QuickLinks -- Click here to rapidly navigate through this document

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 June 30, 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 August 2, 2002, 23,461,484 shares of the Registrant's common stock were outstanding.

QUICKLOGIC CORPORATION
FORM 10-Q
JUNE 30, 2002

	Page
Part I. Financial Information	
Item 1. Financial Statements	
Condensed Unaudited Consolidated Balance Sheets as of June 30, 2002 and December 31, 2001	3
Condensed Unaudited Consolidated Statements of Operations for the Three and Six month periods ended June 30, 2002 and 2001	4
Condensed Unaudited Consolidated Statements of Cash Flows for the Six month periods ended June 30, 2002 and 2001	5
Condensed Unaudited Consolidated Statements of Comprehensive Income for the Three and Six month periods ended June 30, 2002 and 2001	6
Notes to Condensed Unaudited Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures about Market Risk	26

Part II. Other Information
Item 4. Submission of Matters to a Vote of Security Holders 27
Item 6. Exhibits and Reports on Form 8-K 28

Part I. Financial Information

Item 1. Financial Statements

QUICKLOGIC CORPORATION
CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2002	Dec. 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,045	$ 28,853
Accounts receivable, net	5,259	3,101
Inventory	11,510	13,592
Other current assets	2,450	2,595
Total current assets	40,264	48,141
Property and equipment, net	14,063	14,675
Investment in Tower Semiconductor Ltd.	7,710	5,390
Other assets	17,459	16,053
TOTAL ASSETS	$ 79,496	$ 84,259
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 3,821	$ 4,293
Accrued liabilities	2,056	1,784
Deferred income on shipments to distributors	1,291	1,468
Current portion of long-term obligations	1,884	222
Total current liabilities	9,052	7,767
Long-term obligations	1,662	2,069
Stockholders' equity:		
Common stock, at par	23	23
Additional paid-in capital	150,660	149,734
Deferred compensation	(308)	(475)
Accumulated Other Comprehensive Income	119	—
Accumulated deficit	(81,712)	(74,859)
Total stockholders' equity	68,782	74,423
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 79,496	$ 84,259

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	Six Months Ended

	June 30,		June 30,	
	2002	2001	2002	2001
Revenue	$ 8,360	$ 8,107	$ 15,841	$ 18,922
Cost of revenue	4,598	8,804	8,965	13,206
Gross profit	3,762	(697)	6,876	5,716
Research and development	3,391	3,258	6,668	6,638
Selling, general and administrative	3,764	4,355	7,397	8,958
Total operating expenses	7,155	7,613	14,065	15,596
Operating loss	(3,393)	(8,310)	(7,189)	(9,880)
Interest income and other, net	248	479	339	1,317
Loss before taxes	(3,145)	(7,831)	(6,850)	(8,563)
Provision for income tax	—	—	—	—
Net loss	$ (3,145)	$ (7,831)	$ (6,850)	$ (8,563)
Net loss per share:				
Basic	$ (0.13)	$ (0.38)	$ (0.30)	$ (0.42)
Diluted	$ (0.13)	$ (0.38)	$ (0.30)	$ (0.42)
Shares used in per share calculations:				
Basic	23,314	20,385	23,117	20,200
Diluted	23,314	20,385	23,117	20,200

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	$ (6,850)	$ (8,563)
Adjustments to reconcile net income to net cash		
Provided by (used for) operating activities:		
Depreciation	1,802	1,538
Amortization of deferred compensation	167	225
Provision for inventory	—	3,724
Changes in assets and liabilities:		
Accounts receivable	(2,159)	1,840
Inventory	2,082	(6,468)
Other assets	205	(419)
Accounts payable	(471)	(687)
Accrued liabilities and other obligations	(177)	(2,676)
Net cash used for operating activities	(5,401)	(11,486)
Cash flows from investing activities:		
Capital expenditures for property and equipment, net of dispositions	(1,190)	(5,017)
Investment in Tower Semiconductor Ltd.	(3,667)	(14,013)
Net cash used for investing activities	(4,857)	(19,030)
Cash flows from financing activities:		
Payment of long term obligations	(227)	(94)
Proceeds from issuance of common stock, net	927	1,152

Proceeds from borrowing	1,750	—
Net cash provided by financing activities	2,450	1,058
Net decrease in cash	(7,808)	(29,458)
Cash at beginning of period	28,853	70,210
Cash at end of period	$ 21,045	$ 40,752

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net Loss	$ (3,145)	$ (7,831)	$ (6,850)	$ (8,563)
Other Comprehensive income, net of tax:				
Net unrealized gain on investments	119	—	119	—
Total Comprehensive loss	$ (3,026)	$ (7,831)	$ (6,731)	$ (8,563)

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 and hardware 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 six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the full year.

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 June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Numerator:				
Net loss	$ (3,145)	$ (7,831)	$ (6,850)	$ (8,563)
Denominator:				
Common stock	23,314	20,385	23,117	20,200
Unvested common stock option exercises	—	—	—	—
Weighted average shares outstanding for basic	23,314	20,385	23,117	20,200
Stock options	—	—	—	—
Unvested common stock option exercises	—	—	—	—
Weighted average shares outstanding for diluted	23,314	20,385	23,117	20,200
Net loss per share				
Basic	$ (0.13)	$ (0.38)	$ (0.30)	$ (0.42)
Diluted	$ (0.13)	$ (0.38)	$ (0.30)	$ (0.42)

For the six months ended June 30 2002, 3,793,157 shares with a weighted average exercise price of $10.24 were excluded because their effect would be anti-dilutive. For the six months ended June 30, 2001, 2,614,549 shares with a weighted average exercise price of $14.82 were excluded because their effect would be anti-dilutive.

Note 3. Investment in Tower Semiconductor, Ltd.

On May 28, 2002, the Company entered into an Amendment (the "Amendment") to the original Share Purchase Agreement (the "Agreement") signed December 12, 2000, with Tower Semiconductor Ltd. ("Tower"). Under the Amendment, the Company agreed to make its third and fourth payments of $3.7 million each on May 31, 2002 and October 1, 2002. In exchange for these payments, Tower agreed to issue shares with a value equal to 60% of the amount of these payments, and wafer purchase credits equal to 40% of the payments. The wafer purchase credits issued under the Amendment can be applied immediately toward wafer purchases from Tower, up to 7.5% of the value of the purchases. After July 1, 2005, they can be applied at up to 15% of the value of the wafer purchases. In addition, Tower released the Company from its lockup on 700,000 of the previously purchased shares, allowing the Company to sell these shares on the open market. On June 30, 2002, the company recorded $119,000 in comprehensive income to account for the increase in value of the 700,000 shares of Tower that were available for sale as of that date.

In fiscal 2001, the Company made payments of $14.0 million to purchase Tower shares and wafer credits under the Agreement. At December 31, 2001, the Company's balance sheet reflected 951,926 shares in Tower with a carrying value of $5.4 million, and $1.8 million in wafer credits. On May 31, 2002, the Company made an additional payment of $3.7 million to Tower, and in exchange, received an additional 357,166 shares and $1.5 million in wafer credits.

Note 4. Balance Sheet Components

	June 30, 2002	Dec. 31, 2001
	(in thousands)	
Inventory:		
Raw materials	$ 970	$ 1,211
Work-in-process	9,270	10,819
Finished goods	1,270	1,562

	June 30, 2002	Dec. 31, 2001
Total inventory	$ 11,510	$ 13,592

	June 30, 2002	Dec. 31, 2001
	(in thousands)	
Other Assets:		
Prepaid Deposits	$ 8	$ 73
Prepaid Royalties	1,687	1,687
Deferred Compensation	734	647
Goodwill	11,428	11,428
Prepaid Wafer Credit	3,246	1,779
Other Assets-Long Term	356	439
Total other assets	$ 17,459	$ 16,053

Note 5. Long-term Obligations

Notes Payable to Bank

In June, 2002, QuickLogic signed a $12.0 million credit facility with Silicon Valley Bank. The facility includes an $8.0 million revolving line of credit and a $4.0 million equipment financing line. The revolving line bears interest at prime. The equipment line bears interest at prime plus 0.75%, and is secured by the specific equipment or software financed. Interest payments on the revolving line are due monthly. The equipment financing line must be paid in 36 equal installments from the date of each advance. Any advances for software purchases must be paid in 30 equal installments from the date of each advance. At the end of the quarter, the Company had drawn $1.8 million against the revolving line of credit.

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 June 30, 2002 and 2001, the liability accrued under the Company's Deferred Compensation Plan was $734,000 and $536,000.

Prepaid Royalty

In October 2000, QuickLogic 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 June 30, 2002, and accordingly, no royalty income has been recognized.

Note 6. 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 six months ended June 30, 2002 and 2001, deferred stock compensation amortization was $167,000 and $225,000, respectively.

Note 7. 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 it's components in financial statements. During the six month period ended June 30, 2002 the Company recorded comprehensive income in the amount of $119,000, which represents unrealized gain on shares of Tower Semiconductor Ltd.

