restricted stock unit as it vests. The Company withheld shares in settlement of employee tax withholding obligations upon the vesting of restricted stock units. There was no stock-based compensation related to RSUs for the second quarter of 2011.

Employee Stock Purchase Plan

The weighted average estimated fair value, as defined by the amended authoritative guidance, of rights issued pursuant to the Company's 2009 ESPP plan during the second quarter of 2011 and 2010 was \$0.80 and \$1.03 per right, respectively.

As of July 3, 2011, \$2.3 million shares under the 2009 ESPP remained available for issuance. For the second quarter and first half of 2011, the Company recorded compensation expense related to the ESPP of \$42,000 and \$86,000, respectively.

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Expected term (months)	6.00	6.00	6.00	6.00
Risk-free interest rate	0.10%	0.22%	0.10%	0.22%
Volatility	47.00%	65.00%	47.00%	65.00%
Dividend yield	—	—	—	—

The methodologies for determining the above values were as follows:

- Expected term: The expected term represents the length of the purchase period contained in the ESPP.
- Risk-free interest rate: The risk-free interest rate assumption is based upon the risk-free rate of a Treasury Constant Maturity bond with a maturity appropriate for the term of the purchase period.
- Expected volatility: The Company determines expected volatility based on historical volatility of the Company's common stock for the term of the purchase period.
- Expected dividend: The expected dividend assumption is based on the Company's intent not to issue a dividend under its dividend policy.

As of July 3, 2011, the unrecognized stock-based compensation expense relating to the Company's ESPP was \$59,000 and is expected to be recognized over a weighted average period of approximately 4.5 months.

Note 10 — Income Taxes

In the second quarter of 2011 and 2010, the Company recorded an income tax benefit of \$55,000 and income tax expense of \$13,000, respectively, which consisted primarily of income tax benefits recognized on foreign operations. Based on the available objective evidence, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, with the exception of foreign subsidiaries, the Company has provided a full valuation allowance against the associated deferred tax assets. The Company will continue to assess the realizability of the deferred tax assets in

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

future periods.

The Company had approximately \$43,000 and \$73,000 of unrecognized tax benefits at July 3, 2011 and January 2, 2011, respectively. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of July 3, 2011, the Company had approximately \$10,000 of accrued interest and penalties related to uncertain tax positions.

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

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

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

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
<i>Revenue by product line</i> ⁽¹⁾ :				
New products	\$ 1,190	\$ 2,297	\$ 2,410	\$ 4,371
Mature products	4,547	4,182	8,874	7,537
Total revenue	\$ 5,737	\$ 6,479	\$ 11,284	\$ 11,908

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

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
<i>Revenue by geography:</i>				
United States	\$ 1,907	\$ 2,054	\$ 4,668	\$ 4,174
Europe	1,346	854	2,065	1,883
Taiwan	14	143	118	194
Japan	616	727	1,191	1,402
China	1,099	2,021	1,871	3,031
Rest of North America	62	84	147	269
Rest of Asia Pacific	693	596	1,224	955
Total revenue	\$ 5,737	\$ 6,479	\$ 11,284	\$ 11,908

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

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Distributor "A"	44%	25%	40%	25%
Distributor "B"	*	12%	*	10%
Distributor "D"	16%	25%	15%	20%
Customer "B"	21%	10%	18%	*
Customer "E"	14%	*	*	*

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

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

	July 3, 2011	January 2, 2011
Distributor "A"	48%	23%
Distributor "C"	*	20%
Distributor "D"	22%	18%

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

As of July 3, 2011, less than 10% of the Company's long-lived assets, including property and equipment and other assets, were located outside the United States.

Note 12 — Commitments and Contingencies

Certain wafer manufacturers require the Company to forecast wafer starts several months in advance. The Company is committed to take delivery of and pay for a portion of forecasted wafer volume. As of July 3, 2011 and January 2, 2011, the Company had \$1.4 million and \$2.8 million, respectively, of outstanding commitments for the purchase of wafer inventory.

The Company leases its primary facility under a non-cancelable operating lease that expires in 2012. In addition, the Company rents development facilities in Canada and India as well as sales offices in Europe and Asia. Total rent expense, net of sublease income, for the second quarter of 2011 and 2010 was approximately \$114,000 and \$118,000, respectively.

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

	Operating Leases
	(in thousands)
<u>Fiscal Years</u>	
Remainder of 2011	\$ 281
2012	518
2013	47
2014 and thereafter	—
	\$ 846

Note 13 — Litigation

Initial Public Offering Securities Litigation

On October 26, 2001, a putative securities class action was filed in the U.S. District Court for the Southern District of

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

New York against certain investment banks that underwrote QuickLogic's initial public offering, QuickLogic and some of QuickLogic's officers and directors. The complaint alleges excessive and undisclosed commissions in connection with the allocation of shares of common stock in QuickLogic's initial and secondary public offerings and artificially high prices through "tie-in" arrangements which required the underwriters' customers to buy shares in the aftermarket at pre-determined prices in violation of the federal securities laws. Plaintiffs seek an unspecified amount of damages on behalf of persons who purchased QuickLogic's stock pursuant to the registration statements between October 14, 1999 and December 6, 2000. Various plaintiffs have filed similar actions asserting virtually identical allegations against over 300 other public companies, their underwriters, and their officers and directors arising out of each company's public offering. These actions, including the action against QuickLogic, have been coordinated for pretrial purposes and captioned *In re Initial Public Offering Securities Litigation, 21 MC 92*, or IPO Securities Litigation.

The parties have reached a global settlement of the litigation. Under the settlement, the insurers are to pay the full amount of the settlement share allocated to the Company, and the Company will bear no financial liability. The Company and the other defendants will receive complete dismissals from the case. Certain objectors have filed appeals. No hearing date has been set. The Company did not accrue any amounts related to the proposed settlement because it was not reasonably estimable.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as information contained in "Risk Factors" in Part II, Item 1A and elsewhere in this Quarterly Report on Form 10-Q, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend that these forward-looking statements be subject to the safe harbors created by those provisions. Forward-looking statements are generally written in the future tense and/or are preceded by words such as "will," "may," "should," "forecast," "could," "expect," "suggest," "believe," "anticipate," "intend," "plan," or other similar words. Forward-looking statements include statements regarding (1) the conversion of our design opportunities into revenue, (2) our revenue levels, including the commercial success of our Customer Specific Standard Products, or CSSPs, and new products, (3) the effects of the slow recovery from the worldwide economic downturn, (4) our liquidity, (5) our gross profit and breakeven revenue level and factors that affect gross profit and the breakeven revenue level, (6) our level of operating expenses, (7) the adequacy of working capital, (8) our research and development efforts, (9) our partners and suppliers and (10) industry trends. The following discussion should be read in conjunction with the attached condensed unaudited consolidated financial statements and notes thereto, and with our audited consolidated financial statements and notes thereto for the fiscal year ended January 2, 2011, found in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 11, 2011.

