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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

/x/ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2001**

or

/ / **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _______ to _______.**

COMMISSION FILE NUMBER 000-22671

QUICKLOGIC CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**77-0188504**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1277 ORLEANS DRIVE, SUNNYVALE, CA 94089
(Address of principal executive offices, including Zip Code)

(408) 990-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes /x/ No / /

As of July 30, 2001, 20,501,975 shares of the Registrant's common stock were outstanding.

QUICKLOGIC CORPORATION
FORM 10-Q
June 30, 2001

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PART I. Financial Information

Item 1. Financial Statements

QUICKLOGIC CORPORATION
CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,752	$ 70,210
Accounts receivable, net	4,738	6,578
Inventory	13,071	10,327
Other current assets	2,270	1,876
Total current assets	60,831	88,991
Property and equipment, net	12,455	8,976
Other assets	16,660	2,340
TOTAL ASSETS	$ 89,946	$ 100,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 5,134	$ 5,821
Accrued liabilities	2,567	2,934
Deferred income on shipments to distributors	2,077	4,386
Current portion of long-term obligations	268	311
Total current liabilities	10,046	13,452
Long-term obligations	1,352	1,121
Stockholders' equity:		
Common stock, at par	20	20
Additional paid-in capital	136,114	134,970
Deferred compensation	(642)	(875)
Accumulated deficit	(56,944)	(48,381)
Total stockholders' equity	78,548	85,734
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 89,946	$ 100,307

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 June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenue	$ 8,107	$ 14,059	$ 18,922	$ 26,275
Cost of revenue	8,804	5,703	13,206	10,718

Gross profit	(697)	8,356	5,716	15,557
Research and development	3,258	2,367	6,638	4,520
Selling, general and administrative	4,355	4,227	8,958	7,965
Total operating expenses	7,613	6,594	15,596	12,485
Operating income (loss)	(8,310)	1,762	(9,880)	3,072
Interest income and other, net	479	954	1,317	1,390
Income (loss) before taxes	(7,831)	2,716	(8,563)	4,462
Provision for income tax	—	—	—	—
Net income (loss)	$ (7,831)	$ 2,716	$ (8,563)	$ 4,462
Net income (loss) per share:				
Basic	$ (0.38)	$ 0.14	$ (0.42)	$ 0.23
Diluted	$ (0.38)	$ 0.12	$ (0.42)	$ 0.21
Shares used in per share calculations:				
Basic	20,385	19,690	20,200	18,905
Diluted	20,385	22,174	20,200	21,263

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2001	**2000**
Cash flows from operating activities:		
Net income (loss)	$ (8,563)	$ 4,462
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	1,538	1,044
Amortization of deferred compensation	225	307
Provision for inventory	3,724	—
Changes in assets and liabilities:		
Accounts receivable	1,840	2,017
Inventory	(6,468)	(1,300)
Other assets	(419)	(940)
Accounts payable	(687)	(643)
Accrued liabilities and other obligations	(2,676)	240
Net cash provided by (used for) operating activities	(11,486)	5,187
Cash flows from investing activities:		
Capital expenditures for property and equipment, net of dispositions	(5,017)	(2,401)
Investment in Tower Semiconductor Ltd.	(14,013)	—
Net cash used for investing activities	(19,030)	(2,401)
Cash flows from financing activities:		
Payment of long term obligations	(94)	(394)
Proceeds from issuance of common stock, net	1,152	37,038
Net cash provided by (used for) financing activities	1,058	36,644
Net increase (decrease) in cash	(29,458)	39,430
Cash at beginning of period	70,210	34,558

Cash at end of period	$ 40,752	$ 73,988

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

QUICKLOGIC CORPORATION
NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying interim financial statements are unaudited. In the opinion of management, these statements have been prepared in accordance with generally accepted accounting principles and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the results of the interim periods. While our management believes that the disclosures are adequate to make the financial information not misleading, it is suggested that these financial statements be read in conjunction with our Form 10-K for the year ended December 31, 2000. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the full year.

Our fiscal year ends on the Sunday closest to December 31. The six month period ends on the Sunday after June 30. For presentation purposes, the financial statements and notes have been presented as ending on the last day of the nearest calendar month.

We primarily use the U.S. dollar as our functional currency. Foreign currency transaction gains and losses are included in income as they occur. The effect of foreign currency exchange rate fluctuations was not significant. We do not use derivative financial instruments.

Note 2. Net Income Per Share

Basic EPS is computed by dividing net income available to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options. A reconciliation of the numerators and denominators of the basic and diluted per share computations is as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Numerator:				
Net income (loss)	$ (7,831)	$ 2,716	$ (8,563)	$ 4,462
Denominator:				
Common stock	20,385	19,691	20,200	18,906
Unvested common stock option exercises	—	(1)	—	(1)
Weighted average shares outstanding for basic	20,385	19,690	20,200	18,905
Stock options	—	2,483	—	2,357
Unvested common stock option exercises	—	1	—	1
Weighted average shares outstanding for diluted	20,385	22,174	20,200	21,263
Net income per share:				
Basic	$ (0.38)	$ 0.14	$ (0.42)	$ 0.23
Diluted	$ (0.38)	$ 0.12	$ (0.42)	$ 0.21

For the three and six months ended June 30, 2001, 6,361,032 shares with a weighted average exercise price of $8.60 were excluded because their effect would be anti-dilutive. For the six months

ended June 30, 2001, all dilutive potential common shares have been excluded in the calculation of diluted EPS.

Note 3. Investment in Tower Semiconductor Ltd.

Pursuant to a share purchase agreement (the "Agreement") entered into with Tower Semiconductor Ltd. ("Tower") in December 2000, the Company has purchased 533,310 ordinary shares of Tower for an aggregate purchase price of $14.0 million as of June 30, 2001. The Company has an obligation to purchase an additional 366,690 ordinary shares of Tower in three equal increments upon occurrence of events relating to Tower's construction of a fabrication facility as specified in the Agreement. The additional shares are expected to be purchased by the Company in fiscal 2002.

In connection with the Agreement, the Company entered into a foundry agreement with Tower under which the Company is entitled to a certain amount of credits towards future wafer purchases from Tower. The amount of credits is determined under the Agreement upon each share purchase transaction and is calculated based on the difference between Tower's average stock price for 30 days preceding a purchase transaction and the Company's share purchase exercise price. At June 30, 2001, out of the $14.0 million investment, $7.8 million has been allocated to wafer credits.

Under the terms of the foundry agreement, the Company is guaranteed a certain percentage of available wafer starts up to a predetermined maximum amount. The guaranteed capacity may be reduced if the Company elects not to exercise additional share purchase obligations. The Company accounts for its investment in Tower, which represents approximately 2% of Tower's outstanding stock, under the cost method based on the Company's inability to exercise significant influence over Tower's operations.

Note 4. Balance Sheet Components

	June 30, 2001	December 31, 2000
	(in thousands)	
Inventory:		
Raw materials	$ 810	$ 353
Work-in-process	11,415	8,911
Finished goods	846	1,063
Total inventory	$ 13,071	$ 10,327

	June 30, 2001	December 31, 2000
	(in thousands)	
Other assets:		
Investment in Tower	$ 6,242	$ —
Tower wafer credits	7,771	—
Other	2,647	2,340
Total inventory	$ 16,660	$ 2,340

Note 5. Long-term Obligations

In the quarter ended June 30, 1999, we entered into an extension of our existing bank facility to borrow up to $250,000 using bank installment notes which are secured by the specific equipment financed. At June 30, 2001, we had borrowed the entire facility. The related notes mature in 2002. At June 30, 2001, we were not in compliance with our profitability ratio covenant, however, we have obtained from the bank a letter waiving this covenant requirement as of June 30, 2001.

Note 6. Deferred Stock Compensation

Deferred stock compensation recorded in years prior to 2000 is being amortized ratably over the vesting period of the options. During the six months ended June 30, 2000 and 2001, deferred stock compensation amortization was $307,000 and $225,000, respectively.

Note 7. Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income as defined, includes all changes in equity during a period from nonowner sources. No items were included in other comprehensive income during the six months ended June 30, 2000 and 2001.

Note 8. New Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 established a model for accounting for derivatives and hedging activities and supersedes and amends a number of existing accounting standards. SFAS No. 133 requires that all derivatives be recognized in the balance sheet at their fair market value, and the corresponding

derivative gains or losses be either reported in the statement of operations or as a deferred item depending on the type of hedge relationship that exists with respect to such derivative. We have adopted SFAS No. 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133," effective January 1, 2001. We do not currently, nor do we plan to, enter into forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes.

In July 2001, the FASB issued SFAS 141, "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. We believe that the adoption of SFAS 141 will not have a significant impact on our financial statements.

In July 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets", which is effective for fiscal years beginning after March 15, 2001. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions upon adoption for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for impairment of existing goodwill and other intangibles. We are currently assessing but have not yet determined the impact of SFAS 142 on our financial position and results of operations.

Note 9. Income Taxes

No provision for income taxes was recorded for the six month period ended June 30, 2000 due to our ability to utilize a portion of our state and federal net operating loss carry forwards.

Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance has been recorded. These factors include the Company's history of losses, that the market in which the Company competes is intensely competitive and characterized by rapidly changing technology, the lack of carry back capacity to realize deferred tax assets, and uncertainty regarding market acceptance of the Company's products. Based on these factors, no provision for income taxes was recorded for the six month period ended June 30, 2001 because we incurred a loss. The Company will continue to assess the realizability of the deferred tax assets in future periods.

Note 10. Litigation

On March 29, 2000, Unisys Corporation filed a patent infringement lawsuit against the Company alleging that the Company infringed upon three of Unisys' patents. The Company believes that the lawsuit has no merit and accordingly has not recorded any liability in the financial statements associated with this lawsuit. No assurance can be given, however, that these matters will be resolved without the Company becoming obligated to make payments or to pay other costs to the opposing party, with the potential for an adverse effect on the Company's financial position or its results of operations.

