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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended March 31, 2002

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 ☒ No ☐

As of May 1, 2002, 23,190,486 shares of the registrant's common stock were outstanding.

QUICKLOGIC CORPORATION
FORM 10-Q
MARCH 31, 2002

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PART I. Financial Information

Item 1. Financial Statements

QUICKLOGIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	March 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,553	$ 28,853
Accounts receivable, net	4,547	3,101
Inventory	12,443	13,592
Other current assets	2,928	2,595
Total current assets	44,471	48,141
Property and equipment, net	14,426	14,675
Investment in Tower Semiconductor Ltd.	5,390	5,390
Other assets	15,993	16,053
TOTAL ASSETS	$ 80,280	$ 84,259
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 3,920	$ 4,293
Accrued liabilities	2,027	1,784
Deferred income on shipments to distributors	1,400	1,468
Current portion of long-term obligations	175	222
Total current liabilities	7,522	7,767
Long-term obligations	1,942	2,069
Total liabilities	9,464	9,836
Commitments and contingencies		
Stockholders' equity:		
Common stock, at par	23	23
Additional paid-in capital	149,748	149,734
Deferred compensation	(391)	(475)
Accumulated deficit	(78,564)	(74,859)
Total stockholders' equity	70,816	74,423
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 80,280	$ 84,259

See accompanying Notes to Condensed Consolidated Financial Statements.

QUICKLOGIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2002	**2001**
Revenue	$ 7,481	$ 10,815
Cost of revenue	4,367	4,402
Gross profit	3,114	6,413
Research and development	3,277	3,380
Selling, general and administrative	3,633	4,603
Total operating expenses	6,910	7,983
Operating loss	(3,796)	(1,570)
Interest income and other, net	91	838
Loss before taxes	(3,705)	(732)
Provision for income tax	—	—
Net loss	$ (3,705)	$ (732)
Net loss per share:		
Basic	$ (0.16)	$ (0.04)
Diluted	$ (0.16)	$ (0.04)
Shares used in per share calculations:		
Basic	23,175	20,236
Diluted	23,175	20,236

See accompanying Notes to Condensed Consolidated Financial Statements.

QUICKLOGIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2002	**2001**
Cash flows from operating activities:		
Net loss	$ (3,705)	$ (732)
Adjustments to reconcile net income to net cash		
Provided by (used for) operating activities:		
Depreciation	893	735
Amortization of deferred compensation	84	115
Changes in assets and liabilities:		
Accounts receivable	(1,446)	2,157
Inventory	1,149	(4,290)
Other assets	(273)	(213)
Accounts payable	(373)	171
Accrued liabilities and other obligations	48	(1,270)

Net cash provided by (used for) operating activities	(3,623)	(3,327)
Cash flows from investing activities:		
Capital expenditures for property and equipment, net of dispositions	(644)	(3,055)
Other investments.	—	(10,346)
Net cash used for investing activities	(644)	(13,401)
Cash flows from financing activities:		
Payment of long term obligations	(47)	(46)
Proceeds from issuance of common stock, net	14	196
Net cash provided by (used for) financing activities	(33)	150
Net decrease in cash	(4,300)	(16,578)
Cash at beginning of period	28,853	70,210
Cash at end of period	$ 24,553	$ 53,632

See accompanying Notes to Condensed Consolidated Financial Statements.

QUICKLOGIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter ended March 31, 2002

(Unaudited)

Note 1. The Company and Basis of Presentation

QuickLogic Corporation, founded in 1988, operates in a single industry segment where it designs, develops, markets and supports advanced field programmable gate array semiconductors ("FPGAs"), embedded standard products ("ESPs") and associated software tools.

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, 2001. Operating results for the three months ended March 31, 2002 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 current three month period ended Sunday, March 31, 2002. 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.

Principles of Consolidation

The consolidated financial statements include the accounts of QuickLogic Corporation and its wholly-owned subsidiaries, QuickLogic International, Inc., QuickLogic Canada Company, QuickLogic Kabushiki Kaisha, QuickLogic (India) Private Limited, and QuickLogic GmbH. All significant intercompany accounts and transactions are eliminated in consolidation.

Uses of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates, particularly in relation to sales returns and allowances, and product obsolescence.

