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

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

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

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

As of September 30, 2001, 23,023,372 shares of the Registrant's common stock were outstanding.

QUICKLOGIC CORPORATION
FORM 10-Q
September 30, 2001

PART I. Financial Information

Item 1. Financial Statements

QUICKLOGIC CORPORATION
CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,632	$ 70,210
Accounts receivable, net	4,052	6,578
Inventory	14,616	10,327
Other current assets	1,616	1,876
Total current assets	53,916	88,991
Property and equipment, net	14,090	8,976
Other assets	21,331	2,340
TOTAL ASSETS	$ 89,337	$ 100,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 3,700	$ 5,821
Accrued liabilities	2,559	2,934
Deferred income on shipments to distributors	2,018	4,386
Current portion of long-term obligations	225	311
Total current liabilities	8,502	13,452
Long-term obligations	1,428	1,121
Stockholders' equity:		
Common stock, at par	23	20
Additional paid-in capital	149,248	134,970
Deferred compensation	(558)	(875)
Accumulated deficit	(69,306)	(48,381)
Total stockholders' equity	79,407	85,734
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 89,337	$ 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 September 30,	Nine Months Ended September 30,

	2001	2000	2001	2000
Revenue	$ 6,565	$ 14,864	$ 25,487	$ 41,139
Cost of revenue	4,346	5,846	17,552	16,564
Gross profit	2,219	9,018	7,935	24,575
Research and development	3,691	2,398	10,330	6,918
Selling, general and administrative	4,346	4,629	13,304	12,594
Total operating expenses	8,037	7,027	23,634	19,512
Operating income (loss)	(5,818)	1,991	(15,699)	5,063
Writedown of marketable securities	(6,844)	—	(6,844)	
Interest income and other, net	302	1,260	1,618	2,650
Income (loss) before taxes	(12,360)	3,251	(20,925)	7,713
Provision for income tax	—	—	—	—
Net income (loss)	$ (12,360)	$ 3,251	$ (20,925)	$ 7,713
Net income (loss) per share:				
Basic	$ (0.56)	$ 0.16	$ (1.00)	$ 0.40
Diluted	$ (0.56)	$ 0.15	$ (1.00)	$ 0.36
Shares used in per share calculations:				
Basic	22,191	20,008	20,863	19,273
Diluted	22,191	22,126	20,863	21,564

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2001	2000
Cash flows from operating activities:		
Net income (loss)	$ (20,925)	$ 7,713
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	2,391	1,548
Amortization of deferred compensation	316	460
Write-down of marketable securities	6,844	—
Gain (Loss) on disposal of fixed assets	8	(116)
Changes in assets and liabilities:		
Accounts receivable	2,526	(3,308)
Inventory	(3,008)	(1,742)
Other assets	346	(1,013)
Accounts payable	(2,120)	1,191
Accrued liabilities and other obligations	(3,137)	827
Net cash provided by (used for) operating activities	(16,759)	5,560
Cash flows from investing activities:		
Capital expenditures for property and equipment, net of dispositions	(6,342)	(5,037)
Investment in Tower Semiconductor Ltd., and other assets	(14,975)	—

Net cash used for investing activities	(21,317)	(5,037)
Cash flows from financing activities:		
Payment of long term obligations	307	(431)
Proceeds from issuance of common stock, net	1,191	37,344
Net cash provided by (used for) financing activities	1,498	36,913
Net increase (decrease) in cash	(36,578)	37,436
Cash at beginning of period	70,210	34,558
Cash at end of period	$ 33,632	$ 71,994
Supplemental non-cash investing and financing activities:		
Estimated fair value of tangible assets acquired	$ 2,451	—
Liabilities assumed	(222)	—
Goodwill	11,431	—
Direct acquisition cost	(571)	—
Issuance of common stock	$ 13,089	—

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 nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the full year.

QuickLogic Corporation's fiscal year ends on the Sunday closest to December 31. The nine month period ends on Sunday September 30. For presentation purposes, the financial statements and notes have been presented as ending on the last day of the nearest calendar month.