The semiconductor industry has experienced a substantial amount of litigation regarding patent and other intellectual property rights. From time to time, we have received and may receive in the future, communications alleging that our products or our processes may infringe on product or process technology rights held by others. We may in the future be involved in litigation with respect to alleged infringement by us of another party's patents. In the future, we may be involved with litigation to:

- Enforce our patents or other intellectual property rights;
- Protect our trade secrets and know-how;
- Determine the validity or scope of the proprietary rights of others; and
- Defend against claims of infringement or invalidity.

Such litigation has in the past and could in the future result in substantial costs and diversion of management resources. Such litigation could also result in payment of substantial damages and/or royalties or prohibitions against utilization of essential technologies, and could have a material adverse effect on our business, financial condition and results of operations.

Note 11. Deferred Compensation Plan

The Company has a non-qualified deferred compensation plan, known as a rabbi trust, whereby certain key executives may defer a portion of their compensation to be included in the trust, the assets of which are available to satisfy the claims of general creditors in the event of bankruptcy of the Company. The participants are allowed to diversify the assets, and the deferred compensation obligation is adjusted to reflect gains or losses on the assets in the trust. The assets are classified as trading assets and are reported as other assets and as long term obligations on the balance sheet. These

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trading assets (classified with other assets) and related obligations (classified with long term obligations) aggregated $590,000 at June 30, 2001.

Note 12. Subsequent Events

On August 1, 2001, we acquired certain assets of V3 Semiconductor, Inc., a Toronto based manufacturer of Application Specific Standard Products (ASSPs), for approximately 2.5 million shares of our common stock, valued at $11.3 million. This acquisition is designed to accelerate our ESP strategy by strengthening our ability to develop and market system-level products for the communications and networking markets. The acquisition will be accounted for as a purchase in 2001.

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

The following discussion should be read in conjunction with the attached condensed consolidated financial statements and notes thereto, and with our audited financial statements and notes thereto for the fiscal year ended December 31, 2000, found in our Annual Report on Form 10-K filed March 28, 2001.

Statements in this Section, and elsewhere in this Annual Report on Form 10-Q, which express that the Company "believes", "anticipates" or "plans to...", as well as other statements which are not historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual events or results may differ materially as a result of the risks and uncertainties described herein and elsewhere including, in particular, those factors described under "Factors Affecting Future Results."

Overview

QuickLogic Corporation (together with its operating subsidiary, "we", "our", or "QuickLogic") designs and sells field programmable gate arrays, embedded standard products, associated software and programming hardware. From our inception in April 1988 through the third quarter of 1991, we were primarily engaged in product development. In 1991, we introduced our first line of field programmable gate array products, or FPGAs, based upon our ViaLink technology. FPGAs have accounted for substantially all of our product revenue to date. We currently have four FPGA product families: pASIC 1, introduced in 1991; pASIC 2, introduced in 1996; and pASIC 3, introduced in 1997. We introduced our Eclipse family of FPGAs in 2000. The newer product families generally contain greater logic capacity, but do not necessarily replace sales of older generation products.

In September 1998, we introduced QuickRAM, our first line of embedded standard products, or ESPs. Our ESPs are based on our FPGA technology. In April 1999, we introduced QuickPCI, our second line of ESPs. During 2000, we introduced the QuickFC, QuickDSP, QuickSD and QuickMIPS families of ESPs. We also license our QuickWorks and QuickTools design software and sell our programming hardware, which together have typically accounted for less than 5% of total revenue.

In April 2001, we signed a definitive agreement with V3 Semiconductor, Inc. (V3) to acquire certain assets of V3 in a stock transaction. We also entered into a manufacturing and distribution agreement with V3 pending the sale in order to ensure continued distribution of V3's products to its customers. V3, based in Toronto, Ontario, manufactured Application Specific Standard Products (ASSPs) that enhance high-speed data throughput within telecommunications and Internet infrastructure systems. The acquisition is designed to accelerate our ESP strategy by strengthening our ability to develop and market system-level products for the communications and networking markets.

To facilitate the asset sale and the subsequent windup of V3 as a distinct entity, V3 filed for relief under Chapter 11 of the bankruptcy laws in May 2001. In August 2001, we completed the acquisition of certain assets of V3, for approximately 2.5 million shares of our common stock, valued at $11.3 million. The acquisition will be accounted for as a purchase in 2001.

We sell our products through two channels. We sell the majority of our products through distributors who have contractual rights to earn a negotiated margin on the sale of our products. We refer to these distributors as point-of-sale distributors. We defer recognition of revenue for sales of unprogrammed products to these point-of-sale distributors until after they have sold these products to systems manufacturers. We recognize revenue on programmed products at the time of shipment. More than half of our products sold by point-of-sale distributors are programmed by us and are not returnable by these point-of-sale distributors. We also sell our products directly to systems manufacturers and recognize revenue at the time of shipment. The percentage of sales derived through the distributor channel was 80%, 69%, and 71% for 1999, 2000 and the six months ended June 30, 2001, respectively.

Four distributors accounted for 24%, 11%, 10% and 6% of sales, respectively, in 1999. Five distributors accounted for 20%, 8%, 7%, 6% and 6% of sales, respectively, in 2000. Five distributors accounted for 16%, 8%, 8%, 8%, and 6% of sales, respectively, in the six months ended June 30, 2001. Two customers each accounted for 6% of sales in 2000. No other distributor or direct customer accounted for more than 5% of sales in 1999, 2000, or the six months ended June 30, 2001. We expect that a limited number of distributors will continue to account for a significant portion of our total sales.

Our international sales were 48%, 38% and 42% of our total sales for 1999, 2000 and the six months ended June 30, 2001, respectively. We expect that revenue derived from sales to international customers will continue to represent a significant and growing portion of our total revenue. All of our sales are denominated in U.S. dollars.

Average selling prices for our products typically decline rapidly during the first six to 12 months after their introduction, then decline less rapidly as the products mature. We attempt to maintain gross margins even as average selling prices decline through the introduction of new products with higher margins and through manufacturing efficiencies and cost reductions. However, the markets in which we operate are highly competitive, and there can be no assurance that we will be able to successfully maintain gross margins. Any significant decline in our gross margins will materially harm our results of operations.

We outsource the wafer manufacturing, assembly and test of all of our products. We rely upon TSMC and Cypress to manufacture our products, and we rely primarily upon Amkor and ChipPAC to assemble and test our products. Under our arrangements with these manufacturers, we are obligated to provide forecasts and enter into binding obligations for anticipated purchases. This limits our ability to

react to fluctuations in demand for our products, which could lead to excesses or shortages of wafers for a particular product.

Results of Operations

The following data has been derived from unaudited financial statements that, in our opinion, include all adjustments necessary for a fair presentation of the information. Our quarterly results have been in the past, and in the future may be, subject to fluctuations. As a result, we believe that results of operations for the interim periods are not necessarily indicative of results for any future period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	108.6	40.6	69.8	40.8
Gross profit	(8.6)	59.4	30.2	59.2
Research and development	40.2	16.8	35.1	17.2
Sales, general and administrative	53.7	30.1	47.3	30.3
Operating expenses	93.9	46.9	82.4	47.5
Operating income	(102.5)	12.5	(52.2)	11.7
Interest income and other, net	5.9	6.8	6.9	5.3
Net income	(96.6)	19.3%	(45.3)	17.0%

Three and Six Months Ended June 30, 2001 and June 30, 2000

Revenue. Revenue decreased 28.0% from $26.3 million for the six months ended June 30, 2000 to $18.9 million for the six months ended June 30, 2001. Revenue decreased 42.3% from $14.1 million for the three months ended June 30, 2000 to $8.1 million for the three months ended June 30, 2001. The decline in revenue resulted primarily from a decrease in sales of our mature products including both pASIC1 and pASIC2 of 43.3% for the six months ended June 30, 2001 and 57.3% for the three months ended June 30, 2001. Sales of new products represented 31.6% of sales for the six months in 2000 and 46.0% in the six months of 2001. Sales of ESP products, a subset of new products, was 8.5% of sales for the six months in 2000 and grew to 27.2% in the six months of 2001. Sales of new products represented 33.4% of sales for the three months in 2000 and 49.3% in the three months of 2001. Sales of ESP products was 8.7% of sales for the three months in 2000 and grew to 30.1% in the three months of 2001. Sales of ESP products included $1.0 million in the three months ended June 30, 2001 related to our manufacturing and distribution agreement with V3 Semiconductor Inc.

Gross Profit. Gross profit decreased 63.3% from $15.6 million for the six months ended June 30, 2000 to $5.7 million for the six months ended June 30, 2001. Gross margin declined between those periods from 59.2% to 30.2%. Gross profit decreased 108.3% from $8.4 million for the three months ended June 30, 2000 to a gross loss of $0.7 million for the three months ended June 30, 2001. The gross margin of 59.4% for the three months in 2000 declined to a gross loss of 8.6% for the three months in 2001. This decrease in gross profit was primarily due to lower revenue and the $3.7 million write off of die inventory during the three months ended June 30, 2001. In addition, the gross margin declined due to the under-absorbtion of overhead due to our relatively fixed operations costs.

Research and Development Expense. Research and development expense includes personnel and other costs associated with the development of product designs, process technology, software and programming hardware. Research and development expense increased from $4.5 million for the six months ended June 30, 2000 to $6.6 million for the six months ended June 30, 2001. As a percentage of revenue, research and development expense increased from 17.2% to 35.1% for the same periods. Research and development expense increased from $2.4 million for the three months ended June 30, 2000 to $3.3 million for the three months ended June 30, 2001. As a percentage of revenue, research and development expense increased from 16.8% to 40.2% for the same periods. The increase in dollars spent on research and development was primarily due to an increase in the number of employees, consulting services, and maintenance and depreciation expenses related to computer hardware and software purchases. We believe that continued investments in process technology and product development are essential for us to remain competitive in the markets we serve. Specifically in regard to our ESPs, we expect to continue to increase research and development spending.

