

QUICKLOGIC CORPORATION

Form 10-K

March 06, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 29, 2013

OR

£TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-22671

QUICKLOGIC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

1277 Orleans Drive

Sunnyvale, CA 94089

(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

77-0188504

(I.R.S. Employer

Identification Number)

Title of Each Class

Common Stock, \$0.001 par value

Name of Exchange on which Registered

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Exchange Act.

Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if  
any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§  
232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to  
submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained  
herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2013, the Registrant's most recently completed second fiscal quarter, was \$98,344,861 based upon the last sales price reported for such date on the Nasdaq Global Market. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive.

At February 24, 2014, the Registrant had 54,891,083 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Item 9 of Part II of this Form 10-K and Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K incorporate information by reference from the Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on or about April 24, 2014, the "Proxy Statement". Except with respect to the information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.

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FORWARD-LOOKING STATEMENT

This Annual Report on Form 10-K, including the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as information contained in "Risk Factors" in Item 1A and elsewhere in this Annual Report on Form 10-K, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend that these forward-looking statements be subject to the safe harbors created by those provisions. Forward-looking statements are generally written in the future tense and/or are preceded by words such as "will," "may," "should," "forecast," "could," "expect," "suggest," "believe," "anticipate," "intend," "plan," or other similar words. Forward-looking statements include statements regarding (1) our revenue levels, including the commercial success of our Customer Specific Standard Products, or CSSPs, and new products, (2) the conversion of our design opportunities into revenue, (3) our liquidity, (4) our gross profit and breakeven revenue level and factors that affect gross profit and the breakeven revenue level, (5) our level of operating expenses, (6) our research and development efforts, (7) our partners and suppliers and (8) industry trends.

The forward-looking statements contained in this Annual Report involve a number of risks and uncertainties, many of which are outside of our control. Factors that could cause actual results to differ materially from projected results include, but are not limited to, risks associated with (i) the conversion of CSSP design opportunities into revenue; (ii) the commercial and technical success of our CSSPs and new products such as ArcticLink®, ArcticLink II, ArcticLink III, ArcticLink 3S1, PolarPro®, PolarPro II and Polar Pro 3, and our successful introduction of products and CSSPs incorporating emerging technologies or standards; (iii) our dependence on our relationships with our foundries each of which manufactures wafers for different types of products; (iv) our dependence upon single suppliers to fabricate and assemble our products; (v) the liquidity required to support our future operating and capital requirements; (vi) our ability to accurately estimate quarterly revenue; (vii) our expectations about market and product trends; (viii) our future plans for partnerships and collaborations; and (ix) our ability to forecast demand for our products. Although we believe that the assumptions underlying the forward-looking statements contained in this Annual Report are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements will be accurate. The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under the heading "Risk Factors" in Part I, Item 1A hereto and the risks, uncertainties and assumptions discussed from time to time in our other public filings and public announcements. All forward-looking statements included in this document are based on information available to us as of the date hereof. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved. Furthermore, past performance in operations and share price is not necessarily indicative of future performance. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

As used herein, "QuickLogic", the "Company", "we", "our" and similar terms include QuickLogic Corporation and its subsidiaries, unless the context indicates otherwise.

PART I

ITEM 1. BUSINESS

Overview

QuickLogic Corporation was founded in 1988 and reincorporated in Delaware in 1999. We develop and market low power customizable semiconductor solutions that enable customers to differentiate their products by adding new features, extending battery life, and improving the visual experience with their mobile, consumer and enterprise products. We are a fabless semiconductor company that designs, markets, and supports primarily Customer Specific Standard Products, or CSSPs, and, secondarily, Field Programmable Gate Arrays, or FPGAs, associated design software and programming hardware. Our CSSPs are customized semiconductor solutions created from our new

solution platforms including ArcticLink® III, ArcticLink II, ArcticLink, PolarPro® 3, PolarPro II, PolarPro, and Eclipse II (which comprise our new product category); our mature products include primarily pASIC® 3, QuickRAM® and QuickPCI, as well as royalty revenue, programming hardware and design software.

CSSPs are complete, customer-specific solutions that include a unique combination of our silicon solution platforms, proven system blocks, or PSBs, custom logic, software drivers, and in some cases, firmware, and application software. All of our solution platforms are standard silicon products and must be programmed to be effective in a system. Our PSBs range from intellectual property, or IP, which enables always-on context aware sensor applications, such as our Flexible Fusion Engine, or FFE, our Sensor Manager and Communications Manager technologies; to IP that improves multimedia content, such as our

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Visual Enhancement Engine, or VEE technology, and Display Power Optimizer technology, or DPO; to IP which implements commonly used mobile system interfaces, such as Low Voltage Differential Signaling, or LVDS, Mobile Industry Processor Interface, or MIPI, Secure Digital Input Output, or SDIO, and Universal Serial Bus 2.0 On-The-Go, or USB 2.0 OTG; to IP that accelerates sideload speeds in mobile devices. We provide complete solutions by first architecting the solution jointly with our customer's or ecosystem partner's engineering group, selecting the appropriate solution platform and PSBs, providing custom logic, integrating the logic, programming the device with the PSBs and/or firmware, providing software drivers or application software required for the customer's application, and participating with the customer on-site during integration, verification and testing.

We pioneered and introduced CSSPs in the first quarter of 2007. CSSPs are developed for specific power sensitive applications that have differentiated features in terms of IP, intelligent data processing or connectivity requirements. Our customers value (i) our ability to provide a range of CSSPs from a single platform design by incorporating different features in the programmable logic of our solution platforms; (ii) the expertise we bring to design our CSSPs to optimize for power and performance within our customers' constraints; and (iii) the flexibility of programmable logic to address specific hardware-based product requirements. By providing customized solutions for our customers, we increase their ability to meet the time-to-market and time-in-market pressures associated with their markets.

The majority of our CSSP solution platforms and our other product offerings, are based on our patented ViaLink<sup>®</sup> metal-to-metal programmable technology. ViaLink provides flexible energy-efficient devices and solutions that deliver the high performance, high reliability, IP security and instant-on features that our customers value. In October 2013, we announced a new, Static Random Access Memory (SRAM) reprogrammable logic technology. This SRAM technology offers ultra-low power consumption and is in-system reconfigurable, opening up new use cases that we can address with our CSSPs.

During 2009, our engineering teams developed multiple CSSPs using the PolarPro II platform for the 3G USB modem segment that entered into production during the fourth quarter of 2009 and accounted for a significant percentage of our revenue during 2010, 2011, and 2012.

In 2012 we introduced our third generation solution platform family, ArcticLink III VX, which embeds our VEE/DPO technologies as well as different combinations of LVDS and/or MIPI. ArcticLink III VX combines mixed signal physical layers and hard-wired logic on one device. We also introduced our fourth generation solution platform family, ArcticLink III BX. The BX family is identical to the VX family with the exception of the VEE/DPO technologies. The BX family was introduced to provide potential customers with the ability to adopt needed display bridge requirements while evaluating the benefits of our VEE/DPO technologies. Mixed signal capability supports the trend toward high-speed serial connectivity in the mobile applications where designers benefit from lower pin counts, simplified printed circuit boards, or PCBs, layout, simplified PCB interconnect and reduced signal noise. Adding hard-wired intellectual property enables us to deliver more logic per die area at the most power-efficient levels in a small form factor package.

In 2013, we introduced two new silicon platform families, both of which are based on our new SRAM reprogrammable logic technology. The first is PolarPro 3, an ultra-low power FPGA family that we intend to create CSSPs for the mobile market. The second is the ArcticLink 3S1 silicon platform family which is QuickLogic's first family intended to implement sensor hub solutions. During the same timeframe, QuickLogic announced two Catalog CSSPs, a sensor data buffer solution from the PolarPro3 family, and an always-on, context aware sensor hub from the ArcticLink 3S1 family. Both of these Catalog solutions are intended to be used by the mobile market.

