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

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**FORM 10-Q**

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(Mark One)

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

**For the Quarterly Period Ended September 27, 2015**

**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**

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**QUICKLOGIC CORPORATION**

(Exact name of registrant as specified in its charter)

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**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, 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 October 29, 2015, the registrant had outstanding 56,599,892 shares of common stock, par value \$0.001.

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QUICKLOGIC CORPORATION  
FORM 10-Q  
September 27, 2015

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**PART I. Financial Information****Item 1. Financial Statements****QUICKLOGIC CORPORATION  
CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS  
(in thousands, except par value amount)**

	September 27, 2015	December 28, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,441	\$ 30,050
Accounts receivable, net of allowances for doubtful accounts of \$0 in both periods	1,633	1,552
Inventories	2,372	4,952
Other current assets	833	1,146
Total current assets	28,279	37,700
Property and equipment, net	2,563	3,217
Other assets	231	222
<b>TOTAL ASSETS</b>	<b>\$ 31,073</b>	<b>\$ 41,139</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade payables	\$ 3,020	\$ 2,506
Accrued liabilities	2,029	1,574
Deferred revenue	82	—
Current portion of capital lease obligations	229	225
Total current liabilities	5,360	4,305
Long-term liabilities:		
Revolving line of credit	1,000	1,000
Capital lease obligations, less current portion	120	191
Other long-term liabilities	127	76
Total liabilities	6,607	5,572
Commitments and contingencies (see Note 13)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 100,000 shares authorized; 56,600 and 56,182 shares issued and outstanding, respectively	57	56
Additional paid-in capital	240,319	238,419
Accumulated deficit	(215,910)	(202,908)
Total stockholders' equity	24,466	35,567
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 31,073</b>	<b>\$ 41,139</b>

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Revenue	\$ 4,194	\$ 4,124	\$ 15,326	\$ 22,124
Cost of revenue	2,952	2,361	9,062	13,287
Gross profit	1,242	1,763	6,264	8,837
Operating expenses:				
Research and development	3,684	3,057	10,654	8,754
Selling, general and administrative	2,508	2,579	8,158	8,892
Restructuring costs	77	—	246	—
Total operating expenses	6,269	5,636	19,058	17,646
Loss from operations	(5,027)	(3,873)	(12,794)	(8,809)
Interest expense	(35)	(34)	(64)	(67)
Interest income and other expense, net	(39)	(17)	(98)	(79)
Loss before income taxes	(5,101)	(3,924)	(12,956)	(8,955)
Provision for (benefit from) income taxes	(15)	6	46	(18)
Net loss	\$ (5,086)	\$ (3,930)	\$ (13,002)	\$ (8,937)
Net loss per share:				
Basic	\$ (0.09)	\$ (0.07)	\$ (0.23)	\$ (0.16)
Diluted	\$ (0.09)	\$ (0.07)	\$ (0.23)	\$ (0.16)
Weighted average shares:				
Basic	56,588	55,812	56,379	55,208
Diluted	56,588	55,812	56,379	55,208

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2015</b>	<b>September 28, 2014</b>	<b>September 27, 2015</b>	<b>September 28, 2014</b>
Net loss	\$ (5,086)	\$ (3,930)	\$ (13,002)	\$ (8,937)
Total other comprehensive income, net of tax	—	—	—	—
Total comprehensive loss	\$ (5,086)	\$ (3,930)	\$ (13,002)	\$ (8,937)

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Nine Months Ended	
	September 27, 2015	September 28, 2014
Cash flows from operating activities:		
Net loss	\$ (13,002)	\$ (8,937)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,075	1,129
Stock-based compensation	1,496	1,750
Write-down of inventories	14	96
Gains on disposal of equipment	—	(2)
Write-off of equipment	8	5
Changes in operating assets and liabilities:		
Accounts receivable	(81)	1,514
Inventories	2,566	(2,838)
Other assets	421	291
Trade payables	397	(2,106)
Accrued liabilities and deferred revenue	547	(635)
Other long-term liabilities	51	(57)
Net cash used in operating activities	<u>(6,508)</u>	<u>(9,790)</u>
Cash flows from investing activities:		
Capital expenditures for property and equipment	(237)	(525)
Proceeds from sale of fixed assets	—	2
Net cash used in investing activities	<u>(237)</u>	<u>(523)</u>
Cash flows from financing activities:		
Payment of debt and capital lease obligations	(258)	(268)
Stock issued under share-based compensation, net	394	4,334
Net cash provided by financing activities	<u>136</u>	<u>4,066</u>
Net (decrease) in cash and cash equivalents	<u>(6,609)</u>	<u>(6,247)</u>
Cash and cash equivalents at beginning of period	30,050	37,406
Cash and cash equivalents at end of period	<u>\$ 23,441</u>	<u>\$ 31,159</u>
Supplemental schedule of non-cash investing and financing activities :		
Capital lease obligation to finance capital expenditures	\$ 349	\$ 448
Purchase of equipment included in accounts payable	\$ 125	\$ 33

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

**QUICKLOGIC CORPORATION**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — The Company and Basis of Presentation**

QuickLogic Corporation ("QuickLogic" or "the Company"), was founded in 1988 and reincorporated in Delaware in 1999. The Company develops and markets low-power programmable solutions that enable customers to add differentiated features and capabilities to their mobile, consumer and industrial products. The Company is a fabless semiconductor company that designs, markets and supports ultra-low power, customizable Sensor Hub, Display, and Connectivity semiconductor solutions for smartphone, tablet, wearable, and mobile enterprise, Original Equipment Manufacturers, or OEMs. Called Customer Specific Standard Products, or CSSPs, these programmable 'silicon plus software' solutions enable our customers to bring hardware-differentiated products to market quickly and cost effectively. The Company also develops and markets low-power 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 United States generally accepted accounting principles, or U.S. GAAP, and include all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of results for the interim periods presented. The Company recommends that these interim condensed consolidated financial statements be read in conjunction with the Company's Form 10-K for the year ended December 28, 2014. Operating results for the nine months ended September 27, 2015 are not necessarily indicative of the results that may be expected for the full year.

QuickLogic's fiscal year ends on the Sunday closest to December 31 and the fiscal quarters each end on the Sunday closest to the end of each calendar quarter. QuickLogic's third fiscal quarters for 2015 and for 2014 ended on Sunday, September 27, 2015 and September 28, 2014, respectively.

***Liquidity***

The Company has financed its operations and capital investments through sales of common stock, capital and operating leases, and bank lines of credit. As of September 27, 2015, the Company's principal sources of liquidity consisted of cash and cash equivalents of \$23.4 million and \$5.0 million in available credit under its revolving line of credit with Silicon Valley Bank, which expires on September 25, 2017. On September 25, 2015, the Company entered into a Second Amendment to Third Amended and Restated Loan and Security Agreement with Silicon Valley Bank to extend the line of credit for two years through September 25, 2017. This amendment modifies some of the financial covenants. See Note 5 for information regarding the financial covenants. This line of credit provides for committed loan advances of up to \$6.0 million, subject to increases at the Company's election of up to \$12.0 million.

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

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

The Company's liquidity is affected by many factors including, among others: the level of revenue and gross profit as a result of the cyclicity of the semiconductor industry; the conversion of design opportunities into revenue; market acceptance of existing and new products; fluctuations in revenue as a result of product end-of-life; fluctuations in revenue as a result of the stage in the product life cycle of its customers' products; costs of securing access to and availability of adequate manufacturing capacity; levels of inventories; wafer and finished goods purchase commitments; customer credit terms; the amount and timing of research and development expenditures; the timing of new product introductions; production volumes; product quality; sales and marketing efforts; the value and liquidity of our investment portfolio; changes in operating assets and liabilities; the ability to obtain or renew debt financing and to remain in compliance with the terms of existing credit facilities; the ability to raise funds from the sale of equity in the Company; the issuance and exercise of stock options and participation in the Company's employee stock purchase plan; and other factors related to the uncertainties of the industry and global economics. Accordingly,

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

there can be no assurance that events in the future will not require the Company to seek additional capital or, if so required, that such capital will be available on terms acceptable to the Company.

***Principles of Consolidation***

The consolidated financial statements include the accounts of QuickLogic and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

***Foreign Currency***

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

***Uses of Estimates***

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

***Concentration of Risk***

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

For the three and nine months ended September 27, 2015, the Company generated 57% and 44% of its total revenue from shipments to Samsung Electronics Co., Ltd. ("Samsung"). See Note 11 for information regarding concentrations associated with customers and distributors.

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

**Note 2 — Significant Accounting Policies**

During the nine months ended September 27, 2015, there were no changes in the Company's significant accounting policies from its disclosure in the Annual Report on Form 10-K for the year ended December 28, 2014. For a discussion of the significant accounting policies, please see the Annual Report on Form 10-K for the fiscal year ended December 28, 2014, filed with the Securities Exchange Commission, or SEC, on March 5, 2015.

***New Accounting Pronouncements***

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the measurement of Inventory*, which amends the accounting guidance on the valuation of inventory. The guidance requires an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. The Company is currently evaluating the impact of ASU 2015-11 on its consolidated financial statements and footnote disclosures.

In April 2015, the FASB issued ASU 2015-03, *Simplifying Presentation of Debt Issuance Costs* which amends the accounting guidance on the presentation of debt issuance costs. The guidance requires an entity to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt, consistent with debt discounts. The guidance is effective for annual reporting periods beginning after December 31, 2015 and interim periods beginning after December 15, 2016, and must be applied retrospectively to each prior reporting period presented. The Company is currently evaluating the impact of ASU 2015-03 on its consolidated financial statements and footnote disclosures.

In February 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* (ASU 2015-02), which is intended to improve the targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations and securitization structures. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB accounting standards codification and improves the current U.S. GAAP by: placing more emphasis on risk of loss when determining a controlling financial interest; reducing the frequency of the application of related party guidance when determining a controlling financial interest in a variable interest entity, or VIE and changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. This ASU 2015-02 is effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. Early adoption is permitted including adoption in an interim period. The Company is currently evaluating the impact of ASU 2015-02 on its consolidated financial statements and footnote disclosures.

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* (ASU 2015-01). This ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, requires that an entity separately classify, present and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of a reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show such item separately in the income statement, net of tax, after income from continuing operations. The entity is also required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. This ASU 2015-01 is effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. Early adoption is permitted provided that the adopted guidance is applied from the beginning of the annual year in which such guidance is adopted. The Company is currently evaluating the impact of ASU 2015-01 on its consolidated financial statements and footnote disclosures.

Other new accounting pronouncements are disclosed on the Annual Report on Form 10-K for the fiscal year ended December 28, 2014 filed with the SEC on March 5, 2015.

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

**Note 3 — Net Loss Per Share**

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share was computed using the weighted average number of common shares outstanding during the period plus potentially dilutive common shares outstanding during the period under the treasury stock method. In computing diluted net income (loss) per share, the weighted average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options and warrants.