The Company primarily uses the U.S. dollar as its 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. The Company does 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 September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Numerator:				
Net income (loss)	$ (12,360)	$ 3,251	$ (20,925)	$ 7,713
Denominator:				
Common stock	22,191	20,008	20,863	19,274
Unvested common stock option exercises	—	—	—	(1)
Weighted average shares outstanding for basic	22,191	20,008	20,863	19,273
Stock options	—	2,118	—	2,290

Unvested common stock option exercises	—	—	—	1
Weighted average shares outstanding for diluted	22,191	22,126	20,863	21,564
Net income per share:				
Basic	$ (0.56)	$ 0.16	$ (1.00)	$ 0.40
Diluted	$ (0.56)	$ 0.15	$ (1.00)	$ 0.36

For the nine months ended September 30, 2001, 6,968,447 shares with a weighted average exercise price of $8.22 were excluded because their effect would be anti-dilutive. For the nine months ended September 30, 2000, all dilutive potential common shares have been included 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 September 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 their new Fab 2 deep sub-micron wafer fabrication facility as specified in the Agreement. The additional shares are expected to be purchased by the Company in fiscal 2002 and 2003.

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. These credits may not be utilized until the completion of the facility, which is expected in 2002. 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 September 30, 2001, out of the $14.0 million investment, $7.1 million has been allocated to wafer credits. Tower and the Company have agreed to convert 75% of the wafer credit amount into Tower common shares during the fourth quarter of 2001, at $12.75 per share.

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.

During the third quarter, the Company wrote down the value of its equity investment in Tower Semiconductor. The Tower shares were purchased at an average price of $12.73 per share. The Company determined that the drop in value in the common stock in Tower is other than temporary. Accordingly, the Company has reduced the carrying value for this asset to $5.60 per share, based on the market price of Tower's common stock. The total amount of the write-down was $6.8 million.

Note 4. Balance Sheet Components

	September 30, 2001	December 31, 2000
	(in thousands)	
Inventory:		
Raw materials	$ 1,015	$ 353
Work-in-process	11,863	8,911
Finished goods	1,738	1,063
Total inventory	$ 14,616	$ 10,327

	September 30, 2001	December 31, 2000
	(in thousands)	
Other assets:		
V3 Goodwill	$ 11,431	$ —
Investment in Tower	2,987	—
Tower wafer credits	4,170	—
Other	2,743	2,340
Total other assets	$ 21,331	$ 2,340

Note 5. Notes Payable

In the quarter ended June 30, 1999, QuickLogic Corporation entered into an extension of its existing bank facility to borrow up to $250,000 using bank installment notes, which are secured by the specific equipment financed. At September 30, 2001, the balance outstanding is $67,000. The related notes mature in 2002. At September 30, 2001, the Company was not in compliance with the profitability ratio covenant, however, it has obtained from the bank a letter waiving this covenant requirement as of September 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. There was no deferred compensation recorded during the nine months ended September 30, 2000. Deferred stock compensation amortization for nine months ended September 30, 2001 was $317,000.

Note 7. Comprehensive Income

Statement of Financial Accounting Standards (SFAS) 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 nine months ended September 30, 2000 and 2001.

Note 8. New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (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. The Company has 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. QuickLogic does not currently, nor does it 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 No. 141, "Business Combinations." SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company believes that the adoption of SFAS No. 141 will not have a significant impact on its financial statements.

In July 2001, the FASB issued SFAS No. 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

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. The Company will continue to assess the realizability of the deferred tax assets in future periods. No provision for income taxes was recorded for the nine month period ended September 30, 2001 because we incurred a loss.

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

Note 10. Litigation

On March 29, 2000, Unisys Corporation filed a patent infringement lawsuit against the Company alleging that the Company infringed upon several of Unisys' patents. As of September 30, 2001, the Company had reached a verbal agreement in principle with Unisys to settle this matter. The parties are currently negotiating a definitive settlement agreement. The costs of the litigation and settlement were provided for as of September 30, 2001 and did not produce any material charges in the current quarter.

