ARROW ELECTRONICS INC
Form DEF 14A
April 05, 2007

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

**SCHEDULE 14A**
**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO. )**

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

| | |
|---|---|
| [ ] | Preliminary Proxy Statement |
| [ ] | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| [X] | Definitive Proxy Statement |
| [ ] | Definitive Additional Materials |
| [ ] | Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-2. |

**ARROW ELECTRONICS, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-12.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

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[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**ARROW ELECTRONICS, INC.**
50 MARCUS DRIVE
MELVILLE, NEW YORK 11747

ARROW ELECTRONICS LOGO

**WILLIAM E. MITCHELL**
CHAIRMAN OF THE BOARD

April 5, 2007

Dear Shareholder:

You are invited to Arrow s Annual Meeting of Shareholders, which will be held on Tuesday, May 8, 2007, at the Grand Hyatt New York, 109 East 42nd Street, New York, New York at 11:00 a.m. The formal notice of the meeting and the proxy statement soliciting your vote at the meeting appear on the following pages.

The two matters being put to a vote at the meeting are the election of directors and a proposal to ratify the appointment of our independent auditors. Both matters are discussed more fully in the proxy statement.

The Board recommends the approval of the proposals as being in the best interests of Arrow, and urges you to read the proxy statement carefully before you vote. Your vote is important, regardless of the number of shares you own.

Please make sure you vote whether or not you plan to attend the meeting. You can cast your vote by signing, dating and promptly mailing the enclosed proxy card in the postage-paid return envelope. You can also vote by telephone or through the internet by following the instructions on the proxy card.

Sincerely yours,

William E. Mitchell
*Chairman of the Board*

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**ARROW ELECTRONICS, INC.**
**50 Marcus Drive**
**Melville, New York 11747**

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

### TIME AND DATE

11:00 a.m. on Tuesday, May 8, 2007

### PLACE

Grand Hyatt New York
109 East 42nd Street
New York, New York 10017

### ITEMS OF BUSINESS

The annual meeting will be held for the following purposes:

1. To elect directors of Arrow for the ensuing year.

2. To act upon a proposal to ratify the appointment of Ernst & Young LLP as Arrow s independent auditors for the fiscal year ending December 31, 2007.

### RECORD DATE

Only shareholders of record at the close of business on March 23, 2007 are entitled to notice of and to vote at the meeting or any adjournments thereof.

### ANNUAL REPORT

Our 2006 Annual Report, which is not a part of the proxy soliciting material, is enclosed.

### PROXY VOTING

It is important that your shares be voted at the meeting. You can vote your shares by completing and returning the proxy card sent to you. Most shareholders also have the option of voting their shares through the mail, by telephone or through the internet. To use any of these options, follow the voting instructions on your proxy card. You can revoke your proxy (change or withdraw your vote) at any time prior to its exercise at the meeting by following the instructions in the proxy statement.

By Order of the Board of Directors

Peter S. Brown
*Secretary*

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**ARROW ELECTRONICS, INC.**

**ANNUAL MEETING OF SHAREHOLDERS**
**To Be Held May 8, 2007**

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**ARROW ELECTRONICS, INC.**

**50 Marcus Drive**

**Melville, New York 11747**

**ANNUAL MEETING OF SHAREHOLDERS**

**To be Held May 8, 2007**

**PROXY STATEMENT**

### The Purpose of this Statement

The Board of Directors of Arrow Electronics, Inc., a New York corporation ( Arrow or the company ), is sending this proxy statement to all shareholders of record to solicit proxies to be voted at the 2007 Annual Meeting of Shareholders, and any adjournments of the meeting, as described in the accompanying Notice of Annual Meeting. By returning the completed proxy card, or voting over the telephone or internet, you are giving instructions on how your shares are to be voted at the Annual Meeting.

### Invitation to the Annual Meeting

You are invited to attend the 2007 Annual Meeting of Shareholders on Tuesday, May 8, 2007, beginning at 11:00 a.m. The meeting will be held at Grand Hyatt New York, 109 East 42nd Street, New York, New York 10017.

### Voting Instructions

This proxy statement, proxy, and voting instructions are being mailed starting April 5, 2007. Please complete, sign, and date the enclosed proxy and return it promptly in the enclosed postage-paid return envelope, or vote your shares by telephone or through the internet. Whether or not you plan to attend the meeting, your prompt response will assure a quorum and reduce solicitation expense.

**Shareholders Entitled to Vote**

Only shareholders of Arrow s common stock at the close of business on March 23, 2007 (the record date ) are entitled to notice of and to vote at the meeting or any adjournments thereof. As of the record date, there were 123,841,073 shares of Arrow common stock outstanding. Each share of common stock is entitled to one vote on each matter properly brought before the meeting.

**Revocation of Proxies**

The person giving the proxy may revoke it at any time prior to the time it is voted at the meeting by giving written notice to Arrow s Secretary. If the proxy was given by telephone or through the internet, it may be revoked in the same manner. You may also revoke your proxy by attending the Annual Meeting and voting in person, though merely attending the Annual Meeting will not automatically revoke your proxy.

**Cost of Proxy Solicitation**

Arrow pays the cost of soliciting proxies. Arrow employees are conducting this solicitation through the mail, in person, and by telephone. In addition, Arrow has retained D.F. King & Co., Inc. to assist in soliciting proxies at an anticipated cost of $10,500 plus expenses. Arrow also will request brokers and other nominees holding Arrow common stock to forward these soliciting materials to the beneficial owners of that stock and will reimburse them for their expenses in so doing.

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## CERTAIN SHAREHOLDERS

### Holders of More than 5% of Common Stock

The following table sets forth certain information with respect to the only shareholders known to management to own beneficially more than 5% of the outstanding common stock of Arrow as of March 23, 2007.

| Name and Address of Beneficial Owner | Number of Shares Beneficially Owned | Percent of Class |
|---|---|---|
| FMR Corp.(1)<br>82 Devonshire Street<br>Boston, Massachusetts 02109 | 18,334,906 | 14.8% |
| Wellington Management Company, LLP(2)<br>75 State Street<br>Boston, Massachusetts 02109 | 15,345,392 | 12.4% |
| Mutuelles AXA(3)<br>26, rue Drouot<br>75009 Paris, France | 10,387,901 | 8.4% |
| Barclays Global Investors(4)<br>45 Fremont Street<br>San Francisco, California 94105 | 7,225,209 | 5.8% |

(1) Based upon a Schedule 13G filed with the Securities and Exchange Commission (the SEC ) on February 14, 2007 which reflects sole voting power with respect to 475,760 shares and sole dispositive power with respect to 18,334,906 shares beneficially owned by FMR Corp., a parent holding company.

(2) Based upon a Schedule 13G filed with the SEC on February 14, 2007 which reflects shared voting power with respect to 3,140,000 shares and shared dispositive power with respect to 15,292,392 shares beneficially owned by Wellington Management Company, LLP, a registered investment adviser. Of these shares, 12,460,617 or 10.1% of the company s outstanding common stock, are beneficially owned by Vanguard Windsor Funds Vanguard Windsor Fund, a registered investment company, which has sole voting power with respect to all such shares. This information regarding Vanguard Windsor Funds is based upon a Schedule 13G filed with the SEC on February 13, 2007.

(3) Based upon a Schedule 13G filed with the SEC on February 13, 2007 by AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle and AXA Courtage Assurance Mutuelle, collectively, Mutuelles AXA (insurance companies), AXA and AXA Financial, Inc. (parent holding companies) which reflects sole dispositive power with respect to 10,387,901 shares, sole voting power with respect to 6,512,748 shares, and shared voting power with respect to 631,878 shares beneficially owned by Mutuelles AXA. Of such shares, 8,230,186 are beneficially owned by Alliance Bernstein L.P., an indirect subsidiary of Mutuelles AXA, acquired

solely for investment purposes on behalf of client discretionary investment advisory accounts. Additionally, 3,100 shares are held by AXA Equitable Life Insurance Company, an indirect subsidiary of Mutuelles AXA, 2,144,015 shares are held by AXA Rosenberg Investment Management LLC, an AXA entity, and 10,600 shares are held by AXA Konzern AG (Germany), an AXA entity, solely for investment purposes.

(4) Based upon a Schedule 13G filed with the SEC on January 23, 2007 by Barclays Global Investors which reflects sole voting power with respect to 6,389,326 shares and sole dispositive power with respect to 7,225,209 shares. Of such shares, 4,712,727 are beneficially owned by Barclays Global Investors, NA, 1,555,244 shares are beneficially owned by Barclays Global Fund Advisors, 633,455 shares are beneficially owned by Barclays Global Investors, Ltd, 165,969 shares are beneficially owned by Barclays Global Investors Japan Trust and Banking Company Limited and 157,814 shares are beneficially owned by Barclays Global Investors Japan Limited.

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**Shareholding of Executive Officers and Directors**

As of March 23, 2007, all of the executive officers and directors of Arrow as a group were the beneficial owners of 3,543,333 shares of the company s common stock, which is 2.9% of the total shares of common stock outstanding. This amount includes 2,626,466 shares (2.1% of the company s outstanding common stock) held by the Arrow Electronics Employee Stock Ownership Plan (the ESOP ) of which William E. Mitchell, Peter S. Brown and Paul J. Reilly are the trustees. As trustees, they have shared power to vote the shares held by the ESOP, and for that reason are deemed to be beneficial owners of them under SEC regulations. The ESOP total also includes shares allocated to the individual accounts of each of the trustees.

As of March 23, 2007, the named executive officers (the Chief Executive Officer, the Chief Financial Officer and each of the other three most highly compensated executive officers of the company) and directors had beneficial ownership of the company s common stock as follows:

| | Shares of Common Stock Beneficially Owned | | | |
|---|---|---|---|---|
| | Currently Owned(1) | Common Stock Units(2) | Acquirable w/in 60 Days | % of Outstanding Common Stock |
| William E. Mitchell | 2,942,166(3) | | | 2.4% |
| Paul J. Reilly | 2,737,041(3) | | | 2.2% |
| Germano Fanelli | 17,950 | | | * |
| Michael J. Long | 60,557 | | | * |
| Peter T. Kong | 25,750 | | | * |
| Daniel W. Duval | 58,200 | 14,040 | | * |
| John N. Hanson | 42,500 | 12,133 | | * |
| Richard S. Hill | | 3,533 | | * |
| M.F. (Fran) Keeth | | 7,152 | | * |
| Roger King | 26,000 | 12,427 | | * |
| Karen Gordon Mills | 26,600 | 20,041 | | * |
| Stephen C. Patrick | 15,000 | 9,512 | | * |
| Barry W. Perry | 35,000 | 11,352 | | * |
| John C. Waddell | 31,576 | 4,812 | | * |
| Total Executive Officers and Director s Beneficial Ownership | 3,448,331(3) | 95,002 | | 2.9% |

* Represents holdings of less than 1%.

(1) Includes vested stock options, restricted shares granted, shares held by the ESOP and shares owned independently.

(2) Includes common stock units deferred by non-employee directors and restricted stock units granted to them under the Arrow Electronics, Inc. 2004 Omnibus Incentive Plan (the Omnibus Incentive Plan ).