The following shares were not included in the calculation of diluted net loss per share for the third quarter and nine months ended September 27, 2015 and September 28, 2014: (i) 6.8 million and 6.6 million of common shares associated with equity awards outstanding and the estimated number of shares to be purchased under the current offering period of the 2009 Employee Stock Purchase Plan, respectively, and (ii) warrants to purchase up to 2.3 million as of September 27, 2015 and 4.2 million as of September 28, 2014 shares of common stock respectively. These shares were not included as they were considered antidilutive due to the net loss the Company experienced during these periods.

**Note 4 — Balance Sheet Components**

	As of	
	September 27, 2015	December 28, 2014
(in thousands)		
<b>Inventories:</b>		
Raw material	\$ —	\$ —
Work-in-process	1,660	1,191
Finished goods	712	3,761
	<u>\$ 2,372</u>	<u>\$ 4,952</u>
<b>Other current assets:</b>		
Prepaid expenses	\$ 714	\$ 1,042
Other	119	104
	<u>\$ 833</u>	<u>\$ 1,146</u>
<b>Property and equipment:</b>		
Equipment	\$ 13,618	\$ 14,047
Software	2,941	3,332
Furniture and fixtures	131	710
Leasehold improvements	713	595
	<u>17,403</u>	<u>18,684</u>
Accumulated depreciation and amortization	<u>(14,840)</u>	<u>(15,467)</u>
	<u>\$ 2,563</u>	<u>\$ 3,217</u>
<b>Accrued liabilities:</b>		
Employee related accruals	\$ 1,804	\$ 1,356
Restructuring accruals - See Note 12	111	—
Other	114	218
	<u>\$ 2,029</u>	<u>\$ 1,574</u>

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

**Note 5 — Obligations**

	As of	
	September 27, 2015	December 28, 2014
(in thousands)		
Debt and capital lease obligations:		
Revolving line of credit	\$ 1,000	\$ 1,000
Capital leases	349	416
	1,349	1,416
Current portion of debt and capital lease obligations	(229)	(225)
Long term portion of debt and capital lease obligations	\$ 1,120	\$ 1,191

***Revolving Line of Credit***

On September 25, 2015 the Company entered into the Second Amendment to the Third Amended and Restated Loan and Security Agreement dated September 25, 2015 ("the Loan Agreement") with Silicon Valley Bank (the "Bank"). The terms of the Loan Agreement include a \$6.0 million revolving line of credit available through September 25, 2017. Upon each advance, the Company can elect a Prime Rate advance, which is the prime rate plus the prime rate margin, or a LIBOR advance, which is LIBOR rate plus the LIBOR rate margin. As of the end of the third quarter of 2015, the Company had \$1.0 million of revolving debt outstanding with an interest rate of 3.13%.

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 Third Loan Agreement. Under the terms of the Loan Agreement, the Company must maintain (i) a tangible net worth of at least \$12 million, plus (a) 50% of the proceeds from any equity issuance, plus (b) 50% of the proceeds from any investments, tested as of the last day of each fiscal quarter; (ii) unrestricted cash or cash equivalents at the Bank or Bank's affiliates at all times in an amount of at least \$6 million; (iii) a ratio of quick assets to the results of (a) current liabilities minus (b) the current portion of deferred revenue, plus (c) the long-term portion of the obligations of at least 1.10 to 1.00, tested as of the last day of each month. The Loan 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, cash balances with subsidiaries and the payment of dividends. The Company was in compliance with the financial covenants of the Third Loan Agreement as of the end of the current reporting period.

***Capital Leases***

In July 2015, the Company leased design software under a three-year capital lease at an imputed interest rate of 4.91% per annum. Terms of the agreement require the Company to make annual payments of approximately \$67,300 through July 2017, for a total of \$202,000. As of September 27, 2015, \$125,000 was outstanding under the capital lease, of which \$61,000 was classified as a current liability.

In July 2014, the Company leased design software under a 41-month capital lease at an imputed interest rate of 3.15% per annum. Terms of the agreement require the Company to make payments of principal and interest of \$42,000 in August 2014, \$16,000 in December 2014, \$58,000 in January 2016 and \$58,000 in January 2017. The total payments for the lease will be \$174,000. As of September 27, 2015, \$110,000 was outstanding under this capital lease, of which \$54,000 was classified as a current liability.

In May 2014, the Company leased design software under a three-year capital lease at an imputed interest rate of 4.80% per annum. Terms of the agreement require the Company to make annual payments of approximately \$84,000 through April 2016, for a total of \$252,000. As of September 27, 2015, \$80,000 was outstanding under the capital lease, all of which was classified as a current liability.

In December 2013, the Company leased design software under a two-year capital lease at an imputed interest rate of 4.34% per annum. Terms of the agreement require the Company to make quarterly payments of approximately \$34,000 through September 2015, for a total of \$273,000. As of September 27, 2015, \$34,000 was outstanding under the capital lease, all of which was classified as a current liability.

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

**Note 6 — 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 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 assumptions of market participant valuation (unobservable inputs). The fair value hierarchy consists of the following three levels:

- *Level 1* – Inputs are quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- *Level 3* – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table presents the Company's financial assets that are measured at fair value on a recurring basis as of September 27, 2015 and December 28, 2014, consistent with the fair value hierarchy provisions of the authoritative guidance (in thousands):

	As of September 27, 2015				As of December 28, 2014			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Money market funds <sup>(1)</sup>	\$ 21,550	\$ 343	\$ 21,207	\$ —	\$ 29,425	\$ 874	\$ 28,551	\$ —
Total assets	<u>\$ 21,550</u>	<u>\$ 343</u>	<u>\$ 21,207</u>	<u>\$ —</u>	<u>\$ 29,425</u>	<u>\$ 874</u>	<u>\$ 28,551</u>	<u>\$ —</u>

(1) Money market funds are presented as a part of cash and cash equivalents on the accompanying consolidated balance sheets as of September 27, 2015 and December 28, 2014.

**Note 7 - Stockholders' Equity***Common Stock and Preferred Stock*

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

*Issuance of Common Stock and Warrants*

On July 31, 2013, the Company filed a shelf registration statement on Form S-3 under which the Company may, from time to time, sell securities in one or more offerings up to a total dollar amount of \$40.0 million. The Company's shelf registration statement was declared effective on August 30, 2013 and expires in August 2016.

In November 2013, the Company issued an aggregate of 8,740,000 shares of common stock, \$0.001 par value, in an underwritten public offering at a price of \$2.90 per share. The Company received net proceeds from the offering of approximately \$23.1 million, net of underwriter's commission and other offering expenses of \$2.2 million.

As of September 27, 2015, 2.3 million warrants were outstanding. Approximately 1.9 million warrants with a strike price of \$2.15 were issued in conjunction with a November 2009 financing. These warrants expired in May 2015. Approximately 2.3 million warrants with a strike price of \$2.98 were issued in conjunction with a June 2012 financing. These warrants expire in June 2017. After August 2016, the warrants can only be exercised on a cashless basis.

## **Note 8 — Employee Stock Plans**

### ***1999 Stock Plan***

The 1999 Stock Plan, or 1999 Plan, provided for the issuance of incentive and non-qualified options, restricted stock units ("RSUs") 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 January 2015 and approved by the Company's stockholders on April 23, 2015 to, among other things, reserve an additional 2.5 million shares of common stock for issuance under the 2009 Plan. As of September 27, 2015, approximately 9.7 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 10 million shares. Equity awards granted under the 2009 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter. RSUs typically vest at a rate of 25% one year after the vesting commencement date, and one eighth every six months thereafter. The Company may implement different vesting schedules in the future with respect to any new equity awards.

### ***Employee Stock Purchase Plan***

The 2009 Employee Stock Purchase Plan, or 2009 ESPP, was adopted in March 2009. In January 2015, the 2009 ESPP was amended by the Board of Directors and approved by the Company's stockholders on April 23, 2015 to reserve an additional 1.0 million shares of common stock for issuance under the 2009 ESPP. As of September 27, 2015, approximately 3.3 million shares were reserved for issuance under the 2009 ESPP Plan. The 2009 ESPP provides for six month offering periods. Participants purchase shares through payroll deductions of up to 20% of an employee's total compensation (maximum of 20,000 shares per offering period). The 2009 ESPP permits the Board of Directors to determine, prior to each offering period, whether participants purchase shares at: (i) 85% of the fair market value of the common stock at the end of the offering period; or (ii) 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period. The Board of Directors has determined that, until further notice, future offering periods will be made at 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period.

## **Note 9 — Stock-Based Compensation**

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

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

The stock-based compensation expense included in the Company's consolidated financial statements for the three and nine months ended September 27, 2015 and September 28, 2014 was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Cost of revenue	\$ 29	\$ 32	\$ 95	\$ 110
Research and development	210	176	613	750
Selling, general and administrative	240	244	759	890
Restructuring charges*	29	—	29	—
<b>Total costs and expenses</b>	<b>\$ 508</b>	<b>\$ 452</b>	<b>\$ 1,496</b>	<b>\$ 1,750</b>

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

\* Stock-based compensation related to restructuring plan initiated in Q2-15.

#### *Valuation Assumptions*

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

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

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

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Expected term (years)	4.78	6.19	4.78	6.19
Risk-free interest rate	1.40%	1.98%	1.40%	1.98%
Expected volatility	52.11%	55.10%	52.11%	55.10%
Expected dividend yield	—	—	—	—

No stock options were granted in the third quarter of 2015. The weighted average estimated fair value for options granted during the third quarter of 2014 was \$2.10 per option. The weighted average estimated fair value for options granted during the first nine months of 2015 and 2014 was \$0.90 and \$2.10, per option, respectively. As of September 27, 2015 and September 28, 2014, the fair value of unvested stock options, net of expected forfeitures, was approximately \$2.3 million and \$1.9 million, respectively. This unrecognized stock-based compensation expense is expected to be recorded over a weighted average period of 2.17 years.

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

***Stock-Based Compensation Award Activity***

The following table summarizes the activity in the shares available for grant under the 2009 Plan during the nine months ended September 27, 2015:

	Shares Available for Grant (in thousands)
Balance at December 28, 2014	1,139
Authorized	2,500
Options granted	(80)
Options forfeited or expired	495
RSUs granted	(301)
PRSUs granted	(21)
RSUs forfeited or expired	52
Balance at September 27, 2015	3,784

***Stock Options***

The following table summarizes stock options outstanding and stock option activity under the 1999 Plan and the 2009 Plan, and the related weighted average exercise price, for the first nine months of 2015:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance outstanding at December 28, 2014	5,682	\$ 2.67		
Granted	80	2.00		
Forfeited or expired	(495)	2.86		
Exercised	(119)	0.98		
Balance outstanding at September 27, 2015	5,148	\$ 2.68	4.84	\$ 322
Exercisable at September 27, 2015	4,424	\$ 2.62	4.27	\$ 322
Vested and expected to vest at September 27, 2015	5,148	\$ 2.68	4.84	\$ 322

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of \$1.65 as of the end of the Company's current reporting period, which would have been received by the option holders had all option holders exercised their options as of that date.

The total intrinsic value of options exercised during the first nine months of 2015 and 2014 was \$83,000 and \$3.7 million, respectively. Total cash received from employees as a result of employee stock option exercises during the first nine months of 2015 and 2014 was approximately \$117,000 and \$4.3 million 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 \$218,000 and \$677,000 for the three months and nine months ended September 27, 2015.