We have changed our manufacturing strategies to reduce the cost of our silicon solution platforms to enable their use in high volume, mass customization products. Our PolarPro 3, PolarPro II and PolarPro solution platforms include an innovative logic cell architecture which enables us to deliver twice the programmable logic in the same die size. Our

ArcticLink II and ArcticLink solution platforms combine mixed signal physical layers and hard-wired logic alongside programmable logic. Our ArcticLink III solution platform is manufactured on an advanced process node where we can benefit from smaller die sizes. We typically implement sophisticated logic blocks and mixed signal functions in hard-wired logic because it is very cost effective and energy efficient. ArcticLink II and ArcticLink combine cost effective physical layers and hard-wired logic with the flexibility, time-to-market and time-in-market advantages of programmable logic. We have developed small form factor packages, which are less expensive to manufacture and include smaller pin counts. Reduced pin counts result in lower costs associated with our customer's printed circuit board space and routing. Our ability to sell programmed die as CSSPs greatly reduces our costs, allowing us to participate in high volume opportunities. In addition, we have dramatically reduced the time we require to program and test our devices, which has reduced our costs and lowered the capital equipment required to program and test our devices. We expect to continue to invest in silicon solution platforms and manufacturing technologies which make us cost effective for high volume applications.

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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 sensor, storage, networking or graphics components. 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.

In addition to competition in the semiconductor market, two other factors affect our future growth: (i) an expected increase in revenue should our CSSP strategy prove successful and (ii) an expected decline in revenue from mature products. CSSP revenue is included in our new product revenue. New products contributed 70% of total revenue for the year ended December 29, 2013. In order to maintain or grow our revenue from its current level, we depend upon increased revenue from our existing products, especially CSSPs, and the development and marketing of additional new products and solutions.

## Available Information

Our corporate headquarters are located at 1277 Orleans Drive, Sunnyvale, California 94089. We can be reached at (408) 990-4000, and our website address is [www.quicklogic.com](http://www.quicklogic.com). The information on our website is not incorporated herein by reference and is not a part of this Form 10-K. Our common stock trades on the Nasdaq Global Market under the symbol "QUIK". Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports are available, free of charge, on our website home page as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the Securities and Exchange Commission, or SEC. Copies of the materials filed by the Company with the SEC are also available at the Public Reference Room at 100 F Street, N.E., Washington, D.C., 20549. Information regarding the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. Reports, proxy and information statements and other information regarding issues that we file electronically with the SEC are also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

## Industry Background

Consumer Electronics, or CE, products are a strong growth market for semiconductor products, and the needs of this market bring a unique set of requirements. One important trend in this market is toward mobile, handheld devices with wireless capability. Important industry trends affecting the large market for mobile devices include the need for high bandwidth that enables the same user experience consumers are accustomed to on the personal computer, or PC, such as internet browsing, social networking and streaming video, product miniaturization and the need to increase battery life. Many of these product requirements were driven from the launch and widely publicized success of the Apple iPhone and Apple iPad. While there continue to be additional deployments in the network operator infrastructure that support the bandwidth required for these use cases, there are demographic and geographic specific product features that share this infrastructure. These product features place a burden on the designers and manufactures of these mobile CE products as they try to tailor multiple products with limited engineering resources. Lastly, the fast pace at which consumer taste for these features changes exacerbates the development challenges and risks in launching successful products to the marketplace.

Another important trend is shrinking product life cycles. This drives a need for faster, lower risk product development. There is intense pressure on the bill of materials, or BOM, cost of these devices, including per unit component costs and non-recurring development costs. As more people experience the advantages of a mobile lifestyle at home, they demand the same advantages in their professional lives. We believe that the trend toward mobile, handheld products that have a PC-like user experience, small form factor and maximize battery life will be prominent in the computing, industrial, medical and military markets. One such example is the trend of Notebook and Laptop makers to offer the



new, smaller form factor Tablets.

We believe these industry trends are shifting the demand among different classes of core silicon. The following are the three main classes of non-memory core silicon:

Application Specific Standard Products, or ASSPs, other than processors, are fixed function devices designed to address a relatively narrow set of applications. These devices typically integrate a number of common peripherals or functions and the functionality of these devices is fixed prior to wafer fabrication;

Programmable Logic Devices, or PLDs, are general purpose devices, which can be used by a variety of electronic systems manufacturers and are customized after purchase for a specific application. FPGAs are a subset of PLDs and are typically used to implement complex system functions; and

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Application Specific Integrated Circuits, or ASICs, are custom devices designed and fabricated to meet the needs of one specific application for one end-customer. Structured ASICs, a sub-category of ASICs, provide a limited amount of custom content to broaden the applicability of a device for additional applications.

ASSPs are offered broadly to the market, making it challenging for a system designer to create differentiated products from these devices alone. In many situations the available ASSPs may not directly implement the desired function and the system designer is required to use a combination of ASSPs to achieve the desired result at the expense of increased cost, product size and power consumption. As standards evolve or new standards are developed, ASSPs may not be available to implement desired functions.

System designers can customize their products using programmable logic or ASICs. The competitive dynamic between these classes of core silicon are well understood. High development risks, development costs and opportunity costs are incurred when using ASICs to produce custom devices with very low unit production cost. Suppliers of programmable logic devices, which have lower development and market risks and development costs relative to ASICs, have aggressively reduced the unit cost of their products over time, making programmable logic devices the solution of choice for custom products unless the volume is very high. These cost reduction efforts have significantly increased the volume required to justify the total cost of an ASIC.

Consumer devices incorporate complex, rapidly changing technology, require rapid product proliferation, and have short product life and development cycles. Therefore, most mobile designers design their products from a base platform, or reference design, provided to them by the vendor of the processor they have selected for their design. To differentiate their products from their competition, Original Equipment Manufacturers, or OEMs and Original Design Manufacturers, or ODMs, may require some level of customization at either the hardware or software level. Designers have only a few viable options to modify the base platform for their needs. Since mobile system designers require very low power consumption to maximize battery life in their applications, the high power consumption of conventional FPGAs is incompatible with their design goals. This effectively limits the average mobile system designer to ASSPs, small PLDs, and mobile-oriented FPGAs to create a virtual level playing field among mobile system designers, and makes product proliferation and differentiation extremely hard to achieve. ASICs with their long development cycles, long lead times and high non-recurring development costs are only used in very high volume mainstream consumer products.

The traditional military and industrial markets are well served by existing core silicon. Much of this market uses complex ASSPs since price, power and size are not particularly critical design considerations. When there is a strong need for a custom solution in high volume applications, designers turn to an ASIC and, in low to medium volume applications, they use FPGAs. QuickLogic FPGAs have a loyal following in certain segments of these markets, particularly when instant-on, energy efficiency, high reliability or intellectual property security is important. These markets are expected to follow a typical mature product trend, as compared with the predicted growth in our CSSP business in the consumer market.

## Markets and Product Technology

We market CSSPs primarily to mobile device OEMs and ODMs. CSSPs are complete solutions incorporating our ArcticLink II and III VX and BX, ArcticLink, PolarPro 3, PolarPro II, PolarPro, and Eclipse II solution platforms, packaging, PSBs, custom logic, software drivers and our architecture consulting. We partner with target customers in our focus markets to architect and design CSSPs and to integrate and test our CSSPs in our customers' products. A CSSP can be based on our programmable technology, which enables customized designs, low power, flexibility, rapid time-to-market, longer time-in-market and lower total cost of ownership. From a mobile system designer's perspective, a CSSP's function is known and complete, and consequently can be designed into systems with a minimum amount of effort and risk. We are capable of providing complete solutions because of our investment in

developing the low power PSBs and software required to implement specific functions. Because we are involved with our customers at the definition stage of their products, we are able to architect solutions that typically have more than one PSB, absorbing more functionality traditionally implemented with multiple ASSPs. In cases where our CSSP has multiple PSBs, significant system performance or battery life improvements can be realized by enabling direct data transfers between the PSBs, or by offloading more processing tasks from the host processor to our CSSP. In some cases, we develop the PSBs and either software or firmware ourselves and, in other cases, we utilize third parties to develop the mixed signal physical layers, logic and/or software.