(3) Includes 2,626,466 shares held by the ESOP, of which Messrs. Mitchell and Reilly are trustees. Each trustee is deemed a beneficial owner of all of the shares, however the total number of shares shown as beneficially owned by all of the directors and executive officers as a group includes such shares only once.

## PROPOSAL 1: ELECTION OF DIRECTORS

Each member of the Board of Directors of Arrow (the Board ) is to be elected at the meeting to hold office until the next Annual Meeting of Shareholders and until his or her successor has been duly elected and qualified. By resolution of all the current directors, the Board will consist of ten directors unless and until that number is changed by a resolution of the then current Board. Shareholder proxies solicited under this proxy statement cannot be voted for more than ten directors.

**The Board of Directors recommends a vote for all of the nominees.**

Nominees receiving a plurality of votes cast at the meeting will be elected directors. Consequently, any shares not voted (whether by abstention or broker non-votes) have no effect on the election of directors.

Management does not contemplate that any of the nominees will be unable or unwilling to serve as a director, but should that happen prior to the voting of the proxies, the persons named in the accompanying proxy reserve the right to substitute another person of their choice when voting at the meeting.

All of the nominees are currently directors of Arrow and were elected at Arrow s last annual meeting.

Following are the biographies of the ten nominees:

**Daniel W. Duval**, 70, director since 1987

Mr. Duval has been Lead Director of Arrow since May 2006. He was Chairman of the Board from June 2002 to May 2006. He also served as Arrow s interim Chief Executive Officer from September 2002 to February 2003. He served as interim President and Chief Executive Officer of Robbins & Myers, Inc., a manufacturer of fluids management systems, from December 2003 through July 2004. Mr. Duval is a director of Robbins & Myers, Inc., The Manitowoc Company, Inc., Miller-Valentine Group and Gosiger, Inc.

**John N. Hanson**, 65, director since 1997

Mr. Hanson has been Chairman of the Board of Joy Global, Inc., a manufacturer of mining equipment for both underground and surface applications, for more than five years. He was also Chief Executive Officer and President of Joy Global Inc. for more than five years until December 2006. He is a director of the Milwaukee Symphony Orchestra and the Boys & Girls Clubs of Milwaukee.

**Richard S. Hill,** 55, director since 2006

Mr. Hill has been Chief Executive Officer and Chairman of the Board of Novellus Systems, Inc., a maker of devices used in the manufacture of advanced integrated circuits, for more than five years. He is a director of Agere Systems Inc. and the University of Illinois Foundation.

**M.F. (Fran) Keeth**, 60, director since 2004

Mrs. Keeth is retired. She was Executive Vice President of Shell Chemicals Limited, a services company responsible for the global petrochemical businesses of the Royal Dutch/Shell Group of companies, from January 2005 to December 2006. She held positions as Executive Vice President of Customer Fulfillment and Product Business Units for Shell Chemicals Limited from July 2001 to January 2005 and Chief Financial Officer and Executive Vice President Finance and Business Systems from September 1997 to July 2001. Mrs. Keeth was President and Chief Executive Officer of Shell Chemical LP, a U.S. petrochemical member of the Royal Dutch/Shell Group, a position she held from July 2001 to July 2006, prior to which she was Chief Financial Officer, beginning in September 1997. Mrs. Keeth also serves as a director of Verizon Communications Inc.

**Roger King**, 66, director since 1995

Mr. King is retired. He was the Chief Executive Officer of Sa Sa International Holdings Limited, a retailer of cosmetics, from August 1999 to May 2002. He also served as the Executive Director of Orient Overseas (International) Limited, an investment holding company with investments principally in integrated containerized transportation businesses for more than five years ending August 1999. Mr. King also serves as a director of Orient Overseas (International) Limited, Sincere Watch (Hong Kong) Limited and TNT N.V.

**Karen Gordon Mills**, 53, director since 1994

Mrs. Mills was a founding partner and has served as a Managing Director of Solera Capital LLC, a venture capital fund, since 1999. She has also been President of MMP Group, Inc. since 1993. MMP Group provides capital and operating expertise in private equity transactions. Mrs. Mills is currently Lead Director of The Scotts Miracle-Gro Company. She is Chair of the Council on Jobs, Innovation and the Economy for the State of Maine and serves on the Governor s Advisory Council for the Redevelopment of the Brunswick Naval Air Station.

**William E. Mitchell**, 63, director since 2003

Mr. Mitchell has been President and Chief Executive Officer of Arrow since February 2003 and Chairman of the Board since May 2006. Mr. Mitchell previously served as Executive Vice President of Solectron Corporation as well as the President of Solectron Global Services, Inc. from March 1999 to January 2003. Mr. Mitchell also serves as a director of Rogers Corporation and Brown-Forman Corporation.

**Stephen C. Patrick**, 57, director since 2003

Mr. Patrick has served as the Chief Financial Officer of the Colgate-Palmolive Company, a global consumer products company, for more than five years. In his more than 20 years at Colgate-Palmolive he has also held positions as Vice President, Corporate Controller and Vice President of Finance for Colgate Latin America.

**Barry W. Perry**, 60, director since 1999

Mr. Perry retired in June 2006 as Chief Executive Officer and Chairman of the Board of Engelhard Corporation, a surface and materials science company, a position he held for more than five years prior to his retirement. Mr. Perry is also a director of the Cookson Group, PLC, U.K. and Ashland Inc.

**John C. Waddell**, 69, director since 1969

Mr. Waddell retired as the Chairman of the Board of Arrow in May 1994 and since that time has served as the Vice Chairman.

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## THE BOARD AND ITS COMMITTEES

The Board meets in general sessions with Chairman Mitchell presiding, in meetings limited to non-management directors, which are led by Lead Director Duval, and in its various committees.

| | Audit | Compensation | Corporate Governance |
|---|---|---|---|
| Daniel W. Duval | | | |
| John N. Hanson | | | 5 |
| Richard S. Hill | | | |
| M.F. (Fran) Keeth | | | |
| Roger King | | | |
| Karen Gordon Mills | | | |
| William E. Mitchell | | | |
| Stephen C. Patrick | 5 | | |
| Barry W. Perry | | 5 | |
| John C. Waddell | | | |

5 Chairman Member

**Committees**

The **audit committee** of the Board consists of Mr. Patrick, as Chairman, Mr. Hill, Mrs. Keeth, Mrs. Mills, and Mr. Waddell. The audit committee reviews and evaluates Arrow s financial reporting process and other matters including its accounting policies, reporting practices, and internal accounting controls. The committee also monitors the scope and reviews the results of the audit conducted by Arrow s independent auditors. The committee reviews with the internal audit department the status and results of the annual internal audit plan, assessments of the adequacy and effectiveness of internal controls, and the sufficiency of the department s resources. The Board has determined that Mr. Patrick is an audit committee financial expert as defined by the SEC. In light of the possibility that Mr. Patrick might at some time be unable to attend a meeting of the committee, the Board has also determined that Mrs. Keeth qualifies as an audit committee financial expert.

The **compensation committee** of the Board consists of Mr. Perry, as Chairman, Mr. Duval, Mrs. Keeth, Mr. King, and Mrs. Mills. The committee s primary responsibilities include the oversight, review and approval of the salaries, benefits and other compensation of Arrow s senior executives on behalf of the full Board.

On behalf of the Board, the committee manages all elements of executive pay to ensure that pay levels are consistent with Arrow s compensation philosophy. In addition, the Board and the committee administer Arrow s short-term, medium-term and long-term executive compensation programs to ensure that Arrow s objectives of linking executive pay to improved financial performance and increased shareholder value continue to be fostered.

The committee meets throughout the year in both scheduled and ad hoc sessions to review and manage compensation, review executive-level hiring, retention and termination arrangements, and a number of related issues. The meetings are open to all members of the Board and are regularly attended by the following members of Arrow s management:

the Chief Executive Officer, the General Counsel (who

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also serves as the company s Secretary), the head of human resources, and, as required, the Chief Financial Officer, who is present to provide the business and financial context regarding financial metrics and performance.

In addition to the conduct of the committee s regular duties, each of the four regularly scheduled meetings per year has a specific focus:

February: Approving the prior year s bonuses, awards and equity grants; setting the Employee Share Ownership Plan (the ESOP ) share pool; and, reviewing and issuing final approval of all compensation plan metrics, goals and targets, and Chief Executive Officer non-financial incentive goals for the then-current year.

May: Reviewing the annual report on the performance of the company s Pension Investment and Oversight Committee; and, conducting the annual committee self-assessment.

September: Reviewing the committee s charter and conducting executive compensation planning.

December: Setting preliminary ESOP contributions and stock award pools; conducting performance reviews and approving the recommendations for compensation for the direct reports of the Chief Executive Officer; and, updating the Chief Executive Officer performance review.

The committee s consideration of the performance and compensation of the Chief Executive Officer is conducted in executive session. The committee reviews and approves corporate goals and objectives relevant to Chief Executive Officer compensation and evaluates the Chief Executive Officer s performance and the performance of the company itself in light of those goals and objectives.

Under its charter, the committee may delegate its authority only to a subcommittee consisting of one or more members, or, with respect to certain matters other than Chief Executive Officer compensation, to management.

It is the practice of the committee to meet at least once each year with its compensation consultant. In 2006, the committee directly engaged Hewitt Associates as a consultant to examine and report to the committee on best practices in the alignment of compensation programs for the Chief Executive Officer and other members of senior management with corporate goals by providing competitive data, analyses, and recommendations with regards to plan design.

In addition, in 2006 management retained Watson Wyatt, which was engaged to assist in the ongoing day-to-day management of the compensation programs and their application within the company. On more than one occasion the committee met with Watson Wyatt to gain a full understanding of its advice to management.

Compensation consultants are used by both management and the committee only to aid in the design of the company s various compensation programs, provide benchmarking data with respect to target compensation and provide related advice.

The committee operates under the Compensation Committee Charter, a copy of which is available at the investor relations section of the company s website, www.arrow.com. No member of the compensation committee is a present or former employee of the company, except for Mr. Duval, who served as interim Chief Executive Officer from September 2002 to February 2003. Under the rules of the New York Stock Exchange, such interim service does not alter Mr. Duval s status as an independent, non-management director. No member of the compensation committee is an employee or director of any company where any employee or director of Arrow serves on the compensation committee.

The **corporate governance committee** of the Board consists of Mr. Hanson, as Chairman, Mr. Duval, Mr. Hill, Mr. King, and Mr. Waddell. The corporate governance committee will consider shareholder recommendations for nominees for membership on the Board. Such recommendations may be submitted to Arrow s Secretary, Peter S. Brown, at Arrow Electronics, Inc., 50 Marcus Drive, Melville, New York, 11747, who will forward them to the corporate governance committee. The committee s expectations as to the specific qualities and skills required for directors are set forth in Section 4 of Arrow s corporate governance guidelines (available at the investor relations section of the company s website, www.arrow.com). Under those guidelines, the committee considers potential nominees recommended by current directors, company officers, employees, shareholders, and others. The committee has retained the services of a third-party executive recruitment firm to assist committee members in the identification and evaluation of potential nominees for the Board. The committee s initial review of the potential candidate is typically based on any written materials provided to the committee. In connection with the evaluation of potential nominees, the committee determines whether to interview the nominee, and if warranted, the committee, the Chairman of the Board and Chief Executive Officer, and others as appropriate, interview the potential nominees. The corporate governance committee also has primary responsibility for developing the corporate governance guidelines for Arrow and for making recommendations with respect to committee assignments and other governance issues. The committee regularly reviews and makes recommendations to the Board regarding the compensation of non-employee directors.