Note 8. Income Taxes

No provision for income taxes was recorded for the six month periods ended June 30, 2002 and 2001 because the Company 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 9. Information Concerning Business Segments and Major Customers

Information About Geographic Areas

All of our sales originate in the United States and are denominated in U.S. dollars. Shipments to some of our distributors are made to centralized purchasing and distributing locations, which in turn sell through to other locations. As a result of these factors, we believe that sales to certain geographic locations might be higher or lower, though accurate data is difficult to obtain.

The following is a breakdown of revenues by shipment destination for the six months ended June 30, 2002 and 2001:

	June 30, 2002	June 30, 2001
	(in thousands)	
Regional Revenue:		
Asia Pacific	$ 1,497	$ 1,492
Europe	3,266	4,497
Japan	2,024	1,936
North America	9,054	10,997
Total Revenue	$ 15,841	$ 18,922

Three customers, distributors of our products, accounted for approximately 17%, 12% and 8% of revenues in the six months ended June 30, 2002. Four customers, distributors of our products, accounted for approximately 16%, 8%, 8% and 8% of revenues in the six months ended June 30, 2001. Less than 10% of our long-lived assets, including property and equipment and other assets, were located outside the United States.

Note 10. Committments

On December 12, 2000 QuickLogic entered into a Share Purchase Agreement (the "Agreement") with Tower Semiconductor Ltd. under which the Company will 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, the Company'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 will develop manufacturing capability for the Company's proprietary ViaLink technology, and supply QuickLogic with a guaranteed portion of the new fabrication facility's available wafer capacity at competitive pricing, with first production expected in 2003. Per the terms of the Agreement, the Company paid Tower three payments totaling $14 million in 2001. On May 28, the Company signed an amendment to this Agreement, which did not change the number or amount of the payments the Company agreed to make. Per the terms of the amended Agreement, the Company made a payment of $3.7 million on May 31, 2002.

Note 11. 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, the Company has received and may receive in future, communications alleging that its products or processes may infringe on product or process technology rights held by others. The Company may in the future be involved in litigation with respect to alleged infringement by it of another party's patents.

In the future, the Company may be involved with litigation to:

- Enforce its patents or other intellectual property rights;
- Protect its 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 the Company's 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 Annual 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. 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. During 2000, we introduced the QuickFC, QuickDSP, QuickSD and QuickMIPS families of ESPs. During 2001, we added the V3 products to our ESP offerings. We also license our QuickWorks and QuickTools design software and sell our programming hardware, which together have typically accounted for less than 2% of total revenue.

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 was designed to accelerate our ESP strategy by strengthening our ability to develop and market system-level products for the communications and networking markets. The acquisition was accounted for as a purchase. 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. On June 20, 2002, V3's plan of reorganization was approved by the bankrupcy court. During the quarter ended June 30, 2002, we filed a Registration Statement on Form S-3 to allow V3 to sell sufficient shares to satisfy its creditors in cash. Any remaining shares will be distributed to the stockholders of V3. On July 17, 2002, the SEC declared the S-3 effective.

On December 12, 2000, we entered into a Share Purchase Agreement with Tower Semiconductor Ltd. 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. 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.

On May 28, 2002, the Company entered into an Amendment to the original Agreement. Under the Amendment, the Company agreed to make two payments of $3.7 million each on May 31, 2002 and October 1, 2002. In exchange for these payments, Tower agreed to issue shares with a value equal to

60% of the amount of these payments, and wafer purchase credits equal to 40% of the payments. The wafer purchase credits issued under the Amendment can be applied immediately toward wafer purchases from Tower, up to 7.5% of the value of these purchases. After July 1, 2005, they can be applied at up to 15% of the value of the wafer purchases. In addition, Tower released the Company from its lockup on 700,000 of the previously purchased shares, allowing the Company to sell these shares on the open market.

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 68% 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 was 71% and 29%, respectively, for the six months ended June 30, 2002 and 77% and 23%, respectively, for the six months ended June 30, 2001.

Three distributors accounted for 17%, 12% and 8% of sales, respectively, in six months ended June 30, 2002. Four distributors accounted for 16%, 8%, 8% and 8% of sales, respectively, in the six months ended June 30, 2001. We expect that a limited number of distributors will continue to account for a significant portion of our total sales. We believe the company's 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 would either buy our products from another distributor or directly from us.

Our international sales were 43% and 42% of our total sales for the six months ended June 30, 2002 and 2001. 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 excesses or shortages of wafers for a particular product.

Results of Operations

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	55.0	108.6	56.6	69.8
Gross profit	45.0	(8.6)	43.4	30.2
Research and development	40.6	40.2	42.1	35.1
Sales, general and administrative	45.0	53.7	46.7	47.3
Operating expenses	85.6	93.9	88.8	82.4
Operating loss	(40.6)	(102.5)	(45.4)	(52.2)
Interest income and other, net	3.0	5.9	2.2	6.9
Net loss	(37.6)	(96.6)	(43.2)	(45.3)

Three and Six months Ended June 30, 2002 and June 30, 2001

Revenue. Revenue increased 3.1% to $8.4 million for the three months ended June 30, 2002 from $8.1 million for the three months

ended June 30, 2001. Revenue decreased 16.3% to $15.8 million for the six months ended June 30, 2002 from $18.9 million for the six months ended June 30, 2001. The decline in six months revenue resulted primarily from a 32.3% decrease in sales of our mature products including both pASIC1 and pASIC2, and a 5% decrease in sales of our new products including pASIC3, Eclipse, and ESPs.

Gross Profit. Gross profit was $3.8 million and $(697,000) in the three months ended June 30, 2002 and 2001, respectively, which was 45% and (9%) of revenue for those periods. Gross profit was $6.9 million and $5.7 million in the six months ended June 30, 2002 and 2001, which was 43% and 30% of revenue for those periods. This increase in gross profit was due primarily to a one time writeoff of $3.7 million in die inventory in June, 2001.

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 to $3.4 million for the three months ended June 30, 2002 from $3.3 million for the three months ended June 30, 2001, however, as a percentage of revenue, it remained relatively flat, coming in at 40.6% and 40.2% for same periods. For the six months ended June 30, 2002 and 2001, research and development expense increased to $6.7 million from $6.6 million. As a percentage of revenue, however, it increased to 42.1% from 35.1% for the same periods. Research and development expense increased slightly during this time frame due to the addition of the Toronto engineering group, which was added during the last half of 2001. We believe that continued investments in process technology and product development are essential for us to remain competitive in the markets we serve.

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 $3.8 million for the three months ended June 30, 2002 compared to $4.4 million for the three months ended June 30, 2001. Likewise, selling, general and administrative expense decreased as a percentage of revenue to 45.0% for the three months ended June 30, 2002 from 53.7% for the three months ended June 30, 2001. Selling,

general and administrative expense decreased to $7.4 million for the six months ended June 30, 2002 from $9.0 million for the six months ended June 30, 2001, however, it remained relatively flat on a percentage basis coming in at 46.7% for the six months ended June 30, 2002 and 47.3% for the six months ended June 30, 2001. These reductions in spending are mostly due to a concentrated effort to control spending over the last 4 quarters. 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, was $248,000 in the three months ended June 30, 2002 compared to $479,000 for the three months ended June 30, 2001. Interest and other income, net, was $339,000 in the six months ended June 30, 2001 compared to $1.3 million for the six months ended June 30, 2001. This decrease is primarily due to lower interest rates and less funds on deposit partially offset by foreign exchange gains of $148,000 in the current quarter. We anticipate that interest expense on the new credit facilities and exchange gains or losses will cause this number to change in the future.

Deferred Stock Compensation. Deferred stock compensation recorded in years prior to 2000 is being amortized ratably over the vesting period of the options. During the six months ended June 30, 2002 and 2001, deferred stock compensation amortization was $167,000 and $225,000, respectively.

Provision for Income Taxes. No provision for income taxes was recorded for the six month periods ended June 30, 2002 and 2001, because we incurred a loss.

Liquidity and Capital Resources

At June 30, 2002 we had $21.0 million in cash, a decrease of $19.7 million from cash held at June 30, 2001. As of June 30, 2002, we had an accumulated deficit of $81.7 million.

Net cash used for operating activities was $5.4 million and $11.5 million in the six months ended June 30, 2002 and 2001, respectively. In the six months ended June 30, 2002, our primary use of cash was an operating loss and an increase in receivables, which was offset by depreciation and a decrease in inventory. Net operating loss and an increase in inventory offset by a one time writeoff of die inventory was the primary use of operating cashflow in the six months ended June 30, 2001.