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 trading assets (classified with other assets) and related obligations (classified with long term obligations) aggregated $558,000 at September 30, 2001.

Note 12. V3 Semiconductor Acquisition

On August 1, 2001, we acquired certain assets of V3 Semiconductor, Inc., (V3) a Toronto based manufacturer of Application Specific Standard Products (ASSPs). 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 results of this acquisition have been included in the Company's operating results from the date of acquisition. Details of the purchase are as follows (in thousands):

Acquisition Date	August 1, 2001
Shares issued	2,522
Value of shares issued	$ 13,089
Direct acquisition cost	571
Total purchase price	$ 13,660

The total purchase price is subject to adjustments based upon management's finalization of its integration plans. The total purchase price for the acquisition has been allocated as follows (in thousands):

Fair value of assets acquired and liabilities assumed (net)	$ 2,229
Goodwill	11,431
Total purchase price	$ 13,660

Tangible assets acquired principally include fixed assets and inventory. Liabilities assumed principally include accrued expenses.

Preliminarily, the Company has allocated to Goodwill all of the purchase price in excess of book value of net assets acquired. The amounts recorded relating to the V3 acquisition are currently subject to adjustment as the Company has not yet completed the final allocation of the purchase price. The Company is considering, but has not included any amounts related to acquired identifiable intangible assets in the preliminary allocation. Such reallocation could result in additional expenses in the future.

The following unaudited pro forma consolidated financial information reflects the results of operations for the nine months ended September 31, 2001 and 2000, as if the acquisition had occurred as of the beginning of the periods presented.

These pro forma results have been prepared for comparative purposes only, do not purport to be indicative of what operating results would have been, and may not be indicative of future operating results (in thousands, except per share data):

PROFORMA

	Nine Months Ended September 30,	
	2001	2000
Net revenues	$ 26,717	$ 46,981
Net income (loss)	$ (23,602)	$ 6,225
Net loss per share		
Basic	$ (1.01)	$ .29
Diluted	$ (1.01)	$ .26
Weighted average shares		
Basic	23,385	21,795
Diluted	23,385	24,086

Note 13. Subsequent Events

None

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 Quarterly 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 subsidiaries, "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. 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.

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 $13.1 million. 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. Upon completion of V3's bankruptcy proceedings, V3 is expected to distribute these shares to its creditors and stockholders. The distributed shares could then be freely traded on the open market. The acquisition was accounted for as a purchase.

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 68% for 1999, 2000 and the nine months ended September 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. Four distributors accounted for 23%, 10%, 8% and 6% of sales, respectively, in the nine months ended September 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 nine months ended September 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 45% of our total sales for 1999, 2000 and the nine months ended September 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 arrangement with Cypress, 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 September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	66.0	39.0	69.0	40.0
Gross profit	34.0	61.0	31.0	60.0
Research and development	57.0	16.0	40.0	17.0
Sales, general and administrative	66.0	32.0	52.0	31.0
Operating expenses	123.0	48.0	92.0	48.0
Operating income	(89.0)	13.0	(61.0)	12.0
Write-down of marketable securities	(104.0)	—	(27.0)	—
Interest income and other, net	5.0	9.0	6.0	7.0
Net income	(188.0)%	22.0%	(82.0)%	19.0%

Three and Nine Months Ended September 30, 2001 and September 30, 2000

Revenue. Revenue decreased 38.0% from $41.1 million for the nine months ended September 30, 2000 to $25.5 million for the nine months ended September 30, 2001. Revenue decreased 55.8% from $14.9 million for the three months ended September 30, 2000 to $6.6 million for the three months ended September 30, 2001. The decline in revenue resulted primarily from a decrease in sales of our mature products including both pASIC1 and pASIC2 of 28.2% for the three months ended September 30, 2001 and 52.6% for the nine months ended September 30, 2001. Sales of new products represented 34.9% of sales for the nine months in 2000 and 48.0% in the nine months of 2001. Sales of ESP products, a subset of new products, was 11.1% of sales for the nine months in 2000 and grew to 28.6% in the nine months of 2001. Sales of new products represented 40.7% of sales from the three months in 2000 and 53.7% in the three months of 2001. Sales of ESP products was 15.7% of sales for the three months in 2000 and grew to 32.8% in the three months of 2001. Sales of ESP products included $1.6 million in the nine months ended September 30, 2001 related to our agreements with V3 Semiconductor Inc.