### Independence

The company s corporate governance guidelines provide that the Board should consist primarily of independent, non-management directors. For a director to be considered independent under the guidelines, the Board must determine that the director does not have any direct or indirect material relationship with the company and that he or she is not involved in any activity or interest that might appear to conflict with his or her fiduciary duties to the company.

To be deemed independent, a director must also meet the independence standards in the New York Stock Exchange listing rules. Those rules add to the requirement of the absence of a material relationship the requirement that neither such a director nor any member of his or her immediate family:

i) is, or has been within the last three years, an officer or employee of the company;

ii) received more than $100,000 from the company (except for director or committee fees) during any twelve-month period in the last three years;

iii) is employed by or a partner in the company s outside audit firm (or, if a former employee or partner, has worked on the audit of the company within the past three years);

iv) is or has been at any time in the last three years, an executive officer of another company where any of Arrow s executive officers serves as a member of such other company s board of directors and compensation committee; and

v) is an employee (or, in the case of a family member, an executive officer) of a company which has made payments to or received payment from Arrow in excess of the larger of $1 million or 2% of such other company s consolidated gross revenues in any of the last three fiscal years.

In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination. In making this determination regarding Mr. Hill, the Board considered that Mr. Hill is an independent director of Agere Systems, Inc., a semiconductor manufacturer for which the company is an authorized distributor. In 2006, the company sold approximately $20,000,000 of Agere products worldwide, approximately 1% of Agere s total sales and .1% of the company s sales. In addition to the immateriality of the amount of sales involved, the Board determined that this relationship did not impair Mr. Hill s independence because he is an independent director of Agere, and receives compensation from Agere only in connection with his services as such. In addition, Novellus Systems, Inc., of which Mr. Hill is Chairman and Chief Executive Officer, purchased less than $25,000 of product from Arrow in 2006.

The Board has determined that all of its directors and nominees, other than Mr. Mitchell, satisfy both the New York Stock Exchange s independence requirements and the company s guidelines.

As required by the company s corporate governance guidelines and the New York Stock Exchange s listing rules, all members of the audit, compensation and corporate governance committees are independent, non-management directors.

No member of the compensation committee is a present or former employee of the company, except for Mr. Duval, who served as interim Chief Executive Officer from September 2002 to February 2003. Under the rules of the New York Stock Exchange, such interim service does not alter Mr. Duval s status as an independent, non-management director. No member of the compensation committee is an employee or director of any company where any employee or director of Arrow serves on the compensation committee.

All members of the audit committee also satisfy an additional SEC independence requirement, which provides that they may not accept directly or indirectly any consulting, advisory or other compensatory fee from Arrow or any of its subsidiaries other than the compensation they receive as directors.

**Meetings and Attendance**

In general, it is the practice of the Board for all of its non-management directors to meet in executive session at each Board meeting, with the Lead Director presiding. Consistent with Arrow s corporate governance guidelines, in 2006 these non-management director meetings included one under the guidance of the Chairman of the compensation committee to evaluate the performance of the Chief Executive Officer and one under the guidance of the Chairman of the corporate governance committee to discuss senior management development and succession.

During 2006 there were 11 meetings of the Board, 10 meetings of the audit committee, 7 meetings of the compensation committee, and 5 meetings of the corporate governance committee. All directors attended 75% or more of all of the meetings of the Board and the committees on which they served. It is the policy of the Board that all of its members attend the Annual Meeting of Shareholders absent exceptional cause, and all then incumbent members of the Board did so in 2006.

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**Director Compensation**

The following table shows the total dollar value of compensation received by all non-employee directors in or in respect of 2006 and the expense recorded by the company in connection with the vesting during 2006 of stock-based compensation.

**Director Compensation**

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($)(1) | Total ($) |
|---|---|---|---|
| Daniel W. Duval | 192,250 | 174,604 | 366,854 |
| John N. Hanson | 86,250 | 51,667 | 137,917 |
| Richard S. Hill | 79,902 | 68,333 | 148,235 |
| M.F. (Fran) Keeth | 94,250 | 51,667 | 145,917 |
| Roger King | 90,250 | 51,667 | 141,917 |
| Karen Gordon Mills | 100,250 | 51,667 | 151,917 |
| Stephen C. Patrick | 98,250 | 51,667 | 149,917 |
| Barry W. Perry | 90,250 | 51,667 | 141,917 |
| John C. Waddell | 98,250 | 51,667 | 149,917 |

(1) The amounts reflect the expense recorded by the company in connection with the vesting in 2006 of the restricted stock units granted each director in 2005 and 2006. These amounts were calculated utilizing the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123R, Share-based Payments. Such restricted stock units are valued at the closing market price of the underlying stock at the date of grant and amortized over a one-year vesting period.

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The following table reflects the number of unvested restricted stock units and unexercised options held by each independent director as of year-end 2006. The company no longer uses stock options as a part of the compensation of independent directors. The prior grants reflected on the table below had ten-year terms. Each vested in two equal installments beginning on the first anniversary of the grant date and had exercises prices set at the market price of Arrow common stock at the close on the date of grant.

**Outstanding Equity Awards at Fiscal Year-End**

| | Option Awards | | | Stock Awards | |
|---|---|---|---|---|---|
| **Name** | **Number of Securities Underlying Unexercised Options Exercisable (#)(1)** | **Option Exercise Price ($)(2)** | **Option Expiration Date (2)** | **Number of Shares or Units of Stock Held That Have Not Vested (#)(3)** | **Market Value of Shares or Units of Stock Held that Have Not Yet Vested ($)(3)** |
| Daniel W. Duval | | | | 7,489.63 | 236,298 |
| | 15,000 | 27.81 | 5/15/2007 | | |
| | 4,000 | 27.50 | 5/14/2008 | | |
| | 4,000 | 18.13 | 5/14/2009 | | |
| | 4,000 | 33.69 | 5/23/2010 | | |
| | 4,000 | 26.52 | 5/11/2011 | | |
| | 4,000 | 26.23 | 5/23/2012 | | |
| | 4,000 | 16.51 | 5/23/2013 | | |
| John N. Hanson | | | | 1,659.75 | 52,365 |
| | 15,000 | 32.25 | 12/18/2007 | | |
| | 4,000 | 27.50 | 5/14/2008 | | |
| | 4,000 | 18.13 | 5/14/2009 | | |
| | 4,000 | 33.69 | 5/23/2010 | | |
| | 4,000 | 26.52 | 5/11/2011 | | |
| | 4,000 | 26.23 | 5/23/2012 | | |
| | 4,000 | 16.51 | 5/23/2013 | | |
| Richard S. Hill | | | | 1,659.75 | 52,365 |
| M.F. (Fran) Keeth | | | | 1,659.75 | 52,365 |
| Roger King | | | | 1,659.75 | 52,365 |
| | 15,000 | 27.81 | 5/15/2007 | | |
| | 4,000 | 27.50 | 5/14/2008 | | |
| | 4,000 | 18.13 | 5/14/2009 | | |
| | 4,000 | 33.69 | 5/23/2010 | | |
| | 4,000 | 26.52 | 5/11/2011 | | |
| | 4,000 | 26.23 | 5/23/2012 | | |
| | 4,000 | 16.51 | 5/23/2013 | | |

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| | Option Awards | | | Stock Awards | |
|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options Exercisable (#)(1) | Option Exercise Price ($)(2) | Option Expiration Date (2) | Number of Shares or Units of Stock Held That Have Not Vested (#)(3) | Market Value of Shares or Units of Stock Held that Have Not Yet Vested ($)(3) |
| Karen Gordon Mills | | | | 1,659.75 | 52,365 |
| | 15,000 | 27.81 | 5/15/2007 | | |
| | 4,000 | 27.50 | 5/14/2008 | | |
| | 4,000 | 18.13 | 5/14/2009 | | |
| | 4,000 | 33.69 | 5/23/2010 | | |
| | 4,000 | 26.52 | 5/11/2011 | | |
| | 4,000 | 26.23 | 5/23/2012 | | |
| | 4,000 | 16.51 | 5/23/2013 | | |
| Stephen C. Patrick | | | | 1,659.75 | 52,365 |
| | 15,000 | 17.27 | 7/16/2013 | | |
| Barry W. Perry | | | | 1,659.75 | 52,365 |
| | 15,000 | 17.44 | 1/25/2009 | | |
| | 4,000 | 18.13 | 5/14/2009 | | |
| | 4,000 | 33.69 | 5/23/2010 | | |
| | 4,000 | 26.52 | 5/11/2011 | | |
| | 4,000 | 26.23 | 5/23/2012 | | |
| | 4,000 | 16.51 | 5/23/2013 | | |
| John C. Waddell | | | | 1,659.75 | 52,365 |
| | 4,000 | 27.50 | 5/14/2008 | | |
| | 4,000 | 18.13 | 5/14/2009 | | |
| | 4,000 | 33.69 | 5/23/2010 | | |
| | 4,000 | 26.52 | 5/11/2011 | | |
| | 4,000 | 26.23 | 5/23/2012 | | |
| | 4,000 | 16.51 | 5/23/2013 | | |

(1) For each stock option granted to each non-employee director, shows the number of shares underlying vested stock options.

(2) These columns reflect the exercise price and expiration date, respectively, for all of the stock options under each award. Each option was granted ten years prior to its expiration date. All of the awards vest in two equal amounts on the first and, second, anniversaries of the grant date, and have an exercise price equal to the closing market price of the common stock on the grant date.

(3) These columns reflect the number of unvested restricted stock units held by each non-employee director under each award of restricted stock units and column the dollar value of those shares based on the closing market

price of the company s common stock on December 31, 2006.

The independent members of the Board (that is, all members except Mr. Mitchell) receive the following fees:

| | |
|---|---|
| Annual fee | $ 50,000 |
| Fee for each Board or committee meeting attended | $ 2,000 |
| Annual fee for service as committee chair | $ 10,000 |

In addition, Mr. Duval received a fee of $100,000 for that portion of 2006 during which he served as Chairman of the Board.

Under the terms of the Non-Employee Director Deferral Plan, non-employee directors may defer the payment of all or any portion of their annual retainers and meeting fees until the end of their service on the Board. Unless a different amount is chosen by the director, 50% of the director s annual retainer fee is deferred and converted to units of Arrow common stock. When the director leaves the Board, each whole stock unit credited to his or her account will be settled with the issuance of one share of common stock. Other amounts that are deferred may be invested for the benefit of the director, or should a director so choose, be converted into the stock units. The units held by each director are included under the heading Common Stock Units in the Shares of Stock Beneficially Owned table above. The amounts deferred by each director for 2006 are included under the heading Fees Earned or Paid in Cash on the Directors Compensation table above.