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 March 31, 2002	Three Months Ended March 31, 2001
Numerator:		
Net income (loss)	$ (3,705)	$ (732)
Denominator:		
Common stock	23,175	20,236
Unvested common stock option exercises	—	—
Weighted average shares outstanding for basic	23,175	20,236
Stock options	—	—
Unvested common stock option exercises	—	—
Weighted average shares outstanding for diluted	23,175	20,236
Net income per share		
Basic	$ (0.16)	$ (0.04)
Diluted	$ (0.16)	$ (0.04)

For the three months ended March 31, 2002 and 2001, 7,157,895 shares with a weighted average exercise price of $7.22 and 4,848,106 shares with a weighted average exercise price of $9.91 respectively, were excluded because their effect would be anti-dilutive.

Note 3. Balance Sheet Components

	March 31, 2002	December 31, 2001
	(in thousands)	
Inventory:		
Raw materials	$ 1,059	$ 1,211
Work-in-process	9,968	10,819
Finished goods	1,416	1,562
Total inventory	$ 12,443	$ 13,592

	March 31, 2002	December 31, 2001
	(in thousands)	
Other Assets:		
Goodwill	11,428	11,428
Prepaid Wafer Credit	1,779	1,779
Other Assets	2,786	2,846
Total other assets	$ 15,993	$ 16,053

Note 4. Long-term Obligations

Notes Payable to Bank

At March 31, 2002, QuickLogic had outstanding bank installment notes totaling $16,667. The notes bear interest at prime plus 0.25%, and are secured by the specific equipment financed. Principal payments are due in equal monthly installments over the term of the notes which mature in May 2002. At March 31, 2002, the company was in compliance with the loan covenants.

Deferred Compensation Plan

The Company maintains a non-qualified deferred compensation plan that covers executives and certain other key employees. This non-qualified plan is funded entirely by participants through voluntary deferrals of compensation. Income deferrals made by participants under this plan are deposited into a common trust account. 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. The related obligations are recorded as long-term obligations on the balance sheet. At March 31, 2002, the liability accrued under the Company's Deferred Compensation Plan and the related assets were $685,891.

Prepaid Royalty

In October 2000, the Company entered into a technology license agreement with Aeroflex UTMC. Under the terms of the technology agreement, the Company received $750,000 of prepaid royalty from Aeroflex UTMC which will be recognized as revenue when products with the licensed technology are sold by Aeroflex UTMC. Aeroflex UTMC had not made any royalty-bearing shipments through March 31, 2002, and accordingly, no royalty income has been recognized

Note 5. Deferred Stock Compensation

During the year ended December 31, 1999, the Company granted options to purchase 866,000 shares of common stock at a price less than the fair market value of its common stock at the time of the grant and recorded related deferred stock compensation of $908,000, net of reversals associated with unvested shares of terminated employees. Such deferred stock compensation is being amortized ratably over the vesting period of the options. During the three months ended March 31, 2002 and 2001, deferred stock compensation amortization was $84,000 and $115,000, respectively.

Note 6. Other Comprehensive Income (Loss)

Effective January 1, 1998, the company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting comprehensive income (loss) and its components in financial statements. Comprehensive income (loss) as defined, includes all changes in equity (net assets) during a period from nonowner sources. No items were included in other comprehensive income (loss) during the three month period ended March 31, 2002.

Note 7. Income Taxes

No provision for income taxes was recorded for the three month periods ended March 31, 2002 or 2001, because we incurred a loss in both periods.

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.

Note 8. Information Concerning Business Segments and Major Customers

Information About Geographic Areas

All of the Company's sales originate in the United States. Shipments to some of the Company's distributors are made to centralized purchasing and distributing locations, which in turn sell through to other locations. As a result of these factors, sales to certain geographic locations might be higher or lower, as the ultimate destination of all sales is difficult to determine.

The following is a breakdown of revenues by shipment destination for the three months ended March 31, 2002 and 2001:

	March 31, 2002	March 31, 2001
	(in thousands)	
Regional Revenue:		
Asia Pacific	$ 817	$ 855
Europe	1,632	2,555
Japan	839	1,223
North America	4,193	6,182
Total Revenue	$ 7,481	$ 10,815

Two customers, distributors of the Company's products, accounted for approximately 19% and 13% of revenues in the three months ended March 31, 2002. Two customers, distributors of the Company's products, accounted for approximately 28% and 12% of revenues in the three months ended March 31, 2001. All sales are made from the United States and are denominated in U.S. dollars. Less than 10% of the Company's long-lived assets, including property and equipment and other assets, were located outside the United States.