***Restricted Stock Units and Performance-based Restricted Stock Units***

The Company began issuing RSUs and PRSUs in the third quarter of 2007. RSUs entitle the holder to receive, at no cost, one common share for each RSU as it vests. In general, the Company's policy is to withhold shares in settlement of employee tax withholding obligations upon the vesting of RSUs. The stock-based compensation related to RSUs and PRSUs was \$199,000 and \$23,000, for the three months and \$542,000 and \$58,000 for the nine months ended September 27, 2015,

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

respectively. As of September 27, 2015, there was \$1.5 million in unrecognized compensation expense related to RSUs and PRSUs.

A summary of activity for the Company's RSUs and PRSUs for the nine months ended September 27, 2015 and information regarding RSUs and PRSUs outstanding and expected to vest as of September 27, 2015 is as follows:

	RSUs & PRSUs Outstanding	
	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at December 28, 2014	650	\$ 3.47
Granted	322	1.85
Vested	(80)	1.83
Forfeited	(52)	—
Nonvested at September 27, 2015	840	\$ 3.03

***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 during the third quarters of 2015 and 2014 was \$0.48 and \$1.01 per right, respectively.

As of September 27, 2015, 1,634,000 shares remained available for issuance under the 2009 ESPP including 1.0 million additional shares authorized in the second quarter. For the third quarter and nine months ended September 27, 2015, the Company recorded stock-based compensation expense related to the 2009 ESPP of \$68,000 and \$219,000, respectively.

The fair value of rights issued pursuant to the Company's 2009 ESPP was estimated on the commencement date of each offering period using the following weighted average assumptions:

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Expected term (months)	6.08	6.09	6.08	6.09
Risk-free interest rate	0.08%	0.05%	0.08%	0.05%
Volatility	51.54%	49.17%	51.54%	49.17%
Dividend yield	—	—	—	—

As of September 27, 2015, the unrecognized stock-based compensation expense relating to the Company's 2009 ESPP was \$36,000 and is expected to be recognized over a weighted average period of approximately 1.6 months.

**Note 10 — Income Taxes**

In the third quarters of 2015 and 2014, the Company recorded a net income tax benefit of \$15,000 and income tax expense of \$6,000, respectively. For the nine months ended September 27, 2015 and September 28, 2014, the Company recorded net income tax expense of \$46,000 and a net income tax benefit of \$18,000, respectively. The income tax benefit for the third quarter of 2015 includes the net effect of the following: (i) income taxes from its foreign operations which are cost-plus entities; and (ii) the release of an unrecognized tax benefit in the period. The income tax expense for the third quarter of 2014 relates to income taxes from the Company's foreign operations, which are cost-plus entities.

Based on the available objective evidence, management believes it is more likely than not that the Company's net deferred tax assets will not be fully realizable. Accordingly, with the exception of its foreign subsidiaries, the Company has provided a full valuation allowance against the associated deferred tax assets. The Company will continue to assess the realizability of the deferred tax assets in future periods.

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

The Company had approximately \$36,000 and \$51,000 of unrecognized tax benefits at September 27, 2015 and December 28, 2014, respectively, which will result in a change in the Company's effective tax rate if recognized in future years. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. For the nine month period ended September 27, 2015, the Company accrued \$3,000 of interest and penalties. As of September 27, 2015, the Company had approximately \$16,000 of accrued interest and penalties related to uncertain tax positions.

Included in the balance of unrecognized tax benefits at September 27, 2015 is \$9,000 related to tax positions, interest, and penalties for which it is reasonably possible that the statute of limitations for these items will expire in various jurisdictions within the next twelve months.

The Company is subject to U.S. federal income tax as well as income taxes in many U.S. states and foreign jurisdictions in which the Company operates. As of December 28, 2014, fiscal years 2010 onward remain open to examination by the U.S. taxing authorities and fiscal years 2006 onward remain open to examination in Canada. The U.S. federal and U.S. state taxing authorities may choose to audit tax returns for tax years beyond the statute of limitation period due to significant tax attribute carryforwards from prior years, making adjustments only to carryforward attributes.

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

The Company identifies its business segment 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		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
<i>Revenue by product line <sup>(1)</sup>:</i>				
New products	\$ 2,855	\$ 2,236	\$ 9,952	\$ 15,634
Mature products	1,339	1,888	5,374	6,490
Total revenue	\$ 4,194	\$ 4,124	\$ 15,326	\$ 22,124

(1) For all periods presented: New products include all products manufactured on 180 nanometer or smaller semiconductor processes. Mature products include all products produced on semiconductor processes larger than 180 nanometers.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
<i>Revenue by geography:</i>				
Asia Pacific <sup>(1)</sup>	\$ 3,044	\$ 2,341	\$ 10,334	\$ 16,179
North America <sup>(2)</sup>	690	1,084	3,619	3,158
Europe	460	699	1,373	2,787
Total revenue	\$ 4,194	\$ 4,124	\$ 15,326	\$ 22,124

<sup>(1)</sup> Asia Pacific includes revenue from South Korea of \$2.4 million, or 58%, of total revenue and \$1.1 million, or 28%, of total revenue for the quarters ended September 27, 2015 and September 28, 2014, respectively. For the nine months ended September 27, 2015 and September 28, 2014, revenue from South Korea was \$6.9 million, or 45%, of total revenue and \$11.6 million, or 52%, respectively.

<sup>(2)</sup> North America includes revenue from the United States of \$665,000, or 16%, of total revenue and \$974,000, or 24%, for the quarters ended September 27, 2015 and September 28, 2014, respectively. For the nine months ended September 27, 2015 and September 28, 2014, revenue from United States was \$3.5 million, or 23%, and \$2.9 million, or 13%, respectively.

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

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

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Distributor "A"	15%	26%	24%	15%
Distributor "B"	*	12%	*	*
Customer "B"	10%	13%	14%	*
Customer "G"	57%	27%	44%	53%

\* 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:

	September 27, 2015	December 28, 2014
Distributor "A"	27%	34%
Customer "G"	45%	28%

As of September 27, 2015, 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 — Restructuring Charges**

In June 2015, the Company implemented a restructuring plan to re-align the organization to support the Company's sensor processing provider business model and growth strategy. This re-alignment resulted in a reduction of nine employees or 9% of the Company's global workforce. Pursuant to the restructuring plan, the Company initially recorded \$169,000 of restructuring liabilities, consisting primarily of employee severance related costs. In the third quarter the Company incurred additional restructuring charges of \$77,000 and paid-off \$131,000 of the liabilities previously accrued. The additional restructuring charges in the third quarter were primarily related to the closing of its Canadian subsidiary at the end of 2015. The restructuring liabilities are included in the "Liabilities" line item in the consolidated balance sheet. The activities affecting the restructuring liabilities for the nine months ended September 27, 2015 are summarized as follows:

	Restructuring Liabilities (In Thousands)
Balance at December 28, 2014	\$ —
Accruals	246
Payments and non-cash items adjustments	(131)
FX translation adjustment	(4)
Balance at September 27, 2015	\$ 111

**Note 13 — Commitments and Contingencies**

*Commitments*

The Company's manufacturing suppliers require us to forecast wafer starts several months in advance. The Company is required to take delivery of and pay for a portion of forecasted wafer volume. As of September 27, 2015, and December 28, 2014, the Company had \$3.2 million and \$552,000, respectively, of outstanding commitments for the purchase of wafer and finished goods inventory.

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

The Company has obligations with certain suppliers for the purchase of other goods and services entered into in the ordinary course of business. As of September 27, 2015, total outstanding purchase obligations were \$1.8 million, of which \$1.6 million were due within the next twelve months.

The Company leases its primary facility under a non-cancelable operating lease that expires at the end of 2018. In addition, the Company rents development facilities in India as well as sales offices in Europe and Asia. Total rent expense, net of sublease income, for the third quarters of 2015 and 2014 was approximately \$201,000 and \$239,000, respectively. Total rent expense, net of sublease income, for the first nine months of 2015 and 2014 was \$678,000 and \$710,000, respectively.

As of September 27, 2015, future minimum lease commitments under the Company's operating leases, excluding property taxes and insurance are as follows:

<u>Fiscal Years</u>	<u>Operating Leases</u> <u>(in thousands)</u>
2015 (Remaining 3 months)	\$ 199
2016	706
2017	628
2018	641
	<u>\$ 2,174</u>

### *Contingencies*

One of the Company's licensors contends that the Company owes back royalties on sales of the Company's ArcticLink III VX devices. Based on the terms and conditions of the Amended and Restated License Agreement between the parties, the Company does not believe it is liable for any royalty payments on these sales. The parties have agreed to mediate the matter and are in the process of selecting a mediator. As of September 27, 2015, the Company estimates the possible loss relating to this matter to be in the range of \$25,000 and \$250,000.

### **Note 14 — Litigation**

From time to time, the Company may become involved in legal actions arising in the ordinary course of business including, but not limited to, intellectual property infringement and collection matters. Absolute assurance cannot be given that any such third party assertions will be resolved: (i) without costly litigation; (ii) in a manner that is not adverse to the Company's financial position, results of operations or cash flows; or (iii) without requiring royalty or other payments which may adversely impact gross profit.

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

### *Forward-Looking Statements*

*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, contain "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 harbor 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 our strategies as well as (1) our revenue levels, including the commercial success of our Customer Specific Standard Products, or CSSPs, and new products, (2) the conversion of our design opportunities into revenue, (3) our liquidity, (4) our research and development efforts, (5) our gross profit and factors that affect gross profit, (6) our level of operating expenses, (7) our partners and suppliers and (8) industry trends. The following discussion should be read in conjunction with the attached condensed unaudited consolidated financial statements and notes thereto, and with our condensed audited consolidated financial statements and notes thereto for the fiscal year ended December 28, 2014, found in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 5, 2015. Although we believe that the assumptions underlying the forward-looking statements contained in this Quarterly Report are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements will be accurate. The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under the heading "Risk Factors" in Part II, Item 1A hereto and the risks, uncertainties and assumptions discussed from time to time in our other public filings and public announcements. All forward-looking statements included in this document are based on information available to us as of the date hereof. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved. Furthermore, past performance in operations and share price is not necessarily indicative of future performance. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

### **Overview**

We develop and market low-power customizable semiconductor solutions that: enable customers to add new differentiated features; enable always-on and contextually aware sensor applications; extend battery life; and improve the customer's visual experience with their mobile, consumer and enterprise products. Our targeted mobile market segment includes Smartphones, Tablets, Wearables, and Mobile Enterprise. Our solutions typically fall into one of three product categories: Display and Visual Enhancement; Smart Connectivity; and Ultra-Low Power Sensor Hubs. We are a fabless semiconductor company that designs Customer Specific Standard Products, or CSSPs, which are complete, customer-specific solutions that include one or more of the following: a combination of silicon solution platforms; Proven System Blocks, or PSBs; customer-specific logic; the SenseMe™ algorithm library; software drivers; and firmware. Our main platform families, EOS™, ArcticLink® and PolarPro®, are standard silicon platforms. Recent examples of PSBs that have been developed and that are available to customers include PSBs that drive one or more Light Emitting Diodes, or LEDs, Barcode transmission via InfraRed (IR) LED, and TV remote control via LED. The variety of PSBs offered by us allows system designers to combine multiple discrete chips onto a single CSSP thereby simplifying design and board layout, lowering bill of material cost, and accelerating time-to-market. The programmable logic of the platforms is used for adding differentiated features and provides flexibility to address hardware-based product requirements quickly.