Net cash used for investing activities was $4.9 million and $19.0 million in the six months ended June 30, 2002 and 2001, respectively. In the current six month period, $3.7 million was used for one installment payment to Tower Semiconductor Ltd., pursuant to our Share Purchase Agreement and the remainder was used for the acquisition of property and equipment. In the six months ended June 30, 2001, $14.0 million was used for two installment payments to Tower Semiconductor Ltd. pursuant to our Share Purchase Agreement and $5.0 million was used for the acquisition of property and equipment. We are scheduled to make two additional payments of $3.7 million to Tower in October 2002 and February 2003 to purchase shares and wafer credits. We have been released from our lock-up agreement with Tower with respect to 700,000 of the shares we have purchased. These shares are now available for sale.

Net cash provided by financing activities was $2.5 million and $1.1 million in the six months ended June 30, 2002 and 2001, respectively. In the current six month period, we drew down $1.8 million from our credit line at Silicon Valley Bank and received funds from employee stock purchases. In the six months ended June 30, 2001, these funds came primarily from employee stock purchases.

In June, 2002, we signed a $12.0 million credit facility with Silicon Valley Bank. The facility includes an $8.0 million revolving line of credit and a $4.0 million equipment financing line. The revolving line bears interest at prime. The equipment line bears interest at prime plus 0.75%, and is secured by the specific equipment financed. Interest payments on the revolving line are due monthly. The equipment

financing line must be paid in 36 equal installments from the date of each advance.

Any advances for software purchases under the equipment line must be paid in 30 equal installments from the date of each advance. At June 30, 2002, we had drawn $1.8 million against the revolving line of credit.

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 could seek to raise additional capital during that period. After the next 12 months, our capital and operating requirements will depend on many factors, including revenue, 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 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; and
- successful execution of our strategy to develop and market system-level products for the networking, communications and other 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 first half of 2002. Our accumulated deficit as of June 30, 2002 was $81.7 million. We had net loss of $6.9 million for the six month period ending June 30, 2002. 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

We expect V3 to sell enough 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 distribute the remaining shares, if any, to it's stockholders. When these shares are sold, 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 the six months ended June 2002, ESPs accounted for approximately 33% 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 could 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 markets in which we sell our embedded standard products do 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 generally record as expenses the costs related to the development of new semiconductor products and software as these expenses are incurred. We also generally capitalize some items associated with these new products, such as purchased intellectual property and tooling. 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 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 two product families, QuickPCI and QuickASSP, that are designed to support specific industry standards. 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 return to profitability and 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 and decrease the manufacturing cost of FPGA's and alternate products and create additional downward pressure on customer 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 first six months of 2002, approximately 71% of our sales were made through our distributors. Three distributors together accounted for approximately 37% 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 could 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 recognize revenue from sales of certain products 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 could 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 could 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 can 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, we incurred substantial costs associated with the litigation and settlement of our dispute with Actel, 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.

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 Palestine.

Sales to customers located outside the United States accounted for 43% and 42% of our total sales for the six month ending June 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 46% 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 makes 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. The certificate 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 adopted a Shareholder Rights Plan in 2001. The Rights Plan could

discourage an acquisition of QuickLogic that has not been approved by the board of directors.

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 $2.19 during the first half of 2002. 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 government issued securities and commercial paper. We place investments in instruments that meet high credit quality standards. These securities are subject to interest rate risk, and could decline in value if interest rates fluctuate. Due to the short duration and conservative nature of our investment portfolio, we do not expect any material loss with respect to our investment portfolio. A 10% move in interest rates as of June 30, 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. For the six months ended June 2002, operating expenses denominated in foreign currencies were approximately 11%.

Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of QuickLogic was held on April 23, 2002. The following matters were voted upon at the meeting:

(i) The following nominees were elected to hold office as Class III directors until 2005:

Nominee	Votes For	Votes Withheld	Abstentions
E. Thomas Hart	20,878,193	247,362	
Robert J. Boehlke	21,048,405	77,150	

(ii) The ratification of PricewaterhouseCoopers LLP as independent accountants of Symphonix for the fiscal year ending December 31, 2002.

Votes For	21,106,990
Votes Against	10,233
Abstentions	8,332
Broker Non-votes	

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are filed with this report:

Exhibit Number	Description
10.22	Loan Agreement dated June 28, 2002, between QuickLogic Corporation and Silicon Valley Bank.
10.23	Amendment dated May 28, 2002 to Agreement between QuickLogic Corporation and Tower Semiconductor Ltd., dated December 12, 2002.
99.1	Certification of CEO and CFO.

Signatures

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

QUICKLOGIC CORPORATION

Dated: August 2, 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

Table of Content

Part I. Financial Information
Item 1. Financial Statements

QUICKLOGIC CORPORATION CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS (In thousands)
QUICKLOGIC CORPORATION CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except per share amounts)
QUICKLOGIC CORPORATION CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)
QUICKLOGIC CORPORATION CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In thousands)
NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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
Item 4. Submission of Matters to a Vote of Security Holders
Item 6. Exhibits and Reports on Form 8-K

Signatures

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.22

LOAN AND SECURITY AGREEMENT

between

SILICON VALLEY BANK

and

QUICKLOGIC CORPORATION

June 28, 2002

$12,000,000

TABLE OF CONTENTS

		Page
1.	ACCOUNTING AND OTHER TERMS	1
2.	LOAN AND TERMS OF PAYMENT	1
3.	CONDITIONS OF LOANS	3
4.	CREATION OF SECURITY INTEREST	3
5.	REPRESENTATIONS AND WARRANTIES	4
6.	AFFIRMATIVE COVENANTS	5
7.	NEGATIVE COVENANTS	7
8.	EVENTS OF DEFAULT	9
9.	BANK'S RIGHTS AND REMEDIES	10
10.	NOTICES	11
11.	CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER	11
12.	GENERAL PROVISIONS	12
13.	DEFINITIONS	13

This LOAN AND SECURITY AGREEMENT dated June 28, 2002, between SILICON VALLEY BANK ("Bank"), whose address is 3003 Tasman Drive, Santa Clara, California 95054 and QUICKLOGIC CORPORATION, a California corporation ("Borrower"), whose address is 1277 New Orleans Drive, Sunnyvale, CA 94089-1138, provides the terms on which Bank will lend to Borrower and Borrower will repay Bank. The parties agree as follows:

1. *ACCOUNTING AND OTHER TERMS.*

Accounting terms not defined in this Agreement will be construed following GAAP. Calculations and determinations must be made following GAAP. The term "financial statements" includes the notes and schedules. The terms "including" and "includes" always mean "including (or includes) without limitation," in this or any Loan Document.

2. *LOAN AND TERMS OF PAYMENT*

2.1 *Credit Extensions.*

Borrower will pay Bank the unpaid principal amount of all Credit Extensions and interest on the unpaid principal amount of the Credit Extensions.

2.1.1 *Revolving Advances*.

(a) Bank will make Advances not exceeding the Committed Revolving Line minus (i) the Cash Management Services Sublimit, minus (ii) the amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit), and minus (iii) the FX Reserve. Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement.

(b) To obtain an Advance, Borrower must notify Bank by facsimile or telephone by 3:00 p.m. Pacific time on the Business Day the Advance is to be made. Borrower must promptly confirm the notification by delivering to Bank the Payment/Advance Form attached as Exhibit B. Bank will credit Advances to Borrower's deposit account. Bank may make Advances under this Agreement based on instructions from a Responsible Officer or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Borrower will indemnify Bank for any loss Bank suffers due to such reliance.

(c) The Committed Revolving Line terminates on the Revolving Maturity Date, when all Advances are immediately payable.

2.1.2 *Letters of Credit Sublimit.*

Bank will issue or have issued Letters of Credit for Borrower's account not exceeding (i) the Committed Revolving Line, minus (ii) the outstanding principal balance of the Advances minus the Cash Management Sublimit, minus the FX Reserve; however, the face amount of outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit) may not exceed $500,000. Each Letter of Credit will have an expiry date of no later than 180 days after the Revolving Maturity Date, but Borrower's reimbursement obligation will be secured by cash on terms acceptable to Bank at any time after the Revolving Maturity Date if the term of this Agreement is not extended by Bank. Borrower agrees to execute any further documentation in connection with the Letters of Credit as Bank may reasonably request.

2.1.3 *Foreign Exchange Sublimit.*

If there is availability under the Committed Revolving Line, then Borrower may enter in foreign exchange forward contracts with the Bank under which Borrower commits to purchase from or sell to Bank a set amount of foreign currency more than one business day after the contract date (the "FX Forward Contract"). Bank will subtract 10% of each outstanding FX Forward Contract from the

foreign exchange sublimit which is a maximum of $500,000 (the "FX Reserve"). The total FX Forward Contracts at any one time may not exceed 10 times the amount of the FX Reserve. Bank may terminate the FX Forward Contracts if an Event of Default occurs.

2.1.4 *Cash Management Services Sublimit.*

Borrower may use up to $500,000 for Bank's Cash Management Services, which may include merchant services, direct deposit of payroll, business credit card, and check cashing services identified in various cash management services agreements related to such services (the "Cash Management Services"). Such aggregate credit limit shall reduce the amount otherwise available to be borrowed under the Committed Revolving Line. All amounts Bank pays for any Cash Management Services will be treated as Advances under the Committed Revolving Line.