Selling, General and Administrative Expense. Selling expense consists primarily of personnel, commissions and other costs associated with the marketing and sale of our products. General and administrative expense consists primarily of personnel and other costs associated

with the management of our business. Selling, general and administrative expense increased from $8.0 million for the six months ended June 30, 2000 to $9.0 million for the six months ended June 30, 2001. Selling, general and administrative expense as a percentage of revenue increased from 30.3% to 47.3% for the first six months of 2000 and 2001, respectively. Selling, general and administrative expense increased from $4.2 million for the three months ended June 30, 2000 to $4.4 million for the three months ended June 30, 2001. Selling, general and administrative expense increased as a percentage of revenue from 30.1% for the three months ended June 30, 2000 to 53.7% for the three months ended June 30, 2001. The increase in dollars spent was primarily due to hiring of additional marketing and administrative personnel.

Interest and Other Income, Net. Interest income, interest expense and other income, net was $1.4 million in the six months ended June 30, 2000 compared to $1.3 million for the six months ended June 30, 2001. Interest income, interest expense and other income, net was $954,000 in the three months ended June 30, 2000 compared to $479,000 for the three months ended June 30, 2001. The decrease in the three months of 2001 compared to the three months of 2000 is due mainly to the reduced interest income related to our lower level of cash.

Deferred Stock Compensation. Deferred stock compensation recorded in years prior to 2000 is being amortized ratably over the vesting period of the options. During the six months ended June 30, 2000 and 2001, deferred stock compensation amortization was $307,000 and $225,000, respectively.

Provision for Income Taxes. No provision for income taxes was recorded for the six month period ended June 30, 2000 due to our ability to utilize a portion of our state and federal net operating loss carryforwards. No provision for income taxes was recorded for the six month period ended June 30, 2001 because we incurred a loss. Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance has been recorded. These factors include the Company's history of losses, that the market in which the Company competes is intensely competitive and characterized by rapidly changing technology, the lack of carryback capacity to realize deferred tax assets, and uncertainty regarding market acceptance of the Company's products. The Company will continue to assess the realizability of the deferred tax assets in future periods.

Liquidity and Capital Resources

At June 30, 2001, we had $40.8 million in cash, a decrease of $29.5 million from cash held at December 31, 2000. As of June 30, 2001, we had an accumulated deficit of $56.9 million.

We have an equipment financing line with a commercial bank. At June 30, 2001, we had obligations of $92,000 outstanding under this equipment line. The outstanding obligations under the equipment line are due over the next year. The interest rate on these borrowings is at the bank's prime interest rate plus 0.5%.

Net cash (used for) provided by operating activities was ($11.5) million and $5.2 million in the first six months of 2001 and 2000, respectively. For the six months ended June 30, 2001, the cash used was primarily attributable to the net loss of $8.6 million, which included a non-cash expense of $3.7 million to increase inventory reserves, and the increase in inventory due to material purchases of $6.5 million. For the six months ended June 30, 2000, the cash flow was generated primarily from the net income of $4.5 million.

Net cash used for investing activities was $19.0 million and $2.4 million for the six months of 2001 and 2000, respectively. The increases in property and equipment were comprised primarily of computers, purchased software, networking equipment, and test equipment. During the six months ended June 30, 2001, we made three installment payments totaling $14.0 million to Tower Semiconductor Ltd. pursuant to the our Share Purchase Agreement entered into on December 12, 2000.

Net cash provided by financing activities was $1.1 million and $36.6 million in the first six months of 2001 and 2000, respectively. During the six months ended June 30, 2001, the $1.2 million received from the exercise of stock options was offset by $0.1 million of debt repayments. The six months ended June 30, 2000 amount is primarily due to the $35.5 million received from the public offering on April 12, 2000.

We require substantial working capital to fund our business, particularly to finance inventories and accounts receivable. Our future capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our existing and new products, the amount and timing of research and development expenditures, the timing of the introduction of new products and expansion of sales and marketing efforts. There can be no assurance that additional equity or debt financing, if required, will be available on satisfactory terms. We believe our existing capital resources and cash generated from operations will be sufficient to meet our needs for the next twelve months, although we could seek to raise additional capital during that period. After the next twelve months, our capital and operating requirements will depend on many factors, including the levels at which we maintain inventory and accounts receivable, costs of securing access to adequate manufacturing capacity and increases in our operating expenses.

Inflation

The impact of inflation on our business has not been material for the three and six month periods presented.

Factors Affecting Future Results

Our future operating results are likely to fluctuate and therefore may fail to meet expectations which could cause our stock price to decline

Our operating results have varied widely in the past and are likely to do so in the future. In addition, our operating results may not follow

any past trends. Our future operating results will depend on many factors and may fail to meet our expectations for a number of reasons, including those set forth in these risk factors. Any failure to meet expectations could cause our stock price to significantly fluctuate or decline.

Factors that could cause our operating results to fluctuate that relate to our internal operations include:

- the need for continual, rapid new product introductions;

- changes in our product mix;
- our inability to adjust our fixed costs in the face of any declines in sales;
- our ability to integrate existing and acquired operations, including the integration of assets acquired from V3 Semiconductor; and
- successful execution of our strategy to develop and market system-level products for the communications and networking markets.

Factors that could cause our operating results to fluctuate that depend upon our suppliers and customers include:

- the timing of significant product orders, order cancellations and reschedulings;
- the availability of production capacity and fluctuations in the manufacturing yields at the facilities that manufacture our devices; and
- the cost of raw materials and manufacturing services from our suppliers.

Factors that could cause our operating results to fluctuate that are industry risks include:

- intense competitive pricing pressures;
- introductions of or enhancements to our competitors' products; and
- the cyclical nature of the semiconductor industry.

Our day-to-day business decisions are made with these factors in mind. Although certain of these factors are out of our immediate control, unless we can anticipate, and be prepared with contingency plans that respond to these factors, we will be unsuccessful in carrying out our business plan.

We cannot assure you that our operations will be profitable

We incurred significant losses from our inception in 1988 through 1997. Our accumulated deficit as of June 30, 2001 was $56.9 million. During the six months ended June 30, 2001, we had a net loss of $8.6 million. We cannot assure you that we will be profitable in any future periods and you should not rely on the historical growth of our revenue and our previous profitability as any indication of our future operating results or prospects.

If we fail to successfully develop, introduce and sell new products, we may be unable to compete effectively in the future

We operate in a highly competitive, quickly changing environment marked by rapid obsolescence of existing products. Our future success depends on our ability to develop, introduce and successfully market new products, including ESPs. If any of the following occur, our business will be materially harmed:

- we fail to complete and introduce new product designs in a timely manner;
- we are unable to have these new products manufactured according to design specifications;
- our customers do not successfully introduce new systems or products incorporating our products;
- our sales force and independent distributors do not create adequate demand for our products; or
- market demand for our new products, such as ESPs, does not develop as anticipated.

We have only recently introduced our embedded standard products; therefore, we cannot accurately predict their future level of acceptance by our customers, and we may not be able to generate anticipated revenue from these products

We have only recently started selling ESPs. During the six months ended June 30, 2001, ESPs accounted for approximately 27% of our revenue. We do not know the extent to which systems

manufacturers will purchase or utilize our ESPs. Since we anticipate that ESPs will become an increasingly larger component of our business, their failure to gain acceptance with our customers would materially harm our business. We cannot assure you that our ESPs will be commercially successful or that these products will result in significant additional revenues or improved operating margins in future periods. If we do not realize the expected benefits from the acquisition of V3 Semiconductor's ESP products, our business will suffer.

If the market in which we sell our embedded standard products does not grow as we anticipate, it will materially and adversely affect our anticipated revenue

The market for ESPs is relatively new and still emerging. If this market does not grow at the rate we anticipate, our business will be materially harmed. One of the reasons that this market might not grow as we anticipate is that many systems manufacturers are not yet fully aware of the benefits provided by embedded standard products, in general, or the benefits of our ESPs, specifically. Additionally, systems manufacturers may use existing technologies other than embedded standard products or yet to be introduced technologies to satisfy their needs. Although we have devoted and intend to continue to devote significant resources promoting market awareness of the benefits of embedded standard products, our efforts may be unsuccessful or insufficient.

We expend substantial resources in developing and selling our products, and we may be unable to generate significant revenue as a result of these efforts

To establish market acceptance of our products, we must dedicate significant resources to research and development, production and sales and marketing. We experience a long delay between the time when we expend these resources and the time when we begin to generate revenue, if any, from these expenditures. Typically, this delay is one year or more. We record as expenses the costs related to the development of new semiconductor products and software as these expenses are incurred. As a result, our profitability from quarter to quarter and from year to year may be materially and adversely affected by the number and timing of our new product introductions in any period and the level of acceptance gained by these products.

Our customers may cancel or change their product plans after we have expended substantial time and resources in the design of their products

If one of our potential customers cancels, reduces or delays product orders from us or chooses not to release equipment that incorporates our products after we have spent substantial time and resources in designing a product, our business could be materially harmed. Our customers often evaluate our products for six to twelve months or more before designing them into their systems, and they may not commence volume shipments for up to an additional six to twelve months, if at all. During this lengthy sales cycle, our potential customers may also cancel or change their product plans. Even when customers incorporate one or more of our products into their systems, they may ultimately discontinue the shipment of their systems that incorporate our products. Customers whose products achieve high volume production may choose to replace our products with lower cost customized semiconductors.

We will be unable to compete effectively if we fail to anticipate product opportunities based upon emerging technologies and standards and fail to develop products that incorporate these technologies and standards

We may spend significant time and money on research and development to design and develop products around an emerging technology or industry standard. To date, we have introduced only one product family, QuickPCI, that is designed to support a specific industry standard. If an emerging technology or industry standard that we have identified fails to achieve broad market acceptance in our target markets, we may be unable to generate significant revenue from our research and development

efforts. Moreover, even if we are able to develop products using adopted standards, our products may not be accepted in our target markets. As a result, our business would be materially harmed.

We have limited experience in designing and developing products that support industry standards. If systems manufacturers move away from the use of industry standards that we support with our products and adopt alternative standards, we may be unable to design and develop new products that conform to these new standards. The expertise required is unique to each industry standard, and we would have to either hire individuals with the required expertise or acquire such expertise through a licensing arrangement or by other means.