Each non-employee director receives an annual grant of restricted stock units valued at $60,000, based on the fair market value of Arrow common stock on the date of grant. Based on the closing market price of $36.15 on May 2, 2006, the 2006 grant resulted in 1,659.75 restricted stock units being awarded to each director. The units vest on the first anniversary of the grant date, but are not transferable into Arrow common stock, salable or available to be used as collateral until one year after the director leaves the Arrow Board, when each vested unit is settled with the issuance of one share of Arrow common stock.

For his service as Lead Director, Mr. Duval received an additional grant of restricted stock units valued at $30,000 (829.88 units in 2006, based on the grant-date closing market price of $36.15 vesting one year after the date of grant.) In May 2006, Mr. Duval received a one-time grant of an additional 5,000 restricted stock units (valued at $180,750, based on the grant-date closing market price of $36.15, and also vesting one year after the date of grant), in recognition of his prior service as Chairman of the Board.

Mr. Mitchell receives no regular compensation for his Board service. In recognition of his assumption of the duties of Chairman of the Board in May 2006, however, he received a one-time grant of 20,000 shares of restricted stock. These shares vest only if and when Mr. Mitchell retires from Arrow (or in the event of his death, disability, or termination without cause following a change of control.)

**Availability of More Information**

Arrow s corporate governance guidelines, the charter of the corporate governance committee, the audit committee charter, the compensation committee charter, the company s Worldwide Code of Business Conduct and Ethics and the Finance Code of Ethics can be found at the investor relations section of the company s website, www.arrow.com, and are available in print to any shareholder who requests them.

Shareholders and other interested parties who wish to communicate with the Chairman of the Board or any of the non-management members of the Board may do so by submitting such communication to Arrow s Secretary, Peter S. Brown, at Arrow Electronics, Inc., 50 Marcus Drive, Melville, New York 11747, who will present any such communication to the directors in accordance with their instructions.

## REPORT OF THE AUDIT COMMITTEE

The audit committee represents and assists the Board by overseeing the company s financial statements and internal controls; the independent auditor s qualifications and independence; and the performance of the company s internal audit function and of its independent auditor. The committee operates under the Audit Committee Charter, a copy of which is available at the investor relations section of the company s website, www.arrow.com.

The audit committee currently consists of five directors, all of whom are independent in accordance with New York Stock Exchange listing standards and other applicable regulations. The Board has determined that Mr. Patrick is an audit committee financial expert as defined by the SEC. In light of the possibility that Mr. Patrick might at some time be unable to attend a meeting of the committee, the Board has also determined that Mrs. Keeth qualifies as an audit committee financial expert.

Company management has the primary responsibility for financial statements and for the reporting process, including the establishment and maintenance of Arrow s systems of internal controls over financial reporting. The company s independent auditors are responsible for auditing the financial statements prepared by management, expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, and auditing the company s internal controls over financial reporting and management s assessment of those controls.

In fulfilling its oversight responsibilities, the audit committee reviewed and discussed with both management and the independent auditors the company s quarterly earnings releases, quarterly reports on Form 10-Q and the 2006 Annual Report on Form 10-K. Such reviews included a discussion of critical or significant accounting policies, the reasonableness of significant judgments, the quality (not just the acceptability) of the accounting principles, the reasonableness and clarity of the financial statement disclosures, and such other matters as are required to be reviewed with them under the standards promulgated by the Public Company Accounting Oversight Board (United States). Also discussed with both management and the independent auditors were the design and efficacy of the company s internal controls over financial reporting.

In addition, the audit committee received from and discussed with the independent auditors the written disclosure required by Independence Standards Board Standard No. 1 ( Independence Discussions with Audit Committees ) and considered the compatibility of non-audit services rendered to Arrow with the auditors independence. The committee also discussed with the independent auditors those matters required to be considered by Statement on Auditing Standards No. 61 ( Communication with Audit Committees ), as amended.

The audit committee also discussed with the independent auditors and Arrow s internal audit group the overall scope and plans for their respective audits. The committee periodically met with the independent auditors and the internal audit group, with and without management present, to discuss the results of their examinations, their evaluations of Arrow s internal controls, and the overall quality of Arrow s financial reporting.

In reliance on these reviews and discussions, the audit committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for filing with the SEC.

Stephen C. Patrick, Chairman
Richard S. Hill
M.F. (Fran) Keeth
Karen Gordon Mills

John C. Waddell

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## PRINCIPAL ACCOUNTING FIRM FEES

The aggregate fees billed by Arrow s principal accounting firm, Ernst & Young LLP, for auditing the annual financial statements and the company s internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act and related regulations included in the Form 10-K, the reviews of the quarterly financial statements included in the Forms 10-Q, statutory audits, assistance with and review of documents filed with the SEC and consultations on various accounting and reporting matters for each of the last two fiscal years are set forth as Audit Fees in the table below.

Also set forth for the last two fiscal years are audit-related fees. Such fees are for services rendered in connection with business acquisitions, employee benefit plan audits, and other accounting consultations. Tax fees relate to assistance in tax return preparation and tax audits, tax interpretation and compliance, and transfer pricing in various tax jurisdictions around the world. Ernst & Young did not provide any services related to financial information systems design or implementation or personal tax work or other services for any of the company s executive officers or members of the Board of Directors.

| | 2006 | 2005 |
|---|---|---|
| Audit Fees | $ 6,378,810 | $ 6,167,050 |
| Audit-Related Fees | 219,110 | 272,500 |
| Tax Return and Compliance Fees | 391,736 | 355,869 |
| Other Tax Related Fees | 471,367 | 714,331 |
| Total | $ 7,461,023 | $ 7,509,750 |

The amounts in the table above do not include fees charged by Ernst & Young to Marubun/Arrow, a joint venture between the company and the Marubun Corporation, which totaled $194,441 (audit-related fees) and $12,662 (tax fees) in 2006, and $145,300 (audit-related fees) and $20,100 (tax fees) in 2005.

Consistent with the audit committee charter, all audit, audit-related, tax return and compliance and other tax related services were pre-approved by the audit committee, or by a designated member thereof. The committee has determined that the provision of the non-audit services described above is compatible with maintaining Ernst & Young s independence.

## PROPOSAL 2: RATIFICATION OF APPOINTMENT OF AUDITORS

Shareholders will be asked to ratify the appointment of Ernst & Young as Arrow s independent auditors for 2007. Arrow expects that representatives of Ernst & Young will be present at the meeting with the opportunity to make a statement if they desire to do so and that they will be available to answer appropriate inquiries raised at the meeting.

**The Board recommends that the shareholders vote for the ratification of the appointment of Ernst & Young LLP.**

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## REPORT OF THE COMPENSATION COMMITTEE

The substantive discussion of the material elements of all of the company s executive compensation programs and the determinations by the committee with respect to compensation and executive performance for 2006 are contained in the Compensation Discussion and Analysis that follows this report. The committee has reviewed the Compensation Discussion and Analysis with the management representatives responsible for its preparation and their compensation consultants. In reliance on these reviews and discussions, the compensation committee recommended to the Board that the Compensation Discussion and Analysis be included in the Definitive Proxy Statement on Schedule 14A for the fiscal year ended December 31, 2006 for filing with the SEC and be incorporated by reference in the company s Annual Report on Form 10-K for 2006.

Barry W. Perry, Chairman
Daniel W. Duval
M.F. (Fran) Keeth
Roger King
Karen Gordon Mills

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## COMPENSATION DISCUSSION AND ANALYSIS

The compensation committee of the Board of Directors and the company s senior management review the company s executive compensation and benefit programs to ensure that they are consistent with the company s compensation philosophy, which requires that each of those programs aim to achieve the following objectives:

support the achievement of Arrow s vision, business strategy, and operating imperatives;

reinforce a high-performance culture with clear emphasis on accountability and variable compensation;

align the interests of senior management with those of shareholders;

ensure plan designs and actions reflect good corporate governance practices;

provide fully competitive total compensation opportunities; and

ensure a reasonable return on the company s total compensation expenditures.

Following is a discussion of each of the company s executive compensation programs, its objectives, and what it is designed to reward. The various elements of the compensation of each of the named executive officers is described, as is the reason it was provided, the procedures for determining the levels at which it was provided and its relationship to the other elements of compensation and the company s overall compensation objectives.

The amounts received or earned by the Chief Executive Officer and each of the other named executives in or with respect to 2006 under the programs are included in the various tables below. Future compensation and benefit commitments the company has undertaken with respect to the Chief Executive Officer and each of the other named executives are also discussed below and disclosed in tabular format.

Each of these matters is addressed below following the discussion of the applicable plan and the 2006 compensation paid in connection with it.

**Benchmarking**

The company uses a variety of compensation programs that are designed to work together to reward the company s executives for sustained performance in light of market conditions, industry trends and the performance of the company s competitors. Benchmarking is used with respect to both the individual programs used and compensation levels selected, and the compensation packages as a whole to ensure that they will be effective in attracting and retaining talented executives capable of achieving the company s objectives.

The compensation committee, in consultation with management, reviews the competitiveness of the compensation offered to the company s executives relative to those companies and industries identified as peers or competitors for talent. Such companies include Arrow s competitors, customers and suppliers, and companies of similar size and scope from other industries worldwide. The lists of companies used for compensation benchmarking is attached as Annex A.

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**Compensation Process**

Arrow manages to a total compensation philosophy, meaning that decisions regarding each element of compensation, as well as total compensation, are made in consideration of the individual s contributions, current compensation structure, market conditions and the furtherance of the company s overall goals.

The compensation committee reviews each element of each executive officer s compensation annually. For executives other than the Chief Executive Officer, that review begins with the recommendations made to the committee by the Chief Executive Officer, which includes both a recommended total target compensation (the amount the executive will earn if 100% of his or her targets and goals are achieved) and the suggested allocation among the forms of compensation. These recommendations are based on individual performance, the scope of the executive s duties and their relationship to the goals of the company and competitive compensation market data for both the peer group discussed above and industry generally. For each executive, the committee also considers these recommendations in light of the compensation levels of other company executives, levels of responsibility, prior experience, breadth of knowledge, and job performance. The committee considers a similar range of factors in setting compensation for the Chief Executive Officer.

A description of the objectives of each element of Arrow s executive compensation program is set forth below. The actual amounts paid under each program to each of the named executive officers are found on the Summary Compensation table at the end of this section.

**Base Salary**

Base salary is an integral component of overall total compensation. The primary purpose of base salary is to recognize an employee s level of responsibility, immediate contributions, knowledge, skills, experience, and abilities. Salary is also designed to attract top candidates.

As is further discussed below under the heading Employment Agreements , each of the named executive officers has an employment agreement, which provides for a minimum base salary. Each year the committee evaluates whether it is appropriate to approve salaries in excess of the contractual minimums. In conducting its salary deliberations, the compensation committee does not strictly tie senior executive base pay to a defined competitive standard or the passage of time. Rather, salary increases are based on the individual contributions expected of and contributed by each of the executives.