Overview

We develop and market low power customizable semiconductor solutions that enable customers to add new differentiated features to, extend the battery life of, and improve the visual experience with their mobile, consumer and enterprise products. Our targeted mobile market segments include Tablets, Smartphones, Broadband Access Data cards, Secure Access Data cards, and Mobile Enterprise. We are a fabless semiconductor company designing Customer Specific Standard Products, or CSSPs, which are complete, customer-specific solutions that include a combination of silicon solution platforms; Proven System Blocks, or PSBs; customer-specific logic; software drivers; and firmware. Our main platform families, ArcticLink and PolarPro, are standard silicon products. PSBs are developed in numerous categories including Video and Imaging, Storage, Intelligence, Networking and Security. PSBs that have been developed and that are available to customers include our Visual Enhancement Engine, or VEE, and Display Power Optimizer, or DPO, Advanced Encryption Standard, or AES; SDHC/eMMC Host Controllers; USB 2.0 On-The-Go with PHY; MDDI Client with PHY; High Speed UARTs; Pulse Width Modulators; SPI and I2C hosts, display-specific functions such as RGB-split and Frame Recyclers; and Data Performance Manager, or DPM, for accelerated sideloading times. The variety of PSBs offered by us allows system designers to combine multiple discrete chips onto a single CSSP, simplifying design and board layout, lowering Bill of Material, or BOM cost, and accelerating time-to-market. The programmable fabric of our platforms is used for adding differentiated features and provides flexibility to address quickly hardware-based product requirements.

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

We have transitioned from being a broad-based supplier of Field Programmable Gate Arrays, or FPGA, devices to being a supplier of CSSPs. In order to grow our revenue from its current level, we are dependent upon increased revenue from our new products including existing new product platforms and platforms still in development. We expect our business growth to be driven by CSSPs; therefore, our CSSP revenue growth needs to be strong enough to enable us to generate profits while we continue to invest in the development, sales and marketing of our new solution platforms, PSBs and CSSPs. The gross margin associated with our CSSPs is generally lower than the gross margin of our FPGA products, due primarily to the price sensitive nature of the higher volume mobile consumer opportunities we are pursuing.

During the second quarter of 2011, we generated total revenue of \$5.7 million which represents a 3% sequential increase in revenues. Our new product revenue was \$1.2 million which is flat from the first quarter of 2011 while our mature product revenue was \$4.5 million, which represents a 5% increase from the first quarter of 2011. Overall, we reported a net loss of \$2.1 million for the second quarter of 2011.

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

Critical Accounting Estimates

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our consolidated financial statements. The SEC has defined critical accounting policies as those that are most important to the portrayal of our financial condition and results of operations and require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our critical policies include revenue recognition, valuation of inventories including identification of excess quantities and product obsolescence, 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, accounting for income taxes, fair value measurements of financial assets and liabilities and measuring accrued liabilities. We believe that we apply judgments and estimates in a consistent manner and that this consistent application results in consolidated financial statements and accompanying notes that fairly represent all periods presented. However, any factual errors or errors in these judgments and estimates may have a material impact on our statements of operations and financial condition. For a discussion of critical accounting policies and estimates, please see Item 7 in our Annual Report on Form 10-K for the fiscal year ended January 2, 2011 filed with the SEC on March 11, 2011.

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

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

Results of Operations

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	34.3 %	39.4 %	34.6 %	39.2 %
Gross profit	65.7 %	60.6 %	65.4 %	60.8 %
Operating expenses:				
Research and development	57.7 %	23.7 %	45.3 %	30.2 %
Selling, general and administrative	44.3 %	38.9 %	45.6 %	40.8 %
Income (loss) from operations	(36.3)%	(2.0)%	(25.5)%	(10.2)%
Gain on sale of TowerJazz Semiconductor Ltd. Shares	— %	— %	— %	8.3 %
Interest expense	(0.3)%	(0.4)%	(0.2)%	(0.4)%
Interest income and other, net	(0.2)%	(0.8)%	(0.2)%	(0.6)%
Income (loss) before income taxes	(36.8)%	(3.2)%	(25.9)%	(2.9)%
Provision for (benefit from) income taxes	(1.0)%	0.2 %	0.1 %	0.2 %
Net Income (loss)	(35.8)%	(3.4)%	(26.0)%	(3.1)%

Three Months Ended July 3, 2011 and July 4, 2010

Revenue

The table below sets forth the changes in revenue for the three months ended July 3, 2011 as compared to the three months ended July 4, 2010 (in thousands, except percentage data):

	Three Months Ended				Change	
	July 3, 2011		July 4, 2010		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
<i>Revenue by product line ⁽¹⁾:</i>						
New products	\$ 1,190	21%	\$ 2,297	35%	\$ (1,107)	(48)%
Mature products	4,547	79%	4,182	65%	365	9 %
Total revenue	\$ 5,737	100%	\$ 6,479	100%	\$ (742)	(11)%

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

New product revenue was negatively impacted during the second quarter of 2011 by an over-supply of inventory already in the channel for our broadband data card and mobile enterprise customers. The increase in mature product revenue primarily resulted from the increase in customer demand for end of life purchases of Eclipse products. One of our U.S. customers, purchasing primarily pASIC 3 and Eclipse devices, accounted for 21% and 10% of total revenue in the second quarters of 2011 and 2010, respectively.

We continue to seek to expand our revenue, including the pursuit of high volume sales opportunities in the consumer

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

market segment, by providing CSSPs incorporating intellectual property such as VEE, DPO, AES or other security standards, or industry standard interfaces such as USB 2.0 OTG, SDIO and control interfaces such as PS2, I2C, SPI, and PWM. Our industry is characterized by intense price competition and by lower margins as order volumes increase. While winning large volume sales opportunities would increase our revenue, we believe these opportunities may decrease our gross profit as a percentage of revenue.

Gross Profit

The table below sets forth the changes in gross profit for the three months ended July 3, 2011 as compared to the three months ended July 4, 2010 (in thousands, except percentage data):

	Three Months Ended				Change	
	July 3, 2011		July 4, 2010		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
Revenue	\$ 5,737	100%	\$ 6,479	100%	\$ (742)	(11)%
Cost of revenue	1,966	34%	2,553	39%	(587)	(23)%
Gross Profit	\$ 3,771	66%	\$ 3,926	61%	\$ (155)	(4)%

The \$0.2 million decrease in gross profit in the second quarter of 2011 as compared to the second quarter of 2010 was mainly due to lower revenue and higher unabsorbed overhead in the second quarter of 2011 as compared to the second quarter of 2010. The sale of previously reserved inventories contributed \$42,000, or 0.7% of revenue, to gross profit in the second quarter of 2011 and \$112,000, or 1.7% of revenue, in the second quarter of 2010.