The demand for individuals with the necessary expertise to develop a product relating to a particular industry standard is generally high, and we may not be able to hire such individuals. The cost to acquire such expertise through licensing or other means may be high and such arrangements may not be possible in a timely manner, if at all.

We may encounter periods of industry-wide semiconductor oversupply, resulting in pricing pressure and underutilization of manufacturing capacity, as well as undersupply, resulting in a risk that we could be unable to fulfill our customers' requirements

The semiconductor industry has historically been characterized by wide fluctuations in the demand for, and supply of, its products. These fluctuations have resulted in circumstances when supply and demand for the industry's products have been widely out of balance. Our operating results may be materially harmed by industry-wide semiconductor oversupply, which could result in severe pricing pressure and underutilization of our manufacturing capacity. In a market with undersupply, we would have to compete with larger foundry customers for

limited manufacturing capacity. In such an environment, we may be unable to have our products manufactured in a timely manner or in quantities necessary to meet our requirements. Since we outsource all of our manufacturing, we are particularly vulnerable to such supply shortages. As a result, we may be unable to fulfill orders and may lose customers. Any future industry-wide oversupply or undersupply of semiconductors would materially harm our business.

None of our products is currently manufactured by more than one manufacturer, which exposes us to the risk of having to identify and qualify one or more substitute suppliers

We depend upon independent third parties to manufacture, assemble and test our semiconductor products. None of our products is currently manufactured by more than one manufacturer. We have contractual arrangements with two of our foundry manufacturers of semiconductors, Tower Semiconductor Ltd. (Tower) and Cypress Semiconductor Corporation (Cypress), to provide us with specified manufacturing capacity. The Tower facility is not yet operational. We entered into a manufacturing agreement with TSMC in 1997. That agreement provided us access to guaranteed capacity but required us to commit to purchase a specific number of wafers each year. In July 2000, TSMC notified us that the agreement had expired, and although we do not agree with TSMC, we are currently negotiating a new contract with TSMC. Since July 2000, TSMC has not committed guaranteed capacity to us and we have not been required to purchase specific numbers of wafers. We have purchased product from TSMC on a purchase order basis since that date. Our assembly and test work is also done on a purchase order basis. If we are unable to secure adequate manufacturing capacity from Tower, TSMC, Cypress or other suppliers to meet our supply requirements, our business will be materially harmed. Processes used to manufacture our products are complex, customized to our specifications and can only be performed by a limited number of manufacturing facilities. If our current manufacturing suppliers are unable or unwilling to provide us with adequate manufacturing capacity, we would have to identify and qualify one or more substitute suppliers for a substantial majority of our products. Our manufacturers may experience unanticipated events, like the September 1999 Taiwan earthquake, that could inhibit their abilities to provide us with adequate manufacturing capacity on a

timely basis, or at all. Introducing new products or transferring existing products to a new third party manufacturer would require significant development time to adapt our designs to their manufacturing processes and could cause product shipment delays. In addition, the costs associated with manufacturing our products may increase if we are required to use a new third party manufacturer. If we fail to satisfy our manufacturing requirements, our business would be materially harmed.

If we fail to adequately forecast demand for our products, we may incur product shortages or excess product inventory

Our agreements with third-party manufacturers require us to provide forecasts of our anticipated manufacturing orders, and place binding manufacturing orders in advance of receiving purchase orders from our customers. This may result in product shortages or excess product inventory because we are not permitted to increase or decrease our rolling forecasts under such agreements. Obtaining additional supply in the face of product shortages may be costly or impossible, especially in the short term. Our failure to adequately forecast demand for our products would materially harm our business.

Fluctuations in our product yields, especially our new products, may increase the costs of our manufacturing process

Difficulties in the complex semiconductor manufacturing process can render a substantial percentage of semiconductor wafers nonfunctional. We have, in the past, experienced manufacturing runs that have contained substantially reduced or no functioning devices. Varying degrees of these yield reductions occur frequently in our manufacturing process. These yield reductions, which can occur without warning, may result in substantially higher manufacturing costs and inventory shortages to us. We may experience yield problems in the future which may materially harm our business. In addition, yield problems may take a significant period of time to analyze and correct. Our reliance on third party suppliers may extend the period of time required to analyze and correct these problems. As a result, if we are unable to respond rapidly to market demand, our business would suffer.

Yield reductions frequently occur in connection with the manufacture of newly introduced products. Newly introduced products, such as our QuickPCI family of ESPs, are often more complex and more difficult to produce, increasing the risk of manufacturing-related defects. While we test our products, these products may still contain errors or defects that we find only after we have commenced commercial production. Our customers may not place new orders for our products if the products have reliability problems, which would materially harm our business.

We may be unable to grow our business if the markets in which our customers sell their products do not grow

Our success depends in large part on the continued growth of various markets that use our products. Any decline in the demand for our products in the following markets could materially harm our business:

- telecommunications and data communications;
- video/audio, graphics and imaging;
- instrumentation and test;
- high-performance computing; or
-

military systems.

Slower growth in any of the other markets in which our products are sold may also materially harm our business. Many of these markets are characterized by rapid technological change and intense competition. As a result, systems sold by our customers that use our products may face severe price competition, become obsolete over a short time period, or fail to gain market acceptance. Any of these occurrences would materially harm our business.

In order to be profitable, we will need to offset the general pattern of declines and fluctuations in the prices of our products

The average selling prices of our products historically have declined during the products' lives by, on average, approximately 7% per year, and we expect this trend to continue. If we are unable to achieve cost reductions, increase unit demand or introduce new higher-margin products in a timely manner to offset these price declines, our business would be materially harmed.

In addition, the selling prices for our products fluctuate significantly with real and perceived changes in the balance of supply and demand for our products and comparable products. The growth in the worldwide supply of field programmable gate arrays in recent periods has added to the decrease in the average selling prices for our products. In addition, we expect our competitors to invest in new manufacturing process technologies and achieve significant manufacturing yield improvements in the future. These developments could increase the worldwide supply of field programmable gate arrays and alternate products and create additional downward pressure on pricing. If the worldwide supply of field programmable gate arrays grows faster than the demand for such products in the future, the price for which we can sell such products may decline, which would materially harm our business.

We depend upon third party distributors to market and sell our products, and they may discontinue sale of our products, fail to give our products priority or be unable to successfully market, sell and support our products

We employ independent, third-party distributors to market and sell a significant portion of our products. During the six months ended June 30, 2001, approximately 71% of our sales were made through our distributors. Although we have contracts with our distributors, any of them may terminate their relationship with us on short notice. The loss of one or more of our principal distributors, or our inability to attract new distributors, would materially harm our business. We may lose distributors in the future and we may be unable to recruit additional or replacement distributors. As a result, our future performance will depend in part on our ability to retain our existing distributors and attract new distributors that will be able to market, sell and support our products effectively.

Many of our distributors, including our principal distributors, market and sell products for other companies, and many of these products may compete directly or indirectly with our products. We generally are not one of the principal suppliers of products to our distributors. If our distributors give

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higher priority or greater attention to the products of other companies, including products that compete with our products, our business would be materially harmed.

We may be unable to accurately predict quarterly results if distributors are inaccurate or untimely in providing us with their resale reports, which could adversely affect the trading price of our stock

Since we generally recognize revenue from sales to our distributors only when these distributors make sales to customers, we are highly dependent on the accuracy and timeliness of their resale reports. Inaccurate resale reports contribute to our difficulty in predicting and reporting our quarterly revenue and results of operations, particularly in the last month of the quarter. If we fail to accurately predict our revenue and results of operations on a quarterly basis, our stock price could materially fluctuate. Distributors occasionally increase their inventories of our products in anticipation of growth in the demand for our products. If this growth does not occur, distributors will decrease their orders for our products in subsequent periods, and our business would be materially harmed.

Customers may cancel or defer significant purchase orders or our distributors may return our products, which would cause our inventory levels to increase and our revenues to decline

We sell our products on a purchase order basis through our distributors and direct sales channels, and our distributors or customers may cancel purchase orders at any time with little or no penalty. In addition, our distributor agreements generally permit our distributors to return unprogrammed products to us. Contractually, our distributors are permitted to return up to 10%, by value, of the products they purchase from us every six months. In early 1998, for example, a distributor cancelled a significant purchase order as a result of a customer switching from a product we supply to a competitor's product. The distributor also returned a significant amount of inventory of the product to us, which took approximately 18 months for us to resell. If our customers cancel or defer significant purchase orders or our distributors return our products, our inventories would increase, which would materially harm our business.

Many systems manufacturers may be unwilling to switch to our products because of their familiarity with the products offered by our direct competitors such as Xilinx and Altera, which dominate the programmable logic market

The semiconductor industry is intensely competitive and characterized by:

- erosion of selling prices over product lives;
- rapid technological change;
-

- short product life cycles; and
- strong domestic and foreign competition.

If we are not able to compete successfully in this environment, our business will be materially harmed. A primary cause of this highly competitive environment is the strengths of our competitors. Our industry consists of major domestic and international semiconductor companies, many of which have substantially greater financial, technical, marketing, distribution and other resources than we do. Our current direct competitors include suppliers of complex programmable logic devices and field programmable gate arrays, such as Xilinx, Altera, Actel, Lattice Semiconductor and Lucent. Xilinx and Altera together have a majority share of the programmable logic market. Many systems manufacturers may be unwilling or unable to switch to our products due to their familiarity with competitors' products or other inhibiting factors.

We also face competition from companies that offer application specific integrated circuits, which may be obtained at lower costs for higher volumes and typically have greater logic capacity, additional features and higher performance than those of our products. We may also face competition from

suppliers of products based on new or emerging technologies, including ESPs. Our inability to successfully compete in any of the following areas could materially harm our business:

- the development of new products and manufacturing technologies;
- the quality and price of products and devices;
- the diversity of product lines; or
- the cost effectiveness of design, development, manufacturing and marketing efforts.