Note 9. Committments

On December 12, 2000 the Company entered into a Share Purchase Agreement (the "Agreement") with Tower Semiconductor Ltd. under which the Company agreed to make a $25 million strategic investment in Tower as part of Tower's plan to build a new wafer fabrication facility. Under the terms of the Agreement, QuickLogic's investment will be made in several stages over an approximately

22-month period, against satisfactory completion of key milestones for the construction, equipping and commencement of production at the new wafer fabrication facility. Tower agreed to develop manufacturing capability for QuickLogic's proprietary ViaLink technology, and supply the Company with a guaranteed portion of the new fabrication facility's available wafer capacity at competitive pricing, with first production expected in 2002. Per the terms of the Agreement, the Company paid Tower three payments totaling $14 million in 2001. In June, 2002, the Company is scheduled to make a $3.7 million installment payment to Tower pursuant to the Agreement. The Company is in the process of renegotiating this agreement to reduce or delay this payment.

Note 10. Litigation

On October 26, 2001, a putative securities class action was filed in the U.S. District Court for the Southern District of New York against some investment banks that underwrote the Company's initial public offerings, the Company, and some of the Company's officers and directors. This lawsuit is captioned *Turoff v. QuickLogic et al.,* Case No. 01-CV-9503. Various plaintiffs have filed similar actions asserting virtually identical allegations against over 300 other public companies, their underwriters, and their officers and directors arising out of each company's public offering. The complaint in this case generally alleges that the underwriters obtained excessive and undisclosed commissions in connection with the allocation of shares of common stock in the Company's initial public offering and maintained artificially high prices through "tie-in" arrangements which required customers to buy shares in the aftermarket at pre-determined prices. The complaint alleges that the Company and its current officers and directors violated Sections of Securities Act of 1933, and the Securities Exchange Act of 1934 because the Company's registration statements did not disclose the purported misconduct of the underwriters. Plaintiffs seek an unspecified amount of damages on behalf of persons who purchased the Company's stock pursuant to the registration statements. The Company believes that the allegations against it are without merit and intends to defend the case vigorously.

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 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.

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, 2001, found in our Annual Report on Form 10-K filed March 14, 2002.

Statements in this section, and elsewhere in this Quarterly Report on Form 10-Q, which express that QuickLogic "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

We design and sell 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; pASIC 3, introduced in 1997, and our Eclipse family of FPGAs which was introduced 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. Revenue for our QuickRAM and QuickPCI products together accounted for approximately 23% and 25% of our total revenue in the three months ended March 31, 2002 and 2001, respectively. During 2000, we introduced the QuickFC, QuickDSP, QuickSD and QuickMIPS families of ESPs, which accounted for about 1% of our total revenue in the three months ended March 31, 2001, and 2002. We also license our QuickWorks and QuickTools design software and sell our programming hardware, which together have typically accounted for less than 2% of our total revenue.

On December 12, 2000, we entered into a Share Purchase Agreement (the "Agreement") with Tower Semiconductor Ltd. ("Tower"). Under the Agreement, we agreed to make a $25 million strategic investment in Tower as part of Tower's plan to build a new wafer fabrication facility. The new fabrication facility will produce 200-mm wafers in geometries of 0.18 micron and below, using advanced CMOS technology from Toshiba. In return for the investment, we will receive equity and committed production capacity in the advanced fabrication facility that Tower is building. In connection with the Agreement, we also entered into a foundry agreement under which we are entitled to a certain amount of wafer purchase credits. Up to 15% of order value can be applied against these credits in future wafer purchases from Tower.

In April 2001, we signed a definitive agreement with V3 Semiconductor, Inc. to acquire certain assets of V3 in a stock transaction. V3, based in Toronto, Ontario, manufactured application specific standard products, or 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 in exchange for 2.5 million shares of our common stock. V3 is expected to register and subsequently sell enough of these shares to satisfy its creditors and distribute any remaining shares to its stockholders. The registered as well as the distributed shares will then be freely tradeable 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. Approximately 65% of our products sold by point-of-sale distributors are programmed by us and are not returnable by these point-of-sale distributors. We recognize revenue on these programmed products at the time of shipment. We also sell our products directly to systems manufacturers and recognize revenue at the time of shipment. The percentage of sales derived through each of these channels in the three months ended March 31, 2002 was 75% and 25%, respectively, and 74% and 26% in the three months ended March 31, 2001, respectively.

Five distributors accounted for 19%, 13%, 8%, 6% and 5% of sales, respectively, in the three months ended March 31, 2002. Five distributors accounted for 28%, 12%, 10%, 8%, and 7% of sales, respectively, in the three months ended March 31, 2001. We expect that a limited number of distributors will continue to account for a significant portion of our total sales. In March, 2002, we terminated our agreement with Impact Technologies, North America. During the period ended March 31, 2002, Impact accounted for 10% of our total sales. We believe our products are proprietary and sole source, and that the loss of a particular distributor would not result in a short term disruption in sales of our products, since our customers could either buy our products from another distributor or directly from us.