Our semiconductor products have historically had a long product life cycle and obsolescence has not been a significant factor in the valuation of inventories. However, as we pursue opportunities in the mobile market and continue to develop new CSSPs and products, we believe our product life cycle will be shorter and increase the potential for obsolescence. We also regularly review the cost of inventories against estimated market value and record a lower of cost or market reserve for inventories that have a cost in excess of estimated market value. This could have a material impact on our gross margin and inventory balances based on additional write-downs to net realizable value or a benefit from inventories previously written down.

Operating Expenses

The table below sets forth the changes in operating expenses for the three months ended July 3, 2011 as compared to the three months ended July 4, 2010 (in thousands, except percentage data):

	Three Months Ended				Change	
	July 3, 2011		July 4, 2010		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
R&D expense	\$ 3,312	58%	\$ 1,533	24%	\$ 1,779	116%
SG&A expense	2,543	44%	2,518	39%	25	1%
Total operating expenses	\$ 5,855	102%	\$ 4,051	63%	\$ 1,804	45%

Research and Development

Our research and development, or R&D, expenses consist primarily of personnel, overhead and other costs associated with engineering process improvements, programmable logic design, CSSP design and software development. The \$1.8 million increase in R&D expenses in the second quarter of 2011 as compared to the second quarter of 2010 was attributable primarily to a \$1.1 million increase in third party chip design costs; a \$427,000 increase in purchased IP; and a \$194,000 increase in compensation expenses due to the reinstatement of our employees' full cash compensation amounts upon the expiration of a temporary salary reduction initiated in 2010.

Selling, General and Administrative Expense

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

Our selling, general and administrative, or SG&A, expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, administration, human resources and general management. The \$25,000 increase in SG&A expenses in the second quarter of 2011 as compared to the second quarter of 2010 was primarily due to a \$132,000 increase in compensation expenses due to the reinstatement of our employees' full cash compensation amounts upon the expiration of a temporary salary reduction initiated in 2010 and a \$30,000 increase in equipment and supplies. These increases were partially offset by a \$133,000 decrease in stock-based compensation.

Interest Expense and Interest Income and Other, net

The table below sets forth the changes in interest expense and interest income and other, net, for the three months ended July 3, 2011 as compared to the three months ended July 4, 2010 (in thousands, except percentage data):

	Three Months Ended		Change	
	July 3, 2011	July 4, 2010	Amount	Percentage
Interest expense	\$ (18)	\$ (27)	\$ 9	(33)%
Interest income and other, net	(13)	(50)	37	(74)%
	\$ (31)	\$ (77)	\$ 46	(60)%

The decrease in interest expense was due primarily to the reduction of our average debt obligation to \$0.2 million in the second quarter of 2011 from \$2.6 million in the second quarter of 2010. The change in interest income and other, net, was due primarily to foreign exchange fluctuations in the second quarter of 2011 as compared to the second quarter of 2010.

We conduct a portion of our research and development activities in Canada and India and we have sales and marketing activities in various countries outside of the United States. Most of these international expenses are incurred in local currency. Foreign currency transaction gains and losses are included in interest and other income (expense), net, as they occur. We do not use derivative financial instruments to hedge our exposure to fluctuations in foreign currency and, therefore, our results of operations are and will continue to be susceptible to fluctuations in foreign exchange gains or losses.

Provision for (Benefit from) Income Taxes

The table below sets forth the changes in provision for Income Taxes for the three months ended July 3, 2011 as compared to the three months ended July 4, 2010 (in thousands, except percentage data):

	Three Months Ended		Change	
	July 3, 2011	July 4, 2010	Amount	Percentage
Provision for (benefit from) income taxes	\$ (55)	\$ 13	\$ (68)	(523)%

The provision for (benefit from) income taxes for the second quarters of 2011 and 2010 were primarily for our foreign operations which are cost-plus entities. The income tax benefit recognized in the three months ended July 3, 2011 related primarily to our foreign operations.

As of the end of the second quarter of 2011, our ability to utilize our income tax loss carryforwards in future periods is uncertain and, accordingly, we recorded a full valuation allowance against the related US tax provision. We will continue to assess the realizability of deferred tax assets in future periods.

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

Six Months Ended July 3, 2011 and July 4, 2010

Revenue

The table below sets forth the changes in revenue for the six months ended July 3, 2011 as compared to the six months ended July 4, 2010 (in thousands, except percentage data):

	Six Months Ended				Change	
	July 3, 2011		July 4, 2010		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
<i>Revenue by product line</i> ⁽¹⁾ :						
New products	\$ 2,410	21%	\$ 4,371	37%	\$ (1,961)	(45)%
Legacy products	8,874	79%	7,537	63%	1,337	18 %
Total revenue	\$ 11,284	100%	\$ 11,908	100%	\$ (624)	(5)%

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

New product revenue was negatively impacted during the first half of 2011 by an over-supply of inventory already in the channel for our broadband data card and mobile enterprise customers, and reduced demand from a secure data card customer due to design changes. The increase in legacy product revenue primarily resulted from the increase in customer demand for pASIC 3 and end of life purchases of Eclipse products. One of our U.S. customers, purchasing primarily pASIC 3 devices, accounted for 18% and 9% of total revenue in the first six months of 2011 and 2010, respectively.

In order to grow our revenue from its current level, we are dependent upon increased revenue from our existing new products, especially revenue from CSSPs designed using our ArcticLink, ArcticLink II, PolarPro and PolarPro II solution platforms and the development of additional new products and CSSPs.

We continue to seek to expand our revenue, including the pursuit of high volume sales opportunities in the consumer market segment, by providing CSSPs incorporating intellectual property such as VEE, DPO, AES or other security standards, or industry standard interfaces such as USB 2.0 OTG, SDIO and control interfaces such as PS2, I2C, SPI, and PWM. Our industry is characterized by intense price competition and by lower margins as order volumes increase. While winning large volume sales opportunities will increase our revenue, we believe these opportunities may decrease our gross profit as a percentage of revenue.

Gross Profit

The table below sets forth the changes in gross profit for the six months ended July 3, 2011 as compared to the six months ended July 4, 2010 (in thousands, except percentage data):

	Six Months Ended				Change	
	July 3, 2011		July 4, 2010		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
Revenue	\$ 11,284	100%	\$ 11,908	100%	\$ (624)	(5)%
Cost of revenue	3,905	35%	4,669	39%	(764)	(16)%
Gross Profit	\$ 7,379	65%	\$ 7,239	61%	\$ 140	2 %

The \$140,000 increase in gross profit in the first six months of 2011 as compared to the first six months of 2010 was mainly due to the higher shipments of mature products which carry higher gross margins than new products. The sale of previously reserved inventories contributed \$123,000, or 1.1% of revenue, to gross profit in the first six months of 2011 and

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

\$300,000, or 2.5% of revenue, in the first six months of 2010.