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, and to processor vendors that wish to expand their served available market through the deployment of reference designs to their customers. Our solutions enable OEMs and ODMs to add new features, deploy sensor-enabled applications, extend battery life, and improve the visual experience of 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 work with mobile processor manufacturers and sensor suppliers in the development of reference designs. Through the use of reference designs that incorporate our CSSPs, we believe mobile processor manufacturers can expand the served

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

available market for their processors. In the event that a CSSP development with a processor manufacturer or a set of sensor vendors is applicable to a set of common OEMs or ODMs, we can amortize our research and development investment over that set of OEMs/ODMs. We call this type of solution a Catalog CSSP. We are placing a greater emphasis on developing and marketing Catalog CSSPs in the future.

In order to grow our revenue from its current level, we depend upon increased revenue from our new products, including sensor processing solution platforms and existing new product platforms. We expect our business growth to be driven by ultra-low power programmable sensor processing solutions and our sensor processing solutions revenue growth needs to be strong enough to enable us to sustain profitability while we continue to invest in the development, sales and marketing of our new solution platforms, PSBs, algorithms, firmware, and new 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 that we are pursuing with CSSPs.

During the third quarter of 2015, we generated total revenue of \$4.2 million. This represents a decrease of 16% from the prior quarter and an increase of 2% over the third quarter of 2014. Our new product revenue was \$2.9 million, down 3% sequentially and up 28% year over year. The sequential decrease of new product revenue was primarily due to a larger than expected decline in smart connectivity solutions, partially offset by increased shipments of sensor processing and display bridge solutions. The year over year increase was primarily due to increased revenue from shipments of our ArcticLink III display bridge solutions to Samsung, which increased by \$1.2 million in the third quarter as compared to the third quarter of 2014. We anticipate new product revenue generated from our display bridge solution and smart connectivity solutions will continue to fluctuate depending on the demand in the Android tablet market.

For the third quarter of 2015, revenue generated from Samsung accounted for 83% of our new product revenue and 57% of our total revenue compared to 69% and 41%, respectively, for the second quarter of 2015. During the third quarter of 2015, new products were shipped into the Tablet, Smartphone and Mobile Enterprise markets. Our mature product revenue was \$1.3 million, a decrease of 34% sequentially and 29% year over year. We devote substantially all of our development, sales and marketing efforts to our new sensor processing solution platforms, PSBs and CSSPs. Overall, we reported a net loss of \$5.1 million for the third quarter of 2015 compared to a net loss of \$3.9 million for the third quarter of 2014 primarily due to lower revenue level and increased R&D investments in our new sensor processing solution platforms.

***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, valuation of investments, valuation of long-lived assets, measurement of stock-based compensation and estimation of 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 financial statements. 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 December 28, 2014, filed with the SEC on March 5, 2015.

**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 condensed consolidated statements of operations for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	70 %	57 %	59 %	60 %
Gross profit	30 %	43 %	41 %	40 %
Operating expenses:				
Research and development	88 %	74 %	70 %	40 %
Selling, general and administrative	60 %	63 %	53 %	40 %
Restructuring Costs	2 %	— %	2 %	
Loss from operations	(119)%	(94)%	(84)%	(40)%
Interest expense	(1)%	(1)%	— %	— %
Interest income and other expense, net	(1)%	— %	(1)%	(1)%
Loss before income taxes	(121)%	(95)%	(85)%	(41)%
Provision for income taxes	— %	*	— %	(1)%
Net loss	(121)%	(95)%	(85)%	(40)%

Insignificant percentages are rounded to zero percentage (-%) for disclosure.

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

*Three Months Ended September 27, 2015 and September 28, 2014*

*Revenue*

The table below sets forth the changes in revenue for the three months ended September 27, 2015, as compared to the three months ended September 28, 2014 (in thousands, except percentage data):

	Three Months Ended					
	September 27, 2015		September 28, 2014		Change	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	Percentage
<i>Revenue by product line <sup>(1)</sup>:</i>						
New products	\$ 2,855	68%	\$ 2,236	54%	\$ 619	28 %
Mature products	1,339	32%	1,888	46%	(549)	(29)%
Total revenue	\$ 4,194	100%	\$ 4,124	100%	\$ 70	2 %

(1) For all periods presented: New products include all products manufactured on 180 nanometer or smaller semiconductor processes. Mature products include all products produced on semiconductor processes larger than 180 nanometers.

The \$619,000 increase in new product revenue was primarily due to increased shipments of our ArcticLink III display bridge solution platform to Samsung for certain Android tablets, partially offset by lower shipments of our smart connectivity solutions. Revenue from Samsung in the third quarter of 2015 was \$2.4 million compared to \$1.1 million in the third quarter of 2014. Revenue from our other new products in the third quarter of 2015 was \$479,000 compared to \$1.1 million in the same period of 2014. The impact of lower sales price on the revenue of the third quarter of 2015 was approximately \$278,000, or 7% of total revenue, compared to the third quarter of 2014. The Company's revenue from Samsung accounted for 83% of new product revenue and 57% of total revenue in the third quarter of 2015. The \$549,000 decrease in mature product revenue was primarily due to decreased orders from our customers in the aerospace, test and instrumentation sectors.

We continue to seek to expand our revenue through the pursuit of high volume sales opportunities in our target market segments, including the sale of sensor processing solution platforms. Our industry is characterized by intense price competition and by lower margins as order volumes increase. Due to the concentration of our new product revenue in Samsung, combined with the cyclical nature of the mobile market, we have experienced significant fluctuations in new product revenue. While winning large-volume sales opportunities will increase our revenue, due to the pricing negotiation leverage of large companies, these opportunities may decrease our gross profit as a percentage of revenue. In addition, these large companies provide longer-term purchase forecasts which are not binding and may not result in revenue.

*Gross Profit*

The table below sets forth the changes in gross profit for the three months ended September 27, 2015 as compared to the three months ended September 28, 2014 (in thousands, except percentage data):

	Three Months Ended					
	September 27, 2015		September 28, 2014		Change	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	Percentage
Revenue	\$ 4,194	100%	\$ 4,124	100%	\$ 70	2 %
Cost of revenue	2,952	70%	2,361	57%	591	25 %
Gross Profit	\$ 1,242	30%	\$ 1,763	43%	\$ (521)	(30)%

The \$521,000 decrease in gross profit in absolute dollars and the 13% decrease in the gross margin as a percentage of revenue during the third quarter of 2015, as compared to the third quarter of 2014, was primarily due to the decrease in revenue from our mature products, which carry extremely high margin. The impact of lower sales price on the gross profit of the third quarter of 2015 was approximately \$278,000, or 7%, compared to the third quarter of 2014. The sale of previously reserved inventory was \$49,000 and \$144,000 in the third quarters of 2015 and 2014, respectively.

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

Our semiconductor products have historically had long product life cycles and obsolescence has not been a significant factor in the valuation of inventories. However, as we continue to pursue opportunities in the mobile market and develop new CSSPs and products, our product life cycle will be shorter and the risk of obsolescence will increase.

We regularly review the cost of inventories and purchase commitments 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. In general, our standard manufacturing lead times are longer than the binding forecasts we receive from customers. The revenue fluctuations we have experienced with Samsung have increased the risk of inventory obsolescence of our ArcticLink III display solution platform family.

*Operating Expenses*

The table below sets forth the changes in operating expenses for the three months ended September 27, 2015, as compared to the three months ended September 28, 2014 (in thousands, except percentage data):

	Three Months Ended				Change	
	September 27, 2015		September 28, 2014		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
R&D expense	\$ 3,684	88%	\$ 3,057	74%	\$ 627	21 %
SG&A expense	2,508	60%	2,579	63%	(71)	(3)%
Restructuring charges	77	2%	—	—%	77	100 %
Total operating expenses	\$ 6,269	150%	\$ 5,636	137%	\$ 633	11 %

*Research and Development*

Our research and development, or R&D, expenses consist primarily of personnel, overhead and other costs associated with engineering process improvements, sensor hub and algorithm development, programmable logic design, CSSP design and software development. The \$627,000 increase in R&D expenses in the third quarter of 2015, as compared to the third quarter of 2014, was primarily attributable to a \$320,000 increase in compensation expenses due to increased headcount, a \$178,000 increase in third-party chip design costs, and an increase in IP purchases of \$115,000. We expect our R&D expenses to continue to increase due to new sensor processing solution platforms development.

*Selling, General and Administrative Expense*

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 \$71,000 decrease in SG&A expenses in the third quarter of 2015, as compared to the third quarter of 2014, was primarily due to lower occupancy costs of \$54,000, lower supply costs of \$35,000, and lower employee related costs of \$30,000, partially offset by higher depreciation costs of \$39,000.

*Restructuring Charges*

In June 2015, the Company implemented a restructuring plan to re-align the organization to support the Company's sensor processing provider business model and growth strategy. This re-alignment resulted in a reduction of nine employees or 9% of the Company's global workforce. Pursuant to the restructuring plan, the Company initially recorded \$169,000 of restructuring liabilities, consisting primarily of employee severance related costs. In the third quarter we incurred additional restructuring charges of \$77,000 and paid-off \$131,000 of the liabilities previously accrued. The additional restructuring charges in the third quarter were primarily related to the closing of its Canadian subsidiary at the end of 2015. The restructuring liabilities are included in the "Accrual Liabilities" line item in the consolidated balance sheet. Please see Note 12 of the Condensed Unaudited Consolidated Financial Statements for further details.

*Interest Expense and Interest Income and Other Expense, Net*

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

The table below sets forth the changes in interest expense and interest income and other expense, net, for the three months ended September 27, 2015 as compared to the three months ended September 28, 2014 (in thousands, except percentage data):

	Three Months Ended		Change	
	September 27, 2015	September 28, 2014	Amount	Percentage
Interest expense	\$ (35)	\$ (34)	\$ (1)	3%
Interest income and other expense, net	(39)	(17)	(22)	129%
	\$ (74)	\$ (51)	\$ (23)	45%

The increase in interest income and other expenses, net was primarily due to foreign exchange losses from the transactions of our foreign subsidiaries.

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. Historically, impact of foreign exchange fluctuations on the profit or loss has been immaterial.

*Provision for (Benefit from) Income Taxes*

The table below sets forth the changes in the income tax provision (benefit) for the three months ended September 27, 2015 as compared to the three months ended September 28, 2014 (in thousands, except percentage data):

	Three Months Ended		Change	
	September 27, 2015	September 28, 2014	Amount	Percentage
Provision for (Benefit from) income taxes	\$ (15)	\$ 6	\$ (21)	(350)%

The income tax benefit for the third quarter of 2015 was primarily from a release of tax contingency reserves where the statute of limitations has expired, offset by tax on foreign operations which are cost plus entities. The income tax expense for the third quarter of 2014 was primarily from our foreign operations which are cost plus entities.