Our international sales were 44% and 33% of our total sales for the three months ended March 31, 2002 and 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 we may not be able to successfully maintain gross margins. Any significant decline in our gross margins will materially harm our business.

We outsource the wafer manufacturing, assembly and test of all of our products. We rely upon Taiwan Semiconductor Manufacturing Company and Cypress Semiconductor Corporation to manufacture our products, and we rely primarily upon Amkor Technology and ChipPAC, Inc. to assemble and test our products. Under our arrangements 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 either 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 March 31,	
	2002	2001
	(Unaudited)	
Revenue	100.0%	100.0%
Cost of revenue	58.3	40.7
Gross profit	41.7	59.3
Research and development	43.8	31.3
Sales, general and administrative	48.6	42.5
Operating expenses	92.4	73.8
Operating income	(50.7)	(14.5)
Interest income and other, net	1.2	7.7
Net income	(49.5)%	(6.8)%

Three months Ended March 31, 2002 and March 31, 2001

Revenue. Revenue decreased 30.8% to $7.5 million for the three months ended March 31, 2002 from $10.8 million for the three months ended March 31, 2001. The decline in revenue resulted primarily from a 47.0% decrease in sales of our mature products including both pASIC1 and pASIC2. This decline in revenue also resulted from a 10.3% decrease in sales of our new products including pASIC3, Eclipse, and ESPs. ESP sales accounted for 35.1% and 25.0% of total sales for the three months ended March 31, 2002 and 2001, respectively. We expect this trend in product mix change to continue.

Gross Profit. Gross profit was $3.1 million and $6.4 million in the three months ended March 31, 2002 and 2001, respectively, which was 42% and 59% of revenue for those periods. The decline in gross margin was due to relatively fixed manufacturing overhead costs allocated over a lower revenue base. We expect that if our manufacturing volumes return to historical levels, our gross profit percentage should also return to the 50-60% range.

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 decreased from $3.4 million for the three months ended March 31, 2001 to $3.3 million for the three months ended March 31, 2002. As a percentage of revenue, research and development expense increased from 31.3% to 43.8% for the same

periods. The percentage increase is due to lower revenue for the three months ended March 31, 2002. We believe that continued investments in process technology and product development are essential for us to remain competitive in the markets we serve. We expect to increase our overall research and development spending and, specifically, we expect to increase research and development spending on our ESP products.

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 decreased to $3.6 million for the three months ended March 31, 2002 from $4.6 million for the three months ended March 31, 2001. This decrease is mostly due to reduced headcount and temporary salary reductions put in place in October of 2001. Selling, general and administrative expense increased as a percentage of revenue to 48.6% for the three months ended March 31, 2002 from 42.6% for the three months ended March 31, 2001. We anticipate that selling, general and administrative expense will remain relatively flat over the next few quarters.

Interest and Other Income, Net. Interest and other income, net, decreased to $91,000 for the three months ended March 31, 2002 from $838,000 for the three months ended March 31, 2001. This decrease is due to lower interest rates and less funds on deposit.

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 three months ended March 31, 2002 and 2001, deferred stock compensation amortization was

$84,000 and $115,000, respectively.

Provision for Income Taxes. No provision for income taxes was recorded for the three month periods ended March 31, 2002 or 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 our history of losses, that the market in which we compete 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 our products. We will continue to assess the realizability of the deferred tax assets in future periods.

Liquidity and Capital Resources

At March 31, 2002 we had $24.5 million in cash, a decrease of $4.3 million from cash held at December 31, 2001. As of March 31, 2002, we had an accumulated deficit of $78.6 million.

Net cash used for operating activities was ($3.6 million) and ($3.3 million) in the three months ended March 31, 2002 and 2001, respectively. Net operating loss and an increase in receivables, offset by an increase in depreciation and a decrease in inventory was the primary use of operating cashflow in the three months ended March 31, 2002. In the three months ended March 31, 2001, our primary use of cash was an operating loss and an increase in inventory and accrued liabilities, which was offset by an increase in depreciation and a decrease in receivables.

Net cash used for investing activities was ($644,000) and ($13 million) in the three months ended March 31, 2002 and 2001, respectively. In the three months ended March 31, 2002, these funds were used to aquire property and equipment. In the three months ended March 31, 2001, we made two installment payments to Tower Semiconductor Ltd. pursuant to our Share Purchase Agreement. In June, 2002, we are scheduled to make a $3.7 million installment payment to Tower pursuant to our agreement. We are in the process of renegotiating this agreement to reduce or delay this payment.