We market CSSPs to OEMs and ODMs offering differentiated mobile products, and to processor vendors wishing to expand their served available market. Our target mobile markets include: Tablets, Smartphones, Wearable, Mobile Enterprise. Our solutions typically fall into one of three categories: Sensor Hubs, Display & Visual Enhancement or, Smart Connectivity.

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Our new products are also being used in applications in our traditional markets, such as data communications, instrumentation and test and military-aerospace, where customers value the low power consumption, instant-on, IP security, reliability and fast time-to-market of our products.

The fact that we use our programmable technology to customize these CSSPs provides two advantages over conventional ASSPs that are based on ASIC technology. Foremost is the fact that our CSSPs can be tailored for a specific customer's requirements. Once we have developed PSBs, it is easy to combine PSBs and utilize the remaining programmable logic to provide a unique set of features to a mobile system designer, or to add other functions to the CSSP, such as Universal Asynchronous Receiver Transmitter, or UARTs, keyboard scanning functions, and Serial Peripheral Interface, or SPI ports, which minimizes system size and cost. We are able to develop these CSSPs from a common solution platform, and partner with system designers to implement a range of solutions, or products, that address different geographic and market requirements. Finally, by using programmable technology instead of ASIC technology, we reduce the development time, development risk and total cost of ownership and are able to bring solutions to market far more quickly than other custom silicon alternatives.

By using CSSPs, PSBs, and our in-depth architecture knowledge, we can deliver energy efficient custom solutions that blend the benefits of traditional ASSPs with the flexibility, product proliferation, differentiation and low total cost of ownership advantages of programmable logic.

Our product technology consists of four major elements:

First, our programmable logic allows us to hardware customize our platforms. We have two distinct types of programmable logic. We announced a new, SRAM-reprogrammable logic architecture that utilizes a standard CMOS-logic process to meet the specific needs of the sensor and I/O subsystems of mobile devices: very low standby power, low dynamic power, and in-system reprogrammable technology. We also have our ViaLink programmable logic that uses proprietary and patented technology to meet the specific smart connectivity needs of the RF, Memory and Display subsystems of mobile products: non-volatility and instant on, very low standby power, low dynamic power, small form factor, single chip solutions that power cycle easily and quickly. Hardware customization gives our devices the ability to execute key actions faster than software implementations, and at lower power.

Second, our ArcticLink solution platform combines mixed signal physical layers, hard-wired logic and programmable logic on one device. Mixed signal capability supports the trend toward serial connectivity in mobile applications, where designers benefit from lower pin counts, simplified PCB layout, simplified PCB interconnect and reduced signal noise. Adding hard-wired intellectual property enables us to deliver more logic at lower cost and lower power; while the programmable logic allows us to provide solutions that can be rapidly customized to differentiate products, add features and reduce system development costs. This combination of mixed signal, hard-wired logic and programmable logic enables us to deliver low cost, small form factor solutions that can be customized for particular customer or market requirements while lowering the total cost of ownership.

Third, we develop and integrate PSBs which are innovative IP cores, intelligent data processing IP cores, or standard interfaces used in mobile products. We offer:

• Sensor Hub PSBs such as FFE, Sensor Manager, or Communications Manager

• Display and Visual Enhancement PSBs such as VEE, DPO or LCD controller interfaces, LVDS and MIPI;

• Network PSBs such as High Speed USB 2.0 OTG, high speed Universal Asynchronous Receiver/Transmitters, or UARTs, to enable Bluetooth 2.x + EDR;

•

Storage PSBs such as Secure Digital High Capacity, or SDHC, boot from managed NAND, Hard Disk Drive and high performance compact flash interfaces; and

Other PSBs such as I2S, PCM, I2C, and general purpose interfaces.

Fourth, our unique customer engagement model enables us to develop complete solutions for target customers who wish to bring differentiated, mobile products to market quickly and cost effectively. We partner with customers to define solutions specific to their requirements, and combine all of the above technologies using one of our solution platforms, PSBs, which are proven logic IP cores, custom logic, software drivers, firmware and application software. We then work with these customers to integrate and test CSSPs in their systems. The benefit of providing complete solutions is that we effectively become a virtual extension of our customers' engineering organization.

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Marketing, Sales and Customers

We are a sub-system integrator that monetizes solutions through silicon sales. We specialize in enhancing the user experience in leading edge mobile devices and products. For our customers, we enable hardware differentiation quickly and cost effectively. For our partners, we expand their reach into new segments and new use cases thereby expanding the served available market for their existing devices.

Our objective is to enable mobile market leaders to achieve mass customization with innovative CSSPs. Market leading companies need to deliver new products quickly and cost effectively. We believe our programmable technology allows us to deliver customizable solutions with low power consumption and high IP security, while meeting system performance and BOM cost requirements. We believe our CSSPs allow OEMs and ODMs to rapidly bring new and differentiated products to market quickly and cost effectively. CSSPs enable energy and cost efficient solutions on design platforms from which a range of products can be introduced.

We recognize that our markets require a range of solutions, and we intend to work with market leading companies to combine silicon solution platforms, PSBs, packaging technology, software drivers and firmware, and sensor algorithms to meet the product proliferation, high bandwidth, time-to-market, time-in-market and form factor requirements of mobile device manufacturers. We expect CSSPs to range from devices with mixed signal and visual enhancement capability to devices which provide off-load engines from the host processor to save power and extend system battery life. We intend to continue to define and implement compelling CSSPs for our target customers and partners.

As a part of our objective to empower mobile market leaders to achieve mass customization with innovative CSSPs, our business model includes a focused customer strategy in which we target market leading customers, who primarily serve the market for differentiated mobile products. Our belief is that a large majority of our revenue will ultimately come from less than 100 customers as we transition to this business model. We have identified and plan to continue to identify the customers we want to serve with CSSPs. We are currently in different stages of engagement with a number of these customers. We believe CSSPs are resonating with our target customers who value the platform design capability, rapid time-to-market, longer time-in-market and low total cost of ownership available through the use of CSSPs. We expect to expand our partner activities with top tier customers to define new silicon solution platforms and PSBs.

We sell our products through a network of sales managers in North America, Europe and Asia. In addition to our corporate headquarters in Sunnyvale, California, we have international sales operations in China, Japan, Taiwan, South Korea, and the United Kingdom. Our sales personnel and independent sales representatives are responsible for sales and application support for a given region, focusing on major strategic accounts.

Our customers typically order our products through our distributors. Currently, we have two distributors in North America and a network of sixteen distributors throughout Europe and Asia to support our international business.

We have a military, industrial and mobile product customer base that purchases our mature silicon products. We expect to continue to offer silicon devices to these customers.

Our tier one customer, Samsung Electronics Co., Ltd. ("Samsung") represented 56% of revenue in 2013. In addition, a significant portion of our revenue comes from sales to customers located outside of the United States. Please see Note 13 to our consolidated financial statements for information on our revenue by geography, market segment and key customers.

In the past, there has not been a predictable seasonal pattern to our business. However, we may experience seasonal patterns in the future due to global economic conditions, the overall volatility of the semiconductor industry and the inherent seasonality of the mobile and consumer markets.

#### Backlog

We do not believe that backlog as of any particular date is indicative of future results. A majority of our quarterly shipments are typically booked during the quarter. Our sales are made primarily pursuant to standard purchase orders issued by OEM customers and distributors.