We may be unable to successfully manage our growth if we fail to compete effectively with others to attract and retain key personnel

We believe our future success will depend upon our ability to successfully manage our growth, including attracting and retaining engineers and other highly skilled personnel. Our employees are at-will and not subject to employment contracts. Hiring qualified sales and technical personnel will be difficult due to the limited number of qualified professionals. Competition for these types of employees is intense. We have in the past experienced difficulty in recruiting and retaining qualified sales and technical personnel. For example, in the past two years, one of our executive officers resigned to pursue other opportunities. Failure to attract and retain personnel, particularly sales and technical personnel, would materially harm our business.

We may be unable to adequately protect our intellectual property rights, and may face significant expenses as a result of future litigation

Protection of intellectual property rights is crucial to our business, since that is how we keep others from copying the innovations which are central to our existing and future products. From time to time, we receive letters alleging patent infringement or inviting us to take a license to other parties' patents. We evaluate these letters on a case-by-case basis. In September 1999, we received an offer to license a patent related to field programmable gate array architecture. We have not yet determined whether this license would be necessary or useful, or whether a license would be obtainable at a reasonable price.

Offers such as these may lead to litigation if we reject the opportunity to obtain the license. We have in the past and may again become involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. This kind of litigation is expensive to all parties and consumes large amounts of management's time and attention. For example, we incurred substantial costs associated with the litigation and settlement of our dispute with Actel Corporation, which materially harmed our business. In addition, if the September 1999 letter or other similar matters result in litigation that we lose, a court could order us to pay substantial damages and/or royalties, and prohibit us from making, using, selling or importing essential technologies. For these and other reasons, this kind of litigation would materially harm our business. Also, although we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

We have entered into technology license agreements with third parties which give those parties the right to use patents and other technology developed by us, and which give us the right to use patents and other technology developed by them. We anticipate that we will continue to enter into these kinds of licensing arrangements in the future; however, it is possible that desirable licenses will not be available to us on commercially reasonable terms. If we lose existing licenses to key technology, or are unable to enter into new licenses which we deem important, it could materially harm our business, and materially and adversely affect our business.

Because it is critical to our success that we are able to prevent competitors from copying our innovations, we intend to continue to seek patent and trade secret protection for our products. The process of seeking patent protection can be long and expensive, and we cannot be certain that any

currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, others may develop technologies that

are similar or superior to our technology or design around the patents we own. We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants and third parties. However, employees may breach these agreements, and we may not have adequate remedies for any breach. In any case, others may come to know about or determine our trade secrets through a variety of methods. In addition, the laws of certain territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as do the laws of the United States.

Problems associated with international business operations could affect our ability to manufacture and sell our products

Most of our products are manufactured outside of the United States at manufacturing facilities operated by our suppliers in Taiwan, South Korea and the Philippines. As a result, our manufacturing operations are subject to risks of political instability, including the risk of conflict between Taiwan and the People's Republic of China and conflict between North Korea and South Korea. Moreover, the majority of available manufacturing capacity for our products is located in Taiwan and South Korea.

Sales to customers located outside the United States accounted for 42% of our total sales during the six months ended June 30, 2001, respectively. We anticipate that sales to customers located outside the United States will continue to represent a significant portion of our total sales in future periods and the trend of foreign customers accounting for an increasing portion of our total sales may continue. In addition, most of our domestic customers sell their products outside of North America, thereby indirectly exposing us to risks associated with foreign commerce. Asian economic instability could also materially and adversely affect our business, particularly to the extent that this instability impacts the sales of products manufactured by our customers. Accordingly, our operations and revenues are subject to a number of risks associated with foreign commerce, including the following:

- managing foreign distributors;
- staffing and managing foreign branch offices;
- political and economic instability;
- foreign currency exchange fluctuations;
- changes in tax laws, tariffs and freight rates;
- timing and availability of export licenses;
- inadequate protection of intellectual property rights in some countries; and
- obtaining governmental approvals for certain products.

In the past we have denominated sales of our products in foreign countries exclusively in U.S. dollars. As a result, any increase in the value of the U.S. dollar relative to the local currency of a foreign country will increase the price of our products in that country so that our products become relatively more expensive to customers in the local currency of that foreign country. As a result, sales of our products in that foreign country may decline. To the extent any such risks materialize, our business would be materially harmed.

Our principal stockholders have significant voting power and may vote for actions that may not be in the best interests of our stockholders

Our officers, directors and principal stockholders together control approximately 32% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to

significantly influence the management and affairs of QuickLogic and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might affect the market price of our common stock. This concentration of ownership may not be in the best interest of our other stockholders.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could discourage a takeover

Our basic corporate documents and Delaware law contain provisions that might enable our management to resist a takeover. These provisions might discourage, delay or prevent a change in the control of QuickLogic or a change in our management. Our certificate of incorporation provides that we will have a classified board of directors, with each class of directors subject to re-election every three years. This classified board has the effect of making it more difficult for third parties to insert their representatives on our board of directors and gain control of QuickLogic. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of the common stock.

Our certificate of incorporation also provides that our board of directors may, without further action by the stockholders, issue shares of preferred stock in one or more series and fix the rights, preferences, privileges and restrictions thereof. The issuance of preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of QuickLogic. We have no present plan to issue any shares of preferred stock.

A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline

If our stockholders sell substantial amounts of our common stock, including shares issued upon the exercise of outstanding options, the market price of our common stock could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Our common stock has only been publicly traded for a short time, and we expect the price of our common stock will fluctuate substantially

Prior to our initial public offering on October 15, 1999, there was no public market for shares of our common stock. The market price for our common stock may be affected by a number of factors, including:

- the announcement of new products or product enhancements by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- changes in earnings estimates or recommendations by securities analysts; developments in our industry; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In addition, stock prices for many companies in the technology and emerging growth sectors have experienced wide fluctuations that have often been unrelated to the operating performance of such companies. Such factors and fluctuations may materially and adversely affect the market price of our common stock.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We do not use derivative financial instruments in our investment portfolio. Our investment portfolio is generally comprised of commercial paper. We place investments in instruments that meet high credit quality standards. These securities are subject to interest rate risk, and could decline in value if interest rates fluctuate. Due to the short duration and conservative nature of our investment portfolio, we do not expect any material loss with respect to our investment portfolio. A 10% move in interest rates as of June 30, 2001 would have an immaterial effect on our pretax earnings and the carrying value of our investments over the next fiscal year.

Foreign Currency Exchange Rate Risk

All of our sales, cost of manufacturing and marketing are transacted primarily in U.S. dollars. Accordingly, our results of operations are not subject to significant foreign exchange rate fluctuations.

Part II. Other Information Item

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

2.1* Asset Purchase Agreement among QuickLogic Corporation, Q Acquisition Corporation, V3 Semiconductor Inc. and V Cubed Corporation dated as of April 17, 2001.

10.1 Distribution, Manufacturing and License Agreement by and between QuickLogic Corporation, V3 Semiconductor Inc. and V3 Semiconductor Corp. dated as of April 17, 2001.

(b) Reports on Form 8-K

None

*Incorporated by reference to Exhibit 2.1 to the current report on Form 8-K filed on August 7, 2001

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

Dated: August 9, 2001

/s/ ARTHUR O. WHIPPLE

Arthur O. Whipple
Vice President of Finance and Chief Financial Officer
(as principal accounting and financial officer and on behalf of Registrant)

QuickLinks

QUICKLOGIC CORPORATION CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS (In thousands)
QUICKLOGIC CORPORATION CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)
QUICKLOGIC CORPORATION NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Signatures

Exhibit 10.1

DISTRIBUTION, MANUFACTURING AND LICENSE AGREEMENT

THIS DISTRIBUTION, MANUFACTURING, AND LICENSE AGREEMENT (the "Agreement") is made and entered into as of this 17th day of April, 2001 (the "Effective Date") by and between QuickLogic Corporation, a Delaware corporation ("QuickLogic"), V3 Semiconductor, Inc., a Nevada corporation ("V3 Semiconductor") and V3 Semiconductor, Corp., an Ontario corporation ("V3 Canada"). V3 Semiconductor and V3 Canada shall be collectively referred to as "V3". Each of QuickLogic and V3 are hereafter referred to as a "Party"; and together hereafter referred to as the "Parties".

RECITALS

A. Whereas, V3 is in the business of developing and manufacturing on its own or through its suppliers, and selling on its own or through other parties, the Products (as such term is defined below).

B. Whereas, QuickLogic is willing to become V3's exclusive worldwide reseller and licensee for the Products.

C. Whereas, the Parties have entered into a Asset Purchase Agreement (as defined below) and other Related Agreements (as defined below) concurrently with this Agreement.

D. Whereas, the Parties also desire that QuickLogic manufacture or have manufactured, and sell on its own or through other parties, the Products using V3 Technology (as defined below) that is licensed to QuickLogic in accordance with the terms and conditions of the Agreement.

NOW, THEREFORE, in consideration of the mutual promises provided by each Party and contained in the Agreement, the Parties agree as follows:

AGREEMENT

1. DEFINITIONS. As used herein:

1.1 "Agreement" will have the meaning given to it in the introductory paragraph.

1.2 "Asset Purchase Agreement" means the Asset Purchase Agreement of even date herewith by and between V3 and QuickLogic.

1.3 "Change of Control" means, with respect to a Party, the occurrence of any of the following events: (a) any consolidation or merger of such Party with or into any entity in which the holders of such Party's outstanding shares immediately before such consolidation or merger do not, immediately after such consolidation or merger, retain shares representing at least eighty percent (80%) of the voting power of the surviving entity or shares representing at least eighty percent (80%) of the voting power of an entity that owns, directly or indirectly, the surviving entity; (b) the sale, transfer, or assignment of shares of such Party representing twenty percent (20%) or more of the voting power of all of such Party's outstanding voting shares to an acquiring party or group; or (c) the sale of all or substantially all of such Party's assets.

1.4 "Effective Date" will have the meaning given to it in the introductory paragraph.