As of September 27, 2015, our ability to utilize our income tax loss carryforwards in future periods is uncertain. Accordingly, we recorded a full valuation allowance against the related U.S. 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)**

*Nine Months Ended September 27, 2015 and September 28, 2014*

*Revenue*

The table below sets forth the changes in revenue for the nine months ended September 27, 2015, as compared to the nine months ended September 28, 2014 (in thousands, except percentage data):

	Nine Months Ended				Change	
	September 27, 2015		September 28, 2014		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
<i>Revenue by product line <sup>(1)</sup>:</i>						
New products	\$ 9,952	65%	\$ 15,634	71%	\$ (5,682)	(36)%
Mature products	5,374	35%	6,490	29%	(1,116)	(17)%
Total revenue	\$ 15,326	100%	\$ 22,124	100%	\$ (6,798)	(31)%

(1) For all periods presented: New products include all products manufactured on 180 nanometer or smaller semiconductor processes. Mature products include all products produced on semiconductor processes larger than 180 nanometers.

The \$5.7 million decrease in new product revenue was primarily driven by lower shipments of our display bridge solutions and smart connectivity solutions. For the nine month period ended September 27, 2015, revenue from our ArcticLink III devices primarily sold to Samsung was \$6.9 million compared to \$12.1 million in the nine month period ended September 28, 2014. The impact of lower sales price on revenue decrease was approximately \$625,000, or 4% on first nine months of 2015, compared to first nine months of 2014. Revenue generated from Samsung for the nine months period ended September 27, 2015 accounted for 69% of new product revenue and 44% of total revenue. The \$1.1 million decrease in mature product revenue was due primarily to reduced orders from our customers in the aerospace, test and instrumentation sectors.

We continue to seek to expand our revenue through the pursuit of high volume sales opportunities in our target market segment, including the sale of our new sensor processing solution platforms. Our industry is characterized by intense price competition and lower margins as order volumes increase. While winning large-volume sales opportunities will increase our revenue, due to the pricing negotiation leverage of large companies, 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 nine months ended September 27, 2015 as compared to the nine months ended September 28, 2014 (in thousands, except percentage data):

	Nine Months Ended				Change	
	September 27, 2015		September 28, 2014		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
Revenue	\$ 15,326	100%	\$ 22,124	100%	\$ (6,798)	(31)%
Cost of revenue	9,062	59%	13,287	60%	(4,225)	(32)%
Gross Profit	\$ 6,264	41%	\$ 8,837	40%	\$ (2,573)	(29)%

The increase in gross margin as a percentage of revenue by 1% in the first nine months of 2015 compared to the first nine months of 2014 was primarily due to product mix change with a higher percentage of revenue being derived from higher margin mature products. The \$2.6 million decrease in gross profit in the first nine months of 2015 compared to the first nine months of 2014 was primarily due to the decrease in high margin mature product revenue and other new product revenue including smart connectivity solutions. The impact of lower sales price on the gross profit of the first nine months of 2015 was approximately \$625,000, or 4%, compared to the first nine month of 2014. Inventory reserve provisions were \$14,000 and

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

\$96,000 in the first nine months of 2015 and 2014, respectively. The sale of previously reserved inventories was \$170,000 and \$496,000 in the first nine months of 2015 and 2014, respectively.

*Operating Expenses*

The table below sets forth the changes in operating expenses for the nine months ended September 27, 2015 as compared to the nine months ended September 28, 2014 (in thousands, except percentage data):

	Nine Months Ended				Change	
	September 27, 2015		September 28, 2014		Amount	Percentage
	Amount	% of Total Revenues	Amount	% of Total Revenues		
R&D expense	\$ 10,654	63%	\$ 8,754	40%	\$ 1,900	22 %
SG&A expense	8,158	51%	8,892	40%	(734)	(8)%
Restructuring Charges	246	2%	—	—%	246	100 %
Total operating expenses	\$ 19,058	116%	\$ 17,646	80%	\$ 1,412	8 %

*Research and Development*

The \$1.9 million increase in R&D expenses in the first nine months of 2015 as compared to the first nine months of 2014 was attributable primarily to a \$1.3 million increase in compensation expenses related to increased hiring in our software and algorithm group; an increase in third-party chip design costs of \$1.1 million, partially offset by a decrease in IP purchase costs of \$211,000; and a decrease in stock-based compensation of \$265,000.

*Selling, General and Administrative Expense*

The \$734,000 decrease in SG&A expenses in the first nine months of 2015 as compared to the first nine months of 2014 was primarily due to a decrease of \$562,000 in administrative consulting expenses related to accounting, legal and recruiting, a decrease of stock-based compensation of \$571,000 related to reduced headcount in finance personnel, and a decrease of occupancy costs of \$94,000, partially offset by increased compensation costs of \$284,000 related to sales and marketing, and increased MIS consulting expenses of \$198,000.

*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 nine months ended September 27, 2015, as compared to the nine months ended September 28, 2014 (in thousands, except percentage data):

	Nine Months Ended		Change	
	September 27, 2015	September 28, 2014	Amount	Percentage
Interest expense	\$ (64)	\$ (67)	\$ 3	(4)%
Interest income and other, net	(98)	(79)	(19)	24 %
	\$ (162)	\$ (146)	\$ (16)	11 %

The increase in interest expense was due primarily to the changes in interest rates on our line of credit in the first nine months of 2015 compared to the first nine months of 2014. The increase in interest income and other, net was due primarily to the foreign exchange losses in the first nine months of 2015 as compared to the first nine months of 2014.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — (Continued)***Provision for (Benefit from) Income Taxes*

The table below sets forth the changes for income taxes provision (benefit) for the nine months ended September 27, 2015, as compared to the nine months ended September 28, 2014 (in thousands, except percentage data):

	Nine Months Ended		Change	
	September 27, 2015	September 28, 2014	Amount	Percentage
Provision for (Benefit from) Income Taxes	\$ 46	(18)	\$ 64	(356)%

The income tax provision for the nine months ended September 27, 2015, was primarily from our foreign operations which are cost-plus entities. The income tax benefit for the nine months ended September 28, 2014, was primarily from a release of tax contingency reserves where the statute of limitations has expired, offset by tax on foreign operations which are cost plus entities.

As of September 27, 2015, our ability to utilize our income tax loss carryforwards in future periods is uncertain. Accordingly, we recorded a full valuation allowance against the related U.S. 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, a revolving line of credit and cash flows from operations. As of September 27, 2015, our principal sources of liquidity consisted of our cash and cash equivalents of \$23.4 million and available credit under our \$5.0 million revolving line of credit with Silicon Valley Bank, which expires on September 25, 2017.

On September 25, 2015, the Company entered into a Second Amendment to Third Amended and Restated Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank, (the "Bank") to extend the line of credit for two years through September 25, 2017. The Second Amendment to the Loan Agreement provides for committed loan advances of up to \$6.0 million, subject to increases at the Company's election of up to \$12.0 million. Under the Loan Agreement, the Company must maintain (i) a tangible net worth of at least \$12 million, plus (a) 50% of the proceeds from any equity issuance, plus (b) 50% of the proceeds from any investments, tested as of the last day of each fiscal quarter; (ii) unrestricted cash or cash equivalents at the Bank or Bank's affiliates at all times in an amount of at least \$6 million; (iii) a ratio of quick assets to the results of (a) current liabilities, minus (b) the current portion of deferred revenue, plus (c) the long-term portion of the obligations of at least 1.10 to 1.00, tested as of the last day of each month. Upon each advance, the Company can elect one of two interest rates: (i) the prime rate plus the prime rate margin, or (ii) the LIBOR plus the LIBOR rate margin. We were in compliance with all loan covenants as of the end of the third quarter of 2015. As of September 27, 2015, the Company had \$1.0 million of revolving debt outstanding with an interest rate of 3.13%.

Most of our cash and cash equivalents were invested in money market funds with investment bankers rated AAAM/Aaa. Our interest-bearing debt consisted of \$349,000 outstanding under capital leases and \$1.0 million outstanding under our revolving debt (see Note 5 of the Condensed Unaudited Consolidated Financial Statements).

Cash balances held at our foreign subsidiaries were approximately \$1.2 million and \$868,000 at September 27, 2015 and December 28, 2014, respectively. Earnings from our foreign subsidiaries are currently deemed to be indefinitely reinvested. We do not expect such reinvestment to affect our liquidity and capital resources, and we continually evaluate our liquidity needs and ability to meet global cash requirements as a part of our overall capital deployment strategy. Factors which affect our global capital deployment strategy include anticipated cash flows, the ability to repatriate cash in a tax efficient manner, funding requirements for operations and investment activities, acquisitions and divestitures and capital market conditions.

In summary, our cash flows were as follows (in thousands):

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

	Nine Months Ended	
	September 27, 2015	September 28, 2014
Net cash (used in) operating activities	\$ (6,508)	\$ (9,790)
Net cash (used in) investing activities	(237)	(523)
Net cash provided by financing activities	136	4,066

*Net cash from operating activities*

Net cash used in operating activities was \$6.5 million in the first nine months of 2015. The cash used for operating activities was a result of the net loss of \$13.0 million, partially offset by cash provided by changes in operating assets and liabilities of \$3.9 million, and \$2.6 million of net non-cash charges. Non-cash charges consisted primarily of stock-based compensation of \$1.5 million, depreciation and amortization of \$1.1 million, a write-down of inventory of \$14,000 and assets write-off of \$8,000. The cash from changes in operating assets and liabilities was mostly due to a decrease in inventories of \$2.6 million as a result of sales of existing new product inventory, increase in accrued liabilities and deferred revenue of \$547,000, a decrease in other assets of \$421,000, and an increase in trade payables of \$397,000 due to the timing of payments.

Net cash used in operating activities was \$9.8 million in the first nine months of 2014. The cash used in operating activities was the result of the net loss of \$8.9 million and cash used for operating assets and liabilities of \$3.8 million partially offset by \$3.0 million of net non-cash charges. These non-cash charges consisted primarily of stock-based compensation of \$1.8 million, depreciation and amortization of \$1.1 million, and a write-down of inventory of \$96,000. The cash used for operating assets and liabilities was mostly due to an increase in inventories in anticipation of potential future revenues and a reduction in accounts payable due to timing of payments.

*Net cash from investing activities*

Net cash used for investing activities in the first nine months of 2015 was \$237,000, which was primarily from cash used to acquire equipment and software used for the production and development of new products. Capital expenditures, which are largely driven by the development of new products and manufacturing levels, are projected to be approximately \$45,000 during the remainder of fiscal year 2015.

Net cash used for investing activities in the first nine months of 2014 was \$523,000, which was primarily from cash used to acquire equipment and software used for the production and development of new products.

*Net cash from financing activities*

Net cash provided by financing activities was \$136,000 in the first nine months of 2015, primarily derived from proceeds related to the issuance of common shares to employees under our equity plans of \$394,000, partially offset by scheduled repayments of lease obligations of \$258,000.