Net cash provided by (used for) financing activities was ($33,000) and $150,000 in the three months ended March 31, 2002 and 2001, respectively. The exercice of stock options was $13,949 and $196,000 for the three months ended March 31, 2002 and 2001 respectively. Cash was used to repay bank debt of $47,000 and $46,000 for the three months ended March 31, 2002 and 2001.

We have an equipment financing line with a commercial bank. At March 31, 2002, we had obligations of $16,667 outstanding under this equipment line with no remaining available balance. The outstanding obligations under the equipment line will be paid in full by May, 2002. The interest rate on these borrowings is at the bank's prime interest rate plus 0.25%.

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 the net proceeds of our offerings combined with existing capital resources and cash generated from operations will be sufficient to meet our needs for operating cashflow and our commitment to invest in Tower over the next 12 months, although we may seek to raise additional capital during that period. After the next 12 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 months 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 we will return to profitability because we have a history of losses

We incurred significant losses from our inception in 1988 through 1997, in 2001, and again in the three months ended March 31, 2002. Our accumulated deficit as of March 31, 2002 was $78.5 million. We cannot assure you that we will return to profitability in any future periods, and you should not rely on our historical revenue or our previous profitability as any indication of our future operating results or prospects.

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, which could occur as early as June, 2002, we expect V3 to sell a portion of the approximately 2.5 million shares issued to V3 in connection with our acquisition of certain assets from V3 to satisfy its creditors and to distribute any remaining shares to its stockholders. We expect the V3 stockholders to sell on the open market a substantial number of the shares after the distribution. As a result of these sales and expected sales, 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.

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. We introduced our ESPs in September 1998. To date, we have been selling our ESPs in limited quantities, and we must increase our sales of ESP products or our business will suffer. 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 embedded standard products. In 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 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 embedded standard products 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 three foundry manufacturers of semiconductors, Tower and Cypress, to provide us with specified manufacturing capacity. The Tower facility is not yet operational. We purchase product from TSMC on a purchase order basis. 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 not possible, 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 remain 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 FPGA's 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 FPGA's and alternate products and create additional downward pressure on pricing. If the worldwide supply of FPGA's 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 three months ended March 31, 2002, approximately 75% of our sales were made through our distributors. Two distributors together accounted for approximately 32% of our sales. 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, could 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, and Lattice Semiconductor. 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 ASICs, 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 grow our business 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 attract and retain 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 and consumes large amounts of management's time and attention. For example, 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.

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. In addition, although none of our current products are manufactured by Tower Semiconductor, our future products could be subject to risk due to the conflict between Israel and the Palestinians.

Sales to customers located outside the United States accounted for 40% and 41% of our total sales in the three months ended March 31, 2002 and 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 44% 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, bylaws, Shareholder Rights Plan, 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 when implemented will have 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.

We adopted a Shareholder Rights Plan in 2001. The plan 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.

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.

If our share price falls further, we could be delisted from the Nasdaq National Market

The minimum per share bid price required under market place Rule 4450(a)(5) to maintain a listing on the Nasdaq National Market is $1.00. Our common stock traded as low as $3.25 during 2001. A delisting could impair our ability to raise additional working capital. If we are able to raise additional capital, the terms may not be favorable and your investment may be diluted. Furthermore, because prices for delisted stock are often not publicly available, a delisting would impair the liquidity of our common stock and make it difficult for you to sell your shares, and you may lose some or all of your investment.

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 March 31, 2002 would have an immaterial effect on our pretax earnings and the carrying value of its investments over the next fiscal year.

Foreign Currency Exchange Rate Risk

All of the Company's sales and cost of manufacturing are transacted in U.S. dollars. In late 2001, we began to conduct research and development in Canada and India. We also have sales and marketing activities outside the United States. These costs are incurred in local currency. If these local currencies strengthen against the dollar, our payroll and other local expenses will be higher than we currently anticipate. Since our sales are transacted in dollars, these negative impacts on expenses would not be offset by any positive effects on revenue. In 2001, operating expenses denominated in foreign currencies were approximately 6% and in the three months ended March 31, 2002, this number was approximately 22%.

Part II. Other Information

None

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: May 13, 2002

/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

PART I. Financial Information
Item 1. Financial Statements

QUICKLOGIC CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (In thousands)
QUICKLOGIC CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (In thousands, except per share amounts)
QUICKLOGIC CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (In thousands)
QUICKLOGIC CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Quarter ended March 31, 2002 (Unaudited)

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk
Part II. Other Information

Signatures