2.1.5 *Equipment Soft Cost Advances.*

(a) Through December 31, 2002 (the "Equipment Soft Cost Availability End Date"), Bank will make advances ("Equipment Soft Cost Advance" and, collectively, "Equipment Soft Cost Advances") not exceeding forty percent (40%) of the Committed Equipment Line. The Equipment Soft Cost Advances may only be used to finance the acquisition of software, third party licensed intellectual property and mask sets and in any event shall exclude taxes, shipping, warranty charges, freight discounts and installation expense ("Soft Cost Equipment"). Through March 31, 2003 (the "Equipment Hardware Availability End Date"), Bank will make advances ("Equipment Hardware Advance" and, collectively, "Equipment Hardware Advances"; together with Equipment Soft Cost Advances, "Equipment Advances") not exceeding the Committed Equipment Line (reduced by the amount of any Equipment Soft Cost Advances). The Equipment Hardware Advances may only be used to finance the acquisition of hardware and shall exclude taxes, shipping, warranty charges, freight discounts and installation expense ("Hardware Equipment"). Soft Cost Equipment and Hardware Equipment shall be limited to that purchased on or after 90 days before the Closing Date or within 90 days of the date of the requested Equipment Soft Cost Advance. Each Equipment Advance must be for a minimum of $50,000 and only one Equipment Advance per month shall be available.

(b) Interest accrues from the date of each Equipment Advance at the rate in Section 2.3(a) and is payable monthly until the Equipment Soft Cost Availability End Date or Equipment Hardware Availability End Date, as applicable, occurs. Each Equipment Soft Cost Advance is payable in 30 equal monthly installments of principal, plus accrued interest, beginning on the first day of each month following the date of the Equipment Soft Cost Advance. Each Equipment Hardware Advance is payable in 36 equal monthly installments of principal, plus accrued interest, beginning on the first day of each month following the date of the Equipment Hardware Advance. Equipment Advances when repaid may not be reborrowed.

(c) To obtain an Equipment Advance, Borrower must notify Bank (the notice is irrevocable) by facsimile no later than 3:00 p.m. Pacific time 1 Business Day before the day on which the Equipment Advance is to be made. The notice in the form of Exhibit B (Payment/Advance Form) must be signed by a Responsible Officer or designee and include a copy of the invoice for the Equipment being

financed.

2.2 *Overadvances.*

If Borrower's Obligations under Section 2.1.1, 2.1.2, 2.1.3 exceed the Committed Revolving Line, Borrower must immediately pay Bank the excess.

2.3 *Interest Rate, Payments.*

(a) Interest Rate. (i) Advances accrue interest on the outstanding principal balance at a per annum rate equal to the Prime Rate; (ii) Equipment Advances accrue interest on the outstanding principal balance at a per annum rate of three quarters (0.75) of a percentage points above the Prime

Rate. After an Event of Default, Obligations accrue interest at 5 percent above the rate effective immediately before the Event of Default. The interest rate increases or decreases when the Prime Rate changes. Interest is computed on a 360 day year for the actual number of days elapsed.

Payments. Interest due on the Committed Revolving Line is payable on the first day of each month. Interest due on the Equipment Advances is payable on the first day of each month. Bank may debit any of Borrower's deposit accounts including Account Number 502429370 for principal and interest payments owing or any amounts Borrower owes Bank. Bank will promptly notify Borrower when it debits Borrower's accounts. These debits are not a set-off. Payments received after 12:00 noon Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest accrue.

2.4 *Fees.*

Borrower will pay:

(a) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and reasonable expenses) incurred through and after the date of this Agreement, payable when due.

(b) Revolving Advances Loan Fee. On or before the Closing Date, a loan fee equal to $60,000 with respect to the Revolving Advances facility.

(c) Equipment Advances Loan Fee. On or before the Closing Date, a loan fee equal to $40,000 with respect to the Equipment Advances facility 50% of which has been previously paid.

3. *CONDITIONS OF LOANS*

3.1 *Conditions Precedent to Initial Credit Extension.*

Bank's obligation to make the initial Credit Extension is subject to the condition precedent that it receive the agreements, documents and fees it requires.

3.2 *Conditions Precedent to all Credit Extensions.*

Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following:

(a) timely receipt of any Payment/Advance Form; and

(b) the representations and warranties in Section 5 must be materially true on the date of the Payment/Advance Form and on the effective date of each Credit Extension except for representations and warranties made as of a specified earlier date, which must be materially true as of such earlier date and no Event of Default may have occurred and be continuing, or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties of Section 5 remain true.

4. *CREATION OF SECURITY INTEREST*

4.1 *Grant of Security Interest.*

(a) Borrower grants Bank a continuing security interest in all presently existing and later acquired Collateral to secure all Obligations and performance of each of Borrower's duties under the Loan Documents. Except for Permitted Liens, any security interest will be a first priority security interest in the Collateral. Bank may place a "hold" on any deposit account pledged as Collateral. Notwithstanding the foregoing, the security interest granted herein does not extend to and the term "Collateral" does not include any license or contract rights to the extent (i) the granting of a security interest in it would be contrary to applicable law, or (ii) that such rights are nonassignable by their terms (but only to the extent such prohibition is enforceable under applicable law) without the consent of the licensor or

other party (but only to the extent such consent has not been obtained). If this Agreement is terminated, Bank's lien and security interest in the Collateral will continue until Borrower fully satisfies its Obligations.

5. *REPRESENTATIONS AND WARRANTIES*

Borrower represents and warrants as follows:

5.1 *Due Organization and Authorization.*

Borrower and each material Subsidiary is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which the conduct of its business or its ownership of property requires that it be qualified, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

The execution, delivery and performance of the Loan Documents have been duly authorized, and do not conflict with Borrower's formation documents, nor constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound in which the default could reasonably be expected to cause a Material Adverse Change.

5.2 *Collateral.*

Borrower has good title to the Collateral, free of Liens except Permitted Liens. The Accounts are bona fide, existing obligations, and the service or property has been performed or delivered to the account debtor or its agent for immediate shipment to and unconditional acceptance by the account debtor. All Inventory is in all material respects of good and marketable quality, free from material defects. To the best of Borrower's knowledge, Borrower is the sole owner of the Intellectual Property, except for non-exclusive licenses granted to its customers in the ordinary course of business. To the best of Borrower's knowledge, each Patent is valid and enforceable and no part of the Intellectual Property has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Intellectual Property violates the rights of any third party, except to the extent such claim could not reasonably be expected to cause a Material Adverse Change.

5.3 *Litigation.*

Except as shown in the Disclosure Letter, there are no actions or proceedings pending or, to the knowledge of Borrower's Responsible Officers, threatened by or against Borrower or any material Subsidiary in which a likely adverse decision could reasonably be expected to cause a Material Adverse Change.

5.4 *No Material Adverse Change in Financial Statements.*

All consolidated financial statements for Borrower delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations as of the date of such financial statements. There has not been any material adverse change in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.5 *Solvency.*

The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; the Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.6 *Regulatory Compliance.*

Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to cause a Material Adverse Change. None of Borrower's or any Subsidiary's properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each Subsidiary has timely filed all required tax returns and paid, or made adequate provision to pay, all material taxes, except those being contested in good faith with adequate reserves under GAAP. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all government authorities that are necessary to continue its business as currently conducted, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

5.7 *Subsidiaries.*

Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.8 *Full Disclosure.*

No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank (taken together with all such written certificates and written statements to Bank and Borrower's filings with the Securities & Exchange Commission) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading. It being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected and forecasted results.

6. *AFFIRMATIVE COVENANTS*

Borrower will do all of the following:

6.1 *Government Compliance.*

Borrower will maintain its and all Subsidiaries' legal existence and good standing in its jurisdiction of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to cause a material adverse effect on Borrower's business or operations. Borrower will comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change.

6.2 *Financial Statements, Reports, Certificates.*

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 45 days after the last day of each month, a company prepared consolidated balance sheet and income statement, prepared under GAAP, consistently applied, covering Borrower's consolidated operations during the period, in a form and certified by a Responsible Officer acceptable to Bank; (ii) as soon as available, but no later than 120 days after the last day of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an opinion which is unqualified or as is otherwise consented to by Bank on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank; (iii) within 5 days of filing, notice to Bank of the filing

of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt and all reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission; (iv) once per year, the budget as approved by the Borrower's Board of Directors, and such other financial information Bank reasonably requests; and (v) prompt notice of any material change in the composition of the Intellectual Property, including any subsequent ownership right of Borrower in or to any Copyright, Patent or Trademark not shown in any intellectual property security agreement between Borrower and Bank or knowledge of an event that materially adversely affects the value of the Intellectual Property.