The Chief Executive Officer s base salary was evaluated based on Mr. Mitchell s level and scope of responsibility and his contributions during the past year to the company s success, as well as on his knowledge, skills, experience, and abilities. These were reviewed against prevailing levels of pay among chief executives of the benchmarked companies (described above under the heading Benchmarking ) and relative compensation levels of the other executive officers of the company. Based upon these criteria, the committee increased Mr. Mitchell s base salary from $850,000 to $890,000 for 2006.

In addition to his base salary, Mr. Mitchell receives an annual payment of $100,000 which replaced the company s prior contractual obligation to cover a number of expenses on behalf Mr. Mitchell, including, among other things, expenses related to club dues, automobile and local transportation, tax preparation, and financial planning. (This amount is part of the $990,000 total appearing under the heading Salary in the Summary Compensation Table, below.)

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Mr. Reilly s base salary went from $419,997 in 2005 to $425,000 in 2006, in recognition of the increasing value of his contributions as Chief Financial Officer, as well as the competitive and other factors discussed above.

In connection with his assumption of the role of Chairman of Arrow s EMEASA (Europe, Middle East, Africa and South America) business, Mr. Fanelli entered into an amended contract with the company (discussed under the heading, Employment Agreements below) and received his contractual base salary of $494,158 in 2006 (the amount was set and paid in euros and converted at the average exchange rate for 2006.)

Mr. Kong joined the company in March 2006, and received salary at his contractual rate, $400,000 per year, during 2006.

Mr. Long s base salary went from $419,998 in 2005 to $460,000 in 2006 as he added the presidency of the company s Asia/Pacific components business to his responsibilities as president of the company s North American components business. During 2006, Mr. Long led the development, and assumed the presidency, of the company s new Arrow Global Components business.

The base salary adjustments discussed above also reflect the committee s continued emphasis on variable compensation as the most effective way to motivate executives and align their achievements with the company s goals, while maintaining base salaries at levels that are in line with those at the companies with which Arrow competes for talent.

**Variable Compensation**

Variable compensation, in the form of cash bonuses and equity awards linked to the achievement of certain goals, plays a significant role in executives overall compensation and Arrow s pay-for-performance philosophy.

Arrow s variable compensation programs have the following objectives:

- focus on organizational priorities and performance;
- align compensation with the achievement of organizational strategies and financial goals;
- reward exceptional individual and organizational performance; and
- develop and retain exceptional executives.

Arrow s variable compensation is administered through plans that are designed to drive and reward short-term performance (annual), medium-term performance (over a period of three years) and long-term performance (over a period of up to ten years.) Participation varies based on an individual s performance and role in the organization as well as prevalent market practice. All of the named executive officers participate in each program.

**Short-Term Incentive Program Annual Cash Bonus**

Short-term incentives, which are administered through the Management Incentive Compensation Plan, are used to reward employees for individual and company performance on an annual basis while ensuring that Arrow s compensation practices remain competitive with practices at the benchmarked companies. Arrow s short-term incentives serve to reinforce pay for performance and individual accountability for optimizing operating results throughout the year and driving profitability, efficiency and

shareholder value. Each participant s short-term incentive program comprises financial targets, the achievement of which is linked to 80% of the targeted annual incentive, and individual, non-financial goals, the achievement of which is linked to 20% of the targeted annual incentive.

Management, in consultation with the compensation committee, establishes short-term financial targets that relate to one or more key indicators of corporate financial performance. For 2006, these financial targets were based on a mix of the company s achievement of specified levels of operating income and average net working capital as a percentage of sales. For corporate executives, including Messrs. Mitchell and Reilly among the named executive officers, the operating income and working capital financial targets are based on the results obtained by Arrow as a whole. For operating group executives, including Messrs. Fanelli, Long and Kong, the results obtained by their individual operating groups are also factors. The goal reflected in the targets selected is superior performance, which is generally defined as performance beyond both the company s historical achievements and the projected growth of the markets in which the company operates.

In 2006, for the named executive officers to earn 100% of their targeted total short-term incentive, the company had to achieve specified operating income targets that ranged between $30 million (on an operating group level) to $554 million (at the consolidated corporate level) and targets for net working capital, expressed as a percentage of sales, that ranged between 16.2% and 24%. For the operating group executives, Messrs. Long, Fanelli and Kong, three quarters of the financial portion of the annual incentive is determined by the performance of the executive s operating group and one quarter of it is determined by the performance of Arrow overall. Executives have the potential to earn anywhere from 0% to 200% of their targeted short-term incentive compensation depending on the operating income and net working capital percentages actually attained.

The two financial metrics, operating income and net working capital as a percentage of sales, determine 80% of each executive s incentive opportunity. Several non-financial goals, the achievement of which drives 20% of the total short-term incentive opportunity, are set at the beginning of each year for the Chief Executive Officer by the compensation committee and for each of the other named executive officers by the Chief Executive Officer. They comprise a variety of specific, measurable, strategic and tactical goals appropriate to the individual participant s role in furthering the objectives of the company and/or the executive s business unit as appropriate. By way of example, included among 2006 non-financial goals were:

- Obtaining board approval of a regional strategy;
- identifying and engaging with strategic partners for a particular project;
- the completion of specific CPI (continuous process improvement) projects;
- the successful recruitment of highly qualified candidates for key management vacancies; and,
- demonstrably increasing employee engagement in specified areas of the company.

The participants actual 2006 awards were determined at year-end based on the performance of the company or business unit, as applicable, against the targets discussed above, and the attainment of the individual, non-financial goals. For 2006, the named executive officers other than Mr. Mitchell, whose award is discussed below, achieved between 93.1% and 141.5% of their respective financial targets (80% of the targeted short-term incentive opportunity) and between 0% and 150% of their respective individual, non-financial targets (20% of the targeted short-term incentive opportunity.) The specific amount paid to each of the named executive officers is set forth on the Summary Compensation Table below, with the non-financial target results included under the heading Bonus and the financial target results included under the heading Non-Equity Incentive Plan Compensation .

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Mr. Mitchell s 2006 short-term incentive was provided under the terms of the Omnibus Incentive Plan, which provides for a performance-based bonus to Mr. Mitchell, as defined by Section 162(m) of the Internal Revenue Code. The purpose of the Chief Executive Officer s bonus is to motivate the Chief Executive Officer to achieve strategic, financial and operating objectives, and to reward contributions towards improvement in financial performance, while insuring that all compensation paid the Chief Executive Officer is a deductible business expense of the company.

The maximum bonus to be awarded to the Chief Executive Officer each year is determined by a formula, which is based on a percentage of net income above a set minimum and average net working capital. For 2006, the maximum bonus which could have been awarded under the formula was $3,536,140. The committee has the discretion to determine the actual amount of the bonus to be paid, up to the maximum, and does so based on the achievement of the performance goals it has set for the Chief Executive Officer. In 2006, those performance goals targeted earnings per share of $2.49 and net working capital at 17% of sales. In determining the degree to which they would exercise their negative discretion as permitted by Section 162(m), the committee considered the level of achievement by the company of the financial targets, other goals, internal pay equity concerns, competitive considerations and the amounts paid for performance in prior years and awarded Mr. Mitchell a bonus of $1,100,000 for 2006.

**Medium-Term Incentive Program Performance Share Awards and Restricted Stock**

Arrow provides medium-term incentives to its executives through awards of performance shares and restricted stock under the Omnibus Incentive Plan. Performance share awards maintain a medium-term timeframe, fostering retention, and exposure to share price variability, fostering greater alignment with shareholder interests, but because the executive will earn from 0% to 200% of the targeted number of shares depending on specific performance metrics (discussed below) they more accurately and specifically align compensation with the achievement of corporate goals upon which the executive can have a direct impact.

Grants of restricted stock vest over a four-year period. Only the market price of the shares is variable, however, and though this aligns the interests of the executive with the interests of the shareholder, market price variability (both positive and negative) often reflects forces beyond the executive s control.

Accordingly, in 2004, performance shares replaced restricted stock as the principle medium-term incentive compensation vehicle. In 2006, restricted stock grants were only given to Mr. Kong upon his hiring and to Mr. Mitchell in connection with his assumption of the role of Chairman. (Both of these awards are described in more detail following the Summary Compensation Table, below.)

Performance Share Awards under the Medium-Term Incentive Program link executive compensation to improvements in the company s financial results and the performance of its common stock over a three-year period. Under such awards, each year begins a new three-year performance cycle for which the compensation committee establishes financial targets and performance share targets for participating executives. The financial targets are based on each participant s level and breadth of responsibility, his or her potential contribution to the success of the company, and competitive considerations. Each participant s actual award is determined at the end of each three-year cycle based on how the company s actual performance compares with such goals, and settled with the payment of shares of Arrow common stock. Awards may range between 0% and 200% of the target number of performance shares.

Except in the event of death, disability or a termination that follows a change of control of the company, under the terms of the plan, performance shares are forfeited by the participant if he or she leaves the

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company prior to the vesting of a complete performance cycle. (Forfeiture and the impact of various termination scenarios under each of the incentive plans are discussed more fully below, under the heading Agreements and Potential Payments upon Termination or Change of Control. )

The 2004-2006 performance share cycle was the first completed under the Medium-Term Incentive Program, and, accordingly, the company does not have historical data regarding the success with which participants have attained the established targets. Like the short-term financial goals, these targets are designed to drive progress towards the company s long-term success. The compensation committee established the medium-term target performance metrics at a level designed to significantly challenge the participants.

For the first cycle the target was an average EBIT percentage (earnings before interest and taxes divided by sales) of 4.8% over the three-year period of the cycle, as adjusted by the committee under the terms of the plan to exclude the impact of certain items such as those related to acquisitions and restructurings. Each named executive officer received 87.5% of target compensation for the 2004-2006 performance cycle. Actual shares awarded with respect to the 2004-2006 cycle are set forth below:

| | **Performance Shares Awarded** |
|---|---|
| William E. Mitchell | 43,750 |
| Paul J. Reilly | 6,825 |
| Germano Fanelli | 6,825 |
| Peter T. Kong | N/A |
| Michael J. Long | 6,825 |

For the 2006-2008 performance share cycle, consistent with and in furtherance of the company s medium-term financial goals, the compensation committee established a target based on a return on invested capital for 2008, the last year of the cycle, of 13%. The number of performance shares which may be earned by the named executives under the 2006-2008 award is set forth below on the table entitled Grants of Plan-Based Awards .

Mr. Mitchell received a performance share award with a target of 50,000 shares under the Medium-Term Incentive Program for the 2006-2008 performance cycle. The goals, targets and metrics of this award are the same as those discussed above for the other named executive officers. As noted above under the heading Director Compensation , Mr. Mitchell also received an award of 20,000 shares of restricted stock in recognition of his assumption of the role of Chairman of the Board.

**Long-Term Incentive Program Options**

The company provides long-term incentives to its executives through grants of stock options under the Omnibus Incentive Plan. Stock options are designed to reinforce the importance of producing satisfactory returns to shareholders over the long-term and align the interests of the executives with those of the shareholders by providing the executives with the opportunity to acquire common stock of the company. Options are also issued to support executive retention.