Gross Profit. Gross profit decreased 67.7% from $24.5 million for the nine months ended September 30, 2000 to $7.9 million for the nine months ended September 30, 2001. Gross margin declined between those periods from 60.0% to 31.0%. Gross profit decreased from $9.0 million for the three months ended September 30, 2000 to $2.2 million for the three months ended September 30, 2001. The gross margin of 61.0% for the three months in 2000 declined to 34.0% for the three months in 2001. This decrease in gross profit was primarily due to lower revenue and the $3.7 million writeoff of die inventory in June, 2001. In addition, the gross margin declined due to our relatively fixed operations costs and declining production volumes.

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 $6.9 million for the nine months ended September 30, 2000 to $10.3 million for the nine months ended September 30, 2001. As a percentage of revenue, research and development expense increased from 17.0% to 40.0% for the same periods. Research and development expense increased from $2.4 million for the three months ended September 30, 2000 to $3.7 million for the three months ended September 30, 2001. As a percentage of revenue, research and development expense increased from 16.0% to 57.0% for the same periods. The increase in dollars spent on research and development was primarily due to an increase in the number of employees associated with the V3 acquisition, 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 $12.6 million for the nine months ended September 30, 2000 to $13.3 million for the nine months ended September 30, 2001. Selling, general and administrative expense as a percentage of revenue increased from 31.0% to 52.0% for the first nine months of 2000 and 2001, respectively. Selling, general and administrative expense decreased from $4.6 million for the three months ended September 30, 2000 to $4.3.million for the three months ended September 30, 2001. Selling, general and administrative expense increased as a percentage of revenue from 32.0% for the three months ended September 30, 2000 to 66.0% for the three months ended September 30, 2001. The change in percent of revenues was driven primarily by our reduced revenue.

Write-down of Marketable Securities. During the quarter ended September 30, 2001, we wrote down the value of our investment in Tower Semiconductor to market value. This resulted in a charge to income of $6.8 million. We have invested $14.0 million in Tower common stock associated with their Fab 2, deep sub-micron wafer foundry project.

Interest and Other Income, Net. Interest income, interest expense and other income, net was $2.7 million in the nine months ended September 30, 2000 compared to $1.6 million for the nine months ended September 30, 2001. Interest income, interest expense and other income, net was $1.3 million in the three months ended September 30, 2000 compared to $302,000 for the three months ended September 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 and lower interest rates.

Deferred Stock Compensation. Deferred stock compensation recorded in years prior to 2000 is being amortized ratably over the vesting period of the options. There was no deferred compensation recorded during the nine months ended September 30, 2000. Deferred stock compensation amortization was $317,000 for the nine months ended September 30, 2001.

Provision for Income Taxes. No provision for income taxes was recorded for the nine month period ended September 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 nine month period ended September 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 September 30, 2001, we had $33.6 million in cash, a decrease of $36.6 million from cash held at December 31, 2000. As of September 30, 2001, we had an accumulated deficit of $69.3 million.

We have an equipment financing line with a commercial bank. At September 30, 2001, we had obligations of $67,000 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 ($16.8) million and $5.6 million in the first nine months of 2001 and 2000, respectively. For the nine months ended September 30, 2001, the cash used was primarily attributable to the net loss of $20.9 million, the increase in inventory due to material purchases of $3.0 million and the payment of accounts payable and accrued liabilities of $5.3 million. For the nine months ended September 30, 2000, the cash flow was generated primarily from the net income of $7.7 million.