(b) Within 45 days after the last day of each month, Borrower will deliver to Bank with the monthly financial statements a Compliance Certificate signed by a Responsible Officer in the form of Exhibit C.

(c) Bank has the right to audit Borrower's Collateral at Borrower's expense, but the audits will be conducted no more often than every year unless an Event of Default has occurred and is continuing.

6.3 *Inventory; Returns.*

Borrower will keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its account debtors will follow Borrower's customary practices as they exist at execution of this Agreement. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims, that involve more than $100,000, excluding any returns from distributors of unprogrammed Inventory which involve less than $500,000.

6.4 *Taxes.*

Borrower will make, and cause each Subsidiary to make, timely payment of all material federal, state, and local taxes or assessments and will deliver to Bank, on demand, appropriate certificates attesting to the payment.

6.5 *Insurance.*

Borrower will keep its business and the Collateral insured for risks and in amounts, as Bank may reasonably request. Insurance policies will be in a form, with companies, and in amounts that are satisfactory to Bank in Bank's reasonable discretion. All property policies will have a lender's loss payable endorsement showing Bank as an additional loss payee and all liability policies will show the Bank as an additional insured and provide that the insurer must give Bank at least 20 days notice before canceling its policy. At Bank's request, Borrower will deliver certified copies of policies and evidence of all premium payments. If no Event of Default has occurred and is continuing, proceeds payable under any casualty policy will, at Borrower's option, be payable to Borrower to replace the property subject to the claim, provided that any such replacement property shall be deemed Collateral in which Bank has been granted a first priority security interest. If an Event of Default has occurred and is continuing, then, at Bank's option, proceeds payable under any policy will be payable to Bank on account of the Obligations.

6.6 *Deposit and Investment Accounts.*

Borrower will maintain depository, investment and operating accounts with Bank and Bank's affiliates with a minimum aggregate balance at all times of $15,000,000 which shall be held in the form of cash and such other investments as are consistent with Borrower's investment policy as approved by its Board of Directors.

6.7 *Financial Covenants.*

Borrower will maintain as of the last day of each month:

(i) **Tangible Net Worth**. A Tangible Net Worth of at least $49,000,000.

6.8 *Notice of Registration of Intellectual Property Rights.*

Borrower will promptly notify Bank upon Borrower's filing of any application or registration of any Intellectual Property rights with the United States Patent and Trademark Office and Borrower will execute and deliver any and all instruments and documents as Bank may require to evidence or perfect Bank's security interest in such application or registration.

Borrower will (i) protect, defend and maintain the validity and enforceability of the Intellectual Property and promptly advise Bank in writing of material infringements and (ii) not allow any Intellectual Property to be abandoned, forfeited or dedicated to the public without Bank's written consent.

6.9 *Control Agreements*.

With respect to deposit accounts or investment accounts maintained at financial institutions other than Bank, within 10 Business Days of the opening of any such deposit account or investment account, Borrower will execute and deliver to Bank, control agreements in form satisfactory to Bank in order for Bank to perfect its security interest in Borrower's deposit accounts or investment accounts; provided that with respect to deposit accounts existing as of the Closing Date, Borrower shall provide such control agreements with respect to all such accounts as are reasonably deemed material by Bank on or before July 31, 2002.

6.10 *Further Assurances.*

Borrower will execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's security interest in the Collateral or to effect the purposes of this Agreement.

7. *NEGATIVE COVENANTS*

Borrower will not do any of the following without Bank's prior written consent, which will not be unreasonably withheld:

7.1 *Dispositions.*

Convey, sell, lease, transfer or otherwise dispose of (collectively "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than Transfers (i) of Inventory in the ordinary course of business; (ii) of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; (iii) of worn-out or obsolete Equipment; (iv) other Transfers which in the aggregate do not exceed $50,000 in any fiscal year; or (v) other Transfers otherwise permitted pursuant to Section 7 hereof.

7.2 *Changes in Business, Ownership, Management or Business Locations.*

(i) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower or reasonably related thereto, (ii) direct or indirect acquisition by any persons (as such term is used in Section 13(d) and Section 14(d)(2) of the Exchange Act) or related persons constituting a group (as such term is used in Rule 13d-5 under the Exchange Act), of beneficial ownership of the issued and outstanding shares of voting stock of the Borrower, the result of which acquisition is that such person or group possesses in excess of 35% of the combined voting power of all then issued and outstanding stock of the Borrower, (iii) without contemporaneous written notice, relocate its chief executive office, or add any new offices or business locations, or (iv) without at least 30 days written notice, change the jurisdiction of its incorporation.

7.3 *Mergers or Acquisitions.*

Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, except where (i) such transactions do not in the aggregate result in a decrease of more than 25% of Tangible Net Worth and (ii) no Event of Default has occurred, is continuing or would exist after giving effect to the transactions. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

7.4 *Indebtedness.*

Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 *Encumbrance.*

Create, incur, or allow any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted here, subject to Permitted Liens.

7.6 *Distributions; Investments.*

Directly or indirectly acquire or own any Person, or make any Investment in any Person, other than Permitted Investments, or permit any of its Subsidiaries to do so. Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock, except for (A) repurchases of stock from former employees, consultants or directors of Borrower provided no Default or Event of Default has occurred and is continuing, or would be caused by such repurchase, and provided that the aggregate amount of such repurchases shall not exceed $100,000 in the aggregate in any fiscal year, (B) distributions payable solely in Borrower's capital stock, (C) conversion of any convertible debt into capital stock of Borrower.

7.7 *Transactions with Affiliates.*

Directly or indirectly enter into or permit any material transaction with any Affiliate except transactions that are in the ordinary course of Borrower's business, on terms less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.8 *Subordinated Debt.*

Make or permit any payment on any Subordinated Debt, except under the terms of the Subordinated Debt, or amend any provision in any document relating to the Subordinated Debt without Bank's prior written consent.

7.9 *Compliance.*

Become an "investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940 or undertake as one of its important activities extending credit to purchase or carry margin stock, or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change, or permit any of its Subsidiaries to do so.

---

8. *EVENTS OF DEFAULT*

Any one of the following is an Event of Default:

8.1 *Payment Default.*

If Borrower fails to pay any of the Obligations within 3 days after their due date. During the additional period the failure to cure the default is not an Event of Default (but no Credit Extension will be made during the cure period);

8.2 *Covenant Default.*

If Borrower does not perform any obligation in Section 6 or violates any covenant in Section 7 or does not perform or observe any other material term, condition or covenant in this Agreement, any Loan Documents, or in any agreement between Borrower and Bank and as to any default under a term, condition or covenant that can be cured, has not cured the default within 10 business days after it occurs, or if the default cannot be cured within 10 business days or cannot be cured after Borrower's attempts within 10 business day period, and the default may be cured within a reasonable time, then Borrower has an additional period (of not more than 30 days) to attempt to cure the default. During the additional time, the failure to cure the default is not an Event of Default (but no Credit Extensions will be made during the cure period);

8.3 *Material Adverse Change.*

(i) A material impairment in the perfection or priority of Bank's security interest in the Collateral or in the value of such Collateral {other than normal depreciation} which is not covered by adequate insurance occurs; or (ii) Bank determines, based upon information available to it and in its reasonable judgment, that there is a reasonable likelihood that Borrower will fail to comply with one or more of the financial covenants in Section 6 during the next succeeding financial reporting period.

8.4 *Attachment.*

If any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in 10 business days, or if Borrower is enjoined, restrained, or prevented by court order from conducting a material part of its business or if a judgment or other claim becomes a Lien on a material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed against any of Borrower's assets by any government agency and not paid within 10 business days after Borrower receives notice. These are not Events of Default if stayed or if a bond is posted pending contest by Borrower (but no Credit Extensions will be made during the cure period);

8.5 *Insolvency.*

If Borrower becomes insolvent or if Borrower begins an Insolvency Proceeding or an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within 45 days (but no Credit Extensions will be made before any Insolvency Proceeding is dismissed);

8.6 *Other Agreements.*

If there is a default in any agreement between Borrower and a third party that gives the third party the right to accelerate any Indebtedness exceeding $250,000 or that could reasonably be expected to cause a Material Adverse Change;

8.7 *Judgments.*

If a money judgment(s) in the aggregate of at least $250,000 is rendered against Borrower and is unsatisfied and unstayed for 10 Business Days (but no Credit Extensions will be made before the judgment is stayed or satisfied);

8.8 *Misrepresentations.*

If Borrower or any Responsible Officer of Borrower makes any material misrepresentation or material misstatement (when taken together with Borrower's filings with the Securities & Exchange Commission) now or later in any warranty or representation in this Agreement or in any communication delivered to Bank or to induce Bank to enter this Agreement or any Loan Document; or

8.9 *Guaranty.*

Any guaranty of any Obligations ceases for any reason to be in full force or any Guarantor does not perform any obligation under any guaranty of the Obligations, or any material misrepresentation or material misstatement exists now or later in any warranty or representation in any guaranty of the Obligations or in any certificate delivered to Bank in connection with the guaranty, or any circumstance described in Sections 8.4, 8.5 or 8.7 occurs to any Guarantor.