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### Competition

A number of companies offer products that compete with one or more of our products and solutions. Our existing competitors for CSSPs include: (i) suppliers of ASSPs; (ii) suppliers of mobile and/or application processors; (iii) suppliers of ASICs, (iv) suppliers of mobile-oriented FPGAs, and (v) suppliers of low power microcontrollers. Our existing competitors for conventional FPGAs include suppliers of low power CPLDs and FPGAs.

ASSPs offer proven functionality which reduces development time, risk and cost, but it is difficult to offer a differentiated product using standard devices, and ASSPs that meet the system design objectives are not always available. Conventional programmable logic may be used to create custom functions that provide product differentiation or make up for deficiencies in available ASSPs. PLDs require more designer input since the designer has to develop and integrate the IP and may have to develop the software to drive the IP. PLDs are more expensive and consume more power than ASSPs or ASICs, but they offer fast time-to-market and are typically reprogrammable. Mobile-oriented FPGAs are beginning to be adopted by OEMs in the mobile product market, but offer very little in terms of hard logic blocks that may decrease power consumption or selling price to the OEM. ASICs have a large development cost and risk and a long time to market. As a result ASICs are generally only used for single designs with very high volumes. CSSPs enable custom functions and system designs with fast time-to-market and longer time-in-market since they are customized by us using our solution platforms that contain programmable logic. In addition, because they are complete solutions, they reduce the system development cost and risk. Finally, CSSPs are very energy efficient as a result of our programmable logic and how we intelligently architect our PSBs. They are very suitable for OEMs or ODMs offering mobile differentiated products.

### Research and Development

We are focused on developing CSSPs. CSSPs combine our silicon platforms with PSBs, software drivers and other system software. Our future success will depend to a large extent on our ability to rapidly develop, enhance and introduce CSSPs that meet emerging industry standards and satisfy changing customer requirements. We have made and expect to continue to make substantial investments in research and development. Our research and development expenses in 2013, 2012, and 2011 were \$8.4 million (32% of revenue), \$8.7 million (59% of revenue), and \$9.8 million (47% of revenue) respectively.

As of the end of 2013, our research and development staff consisted of 34 employees located in California, India, and Canada.

Our system software group creates the drivers and other system code required to connect our silicon devices to Application Processors, as well as the algorithms and microcode to support our sensor hubs.

Our hardware group develops and verifies Proven System Blocks that can be programmed into our programmable logic and develops reference designs to showcase and verify our solutions.

Our software group develops the design libraries, interface routines and place and route software that allow our engineers to use third party design environments to develop designs that are incorporated into our programmable devices, and develops the design tools that support algorithm development for our sensor hubs.

Our platform engineering group develops low power programmable devices and analog circuits targeted for mobile or battery powered embedded systems that can be used in standalone solution platforms such as PolarPro 3, or combined with standard functions in solution platforms such as ArcticLink II.



Our product engineering group oversees product manufacturing and process development with our third party foundries, and is involved in ongoing process improvements to increase yields and optimize device characteristics.

The Office of the CTO investigates future trends and requirements in order to define the next generation of solutions and platforms.

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### Manufacturing

We have close relationships with third party manufacturers for our wafer fabrication, package assembly, and testing requirements to help ensure stability in the supply of our products and to allow us to focus our internal efforts on product and solution design and sales.

We currently outsource our wafer manufacturing, primarily to eSilicon Corporation, or eSilicon, TowerJazz, and Taiwan Semiconductor Manufacturing Company Limited, or TSMC. TSMC manufactures our pASIC 3, QuickRAM and certain QuickPCI products using a four-layer metal, 0.35 micron complementary metal oxide semiconductor, or CMOS, process. TSMC also manufactures our Eclipse and other mature products using a five-layer metal, 0.25 micron CMOS process on eight-inch wafers, and our PolarPro III and Sensor products using a 7-layer metal, 65nm CMOS process on twelve-inch wafers. TowerJazz manufactures our ArcticLink, ArcticLink II, PolarPro, and PolarPro II products, using a six-layer metal, 0.18 micron CMOS process. We outsource our product packaging primarily to Amkor Technology, Inc. eSilicon produces our ArcticLink III VX and BX products using a 7-layer metal, 65nm CMOS process on twelve-inch wafers at Global Foundries and packaging at STATS-ChipPAC. We purchase products from eSilicon, TowerJazz, and TSMC, on a purchase order basis.

Outsourcing of wafer manufacturing enables us to take advantage of the high volume economies of scale offered by these suppliers. We may establish additional foundry relationships as such arrangements become economically useful or technically necessary.

### Employees

As of December 29, 2013, we had a total of 89 employees worldwide. We believe our future success depends in part on our continued ability to attract, hire and retain qualified personnel. None of our employees are represented by a labor union and we believe our employee relations are favorable.

### Intellectual Property

We believe that it is important to maintain a large patent portfolio to protect our innovations. We currently hold 74 U.S. patents and have one pending application for an additional U.S. patent. Our patents contain claims covering various aspects of programmable integrated circuits, programmable interconnect structures and programmable metal devices. In Europe and Asia, we have been granted a total of 11 patents. Our issued patents expire between 2014 and 2028.

In most cases, revenue will decline from a decrease in demand for our mature products long before the expiration of pending or issued patents relating to the underlying technology in such products. The decision to cease maintaining a patent is determined on the importance of the patent in our current or future product offerings.

We have six trademarks registered with the U.S. Patent and Trademark Office.

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## Executive Officers and Directors

Our executive officers are appointed by, and serve at the discretion of, our Board of Directors. There are no family relationships among our directors and officers.

The following table sets forth certain information concerning our current executive officers and directors as of February 24, 2014:

Name	Age	Position
Andrew J. Pease	63	President and Chief Executive Officer; Director
Maxime Bouvat-Merlin	38	Vice President, Worldwide Engineering
Brian Faith	39	Vice President, Worldwide Sales and Marketing
Ralph S. Marimon	56	Vice President, Finance and Chief Financial Officer
Catriona Menev	52	Vice President, Human Resources and Development
Timothy Saxe	58	Senior Vice President and Chief Technology Officer
E. Thomas Hart	72	Chairman of the Board
Edgar D. Auslander	50	Director
Michael J. Callahan	78	Director
Michael R. Farese	67	Director
Arturo Krueger	74	Director
Christine Russell	64	Director
Gary H. Tauss	59	Director

Andrew J. Pease has served as a member of our Board of Directors since April 2011. He joined QuickLogic in November 2006 and has served as our President and Chief Executive Officer since January 2011 and as our President since March 2009. Prior to March 2009, Mr. Pease served as our Vice President of Worldwide Sales from November 2006. From July 2003 to June 2006, Mr. Pease was Senior Vice President of Worldwide Sales of Broadcom Corporation, a global leader in semiconductors for wired and wireless communications. From March 2000 to July 2003, Mr. Pease was Vice President of Sales at Synticity, Inc., a company providing software and services to better manage semiconductor production yields and improve design-to-production processes. From 1984 to 1996, Mr. Pease served in a number of sales positions at Advanced Micro Devices, or AMD, a global semiconductor manufacturer, where his last assignment was Group Director, Worldwide Headquarters Sales and Operations. Mr. Pease previously held Vice President of Sales positions at Integrated Systems Inc., an embedded software manufacturer (1996-1997), and Vantis Corporation, a programmable logic subsidiary of AMD (1997-1999). Mr. Pease holds a B.S. degree from the United States Naval Academy and an M.S. in computer science from the Naval Postgraduate School in Monterey, California.

Maxime Bouvat-Merlin joined QuickLogic in October 2013 to serve as our Vice President of Worldwide Engineering. From June 2012 to September 2013, Mr. Bouvat-Merlin was Director, product management for roadmap strategy and the Wi-Fi technology roadmap at Qualcomm-Atheros. From 2008 to 2012, Mr. Bouvat-Merlin held several senior technical leadership roles at Broadcom Corporation including, Director, technical program management office mobile application processor and Director, engineering power management unit. Prior experiences include multiple technical management roles at Texas Instruments in the OMAP and wireless business units. Mr. Bouvat-Merlin holds an M.S.E.E. degree in Micro-Electronics Sciences from ESINSA, Nice, France and a B.S.E.E. in Physics from Faculte de Luminy, Marseille, France.