Net cash (used for) investing activities was ($21.3) million and ($5.0) million for the nine 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 nine months ended September 30, 2001, we made three 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 $1.5 million and $36.9 million in the first nine months of 2001 and 2000, respectively.

During the nine months ended September 30, 2001, the $1.2 million received from the exercise of stock options and the $0.4 million in increased executive deferred compensation was offset by $0.1 million of debt repayments. The nine months ended September 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. Additional equity or debt financing, if required, may not 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 nine 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 September 30, 2001 was $69.3 million. During the nine months ended September 30, 2001, we had a net loss of $20.9 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 nine months ended September 30, 2001, ESPs accounted for approximately 29% 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.

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

Upon the completion of V3's bankruptcy proceedings, we expect V3 to distribute the approximately 2.5 million shares issued to V3 in connection with our acquisition of certain assets from V3 to its creditors and stockholders. If the V3 creditors or shareholders sell a substantial number of these shares after the distribution, the market price of our common stock could fall. In addition, if our current 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.

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. That agreement expired in July 2000 and 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 Eclipse family of FPGAs, 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 nine months ended September 30, 2001, approximately 68% 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 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. 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. 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 45% of our total sales during the nine months ended September 30, 2001. 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 28% 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.

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 September 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 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.01 Amendment dated September 17, 2001 to the Foundry Agreement dated December 11, 2000 between the Company and Tower Semiconductor, Ltd.

(b) Reports on Form 8-K

On August 7, 2001, QuickLogic filed a Current Report on Form 8-K announcing that it had completed the acquisition of certain assets from V3 Semiconductor Inc. in exchange for approximately 2.5 million shares of QuickLogic common stock.

Signatures

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

QUICKLOGIC CORPORATION

/s/ 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)

Dated: November 2, 2001

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Exhibit 10.01

Amendment of Foundry Agreement

Date: September 17, 2001

To: Tower Semiconductor Ltd.

The undersigned, QuickLogic Corporation, hereby agrees to amend the terms of the Foundry Agreement dated December 11, 2000 entered into with Tower Semiconductor Ltd. (the "Company")(the "Foundry Agreement") as set forth below:

1. 75% of the credits QuickLogic Corporation received, pursuant to Schedule 6.4 of the Foundry Agreement as of the date hereof and totaling the aggregate amount of $5,337,356 (the "Credits"), will be converted into fully-paid and non-assessable ordinary shares of the Company;

2. such conversion of the Credits into equity will be effective as of five trading days from the Company's receipt of shareholder approval of this amendment to the Share Purchase Agreement;

3. upon conversion of the Credits, QuickLogic Corporation shall be promptly issued 418,616 ordinary shares of the Company equivalent to the aggregate amount of the Credits divided by $12.75.

All other provisions of the Foundry Agreement shall remain unchanged.

QuickLogic Corporation understands this amendment to the Foundry Agreement is subject to the approval of each of Bank Hapoalim B.M., Bank Leumi Le-Israel, the Company's Audit Committee, Board of Directors as well as shareholders approval with respect to similar agreements between the Company and SanDisk Corporation, Macronix International (BVI) Ltd., and Alliance Semiconductor, each, for the conversion of credits into equity and certain Israeli regulatory authorities (including both the Investment Center and the Office of the Chief Scientist) and will take effect immediately after such approvals have been obtained. It is further understood that such shareholder approval requires approval by (i) the majority of votes cast at the shareholders meeting, including at least one third of all votes of the non-controlling members who are present in person or by proxy and vote on the matter or (ii) the majority of votes cast on the matter at the shareholder meeting, provided that the total votes cast in opposition to this amendment of the Share Purchase Agreement by the non-controlling members does not exceed 1% of all the voting rights in the Company.

Sincerely,

/S/ Arthur O. Whipple

By: Arthur O. Whipple
Title: Chief Financial Officer

By signing below please indicate the Company's acceptance of the terms of the proposed amendment to the Share Purchase Agreement.

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Tower Semiconductor Ltd.

By: ______________________
Title: ______________________

QuickLinks

Exhibit 10.01