9. *BANK'S RIGHTS AND REMEDIES*

9.1 *Rights and Remedies.*

When an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

(a) Declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) Stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, on terms and in any order that Bank considers advisable;

(d) Make any payments and do any acts it considers necessary and reasonable to protect its security interest in the Collateral. Borrower will assemble the Collateral if Bank requires and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(e) Apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, Mask Works, rights of use of any name, trade secrets, trade names, Trademarks, service marks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit; and

(g) Dispose of the Collateral according to the Code.

9.2 *Power of Attorney.*

Effective only when an Event of Default occurs and continues until Borrower pays the Obligations in full, Borrower irrevocably appoints Bank as its lawful attorney to: (i) endorse Borrower's name on any checks or other forms of payment or security; (ii) sign Borrower's name on any invoice or bill of lading for any Account or drafts against account debtors, (iii) make, settle, and adjust all claims under Borrower's insurance policies; (iv) settle and adjust disputes and claims about the Accounts directly

with account debtors, for amounts and on terms Bank determines reasonable; and (v) transfer the Collateral into the name of Bank or a third party as the Code permits. Bank may exercise the power of attorney to sign Borrower's name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred. Bank's appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

9.3 *Accounts Collection.*

When an Event of Default occurs and continues, Bank may notify any Person owing Borrower money of Bank's security interest in the funds and verify the amount of the Account. Borrower must collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the account debtor, with proper endorsements for deposit.

9.4 *Bank Expenses.*

If Borrower fails to pay any amount or furnish any required proof of payment to third persons, Bank may make all or part of the payment or obtain insurance policies required in Section 6.5, and take any action under the policies Bank deems prudent. Any amounts paid by Bank are Bank Expenses and due and payable within 10 Business Days of written notice to Borrower, bearing interest at the then applicable rate and secured by the Collateral. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.5 *Bank's Liability for Collateral.*

If Bank complies with reasonable banking practices and Section 9-207 of the Code, it is not liable for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 *Remedies Cumulative.*

Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay is not a waiver, election, or acquiescence. No waiver is effective unless signed by Bank and then is only effective for the specific instance and purpose for which it was given.

9.7 *Demand Waiver.*

Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

10. *NOTICES*

All notices or demands by any party about this Agreement or any other related agreement must be in writing and be personally delivered or sent by an overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by telefacsimile to the addresses set forth at the beginning of this Agreement. A party may change its notice address by giving the other party written notice.

11. *CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER*

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California.

BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

12. *GENERAL PROVISIONS*

12.1 *Successors and Assigns.*

This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights under it without Bank's prior written consent which may be granted or withheld in Bank's discretion. Bank has the right, without the consent of or notice to Borrower, to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits under this Agreement.

12.2 *Indemnification.*

Borrower will indemnify, defend and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands,

claims, and liabilities asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses incurred, or paid by Bank from, following, or consequential to transactions between Bank and Borrower (including reasonable attorneys fees and expenses), and in each case of (a) and (b) above, except for any such obligations, claims, liabilities and losses caused by Bank's gross negligence or willful misconduct.

12.3 *Time of Essence.*

Time is of the essence for the performance of all obligations in this Agreement.

12.4 *Severability of Provision.*

Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 *Amendments in Writing, Integration.*

All amendments to this Agreement must be in writing and signed by Borrower and Bank. This Agreement represents the entire agreement about this subject matter, and supersedes prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement merge into this Agreement and the Loan Documents.

12.6 *Counterparts.*

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, are an original, and all taken together, constitute one Agreement.

12.7 *Survival.*

All covenants, representations and warranties made in this Agreement continue in full force while any Obligations remain outstanding. The obligations of Borrower in Section 12.2 to indemnify Bank will survive until all statutes of limitations for actions that may be brought against Bank have run.

12.8 *Confidentiality.*

In handling any confidential information, Bank will exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made (i) to Bank's subsidiaries or affiliates in connection with their present or prospective business relations with

Borrower, (ii) to prospective transferees or purchasers of any interest in the loans so long as such transfer or purchase is subject to a confidentiality agreement reasonably acceptable to Borrower, (iii) as required by law, regulation, subpoena, or other order, (iv) as required in connection with Bank's examination or audit and (v) as Bank considers appropriate in exercising remedies under this Agreement. Confidential information does not include information that either: (a) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank; or (b) is disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

12.9 *Attorneys' Fees, Costs and Expenses.*

In any action or proceeding between Borrower and Bank arising out of the Loan Documents, the prevailing party will be entitled to recover its reasonable attorneys' fees and other reasonable costs and expenses incurred, in addition to any other relief to which it may be entitled.

13. *DEFINITIONS*

13.1 *Definitions.*

In this Agreement:

"**Accounts**" are all existing and later arising accounts, contract rights, and other obligations owed Borrower in connection with its sale or lease of goods (including licensing software and other technology) or provision of services, all credit insurance, guaranties, other security and all merchandise returned or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"**Advance**" or "**Advances**" is a loan advance (or advances) under the Committed Revolving Line.

"**Affiliate**" of a Person is a Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"**Bank Expenses**" are all audit fees and expenses and reasonable costs and reasonable expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including appeals or Insolvency Proceedings).

"**Borrower's Books**" are all Borrower's books and records including ledgers, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition and all computer programs or discs or any equipment containing the information.

"**Business Day**" is any day that is not a Saturday, Sunday or a day on which the Bank is closed.

"Cash Management Services" are defined in Section 2.1.4.

"**Closing Date**" is the date of this Agreement.

"**Code**" is the California Uniform Commercial Code.

"**Collateral**" is the property described on *Exhibit A*.

"**Committed Equipment Line**" is a Credit Extension of up to $4,000,000.

"**Committed Revolving Line**" is an Advance of up to $8,000,000.

"**Contingent Obligation**" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (i) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (ii) any obligations for undrawn letters of credit for the account of that Person; and (iii) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under the guarantee or other support arrangement.

"**Copyrights**" are all copyright rights, applications or registrations and like protections in each work or authorship or derivative work, whether published or not (whether or not it is a trade secret) now or later existing, created, acquired or held.

"**Credit Extension**" is each Advance, Equipment Advance, Letter of Credit, Exchange Contract, or any other extension of credit by Bank for Borrower's benefit.

"**Disclosure Letter**" means the disclosure letter from Borrower to Bank.

"**Equipment**" is all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"**Equipment Advance**" is defined in Section 2.1.5.

"**Equipment Hardware Availability End Date**" is defined in Section 2.1.5.

"**Equipment Hardware Advance(s)**" is defined in Section 2.1.5.

"**Equipment Soft Cost Advance(s)**" is defined in Section 2.1.5.

"**Equipment Soft Costs Availability End Date**" is defined in Section 2.1.5.

"**ERISA**" is the Employment Retirement Income Security Act of 1974, and its regulations.

"**FX Forward Contract**" is defined in Section 2.1.3.

"**FX Reserve** "is defined in Section 2.1.3.

"**GAAP**" is generally accepted accounting principles.

"**Guarantor**" is any present or future guarantor of the Obligations.

"**Hardware Equipment**" is defined in Section 2.1.5.

"**Indebtedness**" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations and (d) Contingent Obligations.

"**Insolvency Proceeding**" are proceedings by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"**Intellectual Property**" is:

(a) Copyrights, Trademarks, Patents, and Mask Works including amendments, renewals, extensions, and all licenses or other rights to use and all license fees and royalties from the use;

(b) Any trade secrets and any intellectual property rights in computer software and computer software products now or later existing, created, acquired or held;

(c) All design rights which may be available to Borrower now or later created, acquired or held;

(d) Any claims for damages (past, present or future) for infringement of any of the rights above, with the right, but not the obligation, to sue and collect damages for use or infringement of the intellectual property rights above;

All proceeds and products of the foregoing, including all insurance, indemnity or warranty payments.

"**Inventory**" is present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or later owned by or in the custody or possession, actual or constructive, of Borrower, including inventory temporarily out of its custody or possession or in transit and including returns on any accounts or other proceeds (including insurance proceeds) from the sale or disposition of any of the foregoing and any documents of title.

"**Investment**" is any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"**Letter of Credit**" is defined in Section 2.1.2.

"**Lien**" is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"**Loan Documents**" are, collectively, this Agreement, any note, or notes or guaranties executed by Borrower or Guarantor, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated.

"**Mask Works**" are all mask works or similar rights available for the protection of semiconductor chips, now owned or later acquired.

"**Material Adverse Change**" is defined in Section 8.3.

"**Obligations**" are debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, including cash management services, letters of credit and foreign exchange contracts, if any and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank.