Brian Faith joined QuickLogic in June of 1996 and has served as our Vice President of Worldwide Sales and Marketing since April 2011 and our Vice President of Worldwide Marketing since November 2008. From 2001

through 2008, Mr. Faith served in various marketing positions including Vice President of Solutions Marketing and Senior Director of Marketing. Prior to 2001, Mr. Faith was an Engineering Program Manager, served in a Field Application Engineering role and held various Customer Application Engineering roles, including Customer Application Engineering Manager. Mr. Faith has also served as the Chairperson of the Marketing Committee for the CE-ATA Organization. He holds a B.S.C.E. degree in Computer Engineering from Santa Clara University and also served as Adjunct Lecturer at Santa Clara University for Programmable Logic courses.

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Ralph S. Marimon has served as our Vice President, Finance and Operations, and Chief Financial Officer since November 2008. Prior to joining the Company, Mr. Marimon served as Vice President, Finance and Operations, and Chief Financial Officer of Anchor Bay Technologies, Inc., a fabless semiconductor company that designs and produces advanced video processing semiconductor devices from 2006. From 2005 to 2006, Mr. Marimon was Vice President of Finance and Administration and Chief Financial Officer of Tymphony Corporation, a provider of innovative audio transducers. Prior to that, Mr. Marimon was Vice President of Finance and Chief Financial Officer of Scientific Technologies, Inc., a provider of automation safeguarding products, from 2004 until 2005. From 1999 to 2003, he served at Com21 Corporation, a global supplier of system solutions for the broadband access market, where he was promoted from Corporate Controller to Vice President of Finance and Chief Financial Officer. Prior to joining Com21 Corporation, Mr. Marimon was at KLA-Tencor Corporation for 11 years in a variety of senior executive financial management positions. Mr. Marimon holds a Masters of Management degree in finance and accounting from Northwestern University and a BA degree in economics from the University of California, Los Angeles.

Catriona Meney joined QuickLogic in September 2003 and has served as our Vice President, Human Resources and Development since October 2006. Prior to joining QuickLogic, Ms. Meney was Vice President, International Human Resources at Ocular Sciences, Inc., a global manufacturer of contact lenses, from September 2001 to June 2002. From May 1984 to October 2000, Ms. Meney held several human resource positions at Standard Life Assurance Co., an international financial services provider, located in Scotland, most recently as their Senior Human Resources Business Partner. Prior experience includes human resource positions at Sun Microsystems BV. Ms. Meney holds a M.A. degree, with honors, from the University of Glasgow in Scotland.

Timothy Saxe joined QuickLogic in May 2001 and has served as our Chief Technology Officer and Senior Vice President, Engineering since August 2006, and Vice President, Engineering since November 2001. From November 2000 to February 2001, Mr. Saxe was Vice President of FLASH Engineering at Actel Corporation, a semiconductor manufacturing company. Mr. Saxe joined GateField Corporation, a design verification tools and services company formerly known as Zycad, in June 1983 and was a founder of their semiconductor manufacturing division in 1993. Mr. Saxe became GateField's Chief Executive Officer in February 1999 and served in that capacity until GateField was acquired by Actel in November 2000. Mr. Saxe holds a B.S.E.E. degree from North Carolina State University, and an M.S.E.E. degree and a Ph.D. in electrical engineering from Stanford University.

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.

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ITEM 1A. RISK FACTORS

We currently depend on Samsung for a significant portion of our revenue and the loss of or reduction in orders from Samsung could adversely affect our revenue and harm our business, financial condition, operating results and cash flows.

During our fourth quarter and our fiscal year ended December 29, 2013, Samsung accounted for 69% and 56%, respectively, of our total revenue. In the future, Samsung may purchase fewer of our products, modify the terms on which they purchase our products or decide not to continue to purchase our products. Samsung is not required to continue to purchase our products and if we fail to continue to make design wins with Samsung, our future revenue and profitability may be adversely affected.

If we fail to successfully develop, introduce and sell CSSPs and new products, or if our CSSP design opportunities do not generate the revenue we expect, we may be unable to compete effectively in the future.

The market for differentiated mobile devices is highly competitive and dynamic, with short end market product life cycles and rapid obsolescence of existing products. To compete successfully, we must obtain access to advanced fabrication capacity and dedicate significant resources to specify, design, develop, manufacture and sell new or enhanced CSSPs that provide increasingly higher levels of performance, low power consumption, new features, reliability and/or cost savings to our customers. Due to the short product life cycle of these devices our revenue is subject to fluctuation in a short period of time and our ability to grow our business depends on accelerating our design win activity. We often make significant investments in CSSP and silicon platform development, selling and marketing, long before we generate revenue, if any, from our efforts. The markets we are targeting typically have higher volumes and greater price pressure than our traditional business. In addition, we quote opportunities in anticipation of future cost reductions and may aggressively price products to gain market share. In order to react quickly to opportunities or to obtain favorable wafer prices, we make significant investments in and commitments to purchase inventories and capital equipment before we have firm commitments from customers.

We expect our business growth to be driven by CSSPs, and CSSP revenue growth needs to be strong enough to achieve profitability. The gross margin associated with our CSSPs and new products is generally lower than the gross margin of our mature products, due primarily to the price-sensitive nature of the higher volume mobile consumer opportunities that we are pursuing with CSSPs. Because the product life cycle of mobile products is short, we must replace revenue at the end of a product life cycle with sales from new design opportunities. While we expect revenue and gross profit growth from CSSPs will offset the expected decline in revenue and gross profit from our mature products, there is no assurance whether or when this will occur. In order to grow our revenue from its current level, we depend upon increased revenue from our existing products, especially CSSPs based on our ArcticLink and PolarPro solution platforms, and the development of CSSPs, additional new products and solutions.

If (i) we are unable to design, produce and sell new CSSPs that meet design specifications, address customer requirements and generate sufficient revenue and gross profit; (ii) market demand for our CSSPs and other products fails to materialize; (iii) we are unable to obtain adequate fabrication capacity on a timely basis; (iv) we are unable to develop CSSPs or solutions in a timely manner; or (v) our customers do not successfully introduce products incorporating our devices, our revenue and gross margin will be materially harmed, our liquidity and cash flows will be materially affected, we may be required to write-off related inventories and long-lived assets or there may be other adverse effects on our business or the price of our common stock.

We have a limited number of significant customers and limited visibility into the long-term demand for our products from these customers.

A few end-customers can represent a significant portion of our total revenue in a given reporting period and the likelihood of this occurring will increase as we continue to target market leading manufacturers of high volume mobile applications. As in the past, future demand from these customers may fluctuate significantly from quarter to quarter. These customers typically order products with short requested delivery lead times, and do not provide a commitment to purchase product past the period covered by purchase orders, which may be rescheduled or canceled.

In addition, our manufacturing lead times are longer than the delivery lead times requested by these customers, and we make significant purchases of inventory and capital expenditures in anticipation of future demand. If revenue from any significant customer were to decline substantially, we may be unable to offset this decline with increased revenue and gross margin from other customers and we may purchase excess inventories. These factors could severely harm our business.

In addition, we may make a significant investment in long-lived assets for the production of our products based upon historical and expected demand. If demand for our products or gross margin generated from our products does not meet our expectations or if we are unable to collect amounts due from significant customers, we may be required to write-off inventories,

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provide for uncollectible accounts receivable or incur charges against long-lived assets, which would materially harm our business.

Our products are subject to a lengthy sales cycle and 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 depend on our relationships with third parties to manufacture our new products.