1.5 "Employee Cost" means an hourly rate determined by adding amounts for employer-paid life, health, dental and AD&D insurance. A schedule of Employee Cost by employee will be maintained by V3 and updated from time to time to reflect changes in the information.

1.6 "Gross Margin" means the difference between the Net Selling Price and the Landed Cost.

1.7 "Intellectual Property Rights" means any patents, patent rights, copyrights, trade secrets, trade names, service marks and any other similar titles, rights, and interests, and intangible assets

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recognized under any laws, or international conventions and in any country or any jurisdiction in the world, as intellectual creations to which rights of ownership accrue, and all registrations, applications, disclosures, renewals, extensions, continuations or reissues of the foregoing now or hereafter in force.

1.8 "Landed Cost" means the Product purchase price invoiced to V3 or QuickLogic, as the case may be, including freight, taxes and duties.

1.9 "Net Selling Price" means any amount received from a customer for the sale of a product less any set-off, charge, or debit of any sort; the Parties agree that in the case a sale made by reseller or a distributor of QuickLogic, the final Net Selling Price will be calculated only upon sale of the Product to the end user.

1.10 "Non-Disclosure Agreement" means the Non-Disclosure Agreement dated January 30, 2001 made by and between V3 and QuickLogic.

1.11 "Party" and **"Parties"** will have the meanings given to it in the introductory paragraph.

1.12 "Person" means and includes an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

1.13 "Products" means all current and future V3 products.

1.14 "QuickLogic Technology" means the items of Technology that QuickLogic owns prior to the Effective Date and any items acquired by, developed, created for or by QuickLogic thereafter.

1.15 "Related Agreements" means the Asset Purchase Agreement, and the documents and instruments delivered pursuant to the Asset Purchase Agreement or referenced therein, including all the exhibits attached to the Asset Purchase Agreement.

1.16 "Subsidiary" means (a) any corporation of which more than fifty percent (50%) of the issued and outstanding equity securities having ordinary voting power to elect a majority of the board of directors of such corporation is at the time directly or indirectly owned or controlled by a Party, (b) any partnership, joint venture, or other association of which more than fifty percent (50%) of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time directly or indirectly owned and controlled by a Party, (c) any other entity included in the financial statements of a Party on a consolidated basis.

1.17 "Technology" means any and all technology, technical information, and manufacturing information, including technical data, inventions (whether or not patented or patentable), designs, concepts, processes, algorithms, formulae, techniques, know-how, software, specifications, flow charts, annotations, data books, models, test programs, drawings, works of authorship, and any other technical subject matter.

1.18 "Transition Activities" means (a) the fulfillment by QuickLogic of any (i) binding obligations that QuickLogic has or will have to supply Products pursuant to firm orders for the Products arising on or before the effective date of termination of this Agreement, and (ii) orders for Products that QuickLogic has or will have in connection with sales or other proposals that have been submitted to third parties on the date of termination of this Agreement, or that may arise in connection with any end of life requirements for the Products; (b) the manufacture to completion, by QuickLogic or other Persons, of all units of Products in the process of being manufactured on the date of termination of this Agreement, and the marketing, sale, lease, distribution, and installation of such units and other completed units of Products in finished goods inventory; and (c) the provision of service and support for the Products.

1.19 "V3" will have the meanings given to it in the introductory paragraph provided that any obligations, rights and liabilities imposed on, or granted to, "V3" pursuant to this Agreement shall apply jointly to V3 Semiconductor and V3 Canada. Use of the term "V3" (whether in a singular or plural form) shall always be construed to create a joint obligation, a joint right or a joint liability for both V3 Semiconductor and V3 Canada. An obligation or right shall be construed to be limited to

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either V3 Semiconductor and V3 Canada only if the term "V3 Semiconductor" or "V3 Canada" is specifically used in lieu and place of V3.

1.20 "V3 Technology" means all Technology that is acquired or developed by or for V3 (prior to the Effective Date) for use in or directly related to the Products (whether such Technology is owned or licensed from a third party by V3); but in all cases excluding any and all QuickLogic Technology.

2. APPOINTMENT OF QUICKLOGIC AS EXCLUSIVE RESELLER

2.1 General. V3 hereby appoints QuickLogic as its exclusive worldwide reseller for the Products and QuickLogic agrees to act as its exclusive reseller to distribute the Products, subject to the terms and conditions of this Agreement.

2.2 Sub-resellers. V3 grants to QuickLogic the exclusive right to appoint sub-resellers of the Products, provided that such appointment shall be subject to V3's approval, which approval shall not be unreasonably withheld or delayed. V3 hereby grants QuickLogic the authority to renegotiate and/or terminate on V3's behalf any existing agreement between V3 and its resellers and distributors, provided that such renegotiation and/or termination shall be subject to V3's approval, which approval shall not be unreasonably withheld or delayed. Reseller's and distributor's commissions or fees incurred prior to the Effective Date shall be borne solely by V3. Reseller's and distributor's commissions or fees incurred pursuant to this Agreement after the Effective Date shall be borne solely by QuickLogic.

2.3 General Assistance. V3 agrees to assist QuickLogic in promoting the solicitation of requests for the Products and to furnish QuickLogic, without charge, except as may be otherwise agreed upon, electronic versions and reasonable quantities of hard copy versions of technical, advertising and selling data and literature concerning the Products, which V3 may from time to time produce or have available for trade circulation. Within five (5) days from the Effective Date, V3 shall provide QuickLogic with a complete list of V3 past and current customers and the revenue generated from those customers in the past thirty six (36) months (the "Customer Information"). Such Customer Information shall be considered the "Confidential Information" of V3 subject to the terms of Section 6 below. As soon as practicable and in any event within five (5) days of the effective date of termination of this Agreement, QuickLogic shall return the materials referred to in the first sentence of this Section 2.3 and any Customer Information supplied by V3 to QuickLogic hereunder, shall destroy any copies made of any Customer Information and shall supply V3 with written notice certifying that the foregoing has been done.

2.4 Pricing. The sales price for Products sold hereunder by QuickLogic in its capacity as agent for V3 shall be mutually agreed between the Parties. Notwithstanding the foregoing, QuickLogic shall be free to unilaterally determine the sales price of any Products for which it has obtained title to.

2.5 Existing Inventory. V3 retains ownership of its existing inventory provided that V3 hereby grants QuickLogic the exclusive right to sell the existing V3 Product inventory and to fulfill any firm order received by V3 as of the Effective Date. QuickLogic shall have the option to purchase items included in such existing inventory from V3 at Landed Cost ("Existing Inventory), provided that the revenue generated from the sale of such Existing Inventory shall be subject to Section 5.1. On the effective date of termination of this Agreement,

V3 shall repurchase from QuickLogic, at Landed Cost, any remaining and unsold items of Existing Inventory purchased by QuickLogic during the Term.

2.6 Trademark License. V3 hereby grants QuickLogic a non-exclusive, royalty-free, worldwide, fully paid-up right and license for the term of this Agreement to use the materials provided to QuickLogic pursuant to Section 2.3 of this Agreement as well as any associated trademarks, logos and trade names of V3, for the purpose of selling, marketing and promoting the Products in accordance with the terms and conditions of this Agreement.

2.7 Specific Responsibilities. Notwithstanding anything to the contrary, V3 shall be responsible for:

(a) verifying the accuracy of all product claims, representations, warranties and information made or given by V3 with respect to the Products, whether pursuant to the materials supplied to QuickLogic pursuant to Section 2.3 above or otherwise, and related services (collectively "Product Claims");

(b) confirming that all such Product Claims are supportable by reliable data in V3's possession;

(c) expeditiously reviewing all materials created by QuickLogic for V3 to ensure their accuracy and completeness; and

(d) confirming that the Products comply with all applicable laws, regulations or rules, including those relating to labeling.

2.8 Disclaimer. In no event whatsoever shall QuickLogic be responsible or liable to V3 or any third party for any claims, damages, losses or liabilities related to or arising out of (i) the ownership, validity and/or defense of the trademarks used by V3, (ii) the accuracy or completeness of any Product Claims, or (iii) the failure of the Products to comply with all applicable laws, regulations or rules, including those relating to labeling. In no event whatsoever shall V3 be responsible or liable to QuickLogic, or any third party for any claims, damages, losses or liabilities related to or arising out of the accuracy or completeness of any product claims, other than Product Claims, made by QuickLogic with respect to the Products.

2.9 Ownership and Responsibility for the Products. Except with respect to existing inventory purchased by QuickLogic, V3 shall at all times bear the risk of loss with respect to its Products, and at no point in the sales cycle, including before and after the sale of a Product is effected, shall ownership of V3's Products, or liabilities related to such Products transfer, or be construed to transfer, to QuickLogic.

3. MANUFACTURE OF PRODUCTS

3.1 Manufacturing Obligations. V3 will deliver to QuickLogic and its suppliers in accordance with QuickLogic's reasonable directions, and no later than the dates and time frames set forth herein any and all documentation in V3's possession or control reasonably necessary for QuickLogic to manufacture or have manufactured the Products ("Manufacturing Materials"). Upon delivery of such Manufacturing Materials, QuickLogic will use reasonable efforts to manufacture or have manufactured Products for delivery to third parties. V3 will provide reasonable assistance, including technical assistance, to QuickLogic in connection with the manufacturing of the Products.

3.2 Existing Manufacturing Contracts. V3 hereby grants QuickLogic the authority to renegotiate and/or terminate on V3's behalf any existing agreement between V3 and its suppliers and manufacturing partners, provided that such renegotiation and/or termination shall be subject to V3's approval, which approval shall not be unreasonably withheld or delayed. The Parties will use reasonable efforts to cooperate with each other in all matters pertaining to existing supplier, manufacturing, foundry and other similar agreements. This includes the execution of any necessary documents.