"**Patents**" are patents, patent applications and like protections, including improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"**Permitted Indebtedness**" is:

(a) Borrower's indebtedness to Bank under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and shown on the Disclosure Letter;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness secured by Permitted Liens;

(f) Indebtedness of Borrower to any Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of Borrower (provided that the primary obligations are not prohibited hereby), and Indebtedness of any Subsidiary to any other Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of any other Subsidiary (provided that the primary obligations are not prohibited hereby);

(g) Other Indebtedness not otherwise permitted by Section 7.4 not exceeding $250,000 in the aggregate outstanding at any time; and

(h) Extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (f) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

"Permitted Investments" are:

(a) Investments shown on the Disclosure Letter and existing on the Closing Date; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States or its agency or any State maturing within 1 year from its acquisition, (ii) commercial paper maturing no more than 1 year after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) Bank's certificates of deposit issued maturing no more than 1 year after issue.

(c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;

(d) Investments accepted in connection with Transfers permitted by Section 7.1, 7.3 and 7.6;

(e) Investments of Subsidiaries in or to other Subsidiaries or Borrower and Investments by Borrower in Subsidiaries not to exceed $50,000 in the aggregate in any fiscal year;

(f) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by Borrower's Board of Directors;

(g) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(h) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (h) shall not apply to Investments of Borrower in any Subsidiary;

(i) Joint ventures or strategic alliances in the ordinary course of Borrower's business consisting of the non-exclusive licensing of technology, the development of technology or the providing of technical support, provided that any cash investments by Borrower do not exceed $50,000 in the aggregate in any fiscal year; and

(j) Investments in Tower Semiconductor (Israel) of $3,666,900 in October of 2002 and of $3,666,900 in May of 2003.

"Permitted Liens" are:

(a) Liens existing on the Closing Date and shown on the Disclosure Letter or arising under this Agreement or other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, *if* they have no priority over any of Bank's security interests;

(c) Purchase money Liens (i) on Equipment acquired or held by Borrower or its Subsidiaries incurred for financing the acquisition of the Equipment, or (ii) existing on equipment when acquired, *if* the Lien is confined to the property and improvements and the proceeds of the equipment;

(d) Licenses or sublicenses granted in the ordinary course of Borrower's business and any interest or title of a licensor or under any license or sublicense, *if* the licenses and sublicenses permit granting Bank a security interest;

(e) Leases or subleases granted in the ordinary course of Borrower's business, including in connection with Borrower's leased premises or leased property;

(f) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), *but* any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

(g) Liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default under Section 8.4 or 8.7;

(h) Liens in favor of other financial institutions arising in connection with Borrower's deposit accounts held at such institutions, provided that Bank has a perfected security interest in the amounts held in such deposit accounts; and

(i) Other Liens not described above arising in the ordinary course of business and not having or not reasonably likely to have a material adverse effect on Borrower and its Subsidiaries taken as a whole.

"**Person**" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company association, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"**Prime Rate**" is Bank's most recently announced "prime rate," even if it is not Bank's lowest rate.

"**Responsible Officer**" is each of the Chief Executive Officer, the President, the Chief Financial Officer, the Controller and the in-house general counsel of Borrower.

"**Revolving Maturity Date**" is 364 days from the date hereof.

"**Soft Cost Equipment**" is defined in Section 2.1.5.

"**Subordinated Debt**" is debt incurred by Borrower subordinated to Borrower's indebtedness owed to Bank and which is reflected in a written agreement in a manner and form reasonably acceptable to Bank and approved by Bank in writing.

"**Subsidiary**" is for any Person, or any other business entity of which more than 50% of the voting stock or other equity interests is owned or controlled, directly or indirectly, by the Person or one or more Affiliates of the Person.

"**Tangible Net Worth**" is, on any date, the consolidated total assets of Borrower and its Subsidiaries *minus*, (i) any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, Patents, trade and service marks and names, Copyrights and research and development expenses except prepaid expenses, and (c) reserves not already deducted from assets, *and* (ii) Total Liabilities.

"**Total Liabilities**" is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness, and current portion Subordinated Debt allowed to be paid, but excluding all other Subordinated Debt.

"**Trademarks**" are trademark and service mark rights, registered or not, applications to register and registrations and like protections, and the entire goodwill of the business of Assignor connected with the trademarks.

BORROWER:

QUICKLOGIC CORPORATION

By: /s/ ARTHUR O. WHIPPLE

Title: CFO

BANK:

SILICON VALLEY BANK

By: /s/ MATT MALONEY

Title: Senior Vice President

EXHIBIT A

The Collateral consists of all of Borrower's right, title and interest in and to the following:

All goods and equipment now owned or hereafter acquired, including, without limitation, all machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

All inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is held for sale or lease, or to be furnished under a contract of service or is temporarily out of Borrower's custody or possession or in transit and including any returns or repossession upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above;

All contract rights and general intangibles now owned or hereafter acquired, including, without limitation, goodwill, trademarks, service marks, trade styles, trade names, patents, patent applications, leases, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer discs, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance, payment intangibles, and rights to payment of any kind;

All now existing and hereafter arising accounts (including health-care insurance receivables), contract rights, royalties, license rights

and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower;

All documents (including negotiable documents), cash, deposit accounts, securities, securities entitlements, securities accounts, investment property, financial assets, letters of credit, letter of credit rights, money, certificates of deposit, instruments (including promissory notes) and chattel paper (including tangible and electronic chattel paper) now owned or hereafter acquired and Borrower's Books relating to the foregoing;

All copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished, now owned or hereafter acquired; all trade secret rights, including all rights to unpatented inventions, know-how, operating manuals, license rights and agreements and confidential information, now owned or hereafter acquired; all claims for damages by way of any past, present and future infringement of any of the foregoing; and

All Borrower's Books relating to the foregoing, and the computers and equipment containing said books and records, and any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof.

Notwithstanding the foregoing, the collateral does not include any license or contract rights to the extent (i) the granting of a security interest in it would be contrary to applicable law, or (ii) that such rights are nonassignable by their terms (but only to the extent such prohibition is enforceable under applicable law) without the consent of the licensor or other party (but only to the extent such consent has not been obtained).

EXHIBIT B

LOAN PAYMENT/ADVANCE TELEPHONE REQUEST FORM

DEADLINE FOR SAME DAY PROCESSING IS 3:00 P.M., P.S.T.

TO: CENTRAL CLIENT SERVICE DIVISION DATE: ____________________

FAX #: (408) 496-2426 TIME: ____________________

FROM: QuickLogic Corporation
CLIENT NAME (BORROWER)

REQUESTED BY: ____________________
AUTHORIZED SIGNER'S NAME

AUTHORIZED SIGNATURE: ____________________

PHONE NUMBER: ____________________

FROM ACCOUNT # __________ TO ACCOUNT # ____________________

REQUESTED TRANSACTION TYPE	REQUESTED DOLLAR AMOUNT
PRINCIPAL INCREASE (ADVANCE)	$
PRINCIPAL PAYMENT (ONLY)	$
INTEREST PAYMENT (ONLY)	$
PRINCIPAL AND INTEREST (PAYMENT)	$

OTHER INSTRUCTIONS:

____

____

All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the telephone request for and Advance confirmed by this Borrowing Certificate; but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of that date.

BANK USE ONLY

TELEPHONE REQUEST:

The following person is authorized to request the loan payment transfer/loan advance on the advance designated account and is known to me.

Authorized Requester	Phone #
Received By (Bank)	Phone #

Authorized Signature (Bank)

EXHIBIT C

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
3003 Tasman Drive
Santa Clara, CA 95054

FROM: QUICKLOGIC CORPORATION

The undersigned authorized officer of QuickLogic Corporation ("Borrower") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending with all required covenants except as noted below and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date, except for representations and warranties made as of a specific earlier date, which are to be true and correct in all material respects as of such earlier date. Attached are the required documents supporting the certification. The Officer certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied from one period to the next except as explained in an accompanying letter, footnotes or year end adjustments. The Officer acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered.

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting and Financial Covenants	**Required**	**Complies**	
Monthly financial statements + CC	Monthly within 45 days	Yes	No
Annual (Audited)	FYE within 120 days	Yes	No
10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes	No
Minimum Tangible Net Worth	Monthly; $49,000,000	Yes	No
Have there been updates to Borrower's intellectual property, if appropriate?		Yes	No

Comments Regarding Exceptions: See Attached.

Sincerely,

QuickLogic Corporation

SIGNATURE

BANK USE ONLY

Received by:

AUTHORIZED SIGNER

Date:

Verified:

AUTHORIZED SIGNER

Date:

TITLE

Compliance Status: Yes No

DATE

INTELLECTUAL PROPERTY SECURITY AGREEMENT

This Intellectual Property Security Agreement is entered into as of June , 2002 by and between SILICON VALLEY BANK ("Bank") and QUICKLOGIC CORPORATION ("Grantor").