We depend upon eSilicon Corporation, TowerJazz and TSMC to manufacture our new products. The inability of any one of these companies 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 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

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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 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 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 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

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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 re-qualify 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 2013 and in 2012. 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 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.

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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, low power FPGAs, low power microcontrollers, and suppliers of ASICs.

We face competition from companies that offer ASSPs. While it is difficult to provide a unique solution through the 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. Some vendors offer low power FPGAs that can be adopted by a mobile device for hardware differentiation that is similar in functionality, physical size, power consumption and price to what we offer with our programmable logic-based CSSPs. We face competition from low power microcontroller companies. While microcontrollers cannot be customized at the

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hardware level for product differentiation, they do have the ability to run custom software algorithms written in standard C code which may yield similar functionality as what we can provide with our products. 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, including algorithms that may be preloaded into our device at configuration; (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 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

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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 meet the specific listing requirements 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 lease a 7,400 square foot facility in Bangalore, India for the purpose of software development. This facility is leased through

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June 2016. We also lease office space in Shanghai, China; London, England; Tokyo, Japan; Seongnam City, South Korea; 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 29, 2013:		
Fourth Quarter (through December 29, 2013)	\$3.94	\$2.54
Third Quarter (through September 29, 2013)	\$2.90	\$2.17
Second Quarter (through June 30, 2013)	\$2.60	\$2.20
First Quarter (through March 31, 2013)	\$2.62	\$2.06
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

## Stockholders

The closing price of our common stock on the Nasdaq Global Market was \$5.15 per share on February 24, 2014. As of February 24, 2014, there were 54,891,083 shares of common stock outstanding that were held of record by 195 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 July 31, 2013, the Company filed a shelf registration statement on Form S-3 under which the Company may, from time to time, sell securities in one or more offerings up to a total dollar amount of \$40.0 million. Our shelf registration statement was declared effective on August 30, 2013 and expires in August 2016.

In November 2013, the Company issued an aggregate of 8,740,000 shares of common stock, \$0.001 par value, in an underwritten public offering at a price of \$2.90 per share. The Company received net proceeds of \$23.1 million, net of

underwriter's commission and other offering expenses of \$2.2 million.

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 \$3.4 million.

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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, 2008 to December 29, 2013 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, 2008 in QuickLogic's common stock and in each of the other two indices and the reinvestment of all dividends, if any, through December 29, 2013.

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				
	2013	2012	2011	2010	2009
	(in thousands, except per share amount)				
Statements of Operations:					
Revenue	\$26,072	\$14,944	\$20,969	\$26,199	\$15,074
Cost of revenue	17,305	7,878	8,517	9,609	7,715
Long-lived asset impairment <sup>(1)</sup>	—	—	—	—	150
Gross profit	8,767	7,066	12,452	16,590	7,209
Operating expenses:					
Research and development	8,375	8,743	9,836	7,458	6,203
Selling, general and administrative	12,002	10,481	9,965	10,073	10,617
Restructuring costs <sup>(2)</sup>	181	—	—	—	59
Income (loss) from operations	(11,791 )	(12,158 )	(7,349 )	(941 )	(9,670 )
Gain on sale of TowerJazz Semiconductor Ltd. shares <sup>(3)</sup>	181	—	—	993	—
Interest expense	(54 )	(61 )	(36 )	(67 )	(93 )
Interest income and other expense, net	(157 )	(77 )	(159 )	(46 )	(54 )
Income (loss) before income taxes	(11,821 )	(12,296 )	(7,544 )	(61 )	(9,817 )
Provision for (benefit from) income taxes	455	18	50	(184 )	(63 )
Net income (loss)	\$(12,276 )	\$(12,314 )	\$(7,594 )	\$123	\$(9,754 )
Net income (loss) per share:					
Basic	\$(0.27 )	\$(0.29 )	\$(0.21 )	\$—	\$(0.32 )
Diluted	\$(0.27 )	\$(0.29 )	\$(0.21 )	\$—	\$(0.32 )
Weighted average shares:					
Basic	45,762	41,831	36,792	35,729	30,739
Diluted	45,762	41,831	36,792	39,038	30,739
	December 29, 2013	December 30, 2012	January 1, 2012	January 2, 2011	January 3, 2010
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$37,406	\$22,578	\$20,203	\$21,956	\$18,195
Working capital	\$37,801	\$24,840	\$22,840	\$26,933	\$18,097
Total assets	\$49,126	\$31,024	\$28,963	\$33,628	\$27,601
Long-term obligations, excluding current portion	\$133	\$266	\$146	\$—	\$264
Total stockholders' equity	\$40,598	\$27,278	\$24,938	\$29,313	\$21,259

(1) 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.

(2) Restructuring costs of \$181,000 in 2013 were related to the Company's effort to consolidate and streamline its engineering organization. The restructuring cost of \$59,000 in 2009 consisted of additional severance benefits relating to the restructuring costs that occurred in the second quarter of 2008.

(3) During the first quarter of 2010, the Company sold 700,000 of TowerJazz ordinary shares which resulted in a gain of \$993,000. During the second quarter of 2013, the Company sold its remaining 42,970 TowerJazz ordinary shares which reflect the 1-to-15 reverse stock split. This sale resulted in a gain of \$181,000.





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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 differentiate their products by adding new differentiated features, extending battery life in, and improving their visual experience with their mobile, consumer and enterprise products. Our targeted mobile market segments include Tablets, Smartphones, Wearables, and Mobile Enterprise. Our solutions typically fall into one of three categories: Sensor Hubs, Display and Visual Enhancement, and Smart Connectivity. 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 Flexible Fusion Engine, or FFE, Sensor Manager and Communication Manager; 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, High Speed UARTs; Pulse Width Modulators; SPI and I2C hosts, display-specific functions such as RGB-split; and Data Performance Manager, or DPM, for accelerated sideloading 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 and/or sensor fusion and context awareness algorithm developers in the development of reference designs or "Catalog" CSSPs. Through reference designs that incorporate our CSSPs, we believe mobile processor manufacturers and sensor algorithm companies can expand the served available market for their respective products. Furthermore, should a CSSP development for a processor manufacturer and/or sensor algorithm company 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 also announced two new Catalog CSSPs in October of 2013 with our sensor algorithm partner, Sensor Platforms Incorporated. We are placing a greater emphasis on developing and marketing Catalog CSSPs.

In order to grow our revenue from its current level, we depend 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 2013, we generated total revenue of \$26.1 million which represents a 74% increase over 2012. Our new product revenue was \$18.2 million which represents a 208% increase over 2012 while our mature product revenue was \$7.9 million which represents a 13% decrease over 2012. We shipped our new products into three of our targeted mobile market segments: Smartphones, Mobile Enterprise, and Tablets. We anticipate that our revenue from mature products will continue to decline. Overall, we reported a net loss of \$12.3 million for 2013.

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### Critical Accounting Policies and Estimates

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

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 both OEM customers and distributors, 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.

### 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 Long-Lived Assets

We assess annually whether the value of identifiable intangibles and long-lived assets, including property and equipment, 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 2013.

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.

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### 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 likely, 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 statements 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 \$63.6 million as of the end of 2013. We have also recorded a valuation allowance of \$63.5 million as of the end of 2013 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			
	2013	2012	2011	
Statements of Operations:				
Revenue	100	% 100	% 100	%
Cost of revenue	66	% 53	% 41	%
Gross profit	34	% 47	% 59	%
Operating expenses:				
Research and development	32	% 59	% 47	%
Selling, general and administrative	46	% 70	% 48	%
Restructuring costs	1	% —	% —	%
Income (loss) from operations	(45	)% (82	)% (36	)%
Gain on sale of TowerJazz Semiconductor Ltd.	1	% —	% —	%
Interest expense	—	% —	% —	%
Interest income and other expense, net	(1	)% (1	)% (1	)%
Income (loss) before income taxes	(45	)% (83	)% (36	)%
Provision for (benefit from) income taxes	2	% —	% —	%
Net income (loss)	(47	)% (83	)% (36	)%



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## Comparison of Fiscal Years 2013 and 2012

Revenue. The table below sets forth the changes in revenue for fiscal year 2013 as compared to fiscal year 2012 (in thousands, except percentage data):

	Fiscal Years 2013		2012		Year-Over-Year Change		
	Amount	% of Total Revenues	Amount	% of Total Revenues			
Revenue by product family <sup>(1)</sup> :							
New products	\$18,219	70	% \$5,920	40	% \$12,299	208	%
Mature products	7,853	30	% 9,024	60	% (1,171	) (13	)%
Total revenue	\$26,072	100	% \$14,944	100	% \$11,128	74	%

(1) For all periods presented: New products 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 increase in new product revenue was primarily due to shipments to Samsung which has designed our ArcticLink III VX product into a new tablet platform. Revenue generated from Samsung accounted for 80% of our new product revenue and 56% of our total revenue in 2013. The decrease in mature product revenue is due primarily to reduced orders from our customers in aerospace, test and instrumentation sectors.

In order to grow our revenue from its current level, we depend 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 2013 as compared to fiscal year 2012 (in thousands, except percentage data):

	Fiscal Years 2013		2012		Year-Over-Year Change		
	Amount	% of Total Revenues	Amount	% of Total Revenues			
Revenue	\$26,072	100	% \$14,944	100	% \$11,128	74	%
Cost of revenue	17,305	66	% 7,878	53	% 9,427	120	%
Gross Profit	\$8,767	34	% \$7,066	47	% \$1,701	24	%

The decrease in gross profit in 2013 as compared to 2012 was due to customer and product mix including a high concentration of revenue from Samsung, higher inventory reserve, and higher unabsorbed overhead. In addition, the decrease in gross profit was partially offset by the sale of previously reserved inventories of \$596,000 and \$599,000 in 2013 and 2012, 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 2013 as compared to fiscal year 2012 (in thousands, except percentage data):

	Fiscal Years		2012		Year-Over-Year		
	2013		2012		Change		
	Amount	% of Total Revenues	Amount	% of Total Revenues			
R&D expense	\$8,375	32	% \$8,743	59	% \$(368	) (4	)%
SG&A expense	12,002	46	% 10,481	70	% 1,521	15	%
Restructuring costs	181	1	% —	—	% 181	100	%
Total operating expenses	\$20,558	79	% \$19,224	129	% \$1,334	7	%

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 \$8.4 million and \$8.7 million in 2013 and 2012, respectively, which represented 32% and 59% of revenue for those periods. The \$368,000 decrease in R&D expenses in 2013 as compared to 2012 is attributable primarily to a \$1.6 million decrease in outside services due to a reduction in third-party chip design costs. This decrease was partially offset by a \$850,000 increase in compensation expenses due to an increase in headcount; a \$211,000 increase in stock-based compensation; a \$86,000 increase in occupancy cost; and a \$35,000 increase in purchased intellectual property.

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 \$12.0 million and \$10.5 million in 2013 and 2012, respectively, which represented 46% and 70% of revenue for those periods. The \$1.5 million increase in SG&A expenses in 2013 as compared to 2012 is attributable primarily to a \$1.1 million increase in executive bonus accruals and a \$460,000 increase in occupancy costs. These increases were partially offset by a decrease of \$288,000 in stock-based compensation expenses in 2013.

Restructuring Costs. In an effort to consolidate and streamline its engineering organization, the Company incurred restructuring costs of \$181,000 in 2013 to pay for employee severance benefits.

Gain on Sale of TowerJazz Shares. During the second quarter of 2013, the Company sold its remaining 42,970 TowerJazz ordinary shares which reflect the 1-to-15 reverse stock split. This sale resulted in a gain of \$181,000.

#### Interest Expense and Interest Income and Other Expense, net

The table below sets forth the changes in interest expense and interest income and other expense, net for 2013 as compared to 2012:

	Fiscal Years		Change	Percentage	
	2013	2012			
	(in thousands)		Amount		
Interest expense	\$(54	) \$(61	) \$7	(11	)%
Interest income and other expense, net	(157	) (77	) (80	) 104	%

\$ (211 ) \$ (138 ) \$ (73 ) 53 %

The decrease in interest expense is due primarily to the decrease of our capital software lease obligation to \$310,000 in 2013 from \$426,000 in 2012. The change in interest income and other expense, net was due primarily to an increase of foreign exchange losses in 2013 as compared to 2012.

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.

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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 2013 as compared to 2012:

	Fiscal Years		Change Amount	Percentage	
	2013 (in thousands)	2012			
Income tax provision	\$455	\$ 18	\$437	2,428	%

The income tax expense for 2013 and 2012 is primarily for our foreign operations which are cost-plus entities. Included within the provision for income taxes for 2013 is a charge in the amount of \$273,000 relating to our investment in TowerJazz. This expense was previously recorded as a component of other comprehensive income and reclassified to the provision for income taxes upon the sale of our investment in TowerJazz.

As of the end of 2013, 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, extended the Federal research tax credit retroactively for two years from January 1, 2012 through December 31, 2013. There was no impact to the income tax provision for this enactment in the year ended December 29, 2013 due to the valuation allowance recorded against our U.S. deferred tax assets.

## 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 <sup>(1)</sup> :							
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 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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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 depend 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 products 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 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 2012		2011		Year-Over-Year 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	)%

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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 Expense, net

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

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

The increase in interest expense is due primarily to the increase of our capital software lease obligation to \$426,000 in 2012 from \$287,000 in 2011. The change in interest income and other expense, net was due primarily to a decrease in foreign exchange 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:

	Fiscal Years		Change	
	2012	2011	Amount	Percentage
	(in thousands)			
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.



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### Liquidity and Capital Resources

We have financed our operations and capital investments through sales of common stock, warrants to purchase our common stock, capital and operating leases, bank line of credit and cash flow from operations. As of December 29, 2013, our principal sources of liquidity consisted of our cash and cash equivalents of \$37.4 million and available credit under our revolving line of credit with Silicon Valley Bank of \$5.0 million. As of December 29, 2013, there is no material difference between the fair value and the carrying amount of capital software 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 27, 2014. 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 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 29, 2013 the Company has \$1.0 million of revolving debt with an interest rate of 3.75%.

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 \$310,000 outstanding under capital software leases (see Note 6 of the Consolidated Financial Statements). During the second quarter of 2013, we sold our remaining 42,970 shares of TowerJazz for cash proceeds of \$265,000.

Cash balances held at our foreign subsidiaries were approximately \$882,000 and \$461,000 at December 29, 2013 and December 30, 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 continually 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 2013, net cash used for operating activities was \$9.1 million and resulted from changes in working capital offset by a net loss of \$12.3 million which included \$4.1 million in non-cash charges. These non-cash charges included write-downs of inventories in the amount of \$551,000 to reflect excess quantities, depreciation and amortization of our long-lived assets of \$1.3 million, and stock-based compensation of \$2.0 million. In addition, changes in working capital accounts used cash of \$748,000 as a result of an increase in accounts receivable of \$2.0 million, an increase in inventory of \$1.7 million, and an increase in accounts payable of \$1.4 million.

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 a 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.

#### Net Cash from Investing Activities

Net cash used by investing activities for 2013 was \$1.0 million, resulting primarily from \$1.3 million in cash used for capital expenditures to acquire manufacturing equipment which was offset by \$265,000 in proceeds from the sale of TowerJazz Shares.

In 2012 and 2011, net cash used for investing activities was \$1.2 million and \$896,000, respectively, as a result of capital expenditures made primarily to acquire software used in the development and production of our products and solutions.