Our semiconductor products have historically had a long product life cycle and obsolescence has not been a significant factor in the valuation of inventories. However, as we pursue opportunities in the mobile market and continue to develop new CSSPs and products, we believe our product life cycle will be shorter and increase the potential for obsolescence. We also regularly review the cost of inventories against estimated market value and record a lower of cost or market reserve for inventories that have a cost in excess of estimated market value, which could have a material impact on our gross margin and inventory balances based on additional write-downs to net realizable value or a benefit from inventories previously written down.

Operating Expenses

The table below sets forth the changes in operating expenses for the six months ended July 3, 2011 as compared to the six months ended July 4, 2010 (in thousands, except percentage data):

	Six Months Ended				Change	
	July 3, 2011		July 4, 2010		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
R&D expense	\$ 5,115	45%	\$ 3,593	30%	\$ 1,522	42%
SG&A expense	5,150	46%	4,853	41%	297	6%
Total operating expenses	\$ 10,265	91%	\$ 8,446	71%	\$ 1,819	22%

Research and Development

Our R&D expenses consist primarily of personnel, overhead and other costs associated with engineering process improvements, programmable logic design, CSSP design and software development. The \$1.5 million increase in R&D expenses in the first six months of 2011 as compared to the first six months of 2010 was attributable primarily to a \$1.1 million increase in third party chip design costs; a \$254,000 increase in compensation expenses due to the reinstatement of our employees' full cash compensation amounts upon the expiration of a temporary salary reduction initiated in 2010; and a \$147,000 increase in depreciation expenses.

Selling, General and Administrative Expense

Our SG&A expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, administration, human resources and general management. The \$297,000 increase in SG&A expenses in the first six months of 2011 as compared to the first six months of 2010 was primarily due to an increase in compensation expenses due to the reinstatement of our employees' full cash compensation amounts upon the expiration of a temporary salary reduction initiated in 2010.

Interest Expense and Interest Income and Other, net

The table below sets forth the changes in interest expense and interest income and other, net, for the six months ended July 3, 2011 as compared to the six months ended July 4, 2010 (in thousands, except percentage data):

	Six Months Ended		Change	
	July 3, 2011	July 4, 2010	Amount	Percentage
Gain on sale of TowerJazz Semiconductor Ltd. Shares	\$ —	\$ 993	\$ (993)	(100)%
Interest expense	(26)	(45)	19	(42)%
Interest income and other, net	(17)	(71)	54	(76)%
	\$ (43)	\$ 877	\$ (920)	(105)%

The decrease in interest expense was due primarily to the reduction of our average debt obligation to \$0.3 million in the first six months of 2011 from \$2.6 million in the first six months of 2010. The change in interest income and other, net was due primarily to the foreign exchange losses in the first six months of 2011 as compared to the first six months of 2010.

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

We conduct a portion of our research and development activities in Canada and India and we have sales and marketing activities in various countries outside of the United States. Most of these international expenses are incurred in local currency. Foreign currency transaction gains and losses are included in interest and other income (expense), net, as they occur. We do not use derivative financial instruments to hedge our exposure to fluctuations in foreign currency; therefore, our results of operations are and will continue to be susceptible to fluctuations in foreign exchange gains or losses.

Provision for (benefit from) Income Taxes

The table below sets forth the changes in provision for Income Taxes from the six months ended July 3, 2011 as compared to the six months ended July 4, 2010 (in thousands, except percentage data):

	Six Months Ended		Change	
	July 3, 2011	July 4, 2010	Amount	Percentage
Provision for (benefit from) Income Taxes	\$ 9	\$ 28	\$ (19)	(68)%

The provision for (benefit from) income taxes for the first six months of 2011 and 2010 were primarily for our foreign operations which are cost-plus entities.

As of the end of the first six months of 2011, our ability to utilize our income tax loss carryforwards in future periods is uncertain and, accordingly, we recorded a full valuation allowance against the related US tax provision. We will continue to assess the realizability of deferred tax assets in future periods.

Liquidity and Capital Resources

We have financed our operating losses and capital investments through sales of common stock, private equity investments, capital and operating leases, and cash flows from operations. As of July 3, 2011, our principal sources of liquidity consisted of our cash and cash equivalents of \$21.4 million, available credit under our revolving line of credit with Silicon Valley Bank of \$6.0 million, and our investment in TowerJazz with a market value of approximately \$0.8 million. As of July 3, 2011, there is no material difference between the fair value and the carrying amount of the debt outstanding under the Company's line of credit and capital leasing arrangements. The borrowing under the Company's line of credit is subject to maintaining a tangible net worth of at least \$15 million, unrestricted cash or cash equivalent balance of at least \$8 million and a quick ratio of 2-to-1. Upon each advance, the Company can elect a variable interest rate, which is the prime rate plus one half of one percent, or a fixed rate which is the LIBOR plus the LIBOR rate margin. We were in compliance with all loan covenants as of the end of the current reporting period.

Most of our cash and cash equivalents were invested in a US Treasury money market fund rated AAAm/Aaa. Our interest-bearing debt consisted of \$0.2 million outstanding under capital leases (see Note 6 of the Condensed Unaudited Consolidated Financial Statements). During the first three quarters of 2010, we sold 700,000 shares of TowerJazz ordinary shares. As of July 3, 2011, the 645,000 remaining shares of our investment in TowerJazz had a market value of approximately \$0.8 million.

Net cash from operating activities

Net cash used for operating activities was \$1.5 million in the first six months of 2011. The cash used for operating activities was primarily derived from (1) a net loss of \$2.9 million; (2) \$1.7 million of net non-cash charges; and (3) net changes in working capital which accounted for cash usage of \$211,000 in the first six months of 2011. The non-cash charges consisted primarily of stock-based compensation of \$879,000, depreciation and amortization of \$651,000, and a write-down of inventory of \$176,000. The net changes in working capital included an increase in inventories of \$883,000; a decrease in other assets of \$64,000; a decrease in accrued liabilities of \$217,000; and a decrease in trade payables of \$25,000. This was offset by a decrease in accounts receivable of \$1.0 million and a decrease in deferred royalty revenue of \$132,000.

Net cash used for operating activities was \$1.6 million in the first half of 2010. The cash used for operating activities resulted from the net loss in the first half of 2010 as well as changes in working capital. The net loss of \$358,000 included non-cash charges of \$1.1 million which consist of the gain on the sale of TowerJazz shares of \$993,000, stock-based compensation of \$1.3 million, depreciation and amortization of \$582,000, utilization of wafer credits of \$190,000, and a write-down of inventory of \$73,000. The changes in the working capital accounts included an increase in accounts receivable of \$836,000, an increase in inventories of \$177,000, an increase in other assets of \$618,000, and a decrease in trade payable of \$765,000 due to

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

the timing of expenditures. These cash uses in the working capital accounts were partially offset by an increase in other long term liabilities of \$116,000.

Net cash from investing activities

Net cash used by investing activities for the first six months of 2011 was \$501,000, resulting primarily from purchases of capital expenditures to acquire manufacturing equipment. Capital expenditures, which are largely driven by the development of new products and manufacturing levels, are projected to be approximately \$1.2 million during the remainder of fiscal year 2011.

Net cash provided by investing activities for the first half of 2010 was \$1.0 million, resulting from proceeds from the sale of TowerJazz shares of \$1.1 million, partially offset by \$147,000 in capital expenditures primarily made to acquire manufacturing equipments.

Net cash from financing activities

Net cash provided by financing activities was \$1.4 million for the first six months of 2011, resulting from \$1.6 million in proceeds related to the issuance of common shares to employees under our equity plans, partially offset by scheduled payments under the terms of our capital lease obligations.

Net cash provided by financing activities was \$275,000 for the first half of 2010, resulting from scheduled payments under the terms of our debt and capital lease obligations, partially offset by \$468,000 in proceeds related to the issuance of common shares to employees under our equity plans. During the first half of 2010, we repaid \$4.0 million of revolving debt at an interest rate of 6% and borrowed \$2.0 million of revolving debt with an interest rate of 6% in Q1 2010 and \$2.0 million of revolving debt with an interest rate of 4.5% in Q2 2010.

We require substantial cash to fund our business. However, we believe that our existing cash resources will be sufficient to fund operations and capital expenditures, and provide adequate working capital for at least the next twelve months. After the next twelve months, our cash requirements will depend on many factors, including our level of revenue and gross profit, the market acceptance of our existing and new products, the levels at which we maintain inventories and accounts receivable, costs of securing access to adequate manufacturing capacity, new product development efforts, capital expenditures and the level of our operating expenses.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — (Continued)***Contractual Obligations and Commercial Commitments***

The following table summarizes our contractual obligations and commercial commitments as of July 3, 2011 and the effect such obligations and commitments are expected to have on our liquidity and cash flows in future fiscal periods (in thousands):

	Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	More than 3 Years
<i>Contractual cash obligations:</i>				
Operating leases	\$ 845	\$ 545	\$ 300	\$ —
Wafer purchases ⁽¹⁾	1,377	1,377	—	—
Other purchase commitments	3,463	3,463	—	—
Total contractual cash obligations	5,685	5,385	300	—
<i>Other commercial commitments ⁽²⁾:</i>				
Revolving line of credit	—	—	—	—
Capital lease obligations	207	207	—	—
Total commercial commitments	207	207	—	—
Total contractual obligations and commercial commitments ⁽³⁾	\$ 5,892	\$ 5,592	\$ 300	\$ —

(1) Certain of our wafer manufacturers require us to forecast wafer starts several months in advance. We are committed to take delivery of and pay for a portion of forecasted wafer volume. Wafer purchase commitments of \$1.4 million include both firm purchase commitments and a portion of our forecasted wafer starts as of July 3, 2011.

(2) Other commercial commitments are included as liabilities on our balance sheets as of July 3, 2011.

(3) Does not include unrecognized tax benefits of \$43,000 as of July 3, 2011. See Note 10 of the Condensed Unaudited Consolidated Financial Statements.

Concentration of Suppliers

We depend on a limited number of contract manufacturers, subcontractors and suppliers for wafer fabrication, assembly, programming and testing of our devices, and for the supply of programming equipment. These services are typically provided by one supplier for each of our devices. We purchase these single or limited source services through standard purchase orders. Because we rely on independent subcontractors to perform these services, we cannot directly control product delivery schedules, costs or quality levels. Our future success also depends on the financial viability of our independent subcontractors. These subcontract manufacturers produce products for other companies and we must place orders in advance of expected delivery. As a result, we have only a limited ability to react to fluctuations in demand for our products, which could cause us to have an excess or a shortage of inventories of a particular product, and our ability to respond to changes in demand is limited by the ability of these suppliers to provide products with the quantity, quality, cost and timeliness that we require. The decision not to provide these services to us or the inability to supply these services to us, such as in the case of a natural or financial disaster, would have a significant impact on our business. Increased demand from other companies could result in these subcontract manufacturers allocating available capacity to customers that are larger or have long-term supply contracts in place and we may be unable to obtain adequate foundry and other capacity at acceptable prices, or we may experience delays or interruption in supply. Additionally, volatility of economic, market, social and political conditions in countries where these suppliers operate may be unpredictable and could result in a reduction in product revenue or increase our cost of revenue and could adversely affect our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet partnerships, arrangements or other relationships with unconsolidated entities or others, often referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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

Recently Issued Accounting Pronouncements

See Note 2 of the Condensed Unaudited Consolidated Financial Statements for a description of recent accounting pronouncements, including the respective dates of adoption and effects on results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio and variable rate debt. We do not use derivative financial instruments to manage our interest rate risk. We are adverse to principal loss and ensure the safety and preservation of invested funds by limiting default, market risk and reinvestment risk. Our investment portfolio is generally comprised of investments that meet high credit quality standards and have active secondary and resale markets. Since these securities are subject to interest rate risk, they could decline in value if interest rates fluctuate or if the liquidity of the investment portfolio were to change. Due to the short duration and conservative nature of our investment portfolio, we do not anticipate any material loss with respect to our investment portfolio. A 10% move in interest rates as of the end of the second quarter of 2011 would have an immaterial effect on our financial position, results of operations and cash flows.

Foreign Currency Exchange Rate Risk

All of our sales and costs of manufacturing are transacted in U.S. dollars. We conduct a portion of our research and development activities in Canada and India and have sales and marketing offices in several locations outside of the United States. We use the U.S. dollar as our functional currency. Most of the costs incurred at these international locations are in local currency. If these local currencies strengthen against the U.S. dollar, our payroll and other local expenses will be higher than we currently anticipate. Since our sales are transacted in U.S. dollars, this negative impact on expenses would not be offset by any positive effect on revenue. Operating expenses denominated in foreign currencies were approximately 16% and 17% of total operating expenses for the first six months of 2011 and 2010, respectively. A currency exchange rate fluctuation of 10% would have caused our operating expenses to change by approximately \$166,000 in the first six months of 2011.

Equity Price Risk

Our exposure to equity price risk for changes in market value relates primarily to our investment in TowerJazz. TowerJazz's ordinary shares trade on the Nasdaq Global Market under the symbol "TSEM". Since these securities are publicly traded on the open market, they are subject to market fluctuations. Temporary market fluctuations are reflected by increasing or decreasing the present value of the related securities and recording "accumulated other comprehensive income (loss)" in the equity section of the balance sheet. An "other than temporary" decline in market value is reflected by decreasing the carrying value of the related securities and recording a charge to operating expenses in the income statement. A determination that a decline in market value is "other than temporary" includes factors such as the then current market value and the period of time that the market value had been below the carrying value. During the first quarter of 2010, we sold 700,000 TowerJazz ordinary shares. In the first six months of 2011 and 2010, we marked to market and recorded an unrealized gain of \$0.5 million and \$0.3 million, respectively, based on the quoted market price of the stock on the last day of the reporting period. As a result, the carrying value of the TowerJazz ordinary shares was \$1.19 per share as of the end of the second quarter of 2011.

There have been no changes since the end of the last fiscal year, in the risk exposures described above or the management of such exposures and there are no expected changes going forward.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has performed an evaluation of our disclosure controls and procedures for the current period. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded to a reasonable assurance level that, as of July 3, 2011, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

See Note 13 of the Condensed Unaudited Consolidated Financial Statements for a description of legal proceedings.

Item 1A. Risk Factors

Our 2010 Annual Report on Form 10-K for the year ended January 2, 2011 includes a detailed discussion of our risk factors at Part I, Item 1A, Risk Factors, which should be read in conjunction with the the updates disclosed in our Quarterly Report on Form 10-Q for the quarter ended April 3, 2011.

Item 6. Exhibits

a. Exhibits

The following Exhibits are filed with this report:

Exhibit Number	Description
3.1 ⁽¹⁾	Amended and Restated Certificate of Incorporation of Registrant.
3.2 ⁽²⁾	Bylaws of Registrant.
10.32	2009 Stock Plan, as amended and restated.
10.33 ⁽³⁾	Seventh Amendment to Second Amended and Restated Loan and Security Agreement.
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	CEO and CFO Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

⁽¹⁾ Incorporated by reference to the Company's Registration Statement on Form S-1 declared effective October 14, 1999 (Commission File No. 333-28833).

⁽²⁾ Incorporated by reference to the Company's Current Report on Form 8-K (Item 5.03) filed on May 2, 2005.

⁽³⁾ Incorporated by reference to the Company's Current Report on Form 8-K (Item 1.01) filed on June 14, 2011.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUICKLOGIC CORPORATION

/s/ Ralph S. Marimon

Date: August 11, 2011

Ralph S. Marimon
*Vice President, Finance and Chief Financial
Officer*
*(as Principal Accounting and Financial Officer
and on behalf of the Registrant)*

EXHIBIT INDEX

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QUICKLOGIC CORPORATION

2009 STOCK PLAN

(Amended and Restated March 10, 2011)

1. Purposes of the Plan. The purposes of this 2009 Stock Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility;
- to provide additional incentive to Employees, Directors and Consultants; and
- to promote the success of the Company's business.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Appreciation Rights, Restricted Stock and Restricted Stock Units may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any Committee as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U. S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.

(e) "Board" means the Board of Directors of the Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein shall be a reference to any successor or amended section of the Code.

(g) "Committee" means a committee of Directors or other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 of the Plan.

(h) "Common Stock" means the common stock of the Company.

(i) "Company" means QuickLogic Corporation, a Delaware corporation.

(j) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(k) "Director" means a member of the Board.

(l) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(m) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary,

or any successor. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1st) day of such leave, any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(o) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Global Market, the Nasdaq Global Select Market or the Nasdaq Capital Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day on or before the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day on or before the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(p) "Incentive Stock Option" means an Option that by its terms qualifies and is otherwise intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(q) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(r) "Notice of Grant" means a written or electronic notice evidencing certain terms and conditions of an individual Award. The Notice of Grant is part of the Award Agreement.

(s) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) "Option" means a stock option granted pursuant to the Plan.

(u) "Option Agreement" means an agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.

(v) "Option Exchange Program" means a program whereby outstanding Options are surrendered in exchange for Options with a lower exercise price.

(w) "Optioned Stock" means the Common Stock subject to an Award.

(x) "Optionee" means the holder of an outstanding Option granted under the Plan.

(y) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(z) "Participant" means the holder of an outstanding Award granted under the Plan.

(aa) "Performance Goals" means the goal(s) (or combined goal(s)) determined by the Administrator (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Administrator, the performance measures for any performance period will be any one or more of the following objective performance criteria, applied to either the Company as a whole or, except with respect to shareholder return metrics, to a region, business unit, affiliate or business

segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, and, with respect to financial metrics, which may be determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles") or which may be adjusted when established to exclude any items otherwise includable under GAAP or under IASB Principles: (i) cash flow (including operating cash flow or free cash flow), (ii) revenue (on an absolute basis or adjusted for currency effects), (iii) gross margin, (iv) operating expenses or operating expenses as a percentage of revenue, (v) earnings (which may include earnings before interest and taxes, earnings before taxes and net earnings), (vi) earnings per share, (viii) stock price, (ix) return on equity, (x) total shareholder return, (xi) growth in shareholder value relative to the moving average of the S&P 500 Index or another index, (xii) return on capital, (xiii) return on assets or net assets, (xiv) return on investment, (xv) economic value added, (xvi) operating profit or net operating profit, (xvii) operating margin, (xix) market share, (xx) contract awards or backlog, (xxi) overhead or other expense reduction, (xxii) credit rating, (xxvi) objective customer indicators, (xxvii) new product invention or innovation, (xxviii) attainment of research and development milestones, (xxix) improvements in productivity, (xxx) attainment of objective operating goals, and (xxx) objective employee metrics.

(bb) "Plan" means this QuickLogic Corporation 2009 Stock Plan.

(cc) "Restricted Stock" means Shares issued pursuant to an Award of Restricted Stock under Section 12 of the Plan, or issued pursuant to the early exercise of an Option.

(dd) "Restricted Stock Purchase Agreement" means a written or electronic agreement between the Company and the Participant evidencing the terms and restrictions applying to Shares purchased under a Restricted Stock award. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.

(ee) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 13. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(ff) "Restricted Stock Unit Agreement" means a written or electronic agreement between the Company and the Participant evidencing the terms and restrictions applying to an individual grant of Restricted Stock Units. The Restricted Stock Unit Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.

(gg) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(hh) "Section 16(b)" means Section 16(b) of the Exchange Act.

(ii) "Service Provider" means an Employee, Director or Consultant.

(jj) "Share" means a share of the Common Stock, as adjusted in accordance with Section 15 of the Plan.

(kk) "Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with a related Option, that pursuant to Section 11 is designated as a SAR.

(ll) "Stock Appreciation Right Agreement" means a written or electronic agreement between the Company and the Participant evidencing the terms and restrictions applying to Shares purchased under a SAR. The Stock Appreciation Right Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.

(mm) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Subject to the provisions of Section 15 of the Plan, the maximum aggregate number of Shares which may be awarded and sold under the Plan is 4,000,000 Shares plus any Shares subject to any outstanding options or similar awards granted under the Company's 1999 Stock Plan (the "1999 Plan") that subsequently expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the 1999 Plan that are forfeited to or repurchased by the Company, up to a maximum of an additional 7,500,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Fungible Share Provisions. Any Shares subject to Options or SARs shall be counted against the numerical limits of this Section 3 as one Share for every Share subject thereto. With respect to any grants made on or after April 28, 2011, any Awards covering Shares with a per Share or per unit purchase price lower than 100% of Fair Market Value on the date of grant shall be counted against the numerical limits of this Section 3 as 1.5 Shares for every one Share subject thereto. To the extent that a Share that was subject to an Award that counted as 1.5 Shares against the Plan pursuant to the preceding sentence is recycled back into the Plan under the final paragraph of this Section 3, the Plan shall be credited with 1.5 Shares.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, or with respect to Restricted Stock or Restricted Stock Units, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased or unissued Shares (or for Awards other than Options or SARs, the forfeited or repurchased Shares) which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). Upon exercise of a SAR settled in Shares, the gross number of Shares covered by the portion of the Award so exercised will cease to be available under the Plan. Shares that have actually been issued under the Plan shall not be returned to the Plan and shall not become available for future distribution under the Plan; provided, however, that if unvested Shares issued pursuant to Awards of Restricted Stock or Restricted Stock Units are repurchased by the Company at their original purchase price or are forfeited to the Company due to the failure to vest, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 15, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in the immediately preceding paragraph above, plus, to the extent allowable under Code Section 422 and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to this paragraph.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. The Plan may be administered by different Committees with respect to different groups of Service Providers.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(v) Delegation of Authority for Day-to-Day Administration. Except to the extent prohibited by Applicable Laws, the Administrator may delegate to one or more individuals the day-to-day administration of the Plan and any of the functions assigned to it in this Plan. Such delegation may be revoked at any time.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of shares of Common Stock to be covered by each Award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award relating thereto granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or SARs may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture or repurchase restrictions, and any restriction or limitation regarding any Award or the shares of Common Stock

relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

- (vi) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;
 - (vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws or satisfying applicable foreign laws;
 - (viii) to modify or amend each Award (subject to Section 17(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options or SARs longer than is otherwise provided for in the Plan;
 - (ix) to allow Participants to satisfy withholding tax, Fringe Benefits Tax or National Insurance Contributions tax obligations by electing to have the Company withhold from the Shares or cash to be issued upon exercise or vesting of an Award that number of Shares or cash having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares or cash withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;
 - (x) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator; and
 - (xi) to make all other determinations deemed necessary or advisable for administering the Plan.
- (c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Participants and any other holders of an Award.

5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) ISO \$100,000 Rule. Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) No Rights as a Service Provider. Neither the Plan nor any Award shall confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor shall they interfere in any way with the right of the Participant or the right of the Company or its Parent or Subsidiaries to terminate such relationship at any time, with or without cause.

(c) Section 162(m) Limitations.

(i) Option and SAR Annual Share Limit. No Participant shall be granted, in any fiscal year of the Company ("Fiscal Year"), Options and Stock Appreciation Rights to purchase more than one million Shares; provided, however, that such limit shall be two million Shares in connection with the Participant's initial service.

(ii) Restricted Stock Annual Limit. No Participant shall be granted, in any Fiscal Year, more than five hundred thousand Shares of Restricted Stock; provided, however, that such limit shall be one million Shares of Restricted Stock in connection with the Participant's initial service.

(iii) Restricted Stock Units Annual Limit. No Participant shall be granted, in any Fiscal Year, more than five hundred thousand Restricted Stock Units; provided, however, that such limit shall be one million Restricted Stock Units in connection with the Participant's initial service.

(iv) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted

Stock or Restricted Stock Units as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Administrator on or before the latest date permissible to enable the Restricted Stock or Restricted Stock Units to qualify as “performance-based compensation” under Section 162(m) of the Code. In granting Restricted Stock or Restricted Stock Units which are intended to qualify under Section 162(m) of the Code, the Administrator shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

(v) Cancellations. If an Award is cancelled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 15), the cancelled Award will be counted against the limits set forth in subsections (i), (ii) and (iii) above. For this purpose, if the exercise price of an Award is reduced, the transaction will be treated as a cancellation of the Award and the grant of a new Award.

(vi) Changes in Capitalization. The foregoing 162(m) limitations shall be adjusted proportionately in connection with any change in the Company’s capitalization as described in Section 15(a).

7. Term of Plan. Subject to Section 21 of the Plan, the Plan shall become effective upon its adoption by the Board. It will continue in effect for a term of ten (10) years unless sooner terminated under Section 17 of the Plan.

8. Term of Option. The term of each Option shall be stated in the Option Agreement. In the case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Option Agreement. Moreover, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a merger or other corporate transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration, to the extent permitted by Applicable Laws, may consist entirely of:

(i) cash;

(ii) check;

(iii) other Shares which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(iv) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

(v) any combination of the foregoing methods of payment; or

(vi) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 15 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider or Provision of Notice of Employment Termination. If an Optionee (i) ceases to provide ongoing service as a Service Provider (for any reason and regardless of any appropriate court finding such termination unfair or irregular on any basis whatsoever), other than upon the Optionee's death or Disability, or (ii) is provided with notice of termination of employment (for any reason and regardless of any appropriate court finding the related termination unfair or irregular on any basis whatsoever) and ceases to provide ongoing service during the notice period, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent that the Option is vested on the earlier of the date of such cessation as a Service Provider or the last date of ongoing service after receiving a notice of termination of employment or such later date as required by Applicable Laws (the earlier of these dates or such later date required by Applicable Laws is referred to herein as the "Vesting Cessation Date", as reasonably fixed and determined by the Administrator), but in no event later than the expiration of the term of such Option as set forth in the Option Agreement. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Vesting Cessation Date. If, on the Vesting Cessation Date, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan (unless the Administrator determines otherwise). At the sole discretion of Company, subject to Applicable Laws, Grantee may be paid a lump sum for their cash compensation in lieu of notice. If, after the Vesting Cessation Date, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option

as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

11. Stock Appreciation Rights.

(a) Grant of SARs. Subject to the terms and conditions of the Plan, SARs may be granted to Service Providers at any time and from time to time as shall be determined by the Administrator, in its sole discretion. Subject to Section 6(c) hereof, the Administrator shall have complete discretion to determine the number of SARs granted to any Participant.

(b) Exercise Price and other Terms. The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of SARs granted under the Plan; provided, however, that no SAR may have a term of more than ten (10) years from the date of grant; provided, further that SARs may not have an exercise price below 100% of the Fair Market Value of the underlying shares on the grant date.

(c) Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying.

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price;
times

(ii) the number of Shares with respect to which the SAR is exercised.

(d) Payment upon Exercise of SAR. At the discretion of the Administrator, payment for a SAR may be in cash, Shares or a combination thereof.

(e) SAR Agreement. Each SAR grant shall be evidenced by a Stock Appreciation Right Agreement that shall specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, shall determine.

(f) Expiration of SARs. A SAR granted under the Plan shall expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Stock Appreciation Right Agreement; provided, however, that the term will be no more than ten (10) years from the date of grant thereof. Notwithstanding the foregoing, the rules of Section 10 will also apply to SARs.

12. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and conditions of the Plan, Restricted Stock may be granted either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Restricted Stock under the Plan, it shall advise the offeree in writing or electronically, by means of a Notice of Grant, of the terms, conditions and restrictions related to the grant, including the number of Shares of Restricted Stock (subject to Section 6(c) hereof) granted to the Participant and the conditions that must be satisfied, which typically will be based principally or solely on continued provision of services but may include a performance-based component, upon which is conditioned the grant or vesting of Restricted Stock. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon and after the Vesting Cessation Date or upon termination of the purchaser's service with the Company due to death or Disability. Unless the Administrator provides otherwise, the purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at a rate determined by the Administrator.

(c) Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions

and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(a) Rights as a Shareholder. Once the Restricted Stock is granted, the Participant shall have the rights equivalent to those of a shareholder, and shall be a shareholder when the grant is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Restricted Stock is granted, except as provided in Section 15 of the Plan.

13. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it shall advise the Participant in a Restricted Stock Unit Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units (subject to Section 6(c) hereof).

(b) Vesting Criteria and Other Terms. The Administrator shall set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant shall be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units shall be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Restricted Stock Unit Agreement. The Administrator, in its sole discretion, may only settle earned Restricted Stock Units in cash, Shares, or a combination of both.

(e) Cancellation. On the date set forth in the Restricted Stock Unit Agreement, all unearned Restricted Stock Units shall be forfeited to the Company.

14. Non-Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award shall contain such additional terms and conditions as the Administrator deems appropriate. In no event may an Award granted hereunder be transferred in exchange for consideration.

15. Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Award, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation, expiration, repurchase or forfeiture of an Award, as well as the price per share of Common Stock covered by each such outstanding Award and the Section 162(m) annual share issuance limits under Section 6(c), shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Award.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for a Participant to have the right to exercise his or her Option or SAR until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not

otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option or forfeiture rights applicable to any Award shall lapse 100% , and that any Award vesting shall accelerate 100%, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, or, with respect to Restricted Stock, all restrictions have not lapsed, or, with respect to a Restricted Stock Unit, all units have not vested, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale.

(i) Stock Options and SARs. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and SAR shall be assumed or an equivalent option or SAR substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or SAR, the Participant shall fully vest in and have the right to exercise the Option or SAR as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or SAR becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Participant in writing or electronically that the Option or SAR shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option or SAR shall terminate upon the expiration of such period, or such earlier date as specified in the Award Agreement. For the purposes of this paragraph, the Option or SAR shall be considered assumed if, following the merger or sale of assets, the option or stock appreciation right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or SAR immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR, for each Share of Optioned Stock subject to the Option or SAR, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

(ii) Restricted Stock and Restricted Stock Units. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Restricted Stock and Restricted Stock Unit award shall be assumed or an equivalent Restricted Stock or Restricted Stock Unit award substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Restricted Stock or Restricted Stock Unit award, the Participant shall fully vest in the Restricted Stock Unit, including shares which would not otherwise be vested, and all restrictions on Restricted Stock will lapse immediately prior to the closing date of the transaction. For the purposes of this paragraph, a Restricted Stock or Restricted Stock Unit award shall be considered assumed if, following the merger or sale of assets, the award confers the right to purchase or receive, for each Share subject to the Restricted Stock or Restricted Stock Unit award immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received, for each Share subject to the Restricted Stock or Restricted Stock Unit award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

16. Date of Grant. The date of grant of an Award shall be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Participant within a reasonable time after the date of such grant.

17. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Shareholder Approval. The Company shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which

agreement must be in writing and signed by the Participant and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination or Shares issued under the Plan.

The Company will administer the Plan from the United States of America, and any disputes will be settled in the U.S. according to U.S. law. This Plan and all awards are governed by the internal substantive laws, but not the choice of law principles, of the State of California, United States of America.

18. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option or Stock Appreciation Right or pursuant to the vesting of a Restricted Stock or Restricted Stock Unit award unless the exercise of such Option or Stock Appreciation Right or the vesting of a Restricted Stock or Restricted Stock Unit award and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise or receipt of an Award, the Company may require the person exercising or receiving such Award to represent and warrant at the time of any such exercise or receipt that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

19. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue, sell or release from escrow such Shares as to which such requisite authority shall not have been obtained.

20. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

21. Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval shall be obtained in the manner and to the degree required under Applicable Laws.

22. No Repricing. The exercise price for an Option or SAR may not be reduced without the prior consent of the Company's stockholders. This shall include, without limitation, a repricing of the Option or SAR as well as an Option or SAR exchange program whereby the Participant agrees to cancel an existing Option in exchange for an Option, SAR or other Award. If an Option or SAR is cancelled in the same fiscal year in which it was granted (other than in connection with a transaction described in Section 15), the cancelled Option or SAR as well as any replacement Option or SAR will be counted against the limits set forth in section 6(c) above. Moreover, if the exercise price of an Option or SAR is reduced, the transaction will be treated as a cancellation of the Option or SAR and the grant of a new Option or SAR.

23. Section 409A Compliance. Awards granted hereunder are intended to comply with the requirements of Section 409A of the Code to the extent Section 409A of the Code applies to such Awards and the terms of the Plan and any Award granted under the Plan shall be interpreted, operated and administered in a manner consistent with this intention to the extent the Administrator deems necessary or advisable in its sole discretion. Notwithstanding any other provision in the Plan, the Administrator, to the extent it unilaterally deems necessary or advisable in its sole discretion, reserves the right, but shall not be required, to amend or modify the Plan and any Award granted under the Plan so that the Award qualifies for exemption from or complies with Section 409A of the Code; provided, however, that the Company makes no representation that the Awards granted under the Plan shall be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to Awards granted under the Plan.

CERTIFICATIONS

I, Andrew J. Pease, certify that:

1. I have reviewed this quarterly report on Form 10-Q of QuickLogic Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2011

/s/ Andrew J. Pease

Andrew J. Pease

President and Chief Executive Officer

CERTIFICATIONS

I, Ralph S. Marimon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of QuickLogic Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2011

/s/ Ralph S. Marimon

Ralph S. Marimon

Vice President, Finance and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Andrew J. Pease, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of QuickLogic Corporation on Form 10-Q for the quarter ended July 3, 2011, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of QuickLogic Corporation.

By: /s/ Andrew J. Pease

Date: August 11, 2011

Name: Andrew J. Pease

Title: *President and Chief Executive Officer*

I, Ralph S. Marimon, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of QuickLogic Corporation on Form 10-Q for the quarter ended July 3, 2011, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of QuickLogic Corporation.

By: /s/ Ralph S. Marimon

Date: August 11, 2011

Name: Ralph S. Marimon

Title: *Vice President, Finance and Chief Financial Officer*