3.3 Exclusive Right and License to V3 Technology. During the term of this Agreement, V3 hereby grants to QuickLogic an irrevocable (except in accordance with Section 12.2(c)), exclusive, royalty-bearing in accordance with Section 5.2, nontransferable, worldwide, and for manufacturing purposes sublicensable to and through other Persons, present right and license under V3's Intellectual Property Rights to use, reproduce, display, perform, import, distribute (directly and indirectly), modify and create derivative works of the V3 Technology to make, have made, use, sell, offer to sell, lease, offer to lease, export, and distribute (directly or indirectly) the Products. The Parties hereby acknowledge and agree that for the purpose of interpretation of this Section 3.3, the term "exclusive" means that V3 will not offer to sell, sell, offer to lease, lease, transfer, or distribute to parties other than QuickLogic the

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Products during the period that begins on the Effective Date and ends on termination of this Agreement. V3 hereby acknowledges and agrees that it will not enter into any other development, licensing, distribution, or other agreement or arrangement with any third party pursuant to which such party will use V3 Technology to make, have made, offer to sell, sell, offer to lease, lease, transfer, or distribute (directly or indirectly) the Products, or otherwise violate the foregoing exclusive right and license.

3.4 Nonexclusive Right and License to V3 Technology. During the period that begins on termination of this Agreement and ends one (1) year thereafter, V3 hereby grants to QuickLogic an irrevocable, nonexclusive, royalty-bearing in accordance with Section 9.3, nontransferable, sublicensable to and through other Persons, worldwide, present right and license under V3's Intellectual Property Rights to use, reproduce, display, perform, import, and distribute (directly and indirectly) the V3 Technology to make, have made, use, sell, offer to sell, lease, offer to lease, import, and distribute (directly and indirectly) the Products, in each case solely in furtherance of the Transition Activities described in Section 1.18. During the period that begins on the date of termination of this Agreement and continues on a perpetual basis thereafter, V3 hereby grants to QuickLogic an irrevocable, nonexclusive, royalty-free, nontransferable, sublicensable to and through other Persons, worldwide, present right and license under V3's Intellectual Property Rights to use, reproduce, display, perform, import, and distribute (directly and indirectly), modify and create derivative works of, the V3 Technology to perform the Transition Activities described in Section 1.18.

4. OWNERSHIP

4.1 Ownership of V3 Technology. V3 is and will be the sole and exclusive owner of all right, title, and interest in and to the V3 Technology and any Intellectual Property Rights relating thereto. V3 will have the exclusive worldwide right to apply for and register all Intellectual Property Rights.

4.2 Ownership of QuickLogic Property. QuickLogic is and will be the sole and exclusive owner of all right, title, and interest in and to the QuickLogic Technology and all modifications, improvements, enhancement, additions or derivative works to the V3 Technology prepared or developed by or for QuickLogic, and all Intellectual Property Rights relating thereto. QuickLogic will have the exclusive worldwide right to apply for and register all Intellectual Property Rights.

4.3 Reservation of Rights. Except as otherwise provided in Section 4.2, nothing in this Agreement will be construed to convey or transfer the ownership of any Technology and any related Intellectual Property Rights thereto from one Party to the other Party, and each Party acknowledges and agrees that, as between the Parties, each Party is and will remain the sole and exclusive owner of all right, title, and interest in and to its Technology and any related Intellectual Property Rights thereto, and that this Agreement does not affect any such ownership. Each Party also acknowledges and agrees that it acquires no rights or licenses under this Agreement to the other Party's Technology, and any related Intellectual Property Rights thereto, other than the limited rights and licenses that are expressly granted by the other Party to it in this Agreement.

5. SALES FEES AND ROYALTIES

5.1 Sales Fees. QuickLogic shall collect all proceeds of Products sold hereunder by QuickLogic and shall remit to V3 fifty percent (50%) of the Gross Margin amount (for each Product sold) actually received from customers. Remittance to V3 shall be payable within fifteen (15) days after the end of the fiscal month during which payment has been received from the customer.

5.2 Royalties for V3 Technology. For the exclusive license rights granted hereunder, QuickLogic shall pay V3 a royalty fee of Ten Thousand US Dollars (US$ 10,000). Except as provided in this Section, no other royalties will be due and owing from QuickLogic to V3 for the use of V3 Technology. The Parties agree that in the event this Agreement is terminated prior to the first anniversary date for any reason, QuickLogic shall be entitled to a full refund of the royalty paid hereunder.

5.3 Services. Services provided by V3 to QuickLogic in order to fulfill its obligations set forth in Section 2.3 shall be billed on an Employee Cost basis.

5.4 Occupation Fee. QuickLogic shall pre-pay a monthly fee of $360 per QuickLogic employee per month whose routine place of business is located in V3's offices during the applicable month. The fee shall be assessed to reimburse V3's direct out-of-pocket costs such as rent, utilities, telephone use, employee amenities and other related costs on a pro-rated basis. Amortization of physical equipment such as furniture, telephones, computers, and networks shall not be included.

5.5 Reports, Records, and Audits. Each Party will provide to the other any reports on manufacturing costs or for sales of Products that are necessary in order to ascertain the correct amount of money to be paid or received under this Agreement. The Parties will negotiate in good faith all other matters related to reporting, record keeping, and auditing obligations under this Agreement.

5.6 Taxes. All matters relating to sales, use, import or export, value-added, or similar taxes that will become due under this Agreement shall be negotiated in good faith on an arms length basis by the Parties in accordance with the best interests of the Parties.

6. CONFIDENTIALITY. Confidentiality obligations of each Party will be as set forth in the Non-Disclosure Agreement, the terms of which are hereby incorporated by reference into this Agreement.

7. SOLICITATION OF EMPLOYEES. Notwithstanding any other agreements between the Parties, V3 will assist QuickLogic in the solicitation of, up to fifteen (15), in aggregate, sales, marketing, application engineering and operations personnel employed by V3 as of the Effective Date to become employees of QuickLogic. Upon notice of termination, QuickLogic will assist V3 in the solicitation of these individuals to return to employment with V3. In all other respects, except as contemplated by the Related Agreements, the prior agreements of QuickLogic with regard to the non-solicitation of employees of V3 remains in full force and effect.

8. WARRANTIES.

8.1 Authority. V3 warrants to QuickLogic that (i) it has the right to grant the rights and licenses granted to QuickLogic as contemplated by this Agreement; (ii) there are no outstanding assignments, grants, licenses, encumbrances, obligations, or agreements (whether written, oral or implied) that conflict with this Agreement and the rights granted or transferred herein; and (iii) consummating this Agreement and the transactions contemplated herein shall not violate any agreement or understanding (whether written, oral, or implied) between V3 or any of its affiliates and any other Person.

8.2 Functionality. V3 warrants to QuickLogic that (i) the existing inventory of Products and Products in the course of manufacture as of the Effective Date and (ii) any Products manufactured thereafter pursuant to V3's specifications and/or control, will be free of any material defects and will function in accordance with the applicable specifications.

8.3 Services Performance. V3 warrants to QuickLogic that any services provided by V3 shall be performed in accordance with the industry service level standards.

9. REPRESENTATIONS AND COVENANTS

9.1 V3 Representations and Covenants. V3 represents and covenants that it has the full power and authority to enter into and carry out its obligations under this Agreement.

9.2 QuickLogic Representations and Covenants. QuickLogic represents and covenants that it has the full power and authority to enter into and carry out its obligations under this Agreement.

9.3 Disclaimers. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT AND IN THE ASSET PURCHASE AGREEMENT, NEITHER PARTY MAKES ANY REPRESENTATIONS, COVENANTS OR WARRANTIES.

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10. INDEMNITIES

10.1 General

(a) V3 Obligation. V3 will defend, indemnify, and hold harmless QuickLogic and its Subsidiaries, and each of their respective officers, directors, employees, customers, agents, successors and assigns, from and against any and all claims, suits, actions, and proceedings (each of the foregoing, a "Claim") (a) of infringement or misappropriation, based on the V3 Technology, of any Intellectual Property Rights of any third party; (b) that relate(s) to bodily injury, death, or physical damage to tangible property caused by the willful, negligent, or intentional acts or omissions of V3; or (c) that relate(s) to any Product Claim; and V3 will pay all resulting liabilities, damages, losses, penalties, fines, costs, and expenses (including reasonable attorneys' fees and expenses of litigation) that result from or are attributable to any such Claim(s).

(b) QuickLogic Obligation. Subject to V3's indemnification obligations under Section 10.1(a) above, QuickLogic will defend, indemnify, and hold harmless V3 and its Subsidiaries, and each of their respective officers, directors, employees, customers, agents, successors and assigns, from and against any and all Claim(s) (a) that relate(s) to bodily injury, death, or physical damage to tangible property caused by the willful, negligent, or intentional acts or omissions of QuickLogic; or (b) that relate(s) to a product claim made by QuickLogic other than a Product Claim or which is not based on a Product Claim with respect to the Products; and QuickLogic will pay all resulting liabilities, damages, losses, penalties, fines, costs, and expenses (including reasonable attorneys' fees and expenses of litigation) that result from or are attributable to any such Claim(s).

10.2 Procedure. Each Party (the "Indemnitee") will promptly notify the other Party ("Indemnitor") in writing of any Claim that Indemnitee intends to seek indemnification for, and the Indemnitor will have sole control of the defense and settlement thereof. The indemnity in this Section 10 will not apply to amounts paid in settlement if such settlement is effected without the prior written consent of Indemnitor. In addition, Indemnitor will be relieved of its obligations under Section 10.1 only to the extent Indemnitor's defense is compromised by (i) any failure by Indemnitee to deliver written notice of any such Claim; or (ii) the failure of Indemnitee to cooperate with, and provide reasonable assistance to, Indemnitor and its legal representatives in the investigation, defense, and settlement of any Claim covered by this indemnification.