The exercise price of each stock option is equal to 100% of the closing market price of the company s common stock on the grant date. Stock options become exercisable in equal amounts on the first, second, third and fourth anniversaries of the grant date and have a maximum term of ten years.

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Each year, the compensation committee reviews prior stock option grants and makes grant decisions based on its assessment of each executive s contribution, potential contribution and performance during the prior year and on the option grant practices of the benchmarked companies discussed above under the heading Benchmarking . It is the practice of the Board to grant stock options at the first regularly scheduled board meeting of the calendar year. Grants associated with the hiring or promotion of participants are made at the next regularly scheduled meeting of the Board that follows such an event. Limiting stock option grants to regularly scheduled meetings and only issuing stock options with an exercise price based on fair market value at the grant date ensures that participants will derive benefits only as shareholders realize corresponding gains over an extended time period. None of the options granted by the company, discussed elsewhere throughout this proxy statement, have been repriced, replaced or modified in any way since the time of the original grant.

Mr. Mitchell was awarded 100,000 stock options under the Long-Term Incentive Program in 2006, Mr. Reilly 15,000 options, Mr. Fanelli 5,000 options and Mr. Long 20,000 options. Mr. Kong received 23,000 options, the first-year grant set forth in his employment agreement. For more detail, see the Grant of Plan Based Awards table, below.

**Retirement Programs and Other Benefits**

In keeping with its total compensation philosophy and in light of the need to provide a total compensation and benefit package which is competitive with those offered at the benchmarked companies, the committee believes that several retirement and other benefit programs should be made available to the company s executive officers.

Supplemental Executive Retirement Plan

The company maintains the Arrow Electronics, Inc. Supplemental Executive Retirement Plan (the SERP ), an unfunded retirement plan in which 26 current and former executives selected by the Board participate. The committee believes that the SERP encourages long-term retention and is an appropriate supplement for executive retirement and financial planning because it is a non-qualified retirement plan which is not subject to the limits on company and employee contribution that are required for the qualified plans the company maintains for all employees.

All of the named executive officers, except for Mr. Fanelli, participate in the SERP, the details of which are discussed below under the heading Supplemental Executive Retirement Plan.

Deferred Compensation

In order to encourage long-term retention and facilitate executive retirement and financial planning, the company maintains a compensation deferral plan pursuant to which corporate executives may defer pre-tax compensation including up to 80% of salary and 100% of bonuses, incentive compensation and performance shares. Of the named executives, only Mr. Mitchell participates in the deferral plan. His participation and earnings on the amount deferred are reflected under the heading Change in Pension Value and NQDC Earnings in the Summary Compensation Table, below. The deferred compensation plan is discussed in more detail under the heading Deferred Compensation Plans, below.

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Qualified Plans

The named executive officers, other than Mr. Fanelli, also participate in the qualified plans available to all of Arrow s U.S. employees, the ESOP and the Arrow 401(K) Savings Plan. Company contributions on their behalf to these plans are included under the heading All Other Compensation on the Summary Compensation Table and detailed on the All Other Compensation Detail table, below. Mr. Fanelli does not participate in any company sponsored retirement plans and participates in the Italian State sponsored plan.

Management Insurance Plan

All of the named executive officers, other than Mr. Fanelli, participate in Arrow s Management Insurance Program. In the event of the death of the executive, the company provides a life insurance benefit to the executive s named beneficiary equal to four times the executive s final planned total annual performance-based compensation.

Current death benefits for each participating executive are set forth on the Potential Payouts Upon Termination table, below. Premiums paid by the company on behalf of each executive are included under the heading All Other Compensation on the Summary Compensation Table below and set forth specifically under the heading Management Insurance Plan on the All Other Compensation Table Detail, below.

## COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

### Summary Compensation Table

The following table provides certain summary information concerning the compensation of the named executive officers for 2006.

**Summary Compensation Table**

| Name and cipal Position | Year | Salary ($) | Bonus ($)(1) | Stock Awards ($)(2) | Option Awards ($)(3) | Non-Equity Incentive Plan Compen- sation ($)(4) | Change in Pension Value and NQDC Earnings ($)(5) | All Other Compen- sation ($)(6) | Tota ($) |
|---|---|---|---|---|---|---|---|---|---|
| am E. Mitchell<br>*f Executive*<br>*er* | 2006 | 990,000 | 380,880 | 1,915,976 | 1,202,297 | 719,120 | 809,550 | 157,501 | 6,175, |
| J. Reilly<br>*f Financial*<br>*er* | 2006 | 425,000 | 71,287 | 289,069 | 136,978 | 178,713 | 116,550 | 55,676 | 1,273, |
| ano Fanelli(7)<br>*rman,*<br>*v EMEASA* | 2006 | 494,158 | | 200,986 | 100,477 | 300,000 | N/A | 1,439,199 | 2,534, |
| ael J. Long | 2006 | 460,000 | 71,935 | 330,325 | 174,316 | 268,065 | 169,978 | 76,668 | 1,551, |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *dent, v Global ponents* | | | | | | | | | |
| T. Kong *dent, v Asia/Pacific* | 2006 | 300,000 | 61,200 | 120,900 | 54,920 | 178,800 | 10,091 | 600,554 | 1,326, |

(1) Amounts shown under the heading Bonus for each of the named executive officers are the actual amounts paid under that portion of the of the short-term Management Incentive Compensation Plan award based on each officer s specific individual (non-financial) goals (20% of the total incentive at target) and any discretionary adjustments made by the compensation committee.

(2) The amounts under Stock Awards include, for each of the named executive officers, an amount equal to the 2006 expense to the company for each of their performance share awards calculated utilizing the provisions of

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Statement of Financial Accounting Standards ( SFAS ) No. 123R, Share-based Payments. For the assumptions underlying the valuation, see Note 12 of the consolidated financial statements in the Company s Annual Report for the year ended December 31, 2006. For Messrs. Mitchell and Kong, also included is a one-time grant of 20,000 restricted shares each, valued at the fair market value of the company s stock at the date of grant. Mr. Mitchell was granted restricted shares in May 2006 in recognition of his assumption of the duties of Chairman of the Board in May 2006, and Mr. Kong received his grant in March 2006 upon joining the company. With respect to the restricted shares, each grant vests, in equal parts, on the first, second, third and fourth anniversaries of the grant date.

(3) Amounts shown under the heading Option Awards also reflect the SFAS 123R expense taken for each named executive officer in 2006 in connection with their respective grants of stock options. For assumptions underlying the valuation of 2004, 2005 and 2006 option awards, see Note 1 to the consolidated financial statements in the Company s Annual Report for the year ended December 31, 2006. Stock options granted to the named executive officers in 2002 and 2003 have been valued utilizing the Black-Scholes option pricing model, based on the following assumptions: i) exercise price of $26.45 for options granted in 2002, $12.18 for options granted on 2/3/2003 and $13.85 for options granted on 2/27/2003; ii) risk free interest rate of 3.879% for 2002, 2.55% for 2/3/2003 and 2.227% for 2/27/2003; iii) expected life of 4 years for 2002 and 2003; iv) expected volatility of 55% for 2002 and 60% for 2003; and v) expected dividend yield of 0 for 2002 and 2003.

(4) The amounts shown under Non-Equity Incentive Plan Compensation are the actual amounts paid on that portion of the short-term Management Incentive Compensation Plan awards based on financial targets (80% of the total target incentive at target.)

(5) The amounts shown under the heading Change in Pension Value and NQDC Earnings include the difference in the present value of each officer s retirement benefit on December 31, 2005 and on December 31, 2006 under the SERP, discussed below under the heading Supplemental Executive Retirement Plan. For Mr. Mitchell the amount shown also includes a portion of the interest earned by his deferred compensation account. Mr. Mitchell deferred $270,000 of his 2005 incentive award. The actual rate of return on the investment chosen by Mr. Mitchell for his deferral account was greater than 120% of the December 2006 applicable federal long-term rate or 5.89%, and is considered above-market . That above-market portion, $23,761 of the total of $62,189, is included in this column. Mr. Fanelli does not participate in any company sponsored retirement plans and participates in the Italian State sponsored plan (See the All Other Compensation Detail table, below.)

(6) See the All Other Compensation Detail table, below.

(7) Mr. Fanelli s 2006 compensation was paid in euros. His reported compensation has been converted to U.S. dollars using the average 2006 exchange rate of 0.796. Mr. Fanelli participates in a mandatory pension plan in which all benefit values are stipulated by Italian law. He does not participate in any corporate-sponsored retirement plans.

Each of the named executive officers has an employment agreement which impacts or defines certain of the elements of the compensation shown above. The material terms of those agreements are discussed below under the heading Employment Agreements.

**All Other Compensation Detail**

This table sets forth each of the elements comprising each named executive officer s All Other Compensation from the Summary Compensation Table, above.

**All Other Compensation Detail**

| | Perquisites | | | Benefits | | | Special Compensation / Other | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Management Insurance Program ($)** | **Car Allowance ($)** | **Personal Use of Company Assets ($)** | **ESOP ($)** | **401(k) Company Contribution ($)** | **20% Federal Tax Assistance on Restricted Stock Vest ($)** | **Contract Items ($)** | **Profit Sharing Bonus Payout ($)** | **Tax Gross-Up ($)** | **Tota** |
| n E. ll(1) | 25,837 | | 39,961 | 6,600 | 6,600 | 78,503 | | | | 15 |
| Reilly | 5,583 | 10,200 | | 6,600 | 6,600 | 26,693 | | | | 5 |
| no Fanelli(2) | 20,960 | 5,783 | | | 134,023 | | 441,067 | 419,704 | 417,662 | 1,43 |
| el J. Long(3) | 7,878 | 10,200 | 11,016 | 6,600 | 6,600 | 26,693 | | | 7,681 | 7 |
| '. Kong(4) | 20,020 | | | | | | 580,534 | | | 60 |

(1) Mr. Mitchell s Personal Use of Company Assets consists of the incremental cost to the company of personal use of aircraft in which the company owns fractional interests, of which $20,955 related to travel in connection with Mr. Mitchell s service on the board of the Rogers Corporation. Incremental cost is calculated as the sum of fuel cost, cost for hours used, total federal excise tax and segment fees, less reimbursements received from Mr. Mitchell and the Rogers Corporation. In addition, Mr. Mitchell s family members and associates have, on occasion, accompanied him on business trips at no incremental cost to the company.

(2) All amounts for Mr. Fanelli were paid in euros. His reported compensation has been converted to U.S. dollars using the average 2006 exchange rate of 0.796. Mr. Fanelli does not participate in the Management Insurance Program. The amount shown in that column represents the company s contribution to the Italian state-mandated business accident insurance fund. Mr. Fanelli does not participate in the 401(k) program. The amount shown in the 401(k) column represents the company contribution to the Italian state-sponsored mandatory pension plan. The amount shown under Contract Items is a payment for which the net amount was specified in his employment agreement, described below, and the amount under the heading tax gross-up was the payment required to achieve that net payment.