Net cash provided by financing activities was \$4.1 million for the first nine months of 2014, primarily derived from proceeds related to the issuance of common shares to employees under our equity plans of \$4.3 million, partially offset by scheduled repayments of lease obligations of \$268,000.

We require substantial cash to fund our business and currently use cash to fund capital expenditures and operating losses. Based on past performance and current expectations, we believe that our existing cash and cash equivalents, together with available financial resources from the revolving line of credit facility, will be sufficient to fund our operations and capital expenditures, and provide adequate working capital for 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. In order to satisfy our longer term liquidity requirements, we may be required to raise additional equity or debt financing at commercially acceptable terms.

**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 September 27, 2015 and the effect such obligations and commitments are expected to have on our liquidity and cash flows in future fiscal periods (in thousands):

	<b>Payments Due by Period</b>			
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>More than 3 Years</b>
<i>Contractual obligations:</i>				
Operating leases	\$ 2,174	\$ 746	\$ 1,268	\$ 160
Wafer purchases <sup>(1)</sup>	3,203	3,203	—	—
Other purchase commitments	1,835	1,550	285	—
<b>Total contractual cash obligations</b>	<b>7,212</b>	<b>5,499</b>	<b>1,553</b>	<b>160</b>
<i>Other commercial commitments <sup>(2)</sup>:</i>				
Revolving line of credit	1,000	—	1,000	—
Capital lease obligations <sup>(3)</sup>	349	229	120	—
<b>Total commercial commitments</b>	<b>1,349</b>	<b>229</b>	<b>1,120</b>	<b>—</b>
<b>Total contractual obligations and commercial commitments <sup>(4)</sup></b>	<b>\$ 8,561</b>	<b>\$ 5,728</b>	<b>\$ 2,673</b>	<b>\$ 160</b>

(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 and finished goods purchase commitments of \$3.2 million include firm purchase commitments as of September 27, 2015.

(2) Other commercial commitments are included as liabilities on our balance sheet as of September 27, 2015.

(3) For a detailed explanation, see Note 5 of the Condensed Unaudited Consolidated Financial Statements.

(4) Does not include unrecognized tax benefits of \$36,000 as of September 27, 2015. 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 generally 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 up to several months 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 our 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 expected 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 third quarter of 2015 would have had 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 19% of total operating expenses for the first nine months of 2015 and 2014, respectively. A currency exchange rate fluctuation of 10% would have caused our operating expenses to change by approximately \$313,000 in the first nine months of 2015.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

Based on management's evaluation as of September 27, 2015, our Chief Executive Officer and Principal Accounting Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective at the reasonable assurance level to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Principal Accounting Officer, to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Principal Accounting Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all errors and frauds. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

***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 and 14 of the Condensed Unaudited Consolidated Financial Statements for a description of legal proceedings.

### **Item 1A. Risk Factors**

Our 2014 Annual Report on Form 10-K for the year ended December 28, 2014, filed with the SEC on March 5, 2015, includes a detailed discussion of our risk factors at Part I, Item 1A, Risk Factors, which discussion is hereby incorporated by reference into this Part II, Item 1A. Any information presented below updates and supplements, and should be read in conjunction with, the risk factors and information disclosed in that Form 10-K and in conjunction with any subsequent updates disclosed in our quarterly filings on Form 10-Q.

The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks not currently known to us or that we currently deem to be immaterial may also adversely affect our business and results from operations.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**Item 6. Exhibits**

a. Exhibits

The following Exhibits are filed or incorporated by reference into this report:

<b>Exhibit Number</b>	<b>Description</b>
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	PAO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	CEO and PAO Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
10.40	2009 Stock Plan, as amended January 29, 2015.
10.41	2009 Employee Stock Purchase Plan, as amended January 29, 2015.
10.42	Fifth Amendment to Lease between NetApp, Inc. and QuickLogic Corporation dated May 22, 2015.
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

**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/ Suping (Sue) Cheung*

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Suping (Sue) Cheung

*Principal Accounting Officer and Corporate  
Controller*

*(as Principal Accounting and Financial Officer  
and on behalf of the Registrant)*

Date: November 3, 2015

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	PAO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	CEO and PAO Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
10.40	2009 Stock Plan, as amended January 29, 2015.
10.41	2009 Employee Stock Purchase Plan, as amended January 29, 2015.
10.42	Fifth Amendment to Lease between NetApp, Inc. and QuickLogic Corporation dated May 22, 2015.
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

## QUICKLOGIC CORPORATION

### 2009 STOCK PLAN

(As Amended January 29, 2015)

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 (1<sup>st</sup>) 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 (xxxii) 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 6,500,000 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 reserve 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.

( v i ) 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.

(d) 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.

**QUICKLOGIC CORPORATION**  
**2009 EMPLOYEE STOCK PURCHASE PLAN**

1. **PURPOSE.** The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an “Employee Stock Purchase Plan” under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.
  
2. **DEFINITIONS.**
  - (a) “Applicable Laws” shall mean 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 options are, or shall be, granted under the Plan.
  
  - (b) “Board” shall mean the Board of Directors of the Company or any committee thereof designated by the Board in accordance with Section 14 of the Plan.
  
  - (c) “Code” shall mean 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.
  
  - (d) “Common Stock” shall mean the common stock of the Company.
  
  - (e) “Company” shall mean QuickLogic Corporation, a Delaware corporation.
  
  - (f) “Compensation” shall mean all base straight time gross earnings, overtime and incentive/variable compensation, but exclusive of bonuses and other compensation.
  
  - (g) “Designated Subsidiary” shall mean any Subsidiary which has been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.
  
  - (h) “Eligible Employee” shall mean any individual who is a common law employee of the Company or any of its Designated Subsidiaries and is customarily employed for at least twenty (20) hours per week and more than five (5) months in any calendar year by the Company or such Designated Subsidiary. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company or the Designated Subsidiary. Where the period of leave exceeds three (3) months and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated three (3) months and one (1) day following the commencement of such leave. The Board, in its discretion, from time to time may, prior to an Offering Date for all options to be granted on such Offering Date, determine (on a uniform and nondiscriminatory basis) that the definition of Eligible Employee shall or shall not include an individual if he or she: (i) has not completed at least two (2) years of service since his or her last hire date (or such lesser period of time as may be determined by the Board in its discretion), (ii) customarily works not more than twenty (20) hours per week (or such lesser period of time as may be determined by the Board in its discretion), (iii) customarily works not more than five (5) months per calendar year (or such lesser period of time as may be determined by the

Board in its discretion), (iv) is an executive, officer or other manager, or (v) is a highly compensated employee under Section 414(q) of the Code.

(i) “Enrollment Date” shall mean the first Trading Day of each Offering Period.

(j) “Exercise Date” shall mean the last Trading Day of each Offering Period.

(k) “Fair Market Value” shall mean, 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 Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of the Nasdaq Stock 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 the date of such determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of such determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable; or

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

(l) “New Exercise Date” means a new Exercise Date set by shortening any Offering Period then in progress.

(m) “Offering Periods” shall mean the periods of approximately six (6) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after May 15 and November 15 of each year and terminating on the last Trading Day in the periods ending six months later. For example, an Offering Period under the Plan shall commence with the first Trading Day on or after May 15, 2009 and end on the last Trading Day on or before November 14, 2009. The duration and timing of Offering Periods may be changed pursuant to Sections 4 and 20 of this Plan.

(n) “Parent” shall mean a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(o) “Participant” means an Eligible Employee who (a) has become a Participant in the Plan pursuant to Section 5 and (b) has not ceased to be a Participant pursuant to Section 10 or Section 11.

(p) “Plan” shall mean this 2009 Employee Stock Purchase Plan.

(q) “Purchase Price” shall mean 85% of the Fair Market Value of a share of Common Stock as determined pursuant to Section 4; provided, however, that the Purchase Price may be adjusted by the Board pursuant to Section 20.

(r) “Reserves” shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(s) “Subsidiary” shall mean a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

(t) “Trading Day” shall mean a day on which the national stock exchange upon which the Common Stock is listed is open for trading.

3. ELIGIBILITY.

(a) Any individual who is an Eligible Employee on a given Enrollment Date shall be eligible to participate in the Plan. This Plan shall not confer upon any Eligible Employee any right with respect to the continuation of his or her employment with the Company or any Designated Subsidiary, nor shall it restrict, limit, or interfere in any way with the right of the Company or any Designated Subsidiary to terminate the employment relationship of any Eligible Employee at any time, with or without cause.

(b) Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) worth of stock (determined at the Fair Market Value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time, as determined in accordance with Section 423 of the Code and the regulations thereunder.

4. OFFERING PERIODS.

(a) The Plan shall be implemented by either of the following Offering Periods, which shall be determined by the Board prior to the applicable Offering Period:

(i) A six (6) month Offering Period commencing on the first Trading Day on or after May 15 and November 15 each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof or changed pursuant to this Section 4(a) and with a Purchase Price equal to 85% of the Fair Market Value of a share of Common Stock on the Exercise Date (a “Purchase Date Offering Period”); or

(ii) A six (6) month Offering Period commencing on the first Trading Day on or after May 15 and November 15 each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof or changed pursuant to this Section 4(a) and with a Purchase Price equal to 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower (a “Look-Back Offering Period”).

Notwithstanding the foregoing, if the Board does not determine the type of Offering Period prior to the start of the applicable Offering Period, the default Offering Period shall be the Purchase Date Offering Period as described in Section 4(a)(i) above.

(b) The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) and to implement Offering Periods with multiple purchase periods with respect to future offerings without shareholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. PARTICIPATION.

(a) An Eligible Employee may become a Participant in the Plan only by (i) submitting a subscription agreement authorizing payroll deductions in a form determined by the Board (which may be similar to the form attached hereto as Exhibit A) to the Company's payroll office (or its designee), on or before a date prescribed by the Board prior to an applicable Enrollment Date, or (ii) following an electronic or other enrollment procedure prescribed by the Board. Participants in the offering period under the Company's 1999 Employee Stock Purchase Plan (the "1999 ESPP") beginning on or about November 15, 2008 will automatically be enrolled in the initial Offering Period under this Plan commencing on the first Trading Day on or after May 15, 2009 at the same contribution levels as last elected under the 1999 ESPP.

6. PAYROLL DEDUCTIONS.

(a) At the time a Participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding twenty percent (20%) of the Compensation which he or she receives on each pay day during the Offering Period.

(b) Payroll deductions for a Participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 10 hereof.

(c) All payroll deductions made for a Participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A Participant may not make any additional payments into such account.

(d) A Participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may (i) increase or decrease the rate of his or her payroll deductions during a Purchase Date Offering Period, or (ii) only decrease the rate of his or her payroll deductions during a Look-Back Offering Period, in either case by (A) properly completing and submitting to the Company's payroll office (or its designee), on or before a date prescribed by the Board prior to an applicable Exercise Date, a new subscription agreement authorizing a change in payroll deduction rate in the form provided by the Board for such purpose, or (B) following an electronic or other procedure prescribed by the Board. If a Participant has not followed such procedures to change the rate of payroll deductions, the rate of his or her payroll deductions shall continue at the originally elected rate throughout the Offering Period and future Offering Periods (unless terminated as provided in Section 10). The Board may, in its discretion, limit the number of payroll deduction rate changes that may be made by Participants during any Offering Period, and may establish such other conditions or limitations as it deems appropriate for Plan administration. Any change in payroll deduction rate made pursuant to this Section 6(d) shall be effective with the first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement unless the Company, in its sole discretion, elects to process a given change in payroll deduction rate more quickly. A Participant's subscription agreement shall remain in effect for successive Offering

Periods unless terminated as provided in Section 10 hereof; provided, however, that in the event a Participant changes his or her rate of payroll deductions during an Offering Period to zero percent (0%) and does not withdraw pursuant to Section 10 prior to the beginning of the subsequent Offering Period, the Participant's payroll deductions shall recommence for the subsequent Offering Period at the rate originally elected by the Participant as of the beginning of the prior Offering Period.

(e) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a Participant's payroll deductions may be decreased to zero percent (0%) at any time during an Offering Period. Subject to Section 423(b)(8) of the Code and Section 3(b) hereof, payroll deductions shall recommence at the rate originally elected by the Participant effective as of the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the Participant as provided in Section 10 hereof.

(f) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the Participant must make adequate provision for amounts not in excess of the minimum statutory federal, state, or any other tax liability payable to any authority, national insurance, social security or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company or the employing Designated Subsidiary, as applicable, may, but shall not be obligated to, withhold from the Participant's compensation amounts not in excess of the applicable minimum statutory withholding obligations, including any withholding required to make available to the Company or the employing Designated Subsidiary, as applicable, any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Eligible Employee. If the Company allows the Participant to settle such tax withholding obligations by remitting to the Company shares of Common Stock issued upon exercise, then the Participant may not elect to withhold amounts in excess of the applicable minimum statutory federal, state, or other tax obligations withheld at the time of exercise or disposal.

7. GRANT OF OPTION. On the Enrollment Date of each Offering Period, each Eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Eligible Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Eligible Employee be permitted to purchase during each Offering Period more than 20,000 shares of the Company's Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 13 hereof. The Board may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the Company's Common Stock an Eligible Employee may purchase during each Offering Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the Participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. EXERCISE OF OPTION.

(a) Unless a Participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to the option shall be purchased for such Participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a Participant's account which are not sufficient to purchase a full share shall be retained in the Participant's account for the subsequent Offering Period,

subject to earlier withdrawal by the Participant as provided in Section 10 hereof. Any other monies left over in a Participant's account after the Exercise Date shall be returned to the Participant. During a Participant's lifetime, a Participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Board determines that, on a given Exercise Date, the number of shares of Common Stock with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares of Common Stock available for sale under the Plan on such Exercise Date, the Board may in its sole discretion (x) provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all Participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (y) provide that the Company shall make a pro rata allocation of the shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all Participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20 hereof. The Company may make a pro rata allocation of the shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's shareholders subsequent to such Enrollment Date.

9. DELIVERY. As promptly as reasonably practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to each Participant, as appropriate, the shares purchased upon exercise of his or her option in a form determined by the Board (in its sole discretion) and pursuant to rules established by the Board. The Company may permit or require that shares be deposited with a broker designated by the Company or to a designated agent of the Company, and the Company may utilize electronic or automated methods of share transfer. The Company may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. No Participant shall have any voting, dividend, or other shareholder rights with respect to such shares of Common Stock subject to any option granted under the Plan until such shares have been purchased and delivered to the Participant as provided in this Section 9.

10. WITHDRAWAL.

(a) A Participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by (i) submitting to the Company's payroll office (or its designee) a written notice of withdrawal in the form prescribed by the Board for such purpose (which may be similar to the form attached hereto as Exhibit B), or (ii) following an electronic or other withdrawal procedure prescribed by the Board. All of the Participant's payroll deductions credited to his or her account shall be paid to such Participant promptly after receipt of notice of withdrawal and such Participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a Participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the Participant re-enrolls in the Plan in accordance with the provisions of Section 5.

(b) A Participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in

succeeding Offering Periods which commence after the termination of the Offering Period from which the Participant withdraws.

11. TERMINATION OF EMPLOYMENT. Upon a Participant's ceasing to be an Eligible Employee, for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such Participant's account during the Offering Period but not yet used to purchase shares under the Plan shall be returned to such Participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such Participant's option shall be automatically terminated.

12. INTEREST. No interest shall accrue on the payroll deductions of a Participant in the Plan.

13. STOCK.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 3,300,000 shares of Common Stock.

(b) Until the shares of Common Stock are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), a Participant shall only have the rights of an unsecured creditor with respect to such shares, and no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to such shares.

(c) Shares of Common Stock to be delivered to a Participant under the Plan shall be registered in the name of the Participant or in the name of the Participant and his or her spouse.

14. ADMINISTRATION. The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board, which shall be constituted to comply with Applicable Laws. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Board or its committee shall, to the full extent permitted by law, be final and binding upon all parties. Notwithstanding any provision to the contrary in this Plan, the Board or its committee may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures for jurisdictions outside of the United States. Without limiting the generality of the foregoing, the Board or its committee is specifically authorized to adopt rules and procedures regarding eligibility to participate, the definition of Compensation, handling of payroll deductions, making of contributions to the Plan (including, without limitation, in forms other than payroll deductions), establishment of bank or trust accounts to hold payroll deductions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of stock certificates which vary with local requirements.

15. DESIGNATION OF BENEFICIARY.

(a) A Participant may file a designation of a beneficiary who is to receive any shares of Common Stock and cash, if any, from the Participant's account under the Plan in the event of such Participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such Participant of such shares and cash. In addition, a Participant may file a designation of a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death prior to exercise of the option. If a Participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the Participant at any time by notice in a form determined by the Board. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(c) All beneficiary designations shall be in such form and manner as the Board may designate from time to time.

16. TRANSFERABILITY. Neither payroll deductions credited to a Participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. USE OF FUNDS. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions. Until shares of Common Stock are issued, Participants shall only have the rights of an unsecured creditor with respect to such shares.

18. REPORTS. Individual accounts shall be maintained for each Participant in the Plan. Statements of account shall be given to participating Eligible Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares of Common Stock purchased and the remaining cash balance, if any.

19. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, DISSOLUTION, LIQUIDATION, MERGER OR ASSET SALE.

(a) Changes in Capitalization. In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other similar change in the corporate structure of the Company affecting the Common Stock occurs, the number and class of Common Stock of the Reserves, the Purchase Price per share and the number of shares of Common Stock covered by each

option under the Plan which has not yet been exercised, and the numerical limits of Sections 7 and 13 shall be automatically proportionately adjusted.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date, and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Board. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Board shall notify each Participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option 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, any Offering Periods then in progress shall be shortened by setting a New Exercise Date on which such Offering Period shall end. The New Exercise Date shall occur before the date of the Company's proposed sale or merger. The Board shall notify each Participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

## 20. AMENDMENT OR TERMINATION.

(a) The Board of Directors of the Company, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Board, in its sole discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Common Stock on the next Exercise Date (which may be sooner than originally scheduled, if determined by the Board in its discretion), or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to Section 19). If the Offering Periods are terminated prior to expiration, all amounts then credited to Participants' accounts which have not been used to purchase shares of Common Stock shall be returned to the Participants (without interest thereon, except as otherwise required under local laws) as soon as administratively practicable.

(b) Without shareholder consent and without limiting Section 20(a), the Board (or its committee) shall be entitled to change the Offering Periods (however, in no event shall an Offering Period exceed 12 months), limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with amounts withheld from the Participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify, amend or terminate the Plan to reduce or eliminate such accounting consequence including, but not limited to:

- (i) amending the Plan to conform with the safe harbor definition under Statement of Financial Accounting Standards 123(R), including with respect to an Offering Period underway at the time;
- (ii) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;
- (iii) shortening any Offering Period by setting a New Exercise Date, including an Offering Period underway at the time of the Board action;
- (iv) reducing the maximum percentage of Compensation a Participant may elect to set aside as payroll deductions; and
- (v) reducing the maximum number of shares a Participant may purchase during any Offering Period.

Such modifications or amendments shall not require shareholder approval or the consent of any Plan Participants.

21. NOTICES. All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. CONDITIONS UPON ISSUANCE OF SHARES. Shares of Common Stock shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise 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 by any of the aforementioned applicable provisions of law.

23. TERM OF PLAN. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It shall continue in effect for a term of ten (10) years, unless sooner terminated under Section 20 hereof.

**EXHIBIT A**  
**QUICKLOGIC CORPORATION**

**2009 EMPLOYEE STOCK PURCHASE PLAN**  
**SUBSCRIPTION AGREEMENT**

\_\_\_\_\_ Purchase Period:  
\_\_\_\_\_ Original Application (New Enrollment)      Enrollment Date: \_\_\_\_\_  
\_\_\_\_\_ Change in Payroll Deduction Rate  
\_\_\_\_\_ Change of Beneficiary(ies)

1. \_\_\_\_\_ hereby elects to participate in the QuickLogic Corporation 2009 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.
2. I hereby authorize payroll deductions from each paycheck in the amount of \_\_\_\_\_% of my Compensation on each payday (from 0 to 20%) during the Offering Period in accordance with the Employee Stock Purchase Plan. (Please note that no fractional percentages are permitted and only one reduction is allowed during each 6-month period according to our plan document.)
3. I understand that said payroll deductions will be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option and purchase Common Stock under the Employee Stock Purchase Plan.
4. I have received a copy of the complete Employee Stock Purchase Plan and its accompanying prospectus. I understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of the Plan.
5. Shares of Common Stock purchased for me under the Employee Stock Purchase Plan should be issued in the name(s) of \_\_\_\_\_ (Eligible Employee or Eligible Employee and Spouse only).
6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or 1 year after the Exercise Date, whichever is later, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. **I hereby agree to notify the Company in writing within 30 days after the date of any disposition of my shares and I will make adequate provisions for Federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock.** The Company may, but will not be obligated to, withhold from my compensation the minimum statutory amounts of applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (a) the excess of the fair market value of the shares at the

time of such disposition over the purchase price which I paid for the shares, or (b) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

- 7. I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.
- 8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

NAME: (Please print)

-----  
(First) (Middle) (Last)

-----  
Relationship

-----  
(Address)

Employee's Social Security Number:  
-----

Employee's Address:  
-----  
-----  
-----

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated:  
-----  
Signature of Employee

-----  
Spouse's Signature (If beneficiary other than spouse)

**EXHIBIT B  
QUICKLOGIC CORPORATION**

**2009 EMPLOYEE STOCK PURCHASE PLAN  
NOTICE OF WITHDRAWAL**

The undersigned Participant in the Offering Period of the QuickLogic Corporation 2009 Employee Stock Purchase Plan which began on \_\_\_\_\_, \_\_\_\_\_ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

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-----  
-----

Signature:

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Date:

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## FIFTH AMENDMENT TO LEASE

THIS FIFTH AMENDMENT TO LEASE (this "Amendment"), dated May 22, 2015 for reference purposes only, is made between NETAPP, INC., a Delaware corporation ("Landlord"), and QuickLogic Corporation, a Delaware corporation ("Tenant").

### RECITALS

A. Landlord (as successor by name change to Network Appliance, Inc., a Delaware corporation, successor-in-interest to Orleans Properties, LLC, a Delaware limited liability company, successor-in-interest to Westcore OP Orleans, LP, a Delaware limited partnership, successor-in-interest to Orchard Moffett Investors, a California general partnership, and Kairos, LLC, a California limited liability company) and Tenant are parties to that certain Lease dated June 17, 1996 (the "Original Lease"), as amended from time to time by mutual agreement of the parties, including but not limited to (i) that certain First Addendum to Lease dated June 17, 1996, (ii) that certain Acceptance Agreement dated December 10, 1996, (iii) that certain First Amendment to Lease dated July 31, 2002, (iv) that certain Second Amendment to Lease dated September 25, 2008, (v) that certain Third Amendment to Lease dated July 16, 2012; and (vi) that certain Fourth Amendment to Lease dated April 2, 2014 (collectively, the "Amended Lease"), with respect to that certain premises consisting of approximately 42,624 square feet of office space located within that certain building commonly known as 1277 Orleans Drive in Sunnyvale, California (the "Premises").

B. Tenant and Landlord have agreed to reduce the square footage of the Premises by 8,421 square feet, as depicted in Exhibit A attached hereto (the "Reduction Space"), upon the terms and conditions set forth herein.

In consideration of the mutual promises and covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

### AGREEMENTS

1. References. All references to the "Lease" or "lease" appearing in this Amendment or in the Amended Lease shall mean, collectively, this Amendment and the Amended Lease as amended by this Amendment. All capitalized terms not defined herein shall have the meanings set forth in the Amended Lease.

2. Reduction Date. Effective as of July 1, 2015 (the "Reduction Date"), the Lease is terminated with respect to the Reduction Space and the term "Premises" shall be amended to only include the approximately 34,203 square feet of office space, as depicted in the attached Exhibit A. As of the Reduction Date, Tenant shall surrender possession of the Reduction Space in the condition set forth in Section 15.2 of the Original Lease.

3. Tenant's Share and Parking Allocation. As of the Reduction Date, (i) the square footage of the Premises shall be deemed to be 34,203 square feet, irrespective of whether the same should be more or less as a result of variances resulting from later re-measurement or actual construction within the Premises; (ii) Tenant's Share, as set forth in Section G of the Summary of Basic Lease Terms of the

Original Lease, shall be reduced to 80%; (iii) and Tenant's Allocated Parking Stalls, as set forth in Section H of the Summary of Basic Lease Terms of the Original Lease, shall be reduced to 122.

4. Base Monthly Rent. Effective as of the Reduction Date, Tenant shall pay to Landlord Base Monthly Rent during the months of the remainder of the Term as follows:

<u>Months</u>	<u>Base Monthly Rent</u>
7/1/2015 - 12/31/2015	\$48,910.03
1/1/2016 - 12/31/2016	\$50,377.69
1/1/2017 - 12/31/2017	\$51,888.67
1/1/2018 - 12/31/2018	\$53,445.40

5. Miscellaneous.

A. CASp. Pursuant to California Civil Code Section 1938, Tenant is hereby notified that the Building (including Premises) has not undergone an inspection by a Certified Access Specialist (a "CASp Inspection"). Tenant acknowledges and agrees that Landlord has made no representation regarding compliance of the Premises with accessibility standards. Tenant shall not perform a CASp Inspection at the Building without Landlord's prior written consent. Without limiting the foregoing, Tenant shall promptly notify Landlord of the completion of any CASp Inspection and, within ten (10) business days after written request by Landlord, furnish Landlord with copies of the results.

B. Brokers. The parties to this Amendment represent and warrant to each other that neither party dealt with any brokers or finders in connection with the consummation of this Amendment, and each party agrees to protect, defend, indemnify and hold the other party harmless from and against any and all claims or liabilities for brokerage commissions or finder's fees arising out of that party's acts in connection with this Amendment.

C. Severability. If any provision of this Amendment or the application of any provision of this Amendment to any person or circumstance is, to any extent, held to be invalid or unenforceable, the remainder of this Amendment or the application of that provision to persons or circumstances other than those as to which it is held invalid or unenforceable, will not be affected, and each provision of this Amendment will be valid and be enforced to the fullest extent permitted by law.

D. Entire Agreement/Modification. This Amendment contains all of the agreements of the parties hereto with respect to the matters contained herein, and no prior agreement, arrangement or understanding pertaining to any such matters shall be effective for any purpose. Except for any subsequent amendments or modifications to the Lease made in accordance with the terms thereof, any agreement made after the date of this Amendment is ineffective to modify or amend the terms of this Amendment, in whole or in part, unless that agreement is in writing, is signed by the parties to this Amendment, and specifically states that that agreement modifies this Amendment.

E. Counterparts. This Amendment may be executed in any number of counterparts and each counterpart shall be deemed to be an original document. All executed counterparts together shall constitute one and the same document, and any counterpart signature pages may be detached and assembled to form a single original document.

F. Heirs and Successors. This Amendment shall be binding upon the heirs, legal representatives, successors and permitted assigns of the parties hereto.

G. Authority. Each individual executing this Amendment on behalf of his or her respective party represents and warrants that he or she is duly authorized to execute and deliver this Amendment on behalf of said entity in accordance with the governing documents of such entity, and that upon full execution and delivery this Amendment is binding upon said entity in accordance with its terms.

H. Drafting. In the event of a dispute between any of the parties hereto over the meaning of this Amendment, both parties shall be deemed to have been the drafter hereof, and any applicable law that states that contracts are construed against the drafter shall not apply.

I. Ratification. Except as modified by this Amendment, the Original Lease shall continue in full force and effect and Landlord and Tenant do hereby ratify and confirm all of the terms and provisions of the Original Lease, subject to the modifications contained herein.

IN WITNESS WHEREOF, the parties have caused this instrument to be executed as of the dates below their respective signatures.

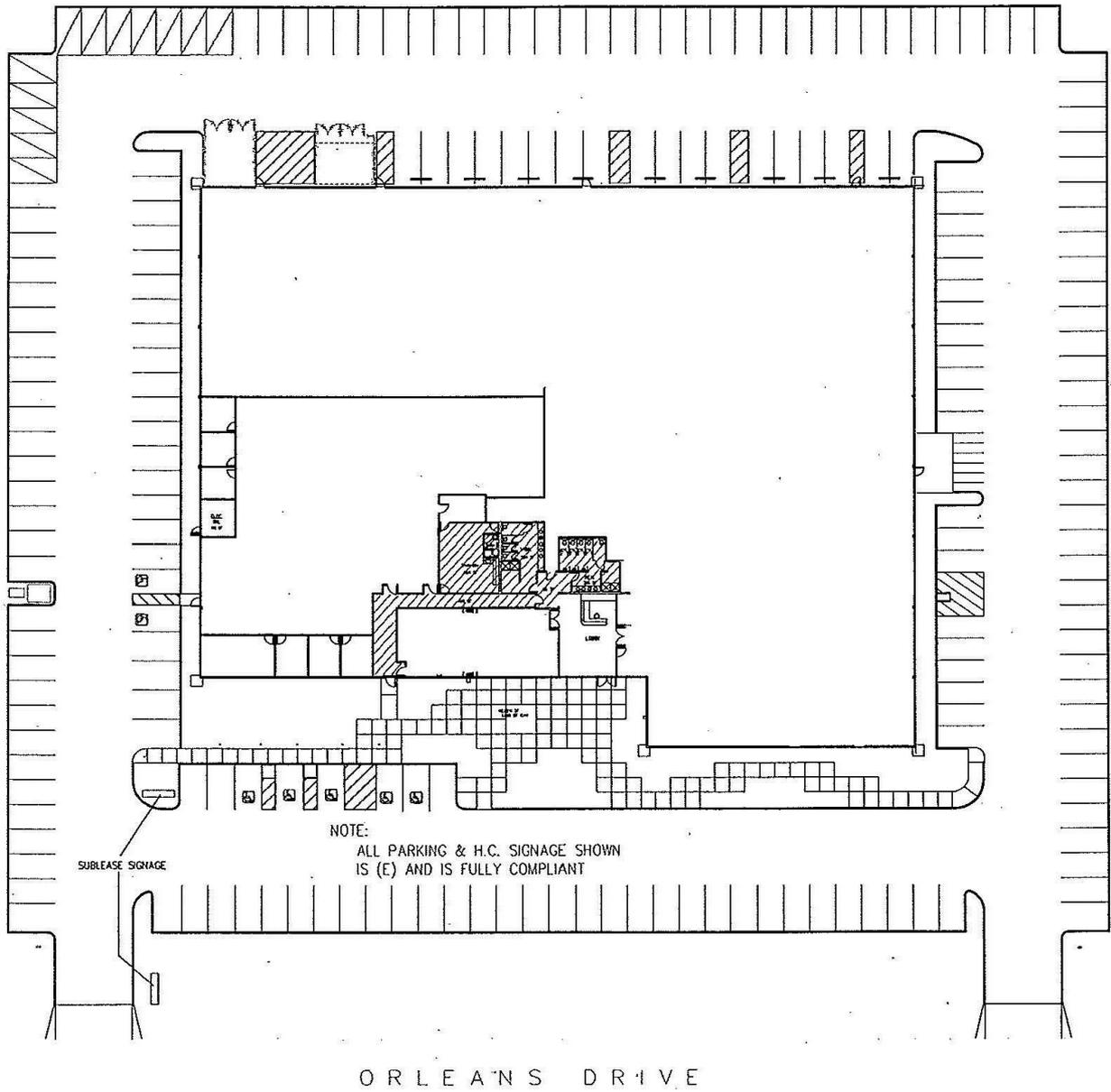
**“TENANT”**  
QUICKLOGIC CORPORATION,  
a Delaware corporation

**“LANDLORD”**  
NETAPP, INC.,  
a Delaware corporation

By: \s\ ANDREW J. PEASE  
Name: Andrew J. Pease  
Its: President & CEO  
10 June 2015

By: \s\ ELISABETH ARSLANER  
Name: Elisabeth Arslaner  
Its: Sr. Dir. Workplace Resources  
18 June 2015

Exhibit A



## 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: November 3, 2015

/s/ Andrew J. Pease

Andrew J. Pease

*President and Chief Executive Officer*

## CERTIFICATIONS

I, Suping (Sue) Cheung, 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: November 3, 2015

/s/ Suping (Sue) Cheung

Suping (Sue) Cheung

*Principal Accounting Officer and Corporate Controller*

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRINCIPAL ACCOUNTING 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 September 27, 2015, 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: November 3, 2015

Name: Andrew J. Pease

Title: *President and Chief Executive Officer*

I, Suping (Sue) Cheung, 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 September 27, 2015, 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/ Suping (Sue) Cheung

Date: November 3, 2015

Name: Suping (Sue) Cheung

Title: *Principal Accounting Officer and Corporate Controller*