11. LIMITATION OF LIABILITY

EXCEPT PURSUANT TO, OR FOR ANY BREACHES OR VIOLATIONS OF, SECTIONS 3.3, 7, 8, and 10, UNDER NO CIRCUMSTANCES WILL EITHER PARTY BE LIABLE TO THE OTHER UNDER THIS AGREEMENT OR ANY OTHER LEGAL THEORY FOR ANY INCIDENTAL, PUNITIVE, INDIRECT, SPECIAL, EXEMPLARY, EXTRAORDINARY, RELIANCE, OR CONSEQUENTIAL DAMAGES, OR LOST PROFITS IN CONNECTION WITH THIS AGREEMENT, EVEN IF THE OTHER PARTY WAS ADVISED OF THE POSSIBILITY THEREOF. THIS SECTION 11 DOES NOT LIMIT EITHER PARTY'S LIABILITIES FOR BODILY INJURY OF A PERSON, DEATH, AND DAMAGE TO TANGIBLE PERSONAL OR REAL PROPERTY. EXCEPT PURSUANT TO, FOR ANY BREACHES OR VIOLATIONS OF SECTIONS 3.3, 7, 8, and 10 NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY UNDER THIS AGREEMENT OR ANY OTHER LEGAL THEORY FOR ANY DAMAGES CAUSED IN EXCESS OF FIVE HUNDRED THOUSAND U.S. DOLLARS ($500,000). ANY REMEDIES OBTAINED BY EITHER PARTY AGAINST THE OTHER WILL NOT BE AGGREGATED TO DETERMINE THE SATISFACTION OF THE LIMITATION OF LIABILITY AMOUNT.

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12. TERM AND TERMINATION

12.1 Term of Agreement. This Agreement will be effective upon the Effective Date and, unless otherwise terminated earlier in accordance with Section 12.2, will remain in full force and effect for a period of one (1) year thereafter.

12.2 Termination for Cause or Other Reasons.

(a) Change of Control. If there is a Change of Control of V3, not involving QuickLogic, QuickLogic may, at its option, upon written notice to V3, terminate this Agreement.

(b) Material Breach by V3. QuickLogic may terminate for cause this Agreement effective upon written notice to V3 if V3 materially breaches any covenant, agreement, representation, or warranty contained herein in any respect or materially breaches any of its obligations or agreements hereunder in any respect, and such breach remains uncured within thirty (30) days after delivery of written notice thereof from QuickLogic describing the breach in reasonable detail.

(c) Material Breach by QuickLogic. V3 may terminate for cause this Agreement effective upon written notice to QuickLogic if QuickLogic materially breaches any covenant, agreement, representation, or warranty contained herein in any respect or materially breaches any of its obligations or agreements hereunder in any respect, and such breach remains uncured within thirty (30) days after delivery of written notice thereof from V3 describing the breach in reasonable detail.

(d) Convenience. Either Party may terminate this Agreement for convenience upon ninety (90) days prior written notice to the other Party. After the Closing (as such term is defined in the Related Agreements), QuickLogic shall have the option to terminate

this Agreement immediately upon delivery of a written notice to V3.

(e) Termination of any Related Agreement. If any or all of the Related Agreements terminates QuickLogic may, at its option, immediately terminate this Agreement or the licenses granted to V3 under this Agreement.

12.3 Survival of Rights and Obligations In accordance with their terms and conditions, Sections 1, 3.4, 4, 5, 6, 8, 10, 11, 12.3, and 13 will survive the expiration or earlier termination of this Agreement.

13. MISCELLANEOUS

13.1 Force Majeure. Neither Party will be liable to the other for delays or failures in performance resulting from causes beyond the reasonable control of that Party, including, but not limited to, acts of God, material shortages or rationing, riots, acts of war, governmental regulations, communication or utility failures, or casualties. The affected Party will be excused from its performance hereunder to the extent that such performance is prevented, restricted, or interfered with as a result of any such causes.

13.2 Export Control. Each Party will comply with all applicable export laws and regulations of the United States and other jurisdictions in connection with its performance under this Agreement.

13.3 Relationship of Parties. The Parties are independent contractors under this Agreement and nothing in this Agreement will be construed as creating any partnership, franchise, joint venture, agency, employer/employee, fiduciary, master/servant relationship, or other special relationship. Neither Party will act in any manner that expresses or implies a relationship other than that of independent contractor, nor bind the other Party.

13.4 No Third Party Beneficiaries. Unless otherwise expressly provided, no provisions of this Agreement are intended or will be construed to confer upon or give to any Person other than QuickLogic and V3 any rights, remedies, or other benefits under or by reason of this Agreement.

13.5 Equitable Relief. Each Party acknowledges and agrees that any breaches or violations by the other Party of Sections 3.4, 4, 5, and 7 may cause the non-breaching Party irreparable damage for which the award of monetary damages would be inadequate. Consequently, the non-breaching Party may seek to enjoin the breaching Party from any and all acts in violation of any such provisions, which remedy will be cumulative and not exclusive, and a Party may seek the entry of an injunction enjoining any breach or threatened breach of such provisions, in addition to any other relief to which the non-breaching Party may be entitled at law or in equity.

13.6 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or sent via telecopy (receipt confirmed) to the parties at the following addresses or telecopy numbers (or at such other address or telecopy numbers for a party as shall be specified by like notice):

if to QuickLogic:

QuickLogic Corporation
1277 Orleans Drive
Sunnyvale, California 94089, USA
Attention: President
Telephone No.: (408) 990-4000
Telecopy No.: (408) 990-4040

with a copy (which shall not constitute notice) to:

Wilson Sonsini Goodrich & Rosati
Professional Corporation
650 Page Mill Road
Palo Alto, California 94304-1050, USA
Attention: Aaron J. Alter, Esq.
Telephone No.: (650) 493-9300
Telecopy No.: (650) 493-6811

and to:

Wilson Sonsini Goodrich & Rosati
Professional Corporation
One Market, Spear Street Tower
Suite 3300
San Francisco, California 94105, USA
Attention: Steve L. Camahort, Esq.
Telephone: No.: (415) 947-2000
Telecopy No.: (415) 947-2099

if to V3:

V3 Semiconductor, Inc.
250 Consumers Road

North York, Ontario, Canada M2J 4V6
Attention: President
Telephone No.: (416) 497-8884
Telecopy No.: (416) 497-1160

with a copy to (which shall not constitute notice) to:

Latham & Watkins
885 Third Avenue, Suite 1000
New York, New York 10022, USA
Attention: David M. Schwartzbaum, Esq.
Telephone No.: (212) 906-1200
Telecopy No.: (212) 751-4864

13.7 Publicity. Neither Party will disclose the terms or existence of this Agreement to any third party without the consent of the other Party other than: (i) as required by law or any court or other governmental body (provided that the Party required to make such disclosure cooperates with the other Party in seeking confidential treatment or otherwise seeking to limit or contest such mandatory disclosure in any lawful manner); (ii) in confidence to the legal counsel of such parties; or (iii) in confidence, to accountants, banks, financing sources, and their advisors in connection with a contemplated financing, public offering, or acquisition or such party (provided that any third party to whom the terms of this Agreement are to be disclosed signs a confidentiality agreement reasonably satisfactory to the other Party hereto before such disclosure is made). Each Party will obtain the other's consent prior to any public announcement or press release concerning the terms and conditions of this Agreement.

13.8 Assignment. Neither Party may assign this Agreement, or assign its rights or delegate its obligations hereunder, either in whole or in part, whether by operation of law or otherwise, without the prior written consent of the other Party. Notwithstanding the preceding sentence, QuickLogic may assign and/or delegate its rights and obligations, respectively, in whole or in part to any of its Subsidiaries, provided that QuickLogic shall remain liable to V3 (in accordance with the terms and conditions of this Agreement) for any such Subsidiary's acts or omissions with respect thereto following such assignment and or delegation. Any attempted assignment or delegation in violation of the foregoing will be void. Subject to the foregoing, the rights and liabilities of the Parties under this Agreement will bind and inure to the benefit of the Parties' respective permitted successors and assigns. A Change of Control will constitute an assignment for the purpose of interpretation of this Section.

13.9 Waiver and Modification. Failure by either Party to enforce any provision of this Agreement will not be deemed a waiver of future enforcement of that or any other provision. Any waiver, amendment or other modification of any provision of this Agreement will be effective only if in writing and signed by the Parties.

13.10 Severability. If for any reason a court of competent jurisdiction finds any provision of this Agreement to be unenforceable, that provision of the Agreement will be enforced to the maximum extent permissible so as to effect the intent of the Parties, and the remainder of this Agreement will continue in full force and effect.

13.11 Controlling Law and Jurisdiction. This Agreement and any action related thereto will be governed, controlled, interpreted, and defined by and under the laws of the State of California and the United States. The Parties specifically disclaim the United Nations Convention on Contracts for the International Sale of Goods. Each Party hereby irrevocably and unconditionally consents to jurisdiction for any action or proceeding that arises out of or results from this Agreement in a court located in Santa Clara County, California, and waives any venue objections that such Party may have with respect to any such action or proceeding.

13.12 Construction. The headings used in this Agreement are for ease of reference only, and will not be used to interpret, define, construe, or describe the scope or extent of any aspect of this Agreement. Unless otherwise expressly stated, when used in this Agreement, the word "including" means, "including but not limited to." Each Party represents that it has had the opportunity to participate in the preparation of this Agreement and hence the Parties agree that the rule of construction that ambiguities be resolved against the drafting Party will not apply to this Agreement.

13.13 Entire Agreement. This Agreement includes all exhibits, which are incorporated herein by reference, and constitutes the entire agreement between the Parties with respect to the subject matter hereof, and supersedes and replaces all prior and contemporaneous understandings or agreements, written or oral, regarding such subject matter, and will not be amended except by a written amendment that is completely executed by authorized agents of the Parties. Notwithstanding the foregoing, all exhibits hereto will be developed incrementally during the term of this Agreement.

13.14 Counterparts. This Agreement may be executed in two counterparts, each of which will be an original and together which will constitute one and the same instrument, provided however that each Party will receive a counterpart fully signed by the other Party.

IN WITNESS WHEREOF, the Parties hereto have executed this Distribution, Manufacturing, and License Agreement as of the date and year first above written by persons duly authorized.

QUICKLOGIC	**V3 SEMICONDUCTOR, CORP.**
By:	By:
Name:	Name:

Title:

Date:

Title:

Date:

V3 SEMICONDUCTOR, INC.

By:

Name:

Title:

Date: