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PARKER & PARSLEY 85-B LTD
Form SC 13E3
April 17, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13E-3
RULE 13E-3 TRANSACTION STATEMENT
(Pursuant to Section 13(e) of the Securities Exchange Act of 1934)

PARKER & PARSLEY 82-I, LTD.	PARKER & PARSLEY 86-C, LTD.	PARKER & PARSLEY 87-A, LTD.
PARKER & PARSLEY 82-II, LTD.	PARKER & PARSLEY 87-A, LTD.	PARKER & PARSLEY 87-B, LTD.
PARKER & PARSLEY 83-A, LTD.	PARKER & PARSLEY 87-B, LTD.	PARKER & PARSLEY PRODUCING PROPERTIES 87-A, LTD.
PARKER & PARSLEY 83-B, LTD.	PARKER & PARSLEY PRODUCING PROPERTIES 87-A, LTD.	PARKER & PARSLEY PRODUCING PROPERTIES 87-B, LTD.
PARKER & PARSLEY 84-A, LTD.	PARKER & PARSLEY PRODUCING PROPERTIES 87-B, LTD.	PARKER & PARSLEY 88-A, L.P.
PARKER & PARSLEY 85-A, LTD.	PARKER & PARSLEY 88-A, L.P.	PARKER & PARSLEY 88-B, L.P.
PARKER & PARSLEY 85-B, LTD.	PARKER & PARSLEY 88-B, L.P.	PARKER & PARSLEY PRODUCING PROPERTIES 88-A, L.P.
PARKER & PARSLEY 86-A, LTD.	PARKER & PARSLEY PRODUCING PROPERTIES 88-A, L.P.	
PARKER & PARSLEY 86-B, LTD.		

(Name of the Issuer(s))

PIONEER NATURAL RESOURCES COMPANY
PIONEER NATURAL RESOURCES USA, INC.
(Name of Person(s) Filing Statement)

LIMITED PARTNERSHIP INTERESTS
(Title of Class of Securities)

Scott D. Sheffield
Pioneer Natural Resources Company
1400 Williams Square West
5205 North O'Connor Blvd.
Irving, Texas 75039
(972) 444-9001

WITH COPIES TO:
Robert L. Kimball
Vinson & Elkins L.L.P.
3700 Trammell Crow Center
2001 Ross Avenue
Dallas, Texas 75201
(214) 220-7700

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications on Behalf of Person(s) Filing Statement)

This statement is filed in connection with (check the appropriate box):

- (a) The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C or Rule 13e-3(c) under the Securities Exchange Act of 1934.
- (b) The filing of a registration statement under the Securities Act of 1933.
- (c) A tender offer.
- (d) None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies:

Check the following box if the filing is a final amendment reporting the

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results of the transaction: []

CALCULATION OF FILING FEE*

TRANSACTION VALUATION	AMOUNT OF FILING FEE
\$102,442,750	\$20,500

* Estimated for purposes of calculating the amount of the filing fee only. This amount is based on the issuance of Pioneer common stock and a cash payment having an aggregate value of approximately \$102,442,750 by Pioneer Natural Resources Company and Pioneer Natural Resources USA, Inc. to the partners of participating limited partnerships assuming 100% participation by those partnerships in the merger of each partnership with and into Pioneer Natural Resources USA, Inc. The amount of the filing fee calculated in accordance with Regulation 240.0-11 of the Securities Exchange Act of 1934 equals 1/50th of one percent of the value of the transaction.

[X] Check the box if any part of the fee is offset as provided by Section 240.0-11(a) (2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

Amount previously paid: \$7,800
Form or registration no.: S-4 - Preliminary Proxy Statement/Prospectus
Filing Party: Pioneer Natural Resources Company
Dated filed: April 17, 2001

Amount previously paid: \$12,700
Form or registration no.: SC13E3
Filing Party: PIONEER NATURAL RESOURCES COMPANY\
PIONEER NATURAL RESOURCES USA, INC.
Dated filed: April 17, 2001

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INTRODUCTION

This Rule 13e-3 Transaction Statement on Schedule 13e-3 is filed with the Securities and Exchange Commission by Pioneer Natural Resources Company, a Delaware corporation ("Pioneer"), and Pioneer Natural Resources USA, Inc., a Delaware corporation ("Pioneer USA"), in connection with the offer by Pioneer to purchase all outstanding limited partnership interests of 46 limited partnerships in which Pioneer USA serves as general partner. Of those 46 limited partnerships, 25 are subject to the reporting requirements of the Securities Exchange Act of 1934 (the "Reporting Partnerships"). Pioneer and Pioneer USA are affiliates of the Reporting Partnerships, which are the issuers of the class of equity securities that is the subject of the Rule 13e-3 transaction. Pioneer, Pioneer USA, the Reporting Partnerships and the remaining 21 limited partnerships that are not subject to the reporting requirements of the Securities Exchange Act of 1934 (the "Nonreporting Partnerships") expect to enter into an agreement and plan of merger (the "Merger Agreement") at the time the proxy statement/prospectus referred to below is cleared by the SEC for mailing to the limited partners. Under the Merger Agreement, the Reporting Partnerships and the Nonreporting Partnerships will be merged with and into

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Pioneer USA and the partners of each Reporting Partnership and Nonreporting Partnership will be entitled to receive an amount of Pioneer common stock and cash based on the merger value of the Reporting Partnership or Nonreporting Partnership, as applicable. The merger value for each Reporting Partnership and Nonreporting Partnership is equal to its reserve value and its net working capital, in each case as of March 31, 2001.

Concurrently with the filing of this statement, Pioneer is filing with the SEC a registration statement on Form S-4 containing a preliminary proxy statement/prospectus prepared by Pioneer and Pioneer USA. The proxy statement/prospectus solicits proxies for a special meeting of limited partners of each Reporting Partnership and Nonreporting Partnership to be held to vote on a proposal to approve and adopt the Merger Agreement and the transactions contemplated by the Merger Agreement. A copy of the preliminary proxy statement/prospectus is attached hereto as Exhibit (a) (1).

The information in the proxy statement/prospectus is hereby incorporated by reference in response to Items 1 through 15 of Schedule 13e-3, except as set forth below.

Item 2 Subject Company Information.

Prior public offerings (Item 1002(e) of Regulation M-A). Not applicable.

Item 3 Identity and Background of Filing Person.

Name and address (Item 1003(a) of Regulation M-A). The address of the directors and executive officers of each of Pioneer and Pioneer USA is c/o Pioneer Natural Resources Company, 1400 Williams Square West, 5205 North O'Connor Blvd., Irving, Texas 75039.

Business and background of entities (Item 1003(b) of Regulation M-A). None of the persons with respect to whom information is provided in response to this Item was convicted in a criminal proceeding during the past five years (excluding traffic violations or similar misdemeanors) or was a party to any judicial or administrative proceeding during the past five years (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Business and background of natural persons (Item 1003(c) of Regulation M-A). None of the persons with respect to whom information is provided in response to this Item was convicted in a criminal proceeding during the past five years (excluding traffic violations or similar misdemeanors) or was a party to any judicial or administrative proceeding during the past five years (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws. Each of the natural persons with respect to whom information is provided in response to this Item is a United States citizen.

Item 7 Purpose, Alternatives, Reasons and Effects.

Effects (Item 1013(d) of Regulation M-A). The benefits and detriments to each partnership and its unaffiliated limited partners are set forth in the following sections of the proxy statement/prospectus: Summary - Benefits to the Limited Partners, Risk Factors, The Merger of Each Partnership -Distribution of Pioneer Common Stock and Cash Payment, - Material U.S. Federal Income Tax Consequences, - Accounting Treatment, -Effect of

Merger of Each Partnership on Limited Partners Who Do Not Vote in Favor of the Merger; No Appraisal or Dissenter Rights. For purposes of quantifying the benefits and detriments of the proposed merger transaction, we have compared the merger value for each partnership to its going concern value, liquidation value, historical distributions and, if applicable, repurchase offers. See the following sections of the proxy statement/prospectus: Summary Table on pages 4 and 5, Appendix A and the supplement for each partnership.

Unlike a securities acquisition transaction, in the proposed merger transaction, each partnership will merge with and into Pioneer USA, with Pioneer USA surviving. As the survivor, Pioneer USA will own 100% of the assets and liabilities of each partnership. Pioneer and Pioneer USA will account for the merger transaction using purchase method accounting. Accordingly, the book value of each partnership (approximately \$59 million in the aggregate for all 46 partnerships) will be reflected on Pioneer's books based on the purchase price paid by Pioneer and Pioneer USA (approximately \$104.4 million, including transaction costs, in the aggregate for all 46 partnerships).

Item 13. Financial Statements.

None of the partnerships has any debt. Accordingly, the calculation of a ratio of earnings to fixed charges is not meaningful.

Item 16. Exhibits.

- (a) (1) Preliminary copies of notice of special meetings of limited partners and proxy statement/prospectus, subject to completion, dated April 2001 (incorporated by reference to Pioneer's Registration Statement on Form S-4, Registration No. 333- , filed with the SEC on April 17, 2001)
- (b) (1) \$575,000,000 Credit Agreement dated as of May 31, 2000, among Pioneer, as the borrower, Bank of America, N.A., as the administrative agent, Credit Suisse First Boston, as the documentation agent, The Chase Manhattan Bank, as the syndication agent, and certain lenders (incorporated by reference to Exhibit 10.4 to Pioneer's Quarterly Report on Form 10-Q, filed with the SEC on August 9, 2000)
- (c) (1) Form of fairness opinion of Robert A. Stanger & Co., Inc. dated , 2001 (attached as Appendix C to the proxy statement/prospectus forming a part of Pioneer's Registration Statement on Form S-4, Registration No. 333- , filed with the SEC on April 17, 2001)
- (c) (2) Reserve report of Williamson Petroleum Consultants, Inc. dated December 31, 2000 (attached as Appendix B to the proxy statement/prospectus forming a part of Pioneer's Registration Statement on Form S-4, Registration No. 333- , filed with the SEC on April 17, 2001)

[Signature page follows.]

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SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

PIONEER NATURAL RESOURCES COMPANY

By: /s/ RICHARD P. DEALY

Richard P. Dealy
Vice President and Chief Accounting
Officer

Date: April 17, 2001

PIONEER NATURAL RESOURCES USA, INC.

By: /s/ MARK L. WITHROW

Mark L. Withrow
Executive Vice President,
General Counsel and Secretary

Date: April 17, 2001

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INDEX TO EXHIBITS

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due from significant customers, we may be required to write-off inventories, provide for uncollectible accounts receivable or incur charges against long-lived assets, which would materially harm our business.

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

Our customers often evaluate our products for six 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 cancel or change their product plans. Customers may also discontinue products incorporating our devices at any time or they may choose to replace our products with lower cost semiconductors. In addition, we are working with leading customers in our target markets to define our future products. If customers cancel, reduce or delay product orders from us or choose not to release products that incorporate our devices after we have spent substantial time and resources developing products or assisting customers with their product design, our revenue levels may be less than anticipated and our business could be materially harmed.

We may not have the liquidity to support our future operations and capital requirements.

Our new products and products currently under development, have been generating lower gross margin as a percentage of revenue than the rest of our historical business due to the markets that we have targeted and the larger order quantities associated with these applications. Whether we can achieve cash flow levels sufficient to support our operations cannot be accurately predicted, and our investment portfolio is subject to a degree of interest rate and liquidity risk. Unless such cash flow levels are achieved and our investment portfolio remains liquid and its capital is preserved, we may need to borrow additional funds or sell debt or equity securities, or some combination thereof, to provide funding for our operations. Such additional funding may not be available on commercially reasonable terms, or at all. If adequate funds are not available when needed, our financial condition and operating results would be materially and adversely affected and we may not be able to operate our business without significant changes in our operations, or at all.

We depend on our relationships with third parties to manufacture our new products.

We depend upon eSilicon Corporation to manufacture certain of our new products and TowerJazz to manufacture our other new products. The inability of either eSilicon Corporation or TowerJazz to continue manufacture of our new products for any reason would require us to identify and qualify a new foundry to manufacture our new products. This would be time consuming, difficult and result in unforeseen operational problems. Alternate foundries might not be available to fabricate our new products, or if available, might be unwilling or unable to offer services on acceptable terms and our ability to operate our business or deliver our products to our customers could be severely impaired.

We depend upon partnering with other companies to develop IP, reference platforms and system software.

In addition to working directly with our customers, we partner with other companies that are experts in certain technologies to develop additional intellectual property, reference platforms and system software to provide application solutions. We also work with mobile processor manufacturers and companies that supply storage,

networking or graphics components for embedded systems. The depth of these relationships varies depending on the partner and the dynamics of the end market being targeted, but is typically a co-marketing relationship that includes joint account calls, promotional activities and/or engineering collaboration and developments, such as reference designs. If we are unable to license new technologies, maintain a close working relationship with our partners, fail to continue to develop and introduce leading technologies or if these technologies fail to generate the revenue we expect, we may not be able to compete effectively in the future.

We depend upon third parties for silicon IP, detailed RTL design, physical design, verification and assembly of our CSSP

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platforms and failure to meet our requirements in a timely fashion may adversely impact our time to market and revenue.

Our move to a variable cost or outsourced engineering development model allows us access to the best design resources for developing new CSSP platforms. This includes access to leading edge silicon IP as well as RTL design and physical design expertise. However, outsourcing the design of a complex CSSP platform typically involves multiple companies in multiple locations which increase the risk of costly design errors. Any delays or errors in the design of our new CSSP platforms could significantly increase the cost of development as well as adversely impact our time to market and revenue.

We depend upon third parties to fabricate, assemble, test and program our products, and they may discontinue manufacturing our products, fail to give our products priority, be unable to successfully manufacture our products to meet performance, volume or cost targets, or inaccurately report inventories to us.

We contract with third parties to fabricate, assemble, test and program our devices. In general, each of our devices is fabricated, assembled and programmed by a single supplier, and the loss of a supplier, transfer of manufacturing to a new location, expiration of a supply agreement or the inability of our suppliers to manufacture our products to meet volume, performance, quality and cost targets could have a material adverse effect on our business. Our relationship with our suppliers could change as a result of a merger or acquisition. If for any reason these suppliers or any other vendor becomes unable or unwilling to continue to provide services of acceptable quality, at acceptable costs and in a timely manner, our ability to operate our business or deliver our products to our customers could be severely impaired. We would have to identify and qualify substitute suppliers, which could be time consuming, difficult and result in unforeseen operational problems, or we could announce an end-of-life program for these products. Alternate suppliers might not be available to fabricate, assemble, test and program our devices or, if available, might be unwilling or unable to offer services on acceptable terms. In addition, if competition for wafer manufacturing capacity increases, if we need to migrate to more advanced wafer manufacturing technology, or if competition for assembly services increases, we may be required to pay or invest significant amounts to secure access to this capacity. The number of companies that provide these services is limited and some of them have limited operating histories and financial resources. In the event our current suppliers refuse or are unable to continue to provide these services to us, or if we are unable to secure sufficient capacity from our current suppliers on commercially reasonable terms, we may be unable to procure services from alternate suppliers in a timely manner, if at all. Moreover, our reliance on a limited number of suppliers subjects us to reduced control over delivery schedules, quality assurance and costs. This lack of control may cause unforeseen product shortages or may increase our cost to manufacture and test our products, which would adversely affect our operating results and cash flows.

We will be unable to compete effectively if we fail to anticipate product opportunities based upon emerging technologies and standards or fail to develop products and solutions that incorporate these technologies and standards in a timely manner.

We spend significant time and money designing and developing silicon solution platforms, and PSBs, and adopting emerging technologies. We intend to develop additional products and solutions and to adopt new technologies in the future. If system manufacturers adopt alternative standards or technologies, if an industry standard or emerging technology that we have targeted fails to achieve broad market acceptance, if customers choose low power offerings from our competitors, or if we are unable to bring the technologies or solutions to market in a timely and cost-effective manner, we may be unable to generate significant revenue from our research and development efforts. As a result, our business would be materially harmed and we may be required to write-off related inventories and long-lived assets.

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

Our agreements with certain suppliers require us to provide forecasts of our anticipated manufacturing orders, and place binding manufacturing commitments in advance of receiving purchase orders from our customers. We are limited in our ability to increase or decrease our forecasts under such agreements. Other manufacturers supply us with product on a purchase order basis. The allocation of capacity is determined solely by our suppliers over which we

have no direct control. Additionally, we may place orders with our suppliers in advance of customer orders to allow us to quickly respond to changing customer demand or to obtain favorable product costs. Furthermore, we provide our suppliers with equipment which is used to program our products to customer specifications. The programming equipment is manufactured to our specifications and has significant order lead times. These factors may result in product shortages or excess product inventories. Obtaining additional supply in the face of product, programming equipment or capacity shortages may be costly, or not possible, especially in the short term since most of our products and programming equipment are supplied by a single supplier. Our failure to adequately forecast demand for our products could materially harm our business.

Our approach to developing solutions for potential customers involves developing CSSPs for and aligning our roadmap with application processor and flash memory vendors. We have entered into informal partnerships with other parties

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that involve the development of solutions that interface with their devices or standards. These informal partnerships also may involve joint marketing campaigns and sales calls. If our solutions are not incorporated into customer products, if our partners discontinue production of or integration of our solution into their product offerings, or if the informal partnerships do not grow as expected or if they are significantly reduced or terminated by acquisition or other means, our revenue and gross margin will be materially harmed and we may be required to write-off related inventories and long-lived assets. Fluctuations in our manufacturing processes, yields and quality, especially for new products, may increase our costs.

Difficulties encountered during the complex semiconductor manufacturing process can render a substantial percentage of semiconductor devices nonfunctional. New manufacturing techniques or fluctuations in the manufacturing process may change the performance distribution and yield of our products. We have, in the past, experienced manufacturing runs that have contained substantially reduced or no functioning devices, or that generated devices with below normal performance characteristics. Our reliance on third party suppliers may extend the period of time required to analyze and correct these problems. Once corrected, our customers may be required to redesign or requalify their products. As a result, we may incur substantially higher manufacturing costs, shortages of inventories or reduced customer demand. Yield fluctuations frequently occur in connection with the manufacture of newly introduced products, with changes in product architecture, with manufacturing at new facilities, on new fabrication processes or in conjunction with new backend manufacturing processes. Newly introduced solutions and products are often more complex and more difficult to produce, increasing the risk of manufacturing related defects. New manufacturing facilities or processes are often more complex and take a period of time to achieve expected quality levels and manufacturing efficiencies. While we test our products, including our software development tools, they may still contain errors or defects that are found after we have commenced commercial production. Undetected errors or defects may also result from new manufacturing processes or when new intellectual property is incorporated into our products. If our products or software development tools contain undetected or unresolved defects, we may lose market share, experience delays in or loss of market acceptance, reserve or scrap inventories or be required to issue a product recall. In addition, we would be at risk of product liability litigation if defects in our products were discovered. Although we attempt to limit our liability to end users through disclaimers of special, consequential and indirect damages and similar provisions, we cannot assure you that such limitations of liability will be legally enforceable.

We may be unable to accurately estimate quarterly revenue, which could adversely affect the trading price of our stock.

Due to our relatively long product delivery cycle and the inability of our customers in the rapidly evolving mobile market to confirm product requirements on a timely basis, we may have low visibility to product demand in any given quarter. If our customers cannot provide us with accurate delivery lead times, we may not be able to deliver product to our customers in a timely fashion. Furthermore, our ability to respond to increased demand is limited to inventories on hand or on order, the capacity available at our contract manufacturers and our capacity to program products to customer specifications. If we fail to accurately estimate customer demand, record revenue, or if our available capacity is less than needed to meet customer demand, our results of operations could be harmed and our stock price could materially fluctuate.

We have a history of losses and cannot assure you that we will be profitable in the future.

We have a history of losses having recorded a net loss in 2012 and in 2011. Although we achieved profitability in 2010, we cannot predict when we may return to profitability.

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 past operating results may not be an indicator of future operating results. 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 include, without limitation: (i) successful development and market acceptance of our products and solutions; (ii) our ability to accurately forecast product volumes and mix, and

to respond to rapid changes in customer demand; (iii) changes in sales volume or expected sales volume, product mix, average selling prices or production variances that affect gross profit; (iv) the effect of end-of-life programs; (v) a significant change in sales to, or the collectibility of accounts receivable from, our largest customers; (vi) our ability to adjust our product features, manufacturing capacity and costs in response to economic and competitive pressures; (vii) our reliance on subcontract manufacturers for product capacity, yield and quality; (viii) our competitors' product portfolio and product pricing policies; (ix) timely implementation of efficient manufacturing technologies; (x) errors in applying or changes in accounting and

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corporate governance rules; (xi) the issuance of equity compensation awards or changes in the terms of our stock plan or employee stock purchase plan; (xii) mergers or acquisitions; (xiii) the impact of import and export laws and regulations; (xiv) the cyclical nature of the semiconductor industry and general economic, market, political and social conditions in the countries where we sell our products and the related effect on our customers, distributors and suppliers; and (xv) our ability to obtain capital, debt financing and insurance on commercially reasonable terms. 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, our business may be materially harmed.

We may encounter periods of industry wide semiconductor oversupply, resulting in pricing pressure, 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 of and demand for semiconductors has been widely out of balance. An industry wide semiconductor oversupply could result in severe downward pricing pressure from customers. In a market with undersupply of manufacturing capacity, we would have to compete with larger foundry and assembly customers for limited manufacturing resources. In such an environment, we may be unable to have our products manufactured in a timely manner, at a cost that generates adequate gross profit or in sufficient quantities. Since we outsource all of our manufacturing and generally have a single source of wafer supply, test, assembly and programming for our products, we are particularly vulnerable to such supply shortages and capacity limitations. As a result, we may be unable to fulfill orders and may lose customers. Any future industry wide oversupply or undersupply of semiconductors could materially harm our business.

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 depends upon our ability to attract and retain highly competent personnel. Our employees are at-will and not subject to employment contracts. Hiring and retaining qualified sales, technical and financial personnel are difficult due to the limited number of qualified professionals, economic conditions and the size of our company. In addition, new hires frequently require extensive training before they achieve desired levels of productivity. Failure to attract, hire, train and retain personnel could materially harm our business.

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 Asia, South Asia and the Middle East regions. As a result, these manufacturing operations and new product introductions are subject to risks of political instability.

A significant portion of our total revenue comes from sales to customers located outside the United States. We anticipate that sales to customers located outside the United States will continue to represent a significant portion of our total revenue in future periods. In addition, most of our domestic customers sell their products outside of North America, thereby indirectly exposing us to risks associated with foreign commerce and economic instability. In addition to overseas sales offices, we have significant research and development activities in Canada and India. Accordingly, our operations and revenue are subject to a number of risks associated with foreign commerce, including the following: (i) staffing and managing foreign offices; (ii) managing foreign distributors; (iii) collecting amounts due; (iv) political and economic instability; (v) foreign currency exchange fluctuations; (vi) changes in tax laws, import and export regulations, tariffs and freight rates; (vii) timing and availability of export licenses; (viii) supplying products that meet local environmental regulations; and (ix) inadequate protection of intellectual property rights. We denominate sales of our products to 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 their local currency. As a result, sales of our products in that foreign country may decline. If the local currency of a foreign country in which we conduct business strengthens against the U.S. dollar, our payroll and other local expenses will be higher, and since sales are transacted in U.S. dollars, would not be offset by any increase in revenue. To the extent any such risks materialize, our business could be materially harmed.

In addition, we incur costs in foreign countries that may be difficult to reduce quickly because of employee related laws and practices in those foreign countries.

Our CSSPs face competition from suppliers of ASSPs, suppliers of integrated application processors, and suppliers of ASICs.

We face competition from companies that offer ASSPs. While it is difficult to provide a unique solution through the

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use of ASSPs, ASSPs generally are cost effective standard products and have short lead times. In certain design opportunities, ASSPs can be combined to achieve system design objectives. Manufacturers of integrated application processors often integrate new features when they introduce new products. A system designer could elect the use of an integrated processor that includes the features offered in our CSSPs and/or a widely accepted feature of our CSSPs could be integrated into a competitor's ASSP. Companies that supply ASICs, which may be purchased for a lower price at higher volumes and typically have greater logic capacity, additional features and higher performance than our products. Our inability to successfully compete in any of the following areas could materially harm our business: (i) the development of new products, CSSPs and advanced manufacturing technologies; (ii) the quality, power characteristics, performance characteristics, price and availability of devices, programming hardware and software development tools; (iii) the ability to engage with companies that provide synergistic products and services; (iv) the incorporation of industry standards in our products and solutions; (v) the diversity of product offerings available to customers; or (vi) the quality and cost effectiveness of design, development, manufacturing and marketing efforts. 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 that are central to our existing and future products. From time to time, we receive letters alleging patent infringement or inviting us to license other parties' patents. We evaluate these requests on a case-by-case basis. These situations may lead to litigation if we reject the offer to obtain the license.

In the past, we have been involved in litigation relating to our alleged infringement of third party patents or other intellectual property rights. This type of litigation is expensive and consumes large amounts of management time and attention.

Because it is critical to our success that we continue 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 other third parties. However, these parties 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 the laws of the United States.

The market price of our common stock may fluctuate significantly and could lead to securities litigation.

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. In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of its securities. In the future, we may be the subject of similar litigation. Securities litigation could result in substantial costs and divert management's attention.

We may engage in manufacturing, distribution or technology agreements that involve numerous risks, including the use of cash, diversion of resources and significant write-offs.

We have entered into and, in the future, intend to enter into agreements that involve numerous risks, including the use of significant amounts of our cash; diversion of resources from other development projects or market opportunities; our ability to collect amounts due under these contracts; and market acceptance of related products and solutions. If we fail to recover the cost of these or other assets from the cash flow generated by the related products, our assets will become impaired and our financial results would be harmed.

Our business is subject to the risks of earthquakes, other catastrophic events and business interruptions for which we may maintain limited insurance.

Our operations and the operations of our suppliers are vulnerable to interruption by fire, earthquake, power loss, flood, terrorist acts and other catastrophic events beyond our control. In particular, our headquarters are located near

earthquake fault lines in the San Francisco Bay Area. In addition, we rely on certain suppliers to manufacture our products and would not be able to qualify an alternate supplier of our products for several quarters. Our suppliers often hold significant quantities of our

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inventories which, in the event of a disaster, could be destroyed. In addition, our business processes and systems are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering. Any catastrophic event, such as an earthquake or other natural disaster, the failure of our computer systems, war or acts of terrorism, could significantly impair our ability to maintain our records, pay our suppliers, or design, manufacture or ship our products. The occurrence of any of these events could also affect our customers, distributors and suppliers and produce similar disruptive effects upon their business. If there is an earthquake or other catastrophic event near our headquarters, our customers' facilities, our distributors' facilities or our suppliers' facilities, our business could be seriously harmed.

We do not maintain sufficient business interruption and other insurance policies to compensate us for all losses that may occur. Any losses or damages incurred by us as a result of a catastrophic event or any other significant uninsured loss could have a material adverse effect on our business.

Our Certificate of Incorporation, Bylaws and Delaware law contain provisions that could discourage a takeover that is beneficial to stockholders.

Provisions of our Certificate of Incorporation, our Bylaws and Delaware law could make it difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders.

If we do not maintain compliance with the listing requirements of the Nasdaq Global Market, our common stock could be delisted, which could, among other things, reduce the price of our common stock and the levels of liquidity available to our stockholders.

We are listed on the Nasdaq Global Market and our securities could be delisted in the future if we do not continue to meet the specific quantitative standards of the Nasdaq Global Market.

Changes to existing accounting pronouncements or taxation rules or practices may cause adverse revenue fluctuations, affect our reported financial results or how we conduct our business.

Generally accepted accounting principles, or GAAP, are promulgated by, and are subject to the interpretation of the Financial Accounting Standards Board, or FASB, and the SEC. New accounting pronouncements or taxation rules and varying interpretations of accounting pronouncements or taxation practices have occurred and may occur in the future.

Any future changes in accounting pronouncements or taxation rules or practices may have a significant effect on how we report our results and may even affect our reporting of transactions completed before the change is effective. In addition, a review of existing or prior accounting practices may result in a change in previously reported amounts.

This change to existing rules, future changes, if any, or the questioning of current practices may adversely affect our reported financial results, our ability to remain listed on the Nasdaq Global Market, or the way we conduct our business and subject us to regulatory inquiries or litigation.

We have implemented import and export control procedures to comply with United States regulations but we are still exposed to potential risks from import and export activity.

Our products, solutions, technology and software are subject to import and export control laws and regulations which, in some instances, may impose restrictions on business activities, or otherwise require licenses or other authorizations from agencies such as the U.S. Department of State, U.S. Department of Commerce and U.S. Department of the Treasury. These restrictions may impact deliveries to customers or limit development and manufacturing alternatives.

We have import and export licensing and compliance procedures in place for purposes of conducting our business consistent with U.S. and applicable international laws and regulations, and we periodically review these procedures to maintain compliance with the requirements relating to import and export regulations. If we are not able to remain in compliance with import and export regulations, we might be subject to investigation, sanctions or penalties by regulatory authorities. Such penalties can include civil, criminal or administrative remedies such as loss of export privileges. We cannot be certain as to the outcome of an evaluation, investigation, inquiry or other action or the impact of these items on our operations. Any such action could adversely affect our financial results and the market price of our common stock.

ITEM 1B.UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2.PROPERTIES

Our principal administrative, sales, marketing, research and development and final testing facility is located in a building of approximately 42,600 square feet in Sunnyvale, California. This facility is leased through December 2015. We have

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subleased approximately 8,000 square feet of this facility through June 2013. Our research and development facility in Toronto, Canada, consisting of approximately 2,059 square feet, is leased through August 2013. We lease a 4,500 square foot facility in Bangalore, India for the purpose of software development. This facility is leased through November 2013. We also lease office space in Shanghai, China; London, England; Tokyo, Japan; and Taipei, Taiwan. We believe that our existing facilities are adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has been traded on the Nasdaq Global Market under the symbol "QUIK" since October 15, 1999, the date of our initial public offering. The following table sets forth, for the periods indicated, the high and low closing sales prices for our common stock, as reported on the Nasdaq Global Market:

	High	Low
Fiscal Year Ending December 30, 2012:		
Fourth Quarter (through December 30, 2012)	\$3.00	\$1.88
Third Quarter (through September 30, 2012)	\$3.22	\$2.06
Second Quarter (through July 1, 2012)	\$3.58	\$2.03
First Quarter (through April 1, 2012)	\$3.13	\$2.43
Fiscal Year Ending January 1, 2012:		
Fourth Quarter (through January 1, 2012)	\$3.13	\$1.92
Third Quarter (through October 2, 2011)	\$4.44	\$2.29
Second Quarter (through July 3, 2011)	\$5.08	\$2.60
First Quarter (through April 3, 2011)	\$6.65	\$4.52

Stockholders

The closing price of our common stock on the Nasdaq Global Market was \$2.13 per share on February 25, 2013. As of February 25, 2013, there were 44,520,734 shares of common stock outstanding that were held of record by 216 stockholders. The actual number of stockholders is greater than this number of holders of record since this number does not include stockholders whose shares are held in trust by other entities.

Dividend Policy

We have never declared or paid any dividends on our capital stock. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Equity Compensation Plan Information

The information required by this item regarding equity compensation plans is set forth under the caption "Equity Compensation Plan Summary" in our Proxy Statement which information is incorporated by reference herein.

Shelf Registration

On August 21, 2009, the Company filed a shelf registration statement on Form S-3, which was declared effective on September 2, 2009 and which expired in September 2012.

On November 17, 2009, the Company issued 4,305,929 shares of common stock and warrants to purchase up to an aggregate of 3,229,446 shares of common stock in a registered direct offering under the shelf registration statement. The common stock and warrants were issued in units (the "Units"), with each Unit consisting of (i) one share of common stock and (ii) a warrant to purchase 0.75 of a share of common stock, at a negotiated purchase price of \$1.45 per Unit. The Company received net proceeds from the offering of \$5.5 million, net of placement agent fees and other offering expenses of \$774,000.

On June 1, 2012, the Company filed a registration statement on Form S-3 MEF to increase the amount of securities that may be sold under the shelf registration statement by \$3,362,600.

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In June 2012, the Company issued an aggregate of 5,122,000 shares of common stock and warrants to purchase up to an aggregate of 2,304,900 shares of common stock in a confidentially marketed underwritten offering. The common stock and warrants were issued in units (the “Units”), with each Unit consisting of (i) one share of common stock and (ii) a warrant to purchase 0.45 of a share of common stock, at a price of \$2.50 per Unit. The Company received total net proceeds from the offering of \$11.9 million, net of underwriting discounts and other offering expenses of \$929,000. The warrants are exercisable any time for a period of 60 months from the date of issuance on June 6, 2012, and are exercisable at a price of \$2.98 per share.

Stock Performance Graph

The following graph compares the cumulative total return to stockholders of our common stock from December 31, 2007 to December 31, 2012 to the cumulative total return over such period of (i) the S&P 500 Index and (ii) the S&P Semiconductors Index. The graph assumes that \$100 was invested on December 31, 2007 in QuickLogic's common stock and in each of the other two indices and the reinvestment of all dividends, if any, through December 31, 2012.

The information contained in the Performance Graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that QuickLogic specifically incorporates it by reference into any such filing. The graph is presented in accordance with SEC requirements. Stockholders are cautioned against drawing any conclusions from the data contained therein, as past results are not necessarily indicative of future performance.

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ITEM 6. SELECTED FINANCIAL DATA

	Fiscal Years				
	2012	2011	2010	2009	2008
	(in thousands, except per share amount)				
Statement of Operations:					
Revenue	\$14,944	\$20,969	\$26,199	\$15,074	\$31,910
Cost of revenue	7,878	8,517	9,609	7,715	14,941
Long-lived asset impairment ⁽¹⁾	—	—	—	150	1,545
Gross profit	7,066	12,452	16,590	7,209	15,424
Operating expenses:					
Research and development	8,743	9,836	7,458	6,203	8,185
Selling, general and administrative	10,481	9,965	10,073	10,617	14,049
Long-lived asset impairment ⁽¹⁾	—	—	—	—	468
Restructuring costs ⁽³⁾	—	—	—	59	502
Income (loss) from operations	(12,158	) (7,349	) (941	) (9,670	) (7,780
Write-down of investment in TowerJazz Semiconductor Ltd. ⁽²⁾	—	—	—	—	(1,398
Gain on sale of TowerJazz Semiconductor Ltd. shares ⁽⁴⁾		—	993		
Interest expense	(61	) (36	) (67	) (93	) (225
Interest income and other, net	(77	) (159	) (46	) (54	) (6
Income (loss) before income taxes	(12,296	) (7,544	) (61	) (9,817	) (9,409
Provision for (benefit from) income taxes	18	50	(184	) (63	) (54
Net income (loss)	\$(12,314	) \$(7,594	) \$123	) \$(9,754	) \$(9,355
Net income (loss) per share:					
Basic	\$(0.29	) \$(0.21	) \$—	) \$(0.32	) \$(0.32
Diluted	\$(0.29	) \$(0.21	) \$—	) \$(0.32	) \$(0.32
Weighted average shares:					
Basic	41,831	36,792	35,729	30,739	29,653
Diluted	41,831	36,792	39,038	30,739	29,653
	December 30,	January 1,	January 2,	January 3,	December 28,
	2012	2012	2011	2010	2008
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$22,578	\$20,203	\$21,956	\$18,195	\$19,376
Working capital	24,840	22,840	26,933	18,097	17,407
Total assets	31,024	28,963	33,628	27,601	28,426
Long-term obligations, excluding current portion	266	146	—	264	—
Total stockholders' equity	27,278	24,938	29,313	21,259	21,862

Long-lived asset impairment in 2009 consisted of a \$150,000 non-cash charge relating to the write-down of the carrying value of the TowerJazz prepaid wafer credit. Long-lived asset impairment of \$2.0 million in 2008

(1) consisted of non-cash charges relating to the write-down of the carrying value of (i) the TowerJazz prepaid wafer credit of about \$1.3 million; (ii) the equipment used in the production of a particular silicon device of \$199,000 and (iii) unutilized EDA licenses of \$468,000.

(2)

Write-down of marketable securities consisted of a non-cash charge of \$1.4 million in 2008 for the write-down of our equity investment in TowerJazz Semiconductor Ltd. to fair value.

- (3) Restructuring costs of \$59,000 and \$502,000 in 2009 and 2008, respectively, consisted of additional severance benefits relating to the restructuring costs that occurred in the second quarter of 2008.
- (4) During the first quarter of 2010, the Company sold 700,000 of TowerJazz ordinary shares which resulted in a gain of \$993,000.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes included in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties including those discussed under Part I, Item 1A, "Risk Factors." These risks and uncertainties may cause actual results to differ materially from those discussed in the forward-looking statements.

Overview

We develop and market low power customizable semiconductor solutions that enable customers to add new differentiated features to, extend battery life in, and improve their visual experience with their mobile, consumer and enterprise products. Our targeted mobile market segments include Tablets, Smartphones, Mobile Enterprise, Pico Projectors, Broadband Access Data cards, and Secure Access Data cards. Our solutions typically fall into one of three categories: Display & Visual Enhancement, Smart Connectivity, and Security. We are a fabless semiconductor company designing Customer Specific Standard Products, or CSSPs, which are complete, customer-specific solutions that include a combination of silicon solution platforms; Proven System Blocks, or PSBs; customer-specific logic; software drivers; and firmware. Our main platform families, ArcticLink and PolarPro, are standard silicon products. PSBs that have been developed and that are available to customers include our Visual Enhancement Engine, or VEE, Display Power Optimizer, or DPO, and Background Color Compensator (BCC) technologies; SDHD/eMMC Host Controllers; USB 2.0 On-The-Go with PHY; MIPI Host/Device with DPHY, LVDS, MDDI Client with PHY; High Speed UARTs; Pulse Width Modulators; SPI and I2C hosts, display-specific functions such as RGB-split and Frame Recyclers; and Data Performance Manager, or DPM, for accelerated sideload times. The variety of PSBs offered by us allows system designers to combine multiple discrete chips onto a single CSSP, simplifying design and board layout, lowering BOM cost, and accelerating time-to-market. The programmable logic of the platforms is used for adding differentiated features and provides flexibility to address hardware-based product requirements quickly. Utilizing a focused customer engagement model, we market CSSPs to Original Equipment Manufacturers, or OEMs, and Original Design Manufacturers, or ODMs, that offer differentiated mobile products, and to processor vendors wishing to expand their served available market through the deployment of reference designs to their customers. Our solutions enable OEMs and ODMs to add new features, extend battery life, and improve the visual experience of their handheld mobile devices. In addition to working directly with our customers, we partner with other companies with expertise in certain technologies to develop additional intellectual property, reference platforms and system software to provide application solutions.

We also work with mobile processor manufacturers in the development of reference designs or "Catalog" CSSPs. Through reference designs that incorporate our CSSPs, we believe mobile processor manufacturers can expand the served available market for their processors. Furthermore, should a CSSP development for a processor manufacturer be applicable to a set of common OEMs or ODMs, we can amortize our R&D investment over that set of OEMs/ODMs. We call this type of solution a Catalog CSSP. The first such Catalog CSSP was developed in conjunction with Texas Instruments, and introduced to the market during the second half of 2012. We are placing a greater emphasis on developing and marketing Catalog CSSPs in the future.

In order to grow our revenue from its current level, we are dependent upon increased revenue from our new products including existing new product platforms and platforms currently in development. We expect our business growth to be driven by CSSPs and our CSSP revenue growth needs to be strong enough to enable us to sustain profitability while we continue to invest in the development, sales and marketing of our new solution platforms, PSBs and CSSPs. The gross margin associated with our CSSPs is generally lower than the gross margin of our FPGA products, due primarily to the price sensitive nature of the higher volume mobile consumer opportunities that we are pursuing with CSSPs.

During 2012, we generated total revenue of \$14.9 million which represents a 29% decrease over 2011. Our new product revenue was \$5.9 million which represents a 11% increase over 2011 while our mature product revenue was \$9.0 million which represents a 42% decrease over 2011. We shipped our new products into all five of our targeted mobile market segments: Smartphones, Broadband Access Data Cards, Mobile Enterprise, Secured Access Data Cards, and Tablet. Although we saw demand for our mature products in 2012, we anticipate that our revenue from mature products will continue to decline. Overall, we reported a net loss of \$12.3 million for 2012.

Critical Accounting Policies and Estimates

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant

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impact on the results we report in our consolidated financial statements. The SEC has defined critical accounting policies as those that are most important to the portrayal of our financial condition and results of operations and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our critical policies include revenue recognition including sales returns and allowances, valuation of inventories including identification of excess quantities and product obsolescence, allowance for doubtful accounts, valuation of investments, valuation of long-lived assets, measurement of stock-based compensation, accounting for income taxes, and estimating accrued liabilities. We believe that we apply judgments and estimates in a consistent manner and that such consistent application results in consolidated financial statements and accompanying notes that fairly represent all periods presented. However, any factual errors or errors in these judgments and estimates may have a material impact on our financial statements.

Revenue Recognition

We supply standard products which must be programmed before they can be used in an application. Our products may be programmed by us, distributors, end-customers or third parties. Once programmed, our parts cannot be erased and, therefore, programmed parts are generally only useful to a specific customer.

We recognize revenue as products are shipped if evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, collection of the resulting receivable is reasonably assured and product returns are reasonably estimable. Revenue is recognized upon shipment of programmed and unprogrammed parts to OEM customers, provided that legal title and risk of ownership have transferred. Parts held by distributors may be returned for quality reasons only under our standard warranty policy. Revenue is recognized upon the shipment of programmed and unprogrammed parts to distributors throughout 2012.

Valuation of Inventories

Inventories are stated at the lower of standard cost or net realizable value. Standard cost approximates actual cost on a first-in, first-out basis. We routinely evaluate quantities and values of our inventories in light of current market conditions and market trends and record reserves for quantities in excess of demand and product obsolescence. The evaluation may take into consideration historic usage, expected demand, anticipated sales price, the stage in the product life cycle of our customers' products, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer design activity, customer concentrations, product merchantability and other factors. Market conditions are subject to change. Actual consumption of inventories could differ from forecasted demand and this difference could have a material impact on our gross margin and inventory balances based on additional provisions for excess or obsolete inventories or a benefit from inventories previously written down. We also regularly review the cost of inventories against estimated market value and record a lower of cost or market reserve for inventories that have a cost in excess of estimated market value, which could have a material impact on our gross margin and inventory balances based on additional write-downs to net realizable value or a benefit from inventories previously written down.

Our semiconductor products have historically had an unusually long product life cycle and obsolescence has not been a significant factor in the valuation of inventories. However, as we pursue opportunities in the mobile market and continue to develop new products, we believe our new product life cycle will be shorter and increase the potential for obsolescence. A significant decrease in demand could result in an increase in the amount of excess inventory on hand. Although we make every effort to ensure the accuracy of our forecasts of future product demand, due to our small customer base and limited CSSP engagements, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and our results of operations.

Valuation of Investments

At December 30, 2012, we held 42,970 TowerJazz ordinary shares valued at approximately \$345,000, all of which was recorded as an available-for-sale short-term investment. The number of TowerJazz ordinary shares held by the Company reflect the 1 to 15 reverse stock split implemented by TowerJazz effective August 3, 2012.

Our investment is marked to market on our balance sheet at the end of each reporting period with the change in unrealized market value reflected in our consolidated statement of comprehensive income. If the market value of the shares were to decline below the carrying value and if the decline is determined to be "other than temporary," we would record a write-down of marketable securities as a charge to our statement of operations and reduce the carrying value of the shares.

The TowerJazz shares which we purchased in 2001 and 2002 as part of our wafer supply agreement were obtained at an average price of \$12.84 per share and \$5.46 per share, respectively. We wrote down the cost of these shares due to declines

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in their market value that we determined to be “other than temporary” by \$15.1 million between 2001 and 2008. This determination included factors such as market value and the period of time that the market value had been below the carrying value. At December 30, 2012, we had a net unrealized loss of \$11,000 on the value of our net investment in TowerJazz. The carrying value of the TowerJazz ordinary shares was \$8.04 per share as of the end of 2012.

Valuation of Long-Lived Assets

We assess annually whether the value of identifiable intangibles and long-lived assets, including property and equipment and prepaid wafer credits, has been impaired and when events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. There were no significant factors that triggered an impairment review during the fiscal year 2012.

Our assessment of possible impairment is based on our ability to recover the carrying value of an asset or asset group from their expected future pre-tax cash flows, undiscounted and without interest charges, of the related operations. If these cash flows are less than the carrying value of the asset or asset group, we recognize an impairment loss for the difference between estimated fair value and carrying value, and the carrying value of the related assets is reduced by this difference. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets.

Stock-Based Compensation

We account for stock-based compensation under the provisions of the amended authoritative guidance and related interpretations which require the measurement and recognition of expense related to the fair value of stock-based compensation awards. The fair value of stock-based compensation awards is measured at the grant date and re-measured upon modification, as appropriate. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the date of grant require judgment.

We use the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under the Company's 2009 Stock Plan and 2009 Employee Stock Purchase Plan, or ESPP, consistent with the provisions of the amended authoritative guidance. This fair value is expensed on a straight-line basis over the requisite service period of the award. Using the Black-Scholes pricing model requires us to develop highly subjective assumptions including the expected term of awards, expected volatility of our stock, expected risk-free interest rate and expected dividend rate over the term of the award. Our expected term of awards is based primarily on our historical experience with similar grants. Our expected stock price volatility for both stock options and ESPP shares is based on the historic volatility of our stock, using the daily average of the opening and closing prices and measured using historical data appropriate for the expected term. The risk-free interest rate assumption approximates the risk-free interest rate of a Treasury Constant Maturity bond with a maturity approximately equal to the expected term of the stock option or ESPP shares.

In addition to the assumptions used in the Black-Scholes pricing model, the amended authoritative guidance requires that we recognize compensation expense only for awards ultimately expected to vest; therefore we are required to develop an estimate of the historical pre-vest forfeiture experience and apply this to all stock-based awards. The fair value of restricted stock awards, or RSAs, and restricted stock units, or RSUs, is based on the closing price of our common stock on the date of grant. RSA and RSU awards which vest with service are expensed over the requisite service period. RSAs and RSU awards which are expected to vest based on the achievement of a performance goal are expensed over the estimated vesting period. We regularly review the assumptions used to compute the fair value of our stock-based awards and we revise our assumptions as appropriate. In the event that assumptions used to compute the fair value of our stock-based awards are later determined to be inaccurate or if we change our assumptions significantly in future periods, stock-based compensation expense and our results of operations could be materially

impacted. See Note 11 of our consolidated financial statements.

Accounting for Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from different tax and accounting treatment of items, such as deferred revenue, allowance for doubtful accounts, the impact of equity awards, depreciation and amortization, and employee related accruals. These differences result in deferred tax assets and liabilities, which are included on our balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

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Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. Our deferred tax assets, consisting primarily of net operating loss carryforwards, amounted to \$60.3 million as of the end of 2012. We have also recorded a valuation allowance of \$60.2 million as of the end of 2012 due to uncertainties related to our ability to utilize our U.S. deferred tax assets before they expire. The valuation allowance is based on the uncertainty of our estimates of taxable income and the period over which we expect to recover our deferred tax assets.

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Results of Operations

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

	Fiscal Years				
	2012	2011	2010		
Statement of Operations:					
Revenue	100.0	% 100.0	% 100.0	%	
Cost of revenue	52.7	% 40.6	% 36.7	%	
Gross profit	47.3	% 59.4	% 63.3	%	
Operating expenses:					
Research and development	58.5	% 46.9	% 29.0	%	
Selling, general and administrative	70.1	% 47.5	% 38.4	%	
Income (loss) from operations	(81.3	)% (35.0	)% (4.1)%	
Gain on sale of TowerJazz Semiconductor Ltd.	—	% —	% 3.8	%	
Interest expense	(0.4	)% (0.2	)% (0.3)%	
Interest income and other (expense), net	(0.5	)% (0.8	)% (0.2)%	
Income (loss) before income taxes	(82.2	)% (36.0	)% (0.3)%	
Provision for (benefit from) income taxes	0.1	% 0.2	% (0.7)%	
Net income (loss)	(82.3	)% (36.2	)% 0.4	%	

	Fiscal Years		
	2012	2011	2010
Revenue by product family ⁽¹⁾ (in thousands):			
New products	\$5,920	\$5,326	\$9,388
Mature products	9,024	15,643	16,811
Total revenue	\$14,944	\$20,969	\$26,199

For all periods presented: New products represent products introduced since 2005, and include ArcticLink®, ArcticLink II, ArcticLink III, Eclipse™ II, PolarPro PolarPro II, and QuickPCI® II. Mature products include Eclipse, EclipsePlus, pASIC® 1, pASIC 2, pASIC 3, QuickFC, QuickMIPS, QuickPCI, QuickRAM®, and V3, as well as royalty revenue, programming hardware and software.

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Comparison of Fiscal Years 2012 and 2011

Revenue. The table below sets forth the changes in revenue for fiscal year 2012 as compared to fiscal year 2011 (in thousands, except percentage data):

	Fiscal Years 2012		2011		Year-Over-Year Change		
	Amount	% of Total Revenues	Amount	% of Total Revenues			
Revenue by product family ⁽¹⁾ :							
New products	\$5,920	40	% \$5,326	25	% \$594	11	%
Mature products	9,024	60	% 15,643	75	% (6,619	) (42)%
Total revenue	\$14,944	100	% \$20,969	100	% \$(6,025	) (29)%

(1) For all periods presented: New products represent products introduced since 2005, and include ArcticLink, ArcticLink II, ArcticLink III, Eclipse II, PolarPro, PolarPro II, and QuickPCI II. Mature products include Eclipse, EclipsePlus, pASIC 1, pASIC 2, pASIC 3, QuickFC, QuickMIPS, QuickPCI, QuickRAM, and V3, as well as royalty revenue, programming hardware and software.

The decrease in revenue was mainly due to the decrease in mature product revenue. The lower mature product revenue was a result of low bookings from our customers in the aerospace, test and instrumentation sectors in 2012. One of our U.S. customers, purchasing primarily pASIC 3 devices, accounted for 14% and 15% of total revenue in fiscal years 2012 and 2011, respectively.

In order to grow our revenue from its current level, we are dependent upon increased revenue from our new products, especially revenue from CSSPs designed using our ArcticLink, ArcticLink II, ArcticLink III, PolarPro and PolarPro II solution platforms and the development of additional new products and CSSPs.

We continue to seek to expand our revenue, including pursuing high volume sales opportunities in our target market segments, by providing CSSPs incorporating intellectual property such as our VEE/DPO technologies, or industry standard interfaces such as USB 2.0 OTG, MIPI, LVDS, SDIO, Camera Interface, or CAMIF, I2C, SPI, PWM and keyboard controllers. Our industry is characterized by intense price competition and by lower margins as order volumes increase. While winning large volume sales opportunities will increase our revenue, we believe these opportunities may decrease our gross profit as a percentage of revenue.

Gross Profit. The table below sets forth the changes in gross profit for fiscal year 2012 as compared to fiscal year 2011 (in thousands, except percentage data):

	Fiscal Years 2012		2011		Year-Over-Year Change		
	Amount	% of Total Revenues	Amount	% of Total Revenues			
Revenue	\$14,944	100	% \$20,969	100	% \$(6,025	) (29)%
Cost of revenue	7,878	53	% 8,517	41	% (639	) (8)%
Gross Profit	\$7,066	47	% \$12,452	59	% \$(5,386	) (43)%

The decrease in gross profit in 2012 as compared to 2011 was mainly due to lower revenue, higher unabsorbed overhead and the mix of product shipped in 2012. In addition, the decrease in gross profit was partially offset by the sale of previously reserved inventories of \$599,000 and \$336,000 in 2012 and 2011, respectively.

Our semiconductor products have historically had a long product life cycle and obsolescence has not been a significant factor in the valuation of inventories. However, as we pursue opportunities in the mobile market and continue to develop new CSSPs and products, we believe our product life cycle will be shorter and increase the potential for obsolescence. We also regularly review the cost of inventories against estimated market value and record a lower of cost or market reserve for

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inventories that have a cost in excess of estimated market value. This could have a material impact on our gross margin and inventory balances based on additional write-downs to net realizable value or a benefit from inventories previously written down.

Operating Expenses. The table below sets forth the changes in operating expenses for fiscal year 2012 as compared to fiscal year 2011 (in thousands, except percentage data):

	Fiscal Years			Fiscal Years		Year-Over-Year
	2012			2011			Change
	Amount	% of Total Revenues	Amount	% of Total Revenues		
R&D expense	\$8,743	59	% \$9,836	47	% \$(1,093	) (11)%
SG&A expense	10,481	70	% 9,965	48	% 516	5)%
Total operating expenses	\$19,224	129	% \$19,801	95	% \$(577	) (3)%

Research and Development Expense. Our research and development expenses consist primarily of personnel, overhead and other costs associated with engineering process improvements, programmable logic design, CSSP design and software development. Research and development expense was \$8.7 million and \$9.8 million in 2012 and 2011, respectively, which represented 59% and 47% of revenue for those periods. The \$1.1 million decrease in R&D expenses in 2012 as compared to 2011 is attributable primarily to a \$1.2 million decrease in outside services due to a reduction in third party chip design costs and a \$465,000 decrease in intellectual property costs. These decreases were partially offset by a \$544,000 increase in compensation expenses due to an increase in headcount.

Selling, General and Administrative Expense. Our selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, administration, human resources and legal. Selling, general and administrative, or SG&A, expense was \$10.5 million and \$10.0 million in 2012 and 2011, respectively, which represented 70% and 48% of revenue for those periods. The \$516,000 increase in SG&A expenses in 2012 as compared to 2011 is attributable primarily to a \$351,000 increase in compensation expenses due to an increase in headcount and a \$312,000 increase in stock-based compensation expenses. These increases were partially offset by a decrease of \$49,000 in equipment and supplies; a \$45,000 decrease in travel and entertainment expenses; and a \$37,000 decrease in occupancy costs.

Interest Expense and Interest Income and Other, net

The table below sets forth the changes in interest expense and interest income and other, net for 2012 as compared to 2011:

	Fiscal Years		Change	Percentage	
	2012	2011			Amount
	(in thousands)				
Interest expense	\$(61	) \$(36	) \$(25	) 69	%
Interest income and other, net	(77	) (159	) \$82	(52)%
	\$(138	) \$(195	) \$57	(29)%

The increase in interest expense is due primarily to the increase of our capital lease obligation to \$426,000 in 2012 from \$287,000 in 2011. The change in interest income and other, net was due primarily to tax expenses from foreign jurisdictions and foreign exchange gains (losses) in 2012 as compared to 2011.

We conduct a portion of our research and development activities in Canada and India and we have sales and marketing activities in various countries outside of the United States. Most of these international expenses are incurred in local currency. Foreign currency transaction gains and losses are included in interest and other income (expense), net, as they occur. We do not use derivative financial instruments to hedge our exposure to fluctuations in foreign currency and, therefore, our results of operations are and will continue to be susceptible to fluctuations in foreign exchange gains or losses.

Provision for Income Taxes. The table below sets forth the changes in provision for (benefit from) income taxes for 2012 as compared to 2011:

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	Fiscal Years		Change Amount	Percentage
	2012 (in thousands)	2011		
Income tax provision	\$18	\$50	\$(32)	(64)%

The income tax expense for 2012 and 2011 are primarily for our foreign operations which are cost-plus entities. As of the end of 2012, our ability to utilize our U.S. deferred tax assets in future periods is uncertain and, accordingly, we have recorded a full valuation allowance against the related U.S. tax asset. We will continue to assess the realizability of deferred tax assets in future periods.

The American Taxpayer Relief Act of 2012, which was enacted on January 2, 2013, extends the Federal research tax credit retroactively for two years from January 1, 2012 through December 31, 2013. There will be no impact to the income tax provision for the enactment in the quarter ending March 31, 2013 due to our valuation allowance recorded against its US deferred tax assets.

Stock-Based Compensation. For 2012 and 2011, stock-based compensation totaled \$2.0 million and \$1.7 million, respectively, and was included in the statement of operations as follows (in thousands):

	Fiscal Years		Change Amount	Percentage
	2012	2011		
Cost of revenue	\$179	\$131	\$48	37 %
Research and development	455	458	(3)	(1)%
Selling, general and administrative	1,369	1,087	282	26 %
Total stock-based compensation	\$2,003	\$1,676	\$327	20 %

In 2012, we granted fully vested restricted stock units, or RSUs to all employees. Total stock-based compensation related to RSUs was \$341,000 in 2012. We issued net shares for the vested RSUs, withholding shares in settlement of employee tax withholding obligations.

The amount of stock-based compensation included in inventories at the end of 2012 and 2011 was not material and there was no tax effect on the financial statements for all periods presented.

Comparison of Fiscal Years 2011 and 2010

Revenue. The table below sets forth the changes in revenue for fiscal year 2011 as compared to fiscal year 2010 (in thousands, except percentage data):

Revenue by product family ⁽¹⁾ :	Fiscal Years		2010		Year-Over-Year Change
	2011 Amount	% of Total Revenues	Amount	% of Total Revenues	
New products	\$5,326	25 %	\$9,388	36 %	\$(4,062) (43)%
Mature products	15,643	75 %	16,811	64 %	(1,168) (7)%
Total revenue	\$20,969	100 %	\$26,199	100 %	\$(5,230) (20)%

(1) For all periods presented: New products represent products introduced since 2005, and include ArcticLink, ArcticLink II, ArcticLink III, Eclipse II, PolarPro, PolarPro II, and QuickPCI II. Mature products include Eclipse, EclipsePlus, pASIC 1, pASIC 2, pASIC 3, QuickFC, QuickMIPS, QuickPCI, QuickRAM, and V3, as well as royalty revenue, programming hardware and software.

The decrease in revenue was due to decreases in new and in mature product revenue. New product revenue was negatively impacted by an over-supply of inventory already in the channel for our broadband data card and mobile enterprise customers and by reduced demand from a secure data card customer due to design changes in 2011. The mature product revenue was negatively affected by low bookings from our customers in the aerospace, test and instrumentation sectors in 2011. One of our U.S. customers, purchasing primarily pASIC 3 devices, accounted for 15% and 11% of total revenue in fiscal years 2011 and 2010, respectively.

In order to grow our revenue from its current level, we are dependent upon increased revenue from our new products, especially revenue from CSSPs designed using our ArcticLink, ArcticLink II, ArcticLink III, PolarPro and PolarPro II solution platforms and the development of additional new products and CSSPs.

We continue to seek to expand our revenue, including pursuing high volume sales opportunities in our target market segments, by providing CSSPs incorporating intellectual property such as our VEE/DPO technologies, boot from managed NAND or industry standard interfaces such as USB 2.0 OTG, SDIO and integrated drive electronics, or IDE, PS2, I2C, SPI, PWM and keyboard controllers. Our industry is characterized by intense price competition and by lower margins as order volumes increase. While winning large volume sales opportunities will increase our revenue, we believe these opportunities may decrease our gross profit as a percentage of revenue.

Gross Profit. The table below sets forth the changes in gross profit for fiscal year 2011 as compared to fiscal year 2010 (in thousands, except percentage data):

	Fiscal Years		2010		Year-Over-Year Change
	2011		2010		
	Amount	% of Total Revenues	Amount	% of Total Revenues	
Revenue	\$20,969	100	% \$26,199	100	% \$(5,230) (20)%
Cost of revenue	8,517	41	% 9,609	37	% (1,092) (11)%
Gross Profit	\$12,452	59	% \$16,590	63	% \$(4,138) (25)%

The \$4.1 million decrease in gross profit in 2011 as compared to 2010 was mainly due to lower revenue, higher inventory reserve and higher unabsorbed overhead. The inventory reserve was \$710,000 and \$112,000 in 2011 and 2010, respectively. The increase in inventory reserve was primarily related to our PolarPro and PolarPro II product family. In addition, the decrease in gross profit was offset by the sale of previously reserved inventories of \$336,000 and \$580,000 in 2011 and 2010, respectively.

Our semiconductor products have historically had a long product life cycle and obsolescence has not been a significant factor in the valuation of inventories. However, as we pursue opportunities in the mobile market and continue to develop new CSSPs and products, we believe our product life cycle will be shorter and increase the potential for obsolescence. We also regularly review the cost of inventories against estimated market value and record a lower of cost or market reserve for inventories that have a cost in excess of estimated market value. This could have a material impact on our gross margin and inventory balances based on additional write-downs to net realizable value or a benefit from inventories previously written down.

Operating Expenses. The table below sets forth the changes in operating expenses for fiscal year 2011 as compared to fiscal year 2010 (in thousands, except percentage data):

	Fiscal Years		2010		Year-Over-Year			
	2011		Amount	% of Total Revenues	Amount	% of Total Revenues			Change
R&D expense	\$9,836	47	% \$7,458	29	% \$2,378	32	%	
SG&A expense	9,965	48	% 10,073	38	% (108	) (1)%	
Total operating expenses	\$19,801	95	% \$17,531	67	% \$2,270	13	%	

Research and Development Expense. Our research and development expenses consist primarily of personnel, overhead and other costs associated with engineering process improvements, programmable logic design, CSSP design and software development. Research and development expense was \$9.8 million and \$7.5 million in 2011 and 2010, respectively, which represented 47% and 29% of revenue for those periods. The \$2.4 million increase in R&D expenses in 2011 as compared to 2010 is attributable primarily to a \$1.8 million or 109% increase in outside services due to an increased level of third party chip design costs; a \$308,000 increase in compensation expenses due to salary reinstatement in the second half of 2010; and a \$320,000 increase in depreciation expense including a mask set write-off of \$119,000; and a \$114,000 increase in purchased IP.

Selling, General and Administrative Expense. Our selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, administration, human resources and legal. Selling, general and administrative, or SG&A, expense was \$10.0 million and \$10.1 million in 2011 and 2010, respectively, which represented 48% and 38% of revenue for those periods. The \$108,000 decrease in SG&A expenses in 2011 as compared to 2010 is attributable primarily to a \$517,000 or 32% decrease in stock-based compensation expenses and a \$100,000 or 3% decrease in outside services due to a decrease in sales commissions paid to third party sales representatives. This decrease was partially offset by a \$273,000 or 6% increase in compensation expenses due to salary reinstatement in the second half of 2010; a \$133,000 or 19% increase in travel and entertainment expenses; and a \$100,000 or 70% increase in other employee costs.

Gain on Sale of TowerJazz Shares. In the first quarter of fiscal year 2010, we sold 700,000 of the TowerJazz ordinary shares which resulted in a realized gain of \$993,000.

Interest Expense and Interest Income and Other, Net

The table below sets forth the changes in interest expense and interest income and other, net, for 2011 as compared to 2010:

	Fiscal Years	
	2011	2010
	(in thousands)	
Interest expense	\$(36	) \$(67
Interest income and other, net	(159	) (46
	\$(195	) \$(113

The decrease in interest expense is due primarily to the reduction of our average debt obligation to \$300,000 in 2011 from \$1.5 million in 2010. The change in interest income and other, net was due primarily to the other tax expenses including U.S. sales and use tax and business taxes in foreign jurisdictions, and foreign exchange losses in 2011 as compared to 2010.

We conduct a portion of our research and development activities in Canada and India and we have sales and marketing activities in various countries outside of the United States. Most of these international expenses are incurred in local currency. Foreign currency transaction gains and losses are included in interest and other income (expense), net, as they occur. We do not use derivative financial instruments to hedge our exposure to fluctuations in foreign

currency and, therefore, our results of operations are and will continue to be susceptible to fluctuations in foreign exchange gains or losses.

Provision for (Benefit from) Income Taxes. The table below sets forth the changes in provision for (benefit from) income taxes for 2011 as compared to 2010:

	Fiscal Years	
	2011	2010
	(in thousands)	
Income tax provision (benefit)	\$50	\$(184)

The income tax expense (benefit) for 2011 and 2010 are primarily for our foreign operations which are cost-plus entities. Included within the benefit from income taxes for 2010 was an out of period adjustment relating to an intraperiod tax allocation resulting from the unrealized gains on our investment in TowerJazz. The adjustment in 2010 had the impact of increasing the benefit from income taxes by \$209,000 for the year.

As of the end of 2011, our ability to utilize our U.S. deferred tax assets in future periods is uncertain and, accordingly, we have recorded a full valuation allowance against the related U.S. tax asset. We will continue to assess the realizability of deferred tax assets in future periods.

Stock-Based Compensation. For 2011 and 2010, stock-based compensation totaled \$1.7 million and \$2.4 million, respectively, and was included in the statement of operations as follows (in thousands):

	Fiscal Years	
	2011	2010
Cost of revenue	\$131	\$169
Research and development	458	645
Selling, general and administrative	1,087	1,604
Total costs and expenses	\$1,676	\$2,418

In 2010, we granted RSUs in lieu of cash compensation. Total stock-based compensation related to RSUs in lieu of cash was \$414,000 in 2010. We issued net shares for the vested RSUs, withholding shares in settlement of employee tax withholding obligations.

The amount of stock-based compensation included in inventories at the end of 2011 and 2010 was not material and there was no tax effect on the financial statements for all periods presented.

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Liquidity and Capital Resources

We have financed our operations and capital investments through sales of common stock, private equity investments, capital and operating leases, bank line of credit and cash flow from operations. As of December 30, 2012, our principal sources of liquidity consisted of our cash and cash equivalents of \$22.6 million, available credit under our revolving line of credit with Silicon Valley Bank of \$6.0 million, and our investment in TowerJazz with a market value of approximately \$345,000. As of December 30, 2012 there is no material difference between the fair value and the carrying amount of capital leasing arrangements. The borrowing under the Company's line of credit is subject to maintaining a tangible net worth of at least \$15.0 million, unrestricted cash or cash equivalent balance of at least \$8.0 million and a quick ratio of 2-to-1. We have extended the term of the revolving debt facility until June 2013. Upon each advance, the Company can elect a fixed interest rate, which is the prime rate plus the prime rate margin, or a fixed rate which is the LIBOR plus the LIBOR rate margin. We were in compliance with all loan covenants as of the end of the current reporting period. As of December 30, 2012, there were no borrowings against the line of credit.

Most of our cash and cash equivalents were invested in a U.S. Treasury money market fund rated AAAm/Aaa. Our interest-bearing debt consisted of \$426,000 outstanding under capital leases (see Note 6 of the Consolidated Financial Statements). As of December 30, 2012, the 42,970 remaining shares of our investment in TowerJazz had a market value of approximately \$345,000.

Cash balances held at our foreign subsidiaries were approximately \$461,000 and \$950,000 at December 30, 2012 and January 1, 2012, respectively. Earnings from our foreign subsidiaries are currently deemed to be indefinitely reinvested. We do not expect such reinvestment to affect our liquidity and capital resources, and we continuously evaluate our liquidity needs and ability to meet global cash requirements as a part of our overall capital deployment strategy. Factors which affect our global capital deployment strategy include anticipated cash flows, the ability to repatriate cash in a tax efficient manner, funding requirements for operations and investment activities, acquisitions and divestitures, and capital market conditions.

Net Cash from Operating Activities

In 2012, net cash used for operating activities was \$8.7 million and resulted from changes in working capital offset by a net loss of \$12.3 million which included \$3.6 million in non-cash charges. These non-cash charges included write-downs of inventories in the amount of \$447,000 to reflect excess quantities, depreciation and amortization of our long-lived assets of \$1.2 million, and stock-based compensation of \$2.0 million. In addition, changes in working capital accounts provided cash of \$6,000 as a result of a decrease in accounts receivable of \$333,000, a decrease in inventory of \$289,000, and a decrease in accounts payable of \$654,000.

In 2011, net cash used for operating activities was \$2.5 million and resulted from changes in working capital offset by a net loss of \$8.0 million which included \$3.7 million in non-cash charges. These non-cash charges included write-downs of inventories in the amount of \$710,000 to reflect excess quantities, depreciation and amortization of our long-lived assets of \$1.2 million, and stock-based compensation of \$1.7 million. In addition, changes in working capital accounts used cash of \$1.4 million as a result of an decrease in accounts receivable of \$2.6 million, increase in inventory of \$1.1 million, and increase in accounts payable of \$312,000. These cash uses were partially offset by a decrease in deferred royalty revenue of \$320,000.

In 2010, net cash used for operating activities was \$147,000 and resulted from changes in working capital offset by a net income of \$123,000 which included \$2.6 million in non-cash charges. These non-cash charges included write-downs of inventories in the amount of \$112,000 to reflect excess quantities, depreciation and amortization of our long-lived assets of \$1.2 million, and stock-based compensation of \$2.4 million. In addition, changes in working capital accounts used cash of \$2.8 million as a result of an increase in accounts receivable of \$1.7 million, increase in

inventory of \$1.3 million, increase in other assets of \$105,000, and decrease in accounts payable of \$352,000. These cash uses were partially offset by an increase in accrued liabilities and other long term liabilities of \$631,000.

Net Cash from Investing Activities

Net cash used by investing activities for 2012 was \$1,241,000, resulting from capital expenditures made primarily to acquire manufacturing equipment.

In 2011 and 2010, net cash used for investing activities was \$896,000 and \$270,000, respectively, as a result of capital expenditures made primarily to acquire software used in the development and production of our products and solutions.

Net Cash from Financing Activities

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In 2012, net cash provided by financing activities was \$12.3 million, resulting from \$12.7 million of proceeds related to the issuance of common shares under the confidentially marketed underwritten offering and to employees under our equity plans, partially offset by payments of \$452,000 under the terms of our capital lease obligations.

In 2011, net cash provided by financing activities was \$1.6 million, resulting from \$2.0 million of proceeds related to the issuance of common shares to employees under our equity plans, partially offset by payments of \$408,000 under the terms of our debt and capital lease obligations.

In 2010, net cash provided by financing activities was \$3.6 million, resulting from \$6.0 million in proceeds from the revolving line of credit and \$6.0 million of proceeds related to warrants exercised by private stockholders and the issuance of common shares to employees under our equity plans, partially offset by payments of \$8.4 million under the terms of our debt and capital lease obligations.

We require substantial cash to fund our business. However, we believe that our existing cash resources will be sufficient to fund operations and capital expenditures, and provide adequate working capital for at least the next twelve months. After the next twelve months, our cash requirements will depend on many factors, including our level of revenue and gross profit, the market acceptance of our existing and new products, the levels at which we maintain inventories and accounts receivable, costs of securing access to adequate manufacturing capacity, new product development efforts, capital expenditures and the level of our operating expenses.

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and commercial commitments as of the end of 2012 and the effect such obligations and commitments are expected to have on our liquidity and cash flows in future fiscal periods (in thousands):

	Payments Due by Period			More than 3 Years
	Total	Less than 1 year	1-3 Years	
Contractual cash obligations:				
Operating leases	\$2,137	\$695	\$1,442	\$—
Wafer purchases ⁽¹⁾	621	621	—	—
Other purchase commitments	568	468	100	—
Total contractual cash obligations	3,326	1,784	1,542	—
Other commercial commitments ⁽²⁾ :				
Capital lease obligations	426	160	266	—
Total commercial commitments	426	160	266	—
Total contractual obligations and commercial commitments ⁽³⁾	\$3,752	\$1,944	\$1,808	\$—

Certain of our wafer manufacturers require us to forecast wafer starts several months in advance. We are

- (1) committed to take delivery of and pay for a portion of forecasted wafer volume. Wafer purchase commitments of \$621,000 include firm purchase commitments and a portion of our forecasted wafer starts as of the end of 2012.
- (2) Other commercial commitments are included as liabilities on our balance sheets as of the end of 2012.
- (3) Does not include unrecognized tax benefits of \$79,000 as of the end of 2012. See Note 8 of our consolidated financial statements.

Concentration of Suppliers

We depend on a limited number of contract manufacturers, subcontractors, and suppliers for wafer fabrication, assembly, programming and testing of our devices, and for the supply of programming equipment. These services are typically provided by one supplier for each of our devices. We generally purchase these single or limited source services through standard purchase orders. Because we rely on independent subcontractors to perform these services, we cannot directly control product delivery schedules, costs or quality levels. Our future success also depends on the financial viability of our independent subcontractors. These subcontract manufacturers produce products for other companies and we must place orders in advance of

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expected delivery. As a result, we have only a limited ability to react to fluctuations in demand for our products, which could cause us to have an excess or a shortage of inventories of a particular product, and our ability to respond to changes in demand is limited by these suppliers' ability to provide products with the quantity, quality, cost and timeliness that we require. The decision not to provide these services to us or the inability to supply these services to us, such as in the case of a natural or financial disaster, would have a significant impact on our business. Increased demand from other companies could result in these subcontract manufacturers allocating available capacity to customers that are larger or have long-term supply contracts in place and we may be unable to obtain adequate foundry and other capacity at acceptable prices, or we may experience delays or interruption in supply. Additionally, volatility of economic, market, social and political conditions in countries where these suppliers operate may be unpredictable and could result in a reduction in product revenue or increase our cost of revenue and could adversely affect our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet partnerships, arrangements or other relationships with unconsolidated entities or others, often referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-11, "Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. ASU 2011-11 is effective for the Company in the first quarter of its fiscal year ending March 30, 2014. The Company currently believes there will be no significant impact on its financial statements.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income" in Accounting Standards Update No. 2011-05. ASU 2011-12 defers only those changes in Update No. 2011-05 that relate to the presentation of the reclassification adjustments. Under the amendments in Update No. 2011-05, entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. In addition, the amendments in Update No. 2011-05 require that reclassification adjustments be presented in interim financial periods. This standard is effective for interim and annual reporting periods beginning after December 15, 2011.

In February 2013, the FASB issued authoritative guidance related to reclassifications out of accumulated OCI. Under the amendments in this update, an entity is required to report, in one place, information about reclassifications out of accumulated OCI and to report changes in its accumulated OCI balances. For significant items reclassified out of accumulated OCI to net income in their entirety in the same reporting period, reporting is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under GAAP is required in the notes. This guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company will provide the required disclosures beginning in the first quarter of fiscal year 2013 and does not believe the adoption of this guidance will have a material impact on its Consolidated Financial Statements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio and variable rate debt. We do not use derivative financial instruments to manage our interest rate risk. We are adverse to principal loss and ensure the safety and preservation of invested funds by limiting default, market risk and reinvestment risk. Our investment portfolio is generally comprised of investments that meet high credit quality standards and have active secondary and resale markets. Since these securities are subject to interest rate risk, they could decline in value if interest rates fluctuate or if the liquidity of the investment portfolio were to change. Due to the short duration and conservative nature of our investment portfolio, we do not anticipate any material loss with respect to our investment portfolio. A 10% move in interest rates as of the end of 2012 would have had an immaterial effect on our financial position, results of operations and cash flows.

Foreign Currency Exchange Rate Risk

All of our sales and cost of manufacturing are transacted in U.S. dollars. We conduct a portion of our research and development activities in Canada and India and have sales and marketing offices in several locations outside of the United States. We use the U.S. dollar as our functional currency. Most of the costs incurred at these international locations are in local currency. If these local currencies strengthen against the U.S. dollar, our payroll and other local expenses will be higher than we currently anticipate. Since our sales are transacted in U.S. dollars, this negative impact on expenses would not be offset by any positive effect on revenue. Operating expenses denominated in foreign currencies were approximately 19%, 16% and 16% of total operating expenses in 2012, 2011 and 2010, respectively. A majority of these foreign expenses were incurred in Canada. A currency exchange rate fluctuation of 10% would have caused our operating expenses to change by approximately \$360,000 in 2012.

Equity Price Risk

Our exposure to equity price risk for changes in market value relates primarily to our investment in TowerJazz. TowerJazz's ordinary shares trade on the Nasdaq Global Market under the symbol "TSEM". Since these securities are publicly traded on the open market, they are subject to market fluctuations. Temporary market fluctuations are reflected by increasing or decreasing the presented value of the related securities and recording "accumulated other comprehensive income (loss)" in the equity section of the balance sheet. An "other than temporary" decline in market value is reflected by decreasing the carrying value of the related securities and recording a charge to operating expenses in the income statement. We wrote down the value of the TowerJazz shares due to an "other than temporary" decline in their market value by \$15.1 million between 2001 and 2008. The determination that the decline in market value was "other than temporary" included factors such as the then current market value and the period of time that the market value had been below the carrying value in each of the respective periods. At December 30, 2012, we had a net unrealized loss of \$11,000 in the value of our net investment in TowerJazz. The carrying value of the TowerJazz ordinary shares was \$8.04 per share as of the end of 2012.

There have been no changes since the end of the last fiscal year, in the risk exposures described above or the management of such exposures and there are no expected changes going forward.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of QuickLogic Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of QuickLogic Corporation and its subsidiaries at December 30, 2012 and January 1, 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed under Item 15 (a) (2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Reports on Internal Control Over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 8, 2013

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

	Fiscal Years		
	2012	2011	2010
	(in thousands, except per share amount)		
Statement of Operations:			
Revenue	\$14,944	\$20,969	\$26,199
Cost of revenue	7,878	8,517	9,609
Gross profit	7,066	12,452	16,590
Operating expenses:			
Research and development	8,743	9,836	7,458
Selling, general and administrative	10,481	9,965	10,073
Income (loss) from operations	(12,158	) (7,349	) (941
Gain on sale of TowerJazz Semiconductor Ltd. Shares	—	—	993
Interest expense	(61	) (36	) (67
Interest income and other, net	(77	) (159	) (46
Income (loss) before income taxes	(12,296	) (7,544	) (61
Provision for (benefit from) income taxes	18	50	(184
Net income (loss)	\$(12,314	) \$(7,594	) \$123
Net Income (loss) per share:			
Basic	\$(0.29	) \$(0.21) \$—
Diluted	\$(0.29	) \$(0.21) \$—
Weighted average shares:			
Basic	41,831	36,792	35,729
Diluted	41,831	36,792	39,038

The accompanying notes form an integral part of these Consolidated Financial Statements.

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QUICKLOGIC CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (in thousands)

	Fiscal Years		
	2012	2011	2010
Net income (loss)	\$(12,314	) \$(7,594	) \$123
Other comprehensive gain (loss), net of tax:			
Change in unrealized gain (loss) on available-for-sale investments (See Note 4)	(124	) (503	) (514
Total comprehensive Income (loss)	\$(12,438	) \$(8,097	) \$(391

The accompanying notes form an integral part of these Consolidated Financial Statements.

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QUICKLOGIC CORPORATION
 CONSOLIDATED BALANCE SHEETS
 (in thousands, except par value amount)

	December 30, 2012	January 1, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$22,578	\$20,203
Short-term investment in TowerJazz Semiconductor Ltd.	345	406
Accounts receivable, net of allowances for doubtful accounts of \$20 and \$10, respectively	1,242	1,585
Inventories	3,028	3,764
Other current assets	986	613
Total current assets	28,179	26,571
Property and equipment, net	2,659	2,181
Other assets	186	211
TOTAL ASSETS	\$31,024	\$28,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	\$1,965	\$2,464
Accrued liabilities	1,214	1,118
Deferred royalty revenue	—	8
Current portion of capital lease obligations	160	141
Total current liabilities	3,339	3,731
Long-term liabilities:		
Capital lease obligations, less current portion	266	146
Other long-term liabilities	141	148
Total liabilities	3,746	4,025
Commitments and contingencies (see Note 14)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 100,000 shares authorized; 44,506 and 38,636 shares issued and outstanding, respectively	45	39
Additional paid-in capital	204,797	190,025
Accumulated other comprehensive income	(11	) 113
Accumulated deficit	(177,553	) (165,239)
Total stockholders' equity	27,278	24,938
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$31,024	\$28,963

The accompanying notes form an integral part of these Consolidated Financial Statements.

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QUICKLOGIC CORPORATION
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 (in thousands)

	Common Stock at Par Value		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at January 3, 2010	35,042	\$35	\$177,862	\$ 1,130	\$ (157,768)	\$ 21,259
Common stock issued under stock plans and employee stock purchase plans	1,471	2	3,227	—	—	3,229
Private Stock Offering, net of issuance costs and warrants	—	—	18	—	—	18
Issuance of common stock from exercise of warrants	1,293	1	2,779	—	—	2,780
Change in unrealized gain on available-for-sale securities	—	—	—	(514)	—	(514)
Stock-based compensation	—	—	2,418	—	—	2,418
Net income (loss)	—	—	—	—	123	123
Balance at January 2, 2011	37,806	38	186,304	616	(157,645)	29,313
Common stock issued under stock plans and employee stock purchase plans	830	1	2,045	—	—	2,046
Change in unrealized gain on available-for-sale securities	—	—	—	(503)	—	(503)
Stock-based compensation	—	—	1,676	—	—	1,676
Net income (loss)	—	—	—	—	(7,594)	(7,594)
Balance at January 1, 2012	38,636	39	190,025	113	(165,239)	24,938
Common stock issued under stock plans and employee stock purchase plans	748	1	1,147	—	—	1,148
Private stock offering, net of issuance costs and warrants	5,122	5	9,340	—	—	9,345
Issuance of common stock warrants	—	—	2,236	—	—	2,236
Change in unrealized gain on available-for-sale securities (See Note 4)	—	—	—	(124)	—	(124)
Stock-based compensation	—	—	2,049	—	—	2,049
Net income (loss)	—	—	—	—	(12,314)	(12,314)
Balance at December 30, 2012	44,506	\$45	\$204,797	\$ (11)	\$ (177,553)	\$ 27,278

The accompanying notes form an integral part of these Consolidated Financial Statements.

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QUICKLOGIC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Fiscal Years		
	2012	2011	2010
Cash flows from operating activities:			
Net income (loss)	\$(12,314	) \$(7,594	) \$123
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	1,223	1,220	1,236
Stock-based compensation	2,003	1,676	2,418
Utilization of wafer credits from TowerJazz Semiconductor Ltd.	—	—	(27
Write-down of inventories	447	710	112
Gain on TowerJazz Semiconductor Ltd. Shares	—	—	(993
Tax effect on other comprehensive income	(63	) —	(209
Gain/loss on disposal of equipment	—	(8	) 18
Write-off of equipment	25	102	8
Bad debt expense	10	—	7
Changes in operating assets and liabilities:			
Accounts receivable	333	2,558	(1,693
Inventories	289	(1,130	) (1,337
Other assets	(87	) 140	(105
Trade payables	(654	) 312	(352
Accrued liabilities	140	(185	) 507
Deferred income	(8	) (320	) 16
Other long-term liabilities	(7	) 24	124
Net cash provided by (used for) operating activities	(8,663	) (2,495	) (147
Cash flows from investing activities:			
Capital expenditures for property and equipment	(1,241	) (896	) (829
Proceeds from sale of equipment	—	—	15
Proceeds from sale provided by TowerJazz Semiconductor Ltd. shares	—	—	1,084
Net cash provided by (used in) investing activities	(1,241	) (896	) 270
Cash flows from financing activities:			
Payment of debt and capital lease obligations	(452	) (408	) (8,389
Proceeds from debt obligations	—	—	6,000
Proceeds from issuance of common stock and warrants, net of issuance cost	12,731	2,046	6,027
Net cash provided by (used in) financing activities	12,279	1,638	3,638
Net increase/(decrease) in cash and cash equivalents	2,375	(1,753	) 3,761
Cash and cash equivalents at beginning of period	20,203	21,956	18,195
Cash and cash equivalents at end of period	\$22,578	\$20,203	\$21,956
Supplemental disclosures of cash flow information:			
Interest paid	\$50	\$43	\$71
Income taxes paid	\$12	\$21	\$—
Supplemental schedule of non-cash investing and financing activities :			
Capital lease obligation to finance capital expenditures	\$426	\$287	\$408
Purchase of equipment included in accounts payable	\$11	\$371	\$97

The accompanying notes form an integral part of these Consolidated Financial Statements.

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NOTE 1-THE COMPANY AND BASIS OF PRESENTATION

QuickLogic Corporation, referenced herein as QuickLogic or the Company, was founded in 1988 and reincorporated in Delaware in 1999. The Company develops and markets low power programmable solutions that enable customers to add differentiated features and capabilities to their mobile, consumer and industrial products. The Company is a fabless semiconductor company that designs, markets, and supports Customer Specific Standard Products, or CSSPs, Field Programmable Gate Arrays, or FPGAs, application solutions, associated design software and programming hardware.

QuickLogic Corporation's fiscal year ends on the Sunday closest to December 31. Fiscal years 2012, 2011 and 2010 ended on December 30, 2012, January 1, 2012 and January 2, 2011, respectively.

Liquidity

We have financed our operations and capital investments through sales of common stock, private equity investments, capital and operating leases, bank lines of credit and cash flows from operations. As of December 30, 2012, our principal sources of liquidity consisted of our cash and cash equivalents of \$22.6 million, \$6.0 million in available credit under our revolving line of credit with Silicon Valley Bank which expires on June 28, 2013, and our investment in TowerJazz Semiconductor Ltd., or TowerJazz, with a fair value of approximately \$345,000.

The Company anticipates that its existing cash resources will fund operations, finance purchases of capital equipment and provide adequate working capital for at least the next twelve months. The Company's liquidity is affected by many factors including, among others: the level of revenue and gross profit as a result of the cyclical nature of the semiconductor industry; the conversion of design opportunities into revenue; market acceptance of existing and new products including CSSPs based on our ArcticLink™ and PolarP resolution platforms; fluctuations in revenue as a result of product end-of-life, fluctuations in revenue as a result of the stage in the product life cycle of its customers' products; costs of securing access to and availability of adequate manufacturing capacity; levels of inventories; wafer purchase commitments; customer credit terms; the amount and timing of research and development expenditures; the timing of new product introductions; production volumes; product quality; sales and marketing efforts; the value and liquidity of its investment portfolio; changes in operating assets and liabilities; the ability to obtain or renew debt financing and to remain in compliance with the terms of existing credit facilities; the ability to raise funds from the sale of shares of TowerJazz and equity in the Company; the issuance and exercise of stock options and participation in the Company's employee stock purchase plan; and other factors related to the uncertainties of the industry and global economics. Accordingly, there can be no assurance that events in the future will not require the Company to seek additional capital or, if so required, that such capital will be available on terms acceptable to the Company.

Principles of Consolidation

The consolidated financial statements include the accounts of QuickLogic Corporation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated. The functional currency of the Company and its subsidiaries is the United States dollar.

Foreign Currency

All monetary assets and liabilities of our foreign operations are translated into U.S. dollars at current period-end exchange rates and non-monetary assets and related elements of expense are translated using historical rates of exchange. Income and expense elements are translated to U.S. dollars using average exchange rates in effect during the period. Gains and losses from the foreign currency transactions of these subsidiaries are recorded as interest

income and other, net in the statement of operations.

Use of Estimates

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

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Concentration of Risk

The Company's accounts receivable are denominated in U.S. dollars and are derived primarily from sales to customers located in North America, Asia Pacific, and Europe. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. See Note 12 for information regarding concentrations associated with accounts receivable. The Company's investment in TowerJazz is subject to equity risk. See Note 4 for information regarding the Company's investment in TowerJazz Semiconductor Ltd.

NOTE 2-SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

All highly liquid investments purchased with a remaining maturity of ninety days or less are considered cash equivalents. The Company's investment portfolio included in cash equivalents is generally comprised of investments that meet high credit quality standards. The Company's investment portfolio consists of money market funds, which are precluded from investing in auction rate securities. These funds invest in U.S. government obligations and repurchase agreements secured by U.S. Treasury obligations and U.S. government agency obligations. The fair value of this portfolio is based on market prices for securities with active secondary and resale markets.

Fair Value

The guidance for the fair value option for financial assets and financial liabilities provides companies the irrevocable option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings or equity. The Company has not elected to measure any financial assets or liabilities at fair value that were not previously required to be measured at fair value.

Foreign Currency Transactions

All of the Company's sales and cost of manufacturing are transacted in U.S. dollars. The Company conducts a portion of its research and development activities in Canada and India and has sales and marketing activities in various countries outside of the United States. Most of these international expenses are incurred in local currency. Foreign currency transaction gains and losses, which are not significant, are included in interest income and other, net, as they occur. Operating expenses denominated in foreign currencies were approximately 19%, 16%, and 16% of total operating expenses in 2012, 2011, and 2010, respectively. The Company incurred a majority of these foreign currency expenses in Canada. The Company has not used derivative financial instruments to hedge its exposure to fluctuations in foreign currency and, therefore, is susceptible to fluctuations in foreign exchange gains or losses in its results of operations in future reporting periods.

Inventories

Inventories are stated at the lower of standard cost or net realizable value. Standard cost approximates actual cost on a first-in, first-out basis. The Company routinely evaluates quantities and values of its inventories in light of current market conditions and market trends and records reserves for quantities in excess of demand and product obsolescence. The evaluation, which inherently involves judgments as to assumptions about expected future demand and the impact of market conditions on these assumptions, takes into consideration historic usage, expected demand, anticipated sales price, the stage in the product life cycle of its customers' products, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer design activity, customer concentrations, product merchantability and other factors. Market conditions are subject to change. Actual consumption of inventories could differ from forecast demand, and this difference could have a material

impact on the Company's gross margin and inventory balances based on additional provisions for excess or obsolete inventories or a benefit from inventories previously written down. The Company also regularly reviews the cost of inventories against estimated market value and records a lower of cost or market reserve for inventories that have a cost in excess of estimated market value, which could have a material impact on the Company's gross margin and inventory balances based on additional write-downs to net realizable value or a benefit from inventories previously written down.

The Company's semiconductor products have historically had an unusually long product life cycle and obsolescence has not been a significant factor in the valuation of inventories. However, as the Company pursues opportunities in the mobile market and continues to develop new CSSPs and products, the Company believes its product life cycle will be shorter and increase the potential for obsolescence. A significant decrease in demand could result in an increase in the amount of excess inventory on hand. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or frequent new product developments could have a significant impact on the

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value of our inventory and our results of operations.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, generally one to seven years. Amortization of leasehold improvements and capital leases is computed on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets, generally one to seven years.

Long-Lived Assets

The Company reviews the recoverability of its long-lived assets, such as property and equipment, prepaid wafer credits and investments, annually and when events or changes in circumstances occur that indicate that the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows, undiscounted and without interest charges, of the related operations. If these cash flows are less than the carrying value of the asset or asset group, an impairment loss is recognized for the difference between the estimated fair value and the carrying value, and the carrying value of the related assets is reduced by this difference. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets. During 2012, 2011 and 2010, the Company wrote-off equipment with a net book value of \$25,000, \$102,000, and \$8,000, respectively.

Licensed Intellectual Property

The Company licenses intellectual property that is incorporated into its products. Costs incurred under license agreements prior to the establishment of technological feasibility are included in research and development expense as incurred. Costs incurred for intellectual property once technological feasibility has been established and that can be used in multiple products are capitalized as a long-term asset. Once a product incorporating licensed intellectual property has production sales, the amount is amortized over the estimated useful life of the asset, generally up to five years.

Revenue Recognition

We supply standard products which must be programmed before they can be used in an application. Our products may be programmed by us, distributors, end-customers or third parties. Once programmed, our parts cannot be erased and, therefore, programmed parts are generally only useful to a specific customer.

We recognize revenue as products are shipped if evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, collection of the resulting receivable is reasonably assured and product returns are reasonably estimable. Revenue is recognized upon shipment of programmed and unprogrammed parts to OEM customers, provided that legal title and risk of ownership have transferred. Parts held by distributors may be returned for quality reasons only under our standard warranty policy. Revenue is recognized upon the shipment of programmed and unprogrammed parts to distributors throughout 2012.

Warranty Costs

The Company warrants finished goods against defects in material and workmanship under normal use for twelve months from the date of shipment. The Company does not have significant product warranty related costs or liabilities.

Advertising

Costs related to advertising and promotion expenditures are charged to “Selling, general and administrative” expense as incurred. To date, costs related to advertising and promotion expenditures have not been material.

Stock-Based Compensation

The Company adopted the provisions to record stock-based compensation beginning fiscal year 2006. The Company accounts for stock-based compensation under the provisions of the amended authoritative guidance, and related interpretations which require the measurement and recognition of expense related to the fair value of stock-based compensation awards. The fair value of stock-based compensation awards is measured at the grant date and re-measured upon modification, as appropriate. The Company uses the Black-Scholes option pricing model to estimate the fair value of employee stock options

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and rights to purchase shares under the Company's 1999 Employee Stock Purchase Plan, or ESPP, consistent with the provisions of the amended authoritative guidance. The fair value of restricted stock awards, or RSAs, and restricted stock units, or RSUs, is based on the closing price of the Company's common stock on the date of grant. Equity compensation awards which vest with service are expensed on a straight-line basis over the requisite service period. Performance based awards that are expected to vest are expensed on a straight-line basis over the vesting period. The Company regularly reviews the assumptions used to compute the fair value of its stock-based awards and it will revise its assumptions as appropriate. In the event that assumptions used to compute the fair value of its stock-based awards are later determined to be inaccurate or if the Company changes its assumptions significantly in future periods, stock-based compensation expense and the results of operations could be materially impacted. See Note 11.

Accounting for Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from different tax and accounting treatment of items, such as deferred revenue, allowance for doubtful accounts, the impact of equity awards, depreciation and amortization and employee related accruals. These differences result in deferred tax assets and liabilities, which are included on our balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. Our deferred tax assets, consisting primarily of net operating loss carryforwards, amounted to \$60.3 million as of the end of 2012. We have also recorded a valuation allowance of \$60.2 million as of the end of 2012 due to uncertainties related to our ability to utilize our U.S. deferred tax assets before they expire. The valuation allowance is based on the uncertainty of our estimates of taxable income and the period over which we expect to recover our deferred tax assets.

We account for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. We classify the liability for unrecognized tax benefits as current to the extent that we anticipate payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized in the provision for income taxes.

Concentration of Credit and Equity Risk and Suppliers

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained with high quality institutions. The Company's accounts receivable are denominated in U.S. dollars and are derived primarily from sales to customers located in North America, Europe and Asia Pacific. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. See Note 12 for information regarding concentrations associated with accounts receivable. The Company's investment in TowerJazz is subject to equity risk. See Note 4 for information regarding the Company's investment in TowerJazz.

The Company depends on a limited number of contract manufacturers, subcontractors, and suppliers for wafer fabrication, assembly, programming and test of its devices, and for the supply of programming equipment, and these

services are typically provided by one supplier for each of the Company's devices. The Company generally purchases these single or limited source services through standard purchase orders or under its agreement with TowerJazz. Because the Company relies on independent subcontractors to perform these services, it cannot directly control its product delivery schedules, costs or quality levels. The Company's future success also depends on the financial viability of its independent subcontractors.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all temporary changes in equity (net assets) during a period from non-owner sources. Comprehensive income (loss) includes unrealized holding gains or (losses) related to the TowerJazz ordinary shares. See Note 4.

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New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-11, "Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. ASU 2011-11 is effective for the Company in the first quarter of its fiscal year ending March 30, 2014. The Company currently believes there will be no significant impact on its financial statements.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income" in Accounting Standards Update No. 2011-05. ASU 2011-12 defers only those changes in Update No. 2011-05 that relate to the presentation of the reclassification adjustments. Under the amendments in Update No. 2011-05, entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. In addition, the amendments in Update No. 2011-05 require that reclassification adjustments be presented in interim financial periods. This standard is effective for interim and annual reporting periods beginning after December 15, 2011.

In February 2013, the FASB issued authoritative guidance related to reclassifications out of accumulated OCI. Under the amendments in this update, an entity is required to report, in one place, information about reclassifications out of accumulated OCI and to report changes in its accumulated OCI balances. For significant items reclassified out of accumulated OCI to net income in their entirety in the same reporting period, reporting is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under GAAP is required in the notes. This guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company will provide the required disclosures beginning in the first quarter of fiscal year 2013 and does not believe the adoption of this guidance will have a material impact on its Consolidated Financial Statements.

NOTE 3-NET INCOME (LOSS) PER SHARE

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

	Fiscal Years			2011			2010		
	2012		Per	Net		Per	Net		Per
	Income	Shares	Share	Income	Shares	Share	Income	Shares	Share
	(Loss)		Amount	(Loss)		Amount	(Loss)		Amount
Basic	\$(12,314)	41,831	\$(0.29)	\$(7,594)	36,792	\$(0.21)	\$123	35,729	\$—
Effect of stock options and other awards	—	—	—	—	—	—	—	3,309	—

Diluted									
	\$(12,314)	41,831	\$(0.29)	\$(7,594)	36,792	\$(0.21)	\$123	39,038	\$—

For 2012 and 2011, 7.6 million shares and 8.0 million shares, respectively, associated with equity awards outstanding and the estimated number of shares to be purchased under the current offering period of the 2009 Employee Stock Purchase Plan were not included in the calculation of diluted net income (loss) per share, as they were considered antidilutive due to the net loss the Company experienced during 2012 and 2011. For 2010, options for the purchase of 20,000 common shares were excluded from the weighted average diluted shares outstanding calculation, because their effect was anti-dilutive.

NOTE 4-INVESTMENT IN TOWERJAZZ SEMICONDUCTOR LTD.

As of December 30, 2012, the Company held 42,970 TowerJazz ordinary shares with a net unrealized loss of \$11,000 recorded in accumulated other comprehensive income, or AOCI, on the balance sheet. The net unrealized loss includes the tax

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benefits attributable to unrealized gains on investment in TowerJazz and the difference between the cost of \$1.95 per share and carrying value of \$8.04 per share, the fair value on the last trading day of the reporting period. The number of TowerJazz ordinary shares held by the Company reflect the 1 to 15 reverse stock split implemented by TowerJazz effective August 3, 2012.

The fair value of TowerJazz marketable securities as of December 30, 2012 was determined based on “Level 1” inputs as described in Note 7. During 2012, the Company recorded \$63,000 of tax benefit related to AOCI attributable to unrealized gains on investment in TowerJazz.

NOTE 5-BALANCE SHEET COMPONENTS

	December 30, 2012 (in thousands)	January 1, 2012
Inventories:		
Raw materials	\$32	\$52
Work-in-process	2,599	3,261
Finished goods	397	451
	\$3,028	\$3,764
Other current assets:		
Prepaid expenses	\$954	\$575
Other	32	38
	\$986	\$613
Property and equipment:		
Equipment	\$12,803	\$12,200
Software	5,682	7,065
Furniture and fixtures	746	747
Leasehold improvements	658	659
	19,889	20,671
Accumulated depreciation and amortization	(17,230)	(18,490)
	\$2,659	\$2,181
Other assets	186	211
Accrued liabilities:		
Employee related accruals	\$1,035	\$845
Other	179	273
	\$1,214	\$1,118

The Company recorded depreciation and amortization expense of \$1.2 million, \$1.2 million and \$1.2 million for 2012, 2011 and 2010, respectively. Assets acquired under capital leases and included in property and equipment were \$0.8 million and \$1.1 million at the end of 2012 and 2011, respectively. The Company recorded accumulated depreciation on leased assets of \$301,000 and \$810,000 as of the end of 2012 and 2011, respectively. As of December 30, 2012 and January 1, 2012, the capital lease obligation relating to these assets was \$426,000 and \$287,000, respectively.

NOTE 6-OBLIGATIONS

December 30, 2012 (in thousands)	January 1 2012
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Capital lease obligations:

Capital leases	\$426	\$287	
	426	287	
Current portion of capital lease obligations	(160) (141)
Long term portion of capital lease obligations	\$266	\$146	

Revolving Line of Credit and Notes Payable to Bank

In June 2012, the Company entered into the Eighth Amendment to Second Amended and Restated Loan and Security Agreement ("Agreement") with Silicon Valley Bank. The terms of the amended Agreement include a \$6.0 million revolving line of credit available through June 28, 2013, as long as the Company is in compliance with the loan covenants. Upon each

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advance, the Company can elect a fixed interest rate, which is the prime rate plus the prime rate margin, or a fixed rate which is LIBOR plus the LIBOR rate margin, as the case may be. During 2012, the Company had no borrowings against the line of credit.

The bank has a first priority security interest in substantially all of the Company's tangible and intangible assets to secure any outstanding amounts under the Agreement. Under the terms of the Agreement, except as noted above, the Company must maintain a minimum tangible net worth of at least \$15 million, adjusted quick ratio of 2-to-1 and a minimum unrestricted cash or cash equivalents balance of at least \$8 million. The Agreement also has certain restrictions including, among others, restrictions on the incurrence of other indebtedness, the maintenance of depository accounts, the disposition of assets, mergers, acquisitions, investments, the granting of liens and the payment of dividends. The Company was in compliance with the financial covenants of the Agreement as of the end of the current reporting period.

Capital Leases

In December 2011, the Company leased design software under a two-year capital lease at an imputed interest rate of 4.24% per annum. Terms of the agreement require the Company to make quarterly payments of approximately \$38,000 through November 2013, for a total of \$300,000. As of December 30, 2012, \$146,000 was outstanding under the capital lease, all of which was classified as a current liability.

In January 2012, the Company leased design software tools under a three-year capital lease at an imputed interest rate of 4.24% per annum. Terms of the agreement require the Company to make semi-annual payments of principal and interest of approximately \$82,500 through July 2014, for a total of \$495,000 over the three year period. As of December 30, 2012, \$280,000 was outstanding under the capital lease, of which \$152,000 was classified as a current liability.

In February 2012, the Company leased design software tools under a three-year capital lease at an imputed interest rate of 4.3% per annum. Terms of the agreement require the Company to make two payments of principal and interest of \$9,000 in March 2012 and \$18,000 in December 2012, for a total of \$27,000. As of December 30, 2012, there was no liability balance outstanding for this capital lease.

NOTE 7-FAIR VALUE MEASUREMENTS

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

The accounting guidance for fair value measurement also specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the company's own assumption of market participant valuation (unobservable inputs). The fair value hierarchy consists of the following three levels:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and

market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table presents the Company's financial assets that are measured at fair value on a recurring basis as of December 30, 2012 and January 1, 2012, consistent with the fair value hierarchy provisions of the authoritative guidance (in thousands):

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	As of December 30, 2012				As of January 1, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Money market funds ⁽¹⁾	\$21,907	\$21,907	\$—	\$—	\$18,826	\$18,826	\$—	\$—
Investment in TowerJazz Semiconductor Ltd. ⁽²⁾	345	345	—	—	406	406	—	—
Total assets	\$22,252	\$22,252	\$—	\$—	\$19,232	\$19,232	\$—	\$—

(1) Money market funds are presented as a part of cash and cash equivalents on the accompanying consolidated balance sheets as of December 30, 2012 and January 1, 2012.

(2) The Company expects to sell TowerJazz marketable securities at the fair market value at such time as it deems appropriate.

NOTE 8-INCOME TAXES

The following table presents the U.S. and foreign components of consolidated income (loss) before income taxes and the provision for (benefit from) income taxes (in thousands):

	Fiscal Years		
	2012	2011	2010
Income (loss) before income taxes:			
U.S.	\$(12,444	) \$(7,569	) \$(209
Foreign	148	25	148
Income (loss) before income taxes	\$(12,296	) \$(7,544	) \$(61
Provision for (benefit from) income taxes:			
Current:			
Federal	\$—	\$—	\$(11
State	2	2	2
Foreign	51	66	51
Subtotal	53	68	42
Deferred:			
Federal	(55	) —	(170
State	(9	) —	(40
Foreign	29	(18	) (16
Subtotal	(35	) (18	) (226
Provision for (benefit from) income taxes	\$18	\$50	\$(184

Based on the available objective evidence, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company has provided a full valuation allowance against its U.S. federal and state deferred tax assets at December 30, 2012. The Company believes it is more likely than not it will be able to realize its foreign deferred tax assets. Deferred tax balances are comprised of the following (in thousands):

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	December 30, 2012	January 1, 2012
Deferred tax assets:		
Net operating losses and capital losses	\$38,342	\$34,733
Accruals and reserves	2,683	2,753
Credits carryforward	5,024	5,304
Unrealized loss on marketable securities	3,088	3,057
Depreciation and amortization	9,558	9,150
Stock-based compensation	1,344	971
Other	273	211
	60,312	56,179
Valuation allowances	(60,223	) (56,067
Deferred tax asset	\$89	\$112
Deferred tax liability	—	—

A rate reconciliation between income tax provisions at the U.S. federal statutory rate and the effective rate reflected in the consolidated statement of operations is as follows:

	Fiscal Years		
	2012	2011	2010
Income tax expense/(benefit) at statutory rate	\$(4,180	) \$(2,565	) \$(21
State taxes	2	2	2
Refundable R&D credit	—	—	(11
Stock compensation and other permanent differences	342	192	224
Foreign taxes	30	41	(15
Benefit allocated from other comprehensive income	(65	) —	(209
Future benefit of deferred tax assets not recognized	3,889	2,380	(154
	\$18	\$50	\$(184

As of December 30, 2012, the Company had net operating loss carryforwards of approximately \$107.1 million for federal and \$47.0 million for state income tax purposes. If not utilized, these carryforwards will begin to expire beginning in 2013 for federal and state purposes. Included in the net operating loss carryforwards amount is \$8.0 million for federal and \$5.1 million for state income tax purposes, which, when recognized, will result in a credit to stockholders' equity.

The Company has research credit carryforwards of approximately \$2.6 million for federal and \$3.6 million for state income tax purposes. If not utilized, the federal carryforwards will expire in various amounts beginning in 2013. The California credit can be carried forward indefinitely.

Under the Tax Reform Act of 1986, the amount of and the benefit from net operating loss carryforwards and credit carryforwards may be impaired or limited in certain circumstances. Events which may restrict utilization of a company's net operating loss and credit carryforwards include, but are not limited to, certain ownership change limitations as defined in Internal Revenue Code Section 382 and similar state provisions. In the event the Company has had a change of ownership, utilization of carryforwards could be restricted to an annual limitation. The annual limitation may result in the expiration of net operating loss carryforwards and credit carryforwards before utilization.

U.S. income taxes and foreign withholding taxes associated with the repatriation of earnings of foreign subsidiaries were not provided for on a cumulative total of \$1.0 million of undistributed earnings for certain foreign subsidiaries as

of the end of fiscal 2012. We intend to reinvest these earnings indefinitely in our foreign subsidiaries. If these earnings were distributed to the United States in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	December 30, 2012	January 1, 2012	January 2, 2011
Beginning balance of unrecognized tax benefits	\$77	\$73	\$70
Gross increases for tax positions of current year	2	4	3
Ending balance of unrecognized tax benefits	\$79	\$77	\$73

The amount of unrecognized tax benefits that would affect our effective tax rate if recognized is \$79,000 as of December 30, 2012. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 30, 2012, January 1, 2012 and January 2, 2011, the Company had approximately \$33,000, \$26,000 and \$20,000 of accrued interest and penalties related to uncertain tax positions.

The Company is not currently under exam and the Company's historical net operating loss and credit carryforwards may be adjusted by the IRS and other tax authorities until the statute closes on the year in which such attributes are utilized. The Company estimates that its unrecognized tax benefits will not change significantly within the next twelve months.

NOTE 9-STOCKHOLDERS' EQUITY

Common and Preferred Stock

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

Issuance of Common Stock

In June 2012, the Company issued an aggregate of 5,122,000 shares of common stock and warrants to purchase up to an aggregate of 2,304,900 shares of common stock in a confidentially marketed underwritten offering. The common stock and warrants were issued in units (the "Units"), with each Unit consisting of (i) one share of common stock and (ii) a warrant to purchase 0.45 of a share of common stock, at a price of \$2.50 per Unit. The Company received total net proceeds from the offering of \$11.9 million, net of underwriting discounts and other offering expenses of \$929,000.

The warrants are exercisable any time for a period of 60 months from the date of issuance on June 6, 2012, and are exercisable at a price of \$2.98 per share. The Company allocated the proceeds between the common stock and the warrants based on the relative fair value of each on the date of issuance. The estimated grant date fair value was \$0.97 per warrant and was calculated based on the following assumptions used in the Black-Scholes model: expected term of 5 years, risk-free interest rate of 0.89%, expected volatility of 62.18% and expected dividend of zero.

NOTE 10-EMPLOYEE STOCK PLANS

1999 Stock Plan

The 1999 Stock Plan, or 1999 Plan, provided for the issuance of incentive and nonqualified options, restricted stock units and restricted stock. Equity awards granted under the 1999 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter. In March 2009, the Board adopted the 2009 Stock Plan which was approved by the Company's

stockholders on April 22, 2009. Effective April 22, 2009, no further stock options may be granted under the 1999 Plan.

2009 Stock Plan

The 2009 Stock Plan, or 2009 Plan, was amended and restated by the Board of Directors in March 2011 and approved by the Company's stockholders on April 28, 2011 to, among other things, reserve an additional 1.5 million shares of common stock for issuance under the Plan. As of December 30, 2012, approximately 7.0 million shares were reserved for issuance under the 2009 Plan. Equity awards that are cancelled, forfeited or repurchased under the 1999 Plan become available for grant under the 2009 Plan, up to a maximum of an additional 7.5 million shares. Equity awards granted under the 2009 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for

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each month of service thereafter. The Company may implement different vesting schedules in the future with respect to any new equity awards.

Employee Stock Purchase Plan

The 2009 Employee Stock Purchase Plan, or 2009 ESPP, was adopted in March 2009. The Company has reserved 2.3 million shares for issuance under the 2009 ESPP. The 2009 ESPP provides for six month offering periods. Participants purchase shares through payroll deductions of up to 20% of an employee's total compensation (maximum of 20,000 shares per offering period). The 2009 ESPP permits the Board of Directors to determine, prior to each offering period, whether participants purchase shares at: (i) 85% of the fair market value of the common stock at the end of the offering period; or (ii) 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period. The Board of Directors has determined that, until further notice, future offering periods will be made at 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period.

NOTE 11-STOCK-BASED COMPENSATION

Stock-based compensation expense is recognized in the Company's consolidated statements of operations and includes compensation expense for the stock-based compensation awards granted or modified subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of the amended authoritative guidance. The impact of the amended authoritative guidance on the Company's consolidated financial statements for fiscal years 2012, 2011 and 2010 was as follows (in thousands):

	Fiscal Years		
	2012	2011	2010
Cost of revenue	\$ 179	\$ 131	\$ 169
Research and development	455	458	645
Selling, general and administrative	1,369	1,087	1,604
Total costs and expenses	\$ 2,003	\$ 1,676	\$ 2,418

The amount of stock-based compensation included in inventories at the end of 2012, 2011 and 2010 was not significant.

Valuation Assumptions

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

vest with service are expensed using the straight-line attribution method over the requisite service period.

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

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

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grants:

	Fiscal Years				
	2012	2011	2010		
Expected term (years)	6.3	5.7	5.4		
Risk-free interest rate	0.98	% 1.16	% 2.40	%	%
Expected volatility	61	% 61	% 58	%	%
Expected dividend	—	—	—		

The methodologies for determining the above values were as follows:

Expected term: The expected term represents the period that the Company's stock-based awards are expected to be outstanding and is estimated based on historical experience.

Risk-free interest rate: The risk-free interest rate assumption is based upon the risk-free rate of a Treasury Constant Maturity bond with a maturity appropriate for the expected term of the Company's employee stock options.

Expected volatility: The Company determines expected volatility based on historical volatility of the Company's common stock according to the expected term of the options.

Expected dividend: The expected dividend assumption is based on the Company's intent not to issue a dividend under its dividend policy.

The weighted average estimated fair value for options granted during 2012, 2011 and 2010 was \$1.36, \$1.53, and \$1.48 per option, respectively. As of the end of 2012, the fair value of unvested stock options, net of expected forfeitures, was approximately \$2.2 million. This unrecognized stock-based compensation expense is expected to be recorded over a weighted average period of 2.52 years.

Stock-Based Compensation Award Activity

The following table summarizes the shares available for grant under the 2009 Plan for 2012:

	Shares Available for Grant (in thousands)	
Balance at January 1, 2012	2,969	
Options granted	(791)
Options forfeited or expired	935	
RSUs granted	(193)
Balance at December 30, 2012	2,920	

Stock Options

The following table summarizes stock options outstanding and stock option activity under the 1999 Plan and the 2009 Plan, and the related weighted average exercise price, for 2012, 2011 and 2010:

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	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance outstanding at January 3, 2010	8,331	\$3.37		
Granted	1,739	2.79		
Forfeited or expired	(832)	9.35		
Exercised	(1,169)	2.59		
Balance outstanding at January 2, 2011	8,069	2.74		
Granted	876	2.81		
Forfeited or expired	(803)	4.51		
Exercised	(659)	2.46		
Balance outstanding at January 1, 2012	7,483	2.58		
Granted	791	2.43		
Forfeited or expired	(935)	3.04		
Exercised	(379)	1.87		
Balance outstanding at December 30, 2012	6,960	\$2.55	6.33	\$ 1,683
Exercisable at December 30, 2012	4,991	\$2.54	5.44	\$ 1,556
Vested and expected to vest at December 30, 2012	6,573	\$2.55	6.18	\$ 1,666

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of \$2.25 as of the end of the Company's current reporting period, which would have been received by the option holders had all option holders exercised their options as of that date.

The total intrinsic value of options exercised during 2012, 2011 and 2010 was \$343,000, \$1.8 million and \$2.5 million, respectively. Total cash received from employees as a result of employee stock option exercises during 2012, 2011 and 2010 was approximately \$711,000, \$1.6 million and \$3.0 million, respectively. The Company settles employee stock option exercises with newly issued common shares. In connection with these exercises, there was no tax benefit realized by the Company due to the Company's current loss position. Total stock-based compensation related to stock options was \$1.4 million and \$1.5 million for 2012 and 2011, respectively.

Significant exercise price ranges of options outstanding, related weighted average exercise prices and contractual life information at the end of 2012 were as follows:

Range of Exercise Prices	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Options Outstanding (in thousands)	Weighted Average Remaining Contractual Life (in years)		Options Vested and Exercisable (in thousands)	Weighted Average Exercise Price
\$0.78 - \$1.29	650	5.77	\$ 0.90	648	\$ 0.90
1.63 - 1.63	1,215	6.11	1.63	1,090	1.63
1.75 - 2.72	722	8.67	2.22	113	2.44
2.73 - 2.76	292	2.48	2.75	279	2.75
2.78 - 2.78	2,227	7.82	2.78	1,165	2.78
2.82 - 3.02	857	3.85	2.96	811	2.96
3.04 - 4.17	901	5.44	3.89	792	3.94

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4.36 - 5.94	81	2.83	5.23	81	5.23
6.00 - 6.00	5	8.07	6.00	2	6.00
6.53 - 6.53	10	0.75	6.53	10	6.53
\$0.78 - \$6.53	6,960	6.33	\$ 2.55	4,991	\$ 2.54

Restricted Stock Units

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RSUs entitle the holder to receive, at no cost, one common share for each restricted stock unit on the vesting date as it vests. The Company withholds shares in settlement of employee tax withholding obligations upon the vesting of restricted stock units. The stock-based compensation related to grants of vested RSUs was \$341,000 in 2012.

	RSUs Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Nonvested at January 2, 2012	—	\$ —
Granted	193	2.23
Vested	(153	) 2.18
Forfeited	—	—
Nonvested at December 30, 2012	40	\$ 2.30

Employee Stock Purchase Plan

The weighted average estimated fair value, as defined by the amended authoritative guidance, of rights issued pursuant to the Company's ESPP during 2012, 2011 and 2010 was \$0.74, \$0.84 and \$1.36, respectively. Sales under the ESPP were 270,000 shares of common stock at an average price of \$1.95 for 2012, 171,000 shares of common stock at an average price of \$2.47 for 2011, and 197,000 shares of common stock at an average price of \$2.07 for 2010.

Under the 2009 ESPP, the Company issued 270,000 shares at a price of \$1.95 per share during 2012. As of December 30, 2012, 1,512,000 shares under the 2009 ESPP remained available for issuance. For 2012, the Company recorded compensation expense related to the ESPP of \$247,000.

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

	Fiscal Years			
	2012	2011	2010	
Expected life (months)	6.00	6.10	5.96	
Risk-free interest rate	0.14	% 0.08	% 0.19	%
Volatility	56	% 56	% 60	%
Dividend yield	—	—	—	

The methodologies for determining the above values were as follows:

Expected term: The expected term represents the length of the purchase period contained in the ESPP.

Risk-free interest rate: The risk-free interest rate assumption is based upon the risk-free rate of a Treasury Constant Maturity bond with a maturity appropriate for the term of the purchase period.

Volatility: The Company determines expected volatility based on historical volatility of the Company's common stock for the term of the purchase period.

Divident Yield: The expected dividend assumption is based on the Company's intent not to issue a dividend under its dividend policy.

As of the end of 2012, the unrecognized stock-based compensation expense relating to the Company's ESPP is \$84,000 and was expected to be recognized over a weighted average period of approximately 4.5 months.

NOTE 12-INFORMATION CONCERNING PRODUCT LINES, GEOGRAPHIC INFORMATION AND REVENUE CONCENTRATION

The Company identifies its business segments based on business activities, management responsibility and geographic location. For all periods presented, the Company operated in a single reportable business segment.

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The following is a breakdown of revenue by product family (in thousands):

	Fiscal Years		
	2012	2011	2010
Revenue by product line ⁽¹⁾ :			
New products	\$5,920	\$5,326	\$9,388
Mature products	9,024	15,643	16,811
Total revenue	\$14,944	\$20,969	\$26,199

For all periods presented: New products represent products introduced since 2005, and include ArcticLink[®], ArcticLink II, Eclipse[™] II, PolarPro, PolarPro II, and QuickPCI[®] II. Mature products include Eclipse, EclipsePlus, pASIC[®] 1, pASIC 2, pASIC 3, QuickFC, QuickMIPS, QuickPCI, QuickRAM[®], and V3, as well as royalty revenue, programming hardware and software.

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

	Fiscal Years		
	2012	2011	2010
Revenue by geography:			
United States	\$5,049	\$8,271	\$8,652
Europe	2,414	4,127	4,580
Malaysia	1,714	1,780	1,950
Japan	3,316	2,733	2,914
China	1,725	3,032	6,950
Rest of North America	327	326	431
Rest of Asia Pacific	399	700	722
Total revenue	\$14,944	\$20,969	\$26,199

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

	Fiscal Years			
	2012	2011	2010	
Distributor "A"	27	% 39	% 24	%
Distributor "B"	*	*	12	%
Distributor "C"	19	% 10	% *	
Distributor "D"	10	% 13	% 22	%
Customer "B"	14	% 15	% 11	%
Customer "E"	*	11	% *	
Customer "F"	10	% *	*	

* Represents less than 10% of revenue for the period presented.

The following distributors and customers accounted for 10% or more of the Company's accounts receivable as of the dates presented:

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	December 30, 2012	January 1, 2012	
Distributor "A"	35	% 30	%
Distributor "B"	14	% *	
Customer "C"	*	23	%

* Represents less than 10% of accounts receivable as of the date presented.

As of the end of 2012, less than 10% of the Company's long-lived assets, including property and equipment and other assets, were located outside the United States.

NOTE 13- SHELF REGISTRATION STATEMENT

On August 21, 2009, the Company filed a shelf registration statement on Form S-3, which was declared effective on September 2, 2009 and expired on September 1, 2012. Under the shelf registration statement, the Company raised \$5.5 million, net of placement agent's fees and other offering expenses of \$774,000 on November 17, 2009.

On June 1, 2012, the Company filed a registration statement on Form S-3 MEF to increase the amount of securities that may be sold under the shelf registration statement by \$3,362,600.

In June 2012, the Company issued an aggregate of 5,122,000 shares of common stock and warrants to purchase up to an aggregate of 2,304,900 shares of common stock in a confidentially marketed underwritten offering. The common stock and warrants were issued in units (the "Units"), with each Unit consisting of (i) one share of common stock and (ii) a warrant to purchase 0.45 of a share of common stock, at a price of \$2.50 per Unit. The Company received total net proceeds from the offering of \$11.9 million, net of underwriting discounts and other offering expenses of \$929,000. The warrants are exercisable any time for a period of 60 months from the date of issuance on June 6, 2012, and are exercisable at a price of \$2.98 per share.

NOTE 14-COMMITMENTS AND CONTINGENCIES

Certain wafer manufacturers require the Company to forecast wafer starts several months in advance. The Company is committed to take delivery of and pay for a portion of forecasted wafer volume. As of the end of 2012 and 2011, the Company had \$621,000 and \$532,000, respectively, of outstanding commitments for the purchase of wafer inventory.

The Company has purchase obligations with certain suppliers for the purchase of goods and services entered into in the ordinary course of business. As of December 30, 2012, total outstanding purchase obligations were \$468,000, which are primarily due within the next 12 months.

The Company leases its primary facility under a non-cancelable operating lease that expires in 2015. In addition, the Company rents development facilities in Canada and India as well as sales offices in Europe and Asia. Total rent expense, net of sublease income, during 2012, 2011 and 2010 was approximately \$493,000, \$464,000, and \$465,000, respectively.

Future minimum lease commitments under the Company's operating leases, net of sublease income and excluding property taxes and insurance are as follows:

Fiscal Years	Operating Leases (in thousands)
--------------	------------------------------------

2013	695
2014	711
2015	731
2016 and thereafter	—
	\$ 2,137

NOTE 15-LITIGATION

From time to time, the Company is involved in legal actions arising in the ordinary course of business, including but

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not limited to intellectual property infringement and collection matters. Absolute assurance cannot be given that third party assertions will be resolved without costly litigation in a manner that is not adverse to the Company's financial position, results of operations or cash flows or without requiring royalty or other payments in the future which may adversely impact gross profit.

NOTE 16 - SUBSEQUENT EVENT

The American Taxpayer Relief Act of 2012, which was enacted on January 2, 2013, extends the Federal research tax credit retroactively for two years from January 1, 2012 through December 31, 2013. There will be no impact to the income tax provision for the enactment in the quarter ending March 31, 2013 due to the Company's valuation allowance recorded against its US deferred tax assets.

Table of ContentsSUPPLEMENTARY FINANCIAL DATA
QUARTERLY DATA (UNAUDITED)

	Quarter Ended							
	December 30, 2012	September 30, 2012	July 1, 2012	April 1, 2012	January 1, 2012	October 2, 2011	July 3, 2011	April 3, 2011
	(in thousands, except per share amount)							
Statement of Operations:								
Revenue	\$3,086	\$ 3,657	\$4,071	\$4,130	\$4,346	\$ 5,339	\$5,737	\$5,547
Cost of revenue ⁽¹⁾	1,565	1,916	2,026	2,371	2,329	2,283	1,966	1,939
Gross profit	1,521	1,741	2,045	1,759	2,017	3,056	3,771	3,608
Operating expenses:								
Research and development ⁽²⁾	1,624	1,865	2,452	2,802	2,450	2,271	3,312	1,803
Selling, general and administrative	2,377	2,658	2,749	2,697	2,548	2,267	2,543	2,607
Loss from operations	(2,480)	(2,782)	(3,156)	(3,740)	(2,981)	(1,482)	(2,084)	(802)
Interest expense	(12)	(12)	(24)	(13)	(5)	(5)	(18)	(8)
Interest income and other (expense), net	(32)	18	(50)	(13)	(93)	(49)	(13)	(4)
Income (loss) before income taxes	(2,524)	(2,776)	(3,230)	(3,766)	(3,079)	(1,536)	(2,115)	(814)
Provision for (benefit from) income taxes	35	22	6	(45)	31	10	(55)	64
Net income (loss)	\$(2,559)	\$(2,798)	\$(3,236)	\$(3,721)	\$(3,110)	\$(1,546)	\$(2,060)	\$(878)
Net income (loss) per share:								
Basic and Diluted	\$(0.06)	\$(0.06)	\$(0.08)	\$(0.10)	\$(0.08)	\$(0.04)	\$(0.05)	\$(0.02)
Weighted average shares:								
Basic and Diluted	44,400	44,122	40,154	38,495	38,482	38,418	38,376	36,495

(1) Since the fourth quarter of 2011, cost of revenue has increased as percentage of revenue primarily as a result of changes in product mix during these quarters.

(2) In the second quarter of 2011, the Company incurred additional \$1.1 million in third party chip design costs and \$427,000 in purchased IP related to its ArcticLink III VX & BX solution platform families.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has performed an evaluation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 30, 2012, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted account principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, cost effective internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with established policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of the end of the period covered by this Annual Report on Form 10-K. In making this assessment, we used the criteria based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in

“Internal Control - Integrated Framework.” Based on the results of this assessment, management (including our Chief Executive Officer and our Chief Financial Officer) has concluded that, as of December 30, 2012, our internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 30, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated on their report appearing in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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ITEM 9B. OTHER INFORMATION

None.

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PART III

Certain information required by Part III is incorporated by reference from the definitive Proxy Statement regarding our 2010 Annual Meeting of Stockholders and will be filed not later than 120 days after the end of the fiscal year covered by this Report.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the backgrounds of our officers is contained herein under Item 1, “Executive Officers and Directors.”

Information regarding the backgrounds of our directors is set forth under the caption “Proposal One, Election of Directors” in our Proxy Statement, which information is incorporated herein by reference.

Information regarding our Audit Committee, our Audit Committee financial expert, the procedures by which security holders may recommend nominees to our Board and our Code of Conduct and Ethics is hereby incorporated herein by reference from the section entitled “Board Meetings, Committees and Corporate Governance” in the Proxy Statement. A copy of our Code of Conduct and Ethics is posted on our website at <http://ir.quicklogic.com>. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, this Code of Conduct and Ethics by posting such information on our website.

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated herein by reference from the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is set forth under the captions “Compensation Committee Interlocks and Insider Participation,” “Executive Compensation, Compensation Discussion and Analysis,” and “Compensation of Non-Employee Directors” in our Proxy Statement, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is set forth under the captions “Equity Compensation Plan Summary” and “Security Ownership” in our Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is set forth under the captions “Board Meetings, Committees and Corporate Governance” and “Transactions with Related Persons” in our Proxy Statement, which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is set forth under the caption “Fees Billed to QuickLogic by PricewaterhouseCoopers during Fiscal Years 2012 and 2011” in our Proxy Statement, which information is incorporated herein by reference.

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PART IV

ITEM 15.EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)1. Financial Statements

Reference is made to Item 8 for a list of all financial statements and schedules filed as a part of this Report.

2. Financial Statement Schedules

QuickLogic Corporation

Valuation and Qualifying Accounts

(in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions/Write-offs	Balance at End of Period
Allowance for Doubtful Accounts:				
Fiscal Year 2012	\$10	\$10	\$ —	\$20
Fiscal Year 2011	\$16	\$—	\$ (6)	\$10
Fiscal Year 2010	\$10	\$7	\$ (1)	\$16
Allowance for Deferred Tax Assets:				
Fiscal Year 2012	\$56,067	\$4,156	\$ —	\$60,223
Fiscal Year 2011	\$52,827	\$3,240	\$ —	\$56,067
Fiscal Year 2010	\$55,342	\$—	\$ (2,515)	\$52,827

All other schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes hereto.

3. Exhibits

The exhibits listed under Item 15(b) hereof are filed as part of this Annual Report on Form 10-K.

(b) Exhibits

The following exhibits are filed with or incorporated by reference into this Report:

Exhibit Number	Description
3.1 ⁽¹⁾	Amended and Restated Certificate of Incorporation of the Registrant.
3.2 ⁽⁵⁾	Bylaws of the Registrant.
4.1 ⁽¹⁾	Specimen Common Stock certificate of the Registrant.
4.3 ⁽¹⁹⁾	Form of Common Stock Warrant.

- 10.1^(4,11) Form of Indemnification Agreement for directors and executive officers.
- 10.2^(10,11) QuickLogic Corporation 1999 Stock Plan.
- 10.3^(10,11) Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement under the 1999 Stock Plan.

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10.4 ^(10,11)	Notice of Grant of Stock Options and Stock Option Award Agreement under the 1999 Stock Plan.
10.5 ^(10,11)	Notice of Grant of Stock Purchase Right and Restricted Stock Purchase Agreement under the 1999 Stock Plan.
10.6 ^(8,11)	QuickLogic Corporation 1999 Employee Stock Purchase Plan.
10.8 ^(1,3)	Lease dated June 17, 1996, as amended, between Kairos, LLC and Moffet Orchard Investors as Landlord and the Registrant for the Registrant's facility located in Sunnyvale, California.
10.9 ⁽¹⁾	Patent Cross License Agreement dated August 25, 1998 between the Registrant and Actel Corporation.
10.13 ^(11,15)	Form of Change of Control Severance Agreement.
10.14 ^(11,15)	Form of Change of Control Severance Agreement for E. Thomas Hart.
10.15 ^(7,11)	2005 Executive Bonus Plan, as restated.
10.17 ⁽⁶⁾	Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 30, 2006.
10.18 ⁽⁹⁾	First Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 27, 2007.
10.19 ⁽¹²⁾	Second Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 27, 2008.
10.20 ⁽¹²⁾	Third Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective July 31, 2008.
10.21 ⁽¹³⁾	Fourth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective August 19, 2008.
10.23 ⁽¹⁴⁾	Second Amendment to Lease Agreement between NetApp, Inc. and QuickLogic Corporation effective September 25, 2008.
10.24 ^(11,16)	QuickLogic Corporation 2009 Stock Plan.
10.25 ^(11,16)	QuickLogic Corporation 2009 Employee Stock Purchase Plan.
10.26 ^(11,17)	Form of Notice of Grant and Stock Option Agreement under the 2009 Stock Plan.
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10.28 ^(11,17)	Form of Notice of Grant of Restricted Stock Unit and Restricted Stock Unit Agreement under the 2009 Stock Plan.
10.29 ⁽¹⁸⁾	Fifth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective September 25, 2009.
10.30 ⁽²⁰⁾	Form of Subscription Agreement.
10.31 ⁽²¹⁾	Sixth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 28, 2010.
10.32 ⁽²²⁾	Seventh Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 9, 2011.
10.33 ⁽²³⁾	QuickLogic Corporation 2009 Stock Plan (Amended and Restated March 10, 2011)
10.34 ⁽²⁴⁾	Eighth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 4, 2012.

- 10.35⁽²⁵⁾ Third Amendment to Lease between NetApp, Inc. and QuickLogic Corporation dated August 3, 2012.
- 21.1⁽²⁾ Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 24.1 Power of Attorney.

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31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	CEO and CFO Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 declared effective October 14, 1999 (Commission File No. 333-28833).
- (2) Incorporated by reference to the Company's Annual Report on Form 10-K filed on March 14, 2002 (Commission File No. 000-22671).
- (3) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on November 13, 2002 (Commission File No. 000-22671).
- (4) Incorporated by reference to the Company's Annual Report on Form 10-K filed on March 17, 2005 (Commission File No. 000-22671).
- (5) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 5.03) filed on May 2, 2005.
- (6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on December 22, 2006 (Commission File No. 000-22671).
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- (9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 10, 2007 (Commission File No. 000-22671).
- (10) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01 and Item 5.02) filed on September 4, 2007.
- (11) This exhibit is a management contract or compensatory plan or arrangement.
- (12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 7, 2008 (Commission File No. 000-22671).
- (13) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on August 19, 2008.
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 8th day of March 2013.

QUICKLOGIC CORPORATION

By: /S/ Andrew J. Pease
Andrew J. Pease
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Andrew J. Pease and Ralph S. Marimon and each of them singly, as true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign this Annual Report on Form 10-K filed herewith and any or all amendments to said report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission granting unto said attorneys-in-fact and agents the full power and authority to do and perform each and every act and the thing requisite and necessary to be done in and about the foregoing, as to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the dates indicated below.

Signature	Title	Date
/s/ ANDREW J. PEASE Andrew J. Pease	President and Chief Executive Officer; Director (Principal Executive Officer)	March 8, 2013
/S/ RALPH S. MARIMON Ralph S. Marimon	Vice President, Finance, Chief Financial Officer and Secretary (Principal Financial Officer and Principal Accounting Officer)	March 8, 2013
/S/ E. THOMAS HART E. Thomas Hart	Executive Chairman of the Board	March 8, 2013
/S/ MICHAEL J. CALLAHAN Michael J. Callahan	Director	March 8, 2013
/S/ MICHAEL R. FARESE Michael R. Farese	Director	March 8, 2013
/S/ ARTURO KRUEGER Arturo Krueger	Director	March 8, 2013
/S/ CHRISTINE RUSSELL Christine Russell	Director	March 8, 2013

/S/ GARY H. TAUSS
Gary H. Tauss

Director

March 8, 2013

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