(3) Mr. Long s Personal Use of Company Assets represents the cost to the company of Mr. Long s use of an apartment leased by the company adjacent to its headquarters in Melville, New York. The Tax Gross-Up amount shown was intended to offset the personal tax consequences to Mr. Long of the imputed income related to the use of the apartment. In addition, a member of Mr. Long s family on one occasion accompanied him on a business trip at no incremental cost to the company.

(4) Under the terms of his employment agreement, Mr. Kong received an initial sign-on bonus of $500,000, shown under the heading Contract Items . Also included is an expatriate allowance of $80,534 comprising $41,044 for housing, $3,100 for utilities, $8,890 for transportation, $11,419 as a cost of living adjustment and $16,081 for other relocation expenses.

**Grants of Plan-Based Awards**

The following table provides information regarding the awards of performance shares and restricted stock pursuant to the Management Incentive Compensation Program to each of the named executive officers in respect of employment during 2006. Of the values shown on this table, the actual payments made in 2006 under the Non-equity Incentive Plan are included on the Summary Compensation Table,

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above. The portion of the expense to the company associated with the 2006 awards of equity incentive plans and stock options is also reported there.

**Grants of Plan-Based Awards**

| | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1) | | | Estimated Future Payouts Under Equity Incentive Plan Awards(2) | | | All Other Stock Awards: Number of Shares of Underlying | All Other Option Awards: Number of Securities Option | Exercise or Base Price of Option | Grant Date Fair Value of Stock and Option |
|---|---|---|---|---|---|---|---|---|---|---|
| Grant | Threshold | Target | Maximum | Threshold | Target | Maximum | | | | |

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 silicon solutions and our solutions 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 and PSBs. The gross margin associated with our solutions 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 our solutions.

During 2015, we generated total revenue of $19.0 million which represents a 32% decrease from 2014. Our new product revenue was $12.0 million which represents a 38% decrease from 2014 while our mature product revenue was $6.9 million which represents a 19% decrease from 2014. We shipped our new products into four of our targeted mobile market segments: Smartphones, Wearables, Mobile Enterprise, and Tablets. Overall, we reported a net loss of $17.8 million for 2015 compared to a net loss of $13.1 million for 2014.

We have experienced net losses in the past years and expect such losses to continue through at least the year ending January 1, 2017 as we continue to develop new products, applications and technologies. Whether we can achieve cash flow levels sufficient to support our operations cannot be accurately predicted. Unless such cash flow levels are achieved in addition to the proceeds that we expect to receive from our recent sale of our equity securities, which is expected to close on or about March 21, 2016, 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.

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. See Note 2 to the Consolidated Financial Statements for our standard warranty policy. We have not had a history of significant product returns.

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.

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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. 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. Based on this analysis there were no significant impairments to our long lived assets.

Stock-Based Compensation

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

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

In addition to the assumptions used in the Black-Scholes pricing model, the amended authoritative guidance requires that we recognize compensation expense only for awards ultimately expected to vest; therefore we are required to develop an estimate of the historical pre-vest forfeiture experience and apply this to all stock-based awards. The fair value of restricted stock awards, or RSAs, and restricted stock units, or RSUs, is based on the closing price of our common stock on the date of grant. RSA and RSU awards which vest with service are expensed over the requisite service period. RSAs and RSU awards which are expected to vest based on the achievement of a performance goal are expensed over the estimated vesting period. We regularly review the assumptions used to compute the fair value of our stock-based awards and we revise our assumptions as appropriate. In the event that assumptions used to compute the fair value of our stock-based awards are later determined to be inaccurate or if we change our assumptions significantly in future periods, stock-based compensation expense and our results of operations could be materially impacted. See Note 11 to the 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, deferred tax assets, 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 $69.4 million, tax effected as of the end of 2015. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including schedule reversals of deferred tax liabilities, uncertainty of projecting future taxable income and results of recent operations. As of January 3, 2016, we have federal and state income tax net operating loss (NOL) and credit carryforwards of $134.4 million and $50.8 million, which will expire at various dates from 2015 through 2035. We believe that

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it is more likely than not that the deferred tax assets and benefits from these federal and state NOL and credit carryforwards will not be realized. In recognition of this risk, we have recorded a valuation allowance of $69.3 million, tax effected as of the end of 2015 due to uncertainties related to our ability to utilize our U.S. deferred tax assets before they expire.

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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 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| Statements of Operations: | | | | | | |
| Revenue | 100 | % | 100 | % | 100 | % |
| Cost of revenue | 60 | % | 60 | % | 66 | % |
| Gross profit | 40 | % | 40 | % | 34 | % |
| Operating expenses: | | | | | | |
| Research and development | 75 | % | 44 | % | 32 | % |
| Selling, general and administrative | 56 | % | 42 | % | 46 | % |
| Restructuring costs | 2 | % | — | % | 1 | % |
| Loss from operations | (92 | )% | (46 | )% | (45 | )% |
| Gain on sale of TowerJazz Semiconductor Ltd. | — | % | — | % | 1 | % |
| Interest expense | — | % | — | % | — | % |
| Interest income and other expense, net | (1 | )% | — | % | (1 | )% |
| Loss before income taxes | (93 | )% | (46 | )% | (45 | )% |
| Provision for income taxes | 1 | % | — | % | 2 | % |
| Net loss | (94 | )% | (46 | )% | (47 | )% |

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Comparison of Fiscal Years 2015 and 2014

Revenue. The table below sets forth the changes in revenue for fiscal year ended January 3, 2016, as compared to fiscal year ended December 28, 2014 (in thousands, except percentage data):

| | Fiscal Years 2015 Amount | % of Total Revenues | 2014 Amount | % of Total Revenues | Year-Over-Year Change | |
|---|---|---|---|---|---|---|
| Revenue by product family [1]: | | | | | | |
| New products | $12,020 | 63 % | $19,311 | 69 % | $(7,291) | (38)% |
| Mature products | 6,936 | 37 % | 8,534 | 31 % | (1,598) | (19)% |
| Total revenue | $18,956 | 100 % | $27,845 | 100 % | $(8,889) | (32)% |

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(1) For all periods presented: New products include all products manufactured on 180 nanometer or smaller semiconductor processes. Mature products include all products produced on semiconductor processes larger than 180 nanometers.

The decrease in new product revenue was primarily due to lower shipments to Samsung which had designed our ArcticLink III VX product into its tablet platform and also due to lower shipments of connectivity product Eclipse II. In 2015 shipments of ArcticLink III were $8.3 million compared to $15.0 million in 2014. Revenue generated from Samsung accounted for 68% of our new product revenue and 43% of our total revenue in 2015. Eclipse II revenue in 2015 was $1.2 million compared to $2.6 million in 2014. The decrease in revenue from ArcticLink III and Eclipse II products was partially offset by revenue from other new products. The decrease in mature product revenue is due primarily to decreased orders from our customers in the aerospace, test and instrumentation sectors. We anticipate that our revenue from Tablets and mature products will decline over time.

In order to grow our revenue from its current level, we depend upon increased revenue from our new products, especially revenue from solutions designed using our ArcticLink, ArcticLink II, ArcticLink III, ArcticLink 3 S1, ArcticLink 3 S2, PolarPro, PolarPro II, PolarPro III, PolarPro 3E, EOS S3 and Eclipse II platforms and the development of additional new products and solution platforms.

We continue to seek to expand our revenue, including pursuing high-volume sales opportunities in our target market segments, by providing solutions incorporating our intellectual property, or industry standard interfaces. 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 2015 as compared to fiscal year 2014 (in thousands, except percentage data):

| | Fiscal Years 2015 Amount | % of Total Revenues | 2014 Amount | % of Total Revenues | Year-Over-Year Change | |
|---|---|---|---|---|---|---|
| Revenue | $18,956 | 100 % | $27,845 | 100 % | $(8,889) | (32)% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cost of revenue | 11,411 | 60 % | 16,796 | 60 % | (5,385 ) | (32 )% |
| Gross Profit | $7,545 | 40 % | $11,049 | 40 % | $(3,504 ) | (32 )% |

The decrease in gross profit was primarily due to reduction in sales of both new and matured products. Effect of price reductions in 2015 on gross profit was approximately $702,000 or 4%. The gross profit margin percentage in 2015 as compared to 2014 was flat at 40% despite lower sales and price reductions in 2015 compared to 2014, due to a higher relative concentration of our product mix in mature products, which have higher gross margins than the new products and also due to restructuring plan implemented in the second quarter. The sale of previously reserved inventories was $201,000 and $603,000 in 2015 and 2014 respectively. Inventory write down in 2015 was $229,000 compared to $119,000 in 2014.

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, or LCM 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. There were no adjustments to the LCM reserve in fiscal year 2015.

Operating Expenses. The table below sets forth the changes in operating expenses for fiscal year 2015 as compared to fiscal year 2014 (in thousands, except percentage data):

| | Fiscal Years | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | | | | |
| | Amount | % of Total Revenues | | Amount | % of Total Revenues | | Year-Over-Year Change | | | |
| R&D expense | $14,144 | 75 | % | $12,186 | 44 | % | $1,958 | | 16 | % |
| SG&A expense | 10,619 | 56 | % | 11,663 | 42 | % | (1,044 | ) | (9 | )% |
| Restructuring costs | 295 | 2 | % | — | — | % | 295 | | 100 | % |
| Total operating expenses | $25,058 | 132 | % | $23,849 | 86 | % | $1,209 | | 5 | % |

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 $14.1 million and $12.2 million in 2015 and 2014, respectively, which represented 75% and 44% of revenue for those periods. The $2.0 million increase in R&D expenses in 2015 as compared to 2014 is attributable primarily to a $1.4 million increase in compensation expense due to increased headcount, $1.1 million increase in the cost of outside services due to an increase in third-party chip design costs, and $170,000 increase in equipment and supplies costs. These increases were partially offset by a reduction in IP purchases of $261,000, and lower stock based compensation cost of $226,000.

Selling, General and Administrative Expense. Our selling, general and administrative or SG&A expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, administration, human resources and legal. SG&A expense was $10.6 million and $11.7 million in 2015 and 2014, respectively, which represented 56.0% and 41.9% of revenue for those periods. The $1.0 million decrease in SG&A expenses in 2015 as compared to 2014 is attributable primarily to the decrease in stock based compensation of $643,000 and lower outside services costs of $545,000, partially offset by higher depreciation costs of $151,000.

Restructuring Costs. In June 2015, the Company implemented a restructuring plan to re-align the organization to support the Company's sensor processing provider business model and growth strategy. This re-alignment resulted in a reduction of nine employees or 9% of the Company's global workforce. Pursuant to the restructuring plan, the Company recorded $295,000 of restructuring liabilities in 2015, consisting primarily of employee severance related costs. See Note 17 to the Consolidated Financial Statements for more details.