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## Net Cash from Financing Activities

In 2013, net cash provided by financing activities was \$24.9 million, resulting from \$23.1 million of net proceeds related to the issuance of common shares under the underwritten public offering; \$1.0 million borrowed under a revolving debt facility with an interest rate of 3.75%; and \$1.0 million of proceeds related to the issuance of common shares to employees under our equity plans. These proceeds were offset by payments of \$216,000 under the terms of our capital software lease obligations.

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 a confidentially marketed underwritten offering and to employees under our equity plans, partially offset by payments of \$452,000 under the terms of our capital software 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 software lease obligations.

We require substantial cash to fund our business. However, we believe that our existing cash and cash equivalents, together with available financial resources from the revolving line of credit facility and our access to capital markets, will be sufficient to satisfy our operations and capital expenditures over 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 2013 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			
	Total	Less than 1 year	1-3 Years	More than 3 Years
Contractual cash obligations:				
Operating leases	\$1,829	\$906	\$923	\$—
Wafer purchases <sup>(1)</sup>	10,771	10,771	—	—
Other purchase commitments	701	701	—	—
Total contractual cash obligations	13,301	12,378	923	—
Other commercial commitments <sup>(2)</sup> :				
Revolving line of credit	1,000	1,000	—	—
Capital software lease obligations	310	177	133	—
Total commercial commitments	1,310	1,177	133	—
Total contractual obligations and commercial commitments <sup>(3)</sup>	\$14,611	\$13,555	\$1,056	\$—

<sup>(1)</sup> Certain of our wafer manufacturers require us to forecast wafer starts several months in advance. We are committed to take delivery of and pay for a portion of forecasted wafer volume. Wafer purchase commitments of \$10.8 million include firm purchase commitments and a portion of our forecasted wafer starts as of the end of

2013.

- (2) Other commercial commitments are included as liabilities on our balance sheets as of the end of 2013.
- (3) Does not include unrecognized tax benefits of \$79,000 as of the end of 2013. 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

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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 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 February 2013, the Financial Accounting Standards Board, or FASB, issued guidance on disclosure requirements for items reclassified out of Accumulated Other Comprehensive Income ("AOCI"). This new guidance requires entities to present (either on the face of the income statement or in the notes) the effects on the line items of the income statement for amounts reclassified out of AOCI. The new guidance became effective for the Company beginning December 15, 2012. The Company adopted this guidance prospectively in its interim period ended March 31, 2013 (see Note 12 to the Consolidated Financial Statements).

In March 2013, the FASB issued guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The Company will adopt the new guidance in its interim period ending March 30, 2014. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. This guidance is effective for the Company beginning after December 15, 2013. Other than the change in presentation within the Consolidated Balance Sheet, this new guidance will not have an impact on the 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 2013 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%, 19% and 16% of total operating expenses in 2013, 2012 and 2011, respectively. A majority of these foreign expenses were incurred in Japan and Canada. A currency exchange rate fluctuation of 10% would have caused our operating expenses to change by approximately \$400,000 in 2013.

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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 29, 2013 and December 30, 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing 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 29, 2013 based on criteria established in Internal Control - Integrated Framework (1992) 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 Report 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 6, 2014

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

	December 29, 2013	December 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$37,406	\$22,578
Short-term investment in TowerJazz Semiconductor Ltd.	—	345
Accounts receivable, net of allowances for doubtful accounts of \$0 and \$20, respectively	3,261	1,242
Inventories	4,136	3,028
Other current assets	1,272	986
Total current assets	46,075	28,179
Property and equipment, net	2,840	2,659
Other assets	211	186
<b>TOTAL ASSETS</b>	<b>\$49,126</b>	<b>\$31,024</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Revolving line of credit	\$1,000	\$—
Trade payables	3,578	1,965
Accrued liabilities	3,519	1,214
Current portion of capital software lease obligations	177	160
Total current liabilities	8,274	3,339
Long-term liabilities:		
Capital software lease obligations, less current portion	133	266
Other long-term liabilities	121	141
Total liabilities	8,528	3,746
Commitments and contingencies (see Note 15)		
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; 53,788 and 44,506 shares issued and outstanding, respectively	54	45
Additional paid-in capital	230,373	204,797
Accumulated other comprehensive income (loss)		(11 )
Accumulated deficit	(189,829	) (177,553 )
Total stockholders' equity	40,598	27,278
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$49,126</b>	<b>\$31,024</b>

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

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

	Fiscal Years		
	2013	2012	2011
	(in thousands, except per share amount)		
Statements of Operations:			
Revenue	\$26,072	\$14,944	\$20,969
Cost of revenue	17,305	7,878	8,517
Gross profit	8,767	7,066	12,452
Operating expenses:			
Research and development	8,375	8,743	9,836
Selling, general and administrative	12,002	10,481	9,965
Restructuring costs	181	—	—
Income (loss) from operations	(11,791	) (12,158	) (7,349
Gain on sale of TowerJazz Semiconductor Ltd. Shares	181	—	—
Interest expense	(54	) (61	) (36
Interest income and other expense, net	(157	) (77	) (159
Income (loss) before income taxes	(11,821	) (12,296	) (7,544
Provision for (benefit from) income taxes	455	18	50
Net income (loss)	\$(12,276	) \$(12,314	) \$(7,594
Net Income (loss) per share:			
Basic	\$(0.27	) \$(0.29	) \$(0.21
Diluted	\$(0.27	) \$(0.29	) \$(0.21
Weighted average shares:			
Basic	45,762	41,831	36,792
Diluted	45,762	41,831	36,792

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

	Fiscal Years			
	2013	2012	2011	
Net income (loss)	\$(12,276	) \$(12,314	) \$(7,594	)
Other comprehensive gain (loss), net of tax:				
Change in unrealized gain (loss) on available-for-sale investments (See Note 4)	11	(124	) (503	)
Total comprehensive Income (loss)	\$(12,265	) \$(12,438	) \$(8,097	)

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QUICKLOGIC CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Fiscal Years		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$(12,276	) \$(12,314	) \$(7,594
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	1,338	1,223	1,220
Stock-based compensation	1,979	2,003	1,676
Write-down of inventories	551	447	710
Gain on TowerJazz Semiconductor Ltd. Shares	(181	) —	—
Tax effect on other comprehensive income (loss)	273	(63	) —
Gain/loss on disposal of equipment	27	—	(8
Write-off of equipment	96	25	102
Bad debt expense	(20	) 10	—
Changes in operating assets and liabilities:			
Accounts receivable	(1,999	) 333	2,558
Inventories	(1,659	) 289	(1,130
Other assets	(361	) (87	) 140
Trade payables	1,379	(654	) 312
Accrued liabilities	1,817	140	(185
Deferred income	—	(8	) (320
Other long-term liabilities	(20	) (7	) 24
Net cash provided by (used for) operating activities	(9,056	) (8,663	) (2,495
Cash flows from investing activities:			
Capital expenditures for property and equipment	(1,257	) (1,241	) (896
Proceeds from sale provided by TowerJazz Semiconductor Ltd. shares	265	—	—
Net cash provided by (used in) investing activities	(992	) (1,241	) (896
Cash flows from financing activities:			
Payment of capital software lease obligations	(216	) (452	) (408
Stock issuance cost	(2,219	) —	—
Proceeds from line of credit	1,000	—	—
Proceeds from issuance of common stock cost	26,311	12,731	2,046
Net cash provided by (used in) financing activities	24,876	12,279	1,638
Net increase/(decrease) in cash and cash equivalents	14,828	2,375	(1,753
Cash and cash equivalents at beginning of period	22,578	20,203	21,956
Cash and cash equivalents at end of period	\$37,406	\$22,578	\$20,203
Supplemental disclosures of cash flow information:			
Interest paid	\$44	\$50	\$43
Income taxes paid	\$100	\$12	\$21
Supplemental schedule of non-cash investing and financing activities :			
Capital software lease obligation to finance capital expenditures	\$310	\$426	\$287
Purchase of equipment included in accounts payable	\$33	\$11	\$371

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