RECITALS

A. Bank has agreed to make certain advances of money and to extend certain financial accommodation to Grantor (the "Loans") in the amounts and manner set forth in that certain Loan and Security Agreement by and between Bank and Grantor dated June , 2002 (as the same may be amended, modified or supplemented from time to time, the "Loan Agreement"; capitalized terms used herein are used as defined in the Loan Agreement). Bank is willing to make the Loans to Grantor, but only upon the condition, among others, that Grantor shall grant to Bank a security interest in certain Copyrights, Trademarks, Patents, and Mask Works to secure the obligations of Grantor under the Loan Agreement.

B. Pursuant to the terms of the Loan Agreement, Grantor has granted to Bank a security interest in all of Grantor's right, title and interest, whether presently existing or hereafter acquired, in, to and under all of the Collateral.

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, and intending to be legally bound, as collateral security for the prompt and complete payment when due of its obligations under the Loan Agreement, Grantor hereby represents, warrants, covenants and agrees as follows:

AGREEMENT

To secure its obligations under the Loan Agreement, Grantor grants and pledges to Bank a security interest in all of Grantor's right, title and interest in, to and under its Intellectual Property Collateral (including without limitation those Copyrights, Patents, Trademarks and Mask Works listed on Schedules A, B, C, and D hereto), and including without limitation all proceeds thereof (such as, by way of example but not by way of limitation, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, all rights corresponding thereto throughout the world and all re-issues, divisions continuations, renewals, extensions and continuations-in-part thereof.

This security interest is granted in conjunction with the security interest granted to Bank under the Loan Agreement. The rights and remedies of Bank with respect to the security interest granted hereby are in addition to those set forth in the Loan Agreement and the other Loan Documents, and those which are now or hereafter available to Bank as a matter of law or equity. Each right, power and remedy of Bank provided for herein or in the Loan Agreement or any of the Loan Documents, or now or hereafter existing at law or in equity shall be cumulative and concurrent and shall be in addition to every right, power or remedy provided for herein and the exercise by Bank of any one or more of the rights, powers or remedies provided for in this Intellectual Property Security Agreement, the Loan Agreement or any of the other Loan Documents, or now or hereafter existing at law or in equity, shall not preclude the simultaneous or later exercise by any person, including Bank, of any or all other rights, powers or remedies.

IN WITNESS WHEREOF, the parties have cause this Intellectual Property Security Agreement to be duly executed by its officers thereunto duly authorized as of the first date written above.

	GRANTOR:
Address of Grantor:	QUICKLOGIC CORPORATION
1277 Orleans Drive Sunnyvale, CA 94089-1138	By:
Attn:	Title:
	BANK:
Address of Bank:	SILICON VALLEY BANK
3003 Tasman Drive Santa Clara, CA 95054-1191	By:
Attn:	Title:

EXHIBIT A

Copyrights

Description	Registration/ Application Number	Registration/ Application Date

EXHIBIT B

Patents

Description	Registration/ Application Number	Registration/ Application Date

EXHIBIT C

Trademarks

Description	Registration/ Application Number	Registration/ Application Date

EXHIBIT D

Mask Works

Description	Registration/ Application Number	Registration/ Application Date

CORPORATE BORROWING RESOLUTION

Borrower:	**QuickLogic Corporation** **1277 Orleans Drive** **Sunnyvale, CA 94089-1138**	**Bank:**	**Silicon Valley Bank** **3003 Tasman Drive** **Santa Clara, CA 95054-1191**

I, the Secretary or Assistant Secretary of QuickLogic Corporation ("Borrower"), CERTIFY that Borrower is a corporation existing under the laws of the State of California.

I certify that at a meeting of Borrower's Directors (or by other authorized corporate action) duly held the following resolutions were adopted.

It is resolved that **any one** of the following officers of Borrower, whose name, title and signature is below:

NAMES	POSITIONS	ACTUAL SIGNATURES

may act for Borrower and:

Borrow Money. Borrow money from Silicon Valley Bank ("Bank").

Execute Loan Documents. Execute any loan documents Bank requires.

Grant Security. Grant Bank a security interest in any of Borrower's assets.

Negotiate Items. Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Borrower has an interest and receive cash or otherwise use the proceeds.

Letters of Credit. Apply for letters of credit from Bank.

Foreign Exchange Contracts. Execute spot or forward foreign exchange contracts.

Further Acts. Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Borrowers right to a jury trial) they think necessary to effectuate these Resolutions.

Further resolved that all acts authorized by these Resolutions and performed before they were adopted are ratified. These Resolutions remain in effect and Bank may rely on them until Bank receives written notice of their revocation.

I certify that the persons listed above are Borrower's officers with the titles and signatures shown following their names and that these resolutions have not been modified are currently effective.

CERTIFIED TO AND ATTESTED BY:

X ______________________________

*Secretary or Assistant Secretary

X ______________________________

*NOTE: In case the Secretary or other certifying officer is designated by the foregoing resolutions as one of the signing officers, this resolution should also be signed by a second Officer or Director of Borrower.

QuickLinks

Exhibit 10.22

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 10.23

Date: May 28, 2002

To: Tower Semiconductor Ltd.
P.O. Box 619
Migdal Haemek 23105
Israel
Attention: Co-Chief Executive Officer

cc: Yigal Arnon & Co.
One Azrieli Center
Tel-Aviv 67021
Israel
Attention: David H. Schapiro, Adv.

Re: ***Amendment to Payment Schedule of Series A-3 and Series A-4 Additional Purchase Obligations***

Dear Sirs,

With regard to our obligation to exercise the Series A-3 and Series A-4 Additional Purchase Obligations, as provided for in our Fab 2 Share Purchase Agreement dated December 12, 2002, all capitalized terms as defined therein, we hereby agree that our agreements shall be amended as follows:

1. ***QuickLogic Undertaking.*** We hereby confirm that in accordance with the terms set forth hereunder, we will advance the payment of the entire Series A-3 Additional Purchase Obligation by no later than May 31, 2002, without regard to whether the Series A-3 Mandatory Exercise Events occurs, and we will advance the payment of the entire Series A-4 Additional Purchase Obligation by no later than October 1, 2002, without regard to whether the Series A-4 Mandatory Exercise Events occurs.

2. ***Tower Undertaking:***

    a. In consideration of our undertaking to advance the Series A-3 Additional Purchase Obligation, by no later than May 31, 2002 without regard to whether the Series A-3 Mandatory Exercise Events occurs, (i) Tower will issue 357,166 shares fully-paid and non-assessable ordinary shares of Tower equivalent to sixty percent of the amount of the payment made in connection with the Series A-3 Additional Purchase Obligation, divided by $6.16, and (ii) our Pre-Paid Credit Account will be increased by the amount equivalent to forty percent of the amount of the payment made in connection with the Series A-3 Additional Purchase Obligation, which will be applicable against Fab 2 production purchases as soon as such production commences at Fab 2, provided that until July 1, 2005 such amounts added to the Pre-Paid Credit Account may be applied towards only 7.5% of Fab 2 wafer purchases made by us.

    b. In consideration of our undertaking to advance the Series A-4 Additional Purchase Obligation, by no later than October 1, 2002, without regard to whether the Series A-4 Mandatory Exercise Events occurs, (i) Tower will issue fully-paid and non-assessable ordinary shares of Tower equivalent to sixty percent of the amount of the payment made in connection with the Series A-4 Additional Purchase Obligation, divided by the average trading price for the ordinary shares during the 30 days preceding the date of actual payment, provided that such average trading price will not exceed $12.50, and (ii) the undersigned's Pre-Paid Credit Accounts will be increased by the amount equivalent to forty percent of the amount of the payment made in connection with the Series A-4 Additional Purchase Obligation, which will be applicable against Fab 2 production purchases as soon as such production commences at Fab 2, provided that until July 1, 2005 such amounts added to the Pre-Paid Credit Account may be applied towards only 7.5% of Fab 2 wafer purchases made by the undersigned.

---

3. ***Entire Agreement.*** All other provisions of our Fab 2 Share Purchase Agreement shall remain substantially unchanged.

QuickLogic Corp.

By: /s/ Arthur O. Whipple

Name: Arthur O. Whipple

Title: CFO

Date: 30 May 2002

	Tower Semiconductor	
	By:	/s/ Yoav Nissan-Cohen
	Name:	Yoav Nissan-Cohen
	Title:	Co-CEO
	Date:	30, May 2002

QuickLinks

EXHIBIT 10.23

EXHIBIT 99.1

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

I, E. Thomas Hart, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of QuickLogic Corporation on Form 10-Q for the fiscal quarter ended June 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of QuickLogic Corporation.

By:	/s/ E. Thomas Hart
Date:	August 2, 2002
Name:	E. Thomas Hart
Title:	Chairman, President, and Chief Executive Officer

I, Arthur O. Whipple, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of QuickLogic Corporation on Form 10-Q for the fiscal quarter ended June 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of QuickLogic Corporation.

By:	/s/ Arthur O. Whipple
Date:	August 2, 2002
Name:	Arthur O. Whipple
Title:	Chief Financial Officer