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 2015 as compared to 2014 (in thousands, except percentage data):

| | Fiscal Years 2015 | 2014 | Change Amount | Percentage |
|---|---|---|---|---|
| Interest expense | $(82) | $(85) | $(3) | (4)% |
| Interest income and other expense, net | (107) | (126) | (19) | (15)% |
| | $(189) | $(211) | $(22) | (10)% |

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The change in interest expense was insignificant in 2015 compared to 2014 as the debt balance remained the same for most of 2015. At the end of December 2015, an additional $1 million draw down was made from our line of credit, which had an insignificant impact on interest expense in 2015. The change in interest income and other expense, net was due primarily to a decrease in foreign exchange losses in 2015 as compared to 2014.

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. Our Canadian operations were closed in December 2015. 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 income taxes in 2015 as compared to 2014 (in thousands, except percentage data) :

| | Fiscal Years | | Change | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | Amount | Percentage | |
| Income tax provision | $146 | $68 | $78 | 115 | % |

The income tax expense for 2015 and 2014 is primarily from our foreign operations which are cost-plus entities.

As of the end of 2015, 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.

Comparison of Fiscal Years 2014 and 2013

Revenue. The table below sets forth the changes in revenue for fiscal year 2014 as compared to fiscal year 2013 (in thousands, except percentage data):

| | Fiscal Years | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | | | |
| | Amount | % of Total Revenues | | Amount | % of Total Revenues | | Year-Over-Year Change | | |
| Revenue by product family [1]: | | | | | | | | | |
| New products | $19,311 | 69 | % | $18,219 | 70 | % | $1,092 | 6 | % |
| Mature products | 8,534 | 31 | % | 7,853 | 30 | % | 681 | 9 | % |
| Total revenue | $27,845 | 100 | % | $26,072 | 100 | % | $1,773 | 7 | % |

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(1) For all periods presented: New products include all products manufactured on 180 nanometer or smaller semiconductor processes. Mature products include all products produced on semiconductor processes larger than nanometers.

The increase in new product revenue was primarily due to shipments to Samsung which designed our ArcticLink III VX product into a new tablet platform. Revenue generated from Samsung accounted for 75% of our new product revenue and 52% of our total revenue in 2014. The increase in mature product revenue was due primarily to increased orders from our customers in the aerospace, test and instrumentation sectors.

Gross Profit. The table below sets forth the changes in gross profit for fiscal year 2014 as compared to fiscal year 2013 (in thousands, except percentage data):

| | Fiscal Years | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | | | | | |
| | Amount | % of Total Revenues | | Amount | % of Total Revenues | | Year-Over-Year Change | | | | |
| Revenue | $27,845 | 100 | % | $26,072 | 100 | % | $1,773 | | 7 | % |
| Cost of revenue | 16,796 | 60 | % | 17,305 | 66 | % | (509 | ) | (3 | )% |
| Gross Profit | $11,049 | 40 | % | $8,767 | 34 | % | $2,282 | | 26 | % |

The increase in gross profit in 2014 as compared to 2013 was primarily due to customer and product mix of $1.3 million, favorable purchase price adjustments and standard cost variance of $863,000 due to higher shipments of both new and mature products. The sale of previously reserved inventories was $603,000 and $596,000 in 2014 and 2013 respectively.

Operating Expenses. The table below sets forth the changes in operating expenses for fiscal year 2014 as compared to fiscal year 2013 (in thousands, except percentage data):

| | Fiscal Years | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | | | | |
| | Amount | % of Total Revenues | | Amount | % of Total Revenues | | Year-Over-Year Change | | | |
| R&D expense | $12,186 | 44 | % | $8,375 | 32 | % | $3,811 | | 46 | % |
| SG&A expense | 11,663 | 42 | % | 12,002 | 46 | % | (339 | ) | (3 | )% |
| Restructuring Costs | — | — | % | 181 | 1 | % | (181 | ) | (100 | )% |
| Total operating expenses | $23,849 | 86 | % | $20,558 | 79 | % | $3,291 | | 16 | % |

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 $12.2 million and $8.4 million in 2014 and 2013 respectively, which represented 44% and 32% of revenue for those periods. The $3.8 million increase in R&D expenses in 2014 as compared to 2013 is attributable primarily to a $1.7 million increase in compensation expense due to increased headcount, $835,000 increase in the cost of outside services due to an increase in third-party chip design costs, $429,000 increase in purchased intellectual property, and $386,000 increase in stock based compensation costs. These increases were partially offset by a reduction of $131,000 in engineering equipment and supplies expense.

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 $11.7 million and $12.0 million in 2014 and 2013, respectively, which represented 41.9% and 46.0% of revenue for those periods. The $339,000 decrease in SG&A expenses in 2014 as compared to 2013 is attributable primarily to the decrease in executive bonus payments.

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.

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 2014 as compared to 2013 (in thousands, except percentage data):

| | Fiscal Years | | Change | |
|---|---|---|---|---|
| | 2014 | 2013 | Amount | Percentage |
| Interest expense | $(85) | $(54) | $(31) | 57% |
| Interest income and other expense, net | (126) | (157) | 31 | (20)% |
| | $(211) | $(211) | $— | —% |

The increase in interest expense is due primarily to the increase of our capital software lease obligation to $357,000 in 2014 from $310,000 in 2013. The change in interest income and other expense, net was due primarily to a decrease of foreign exchange losses in 2014 as compared to 2013.

Provision for Income Taxes. The table below sets forth the changes in provision for (benefit from) income taxes for 2014 as compared to 2013 (in thousands, except percentage data):

| | Fiscal Years | | Change | |
|---|---|---|---|---|
| | 2014 | 2013 | Amount | Percentage |
| Income tax provision | $68 | $455 | $(387) | (85)% |

The income tax expense for 2014 and 2013 respectively, was primarily for our foreign operations which are cost-plus entities. Included within the provision for income taxes for 2013 was 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 2014, our ability to utilize our U.S. deferred tax assets in future periods was uncertain and, accordingly, we 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, capital and operating leases, a bank line of credit and cash flow from operations. As of January 3, 2016, our principal sources of liquidity consisted of our cash and cash equivalents of $19.1 million and available credit under our revolving line of credit with Silicon Valley Bank of $4.0 million, which expires in September 25, 2017. Additionally, we have an accumulated deficit of approximately $221 million and experienced net losses in the past years and expect such losses to continue through at least the year ending January 1, 2017 as we continue to develop new products, applications and technologies.

On March 16, 2016, we announced the pricing of the Company's firm underwritten public offering of an aggregate of 10.0 million newly issued shares of common stock at a price of $1.00 per share, $0.001 par value. We expect to receive gross proceeds of approximately $10.0 million, before deducting underwriting discounts and other estimated offering expenses. The net proceeds from the Offering are expected to be approximately $8.9 million after deduction of underwriting discounts and assuming no exercise of the underwriters' over-allotment option. The underwriters have also been granted a 30-day option to purchase up to 1.5 million shares of common stock to cover over-allotments, if any. We expect to use the net proceeds from the Offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds to acquire and/or license technologies and acquire and/or invest in businesses when the opportunity arises. See Note 18 to the Consolidated Financial Statements for the details.

The Shares are being offered by us pursuant to a shelf registration statement previously filed with the SEC, which was declared effective by the SEC on August 30, 2013, and as supplemented by a prospectus supplement dated March 17, 2016 filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended. See Notes 14 and 18 to the Consolidated Financial Statements for details.

Over the longer term, the Company anticipates that the generation of sales from its new product offerings, existing cash and cash equivalents, together with financial resources from its revolving line of credit with Silicon Valley Bank and its ability to raise additional capital in the public capital markets will be sufficient to satisfy its operations and capital expenditures. However, the Company cannot provide any assurance that it will be able to raise additional capital, if required, or that such capital will be available on terms acceptable to the Company. The inability of the Company to generate sufficient sales from its new product offerings and/or raise additional capital if needed could have a material adverse effect on the Company’s operations and financial condition, including its ability to maintain compliance with its lender’s financial covenants.

On September 25, 2015, we entered into a Second Amendment to Third Amended and Restated Loan and Security Agreement with Silicon Valley Bank to extend the line of credit for two years through September 25, 2017. This amendment modifies some of the financial covenants. See Note 6 to the Consolidated Financial Statements for information regarding the financial covenants. This line of credit provides for committed loan advances of up to $6.0 million, subject to increases at our election of up to $12.0 million. On February 10, 2016 we entered into a Third Amendment to Third and Restated Loan and Security Agreement to further modify the covenants. See Note 18 to the Consolidated Financial Statements for a description of the modified covenants. We were in compliance with all loan covenants as of the end of the current reporting period. As of January 3, 2016 we had $2.0 million of outstanding revolving debt with an interest rate of 3.4%

As of January 3, 2016, there was no material difference between the fair value and the carrying amount of capital software leasing arrangements.

Most of our cash and cash equivalents were invested in money market funds rated AAAm/Aaa. Our interest-bearing debt consisted of $489,000 outstanding under capital software leases. See Note 6 to the Consolidated Financial Statements for details.

Cash balances held at our foreign subsidiaries were approximately $1.2 million and $868,000 at January 3, 2016 and December 28, 2014, 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 liquidity, capital resources and 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.

In summary, our cash flows were as follows (in thousands):

| | Fiscal Year | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net cash (used in) operating activities | $(11,829) | $(10,754) | $(9,056) |
| Net cash (used in) investing activities | (346) | (1,044) | (992) |
| Net cash provided by financing activities | 1,261 | 4,442 | 24,876 |

Net Cash from Operating Activities

In 2015, net cash used in operating activities was $11.8 million, and resulted primarily from a net loss of $17.8 million offset by $3.7 million in non-cash charges. These non-cash charges included write-downs of inventories in the amount of $229,000 to reflect excess quantities, depreciation and amortization of our long-lived assets of $1.4 million and stock-based compensation of $1.9 million. In addition, changes in working capital accounts provided cash of $2.0 million as a result of an increase in accounts payable of $260,000, decrease in gross inventory of $1.8 million and, decrease of other assets of $300,000, partially offset by a decrease of accrued liabilities of $94,000 and an increase in accounts receivable of $49,000. Inventory decrease was primarily due to sale of existing ArcticLink III and PolarPro products inventory purchased in prior year.

In 2014, net cash used in operating activities was $10.8 million, and resulted primarily from a net loss of $13.1 million offset by $3.8 million in non-cash charges. These non-cash charges included write-downs of inventories in the amount of $119,000 to reflect excess quantities, depreciation and amortization of our long-lived assets of $1.5 million and stock-based compensation of $2.2 million. In addition, changes in working capital accounts used cash of $2.1 million as a result of a decrease in accounts payable of $2.0 million, an increase in gross inventory of $935,000 and a decrease of accrued liabilities of$882,000, partially offset by a decrease in accounts receivable of $1.7 million. The decrease of accounts payable was primarily due to payment of invoices approximately $1.6 million related to purchases of ArcticLink III products in 2014, which were purchased in 2013. We were expecting significant increase in sales volume of ArcticLink III product to Samsung in 2014.

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.

Net Cash from Investing Activities

Net cash used for investing activities in 2015 was $346,000, primarily for capital expenditures to acquire manufacturing equipment and software.

In 2014 and 2013, net cash used for investing activities was $1.0 million, as a result of capital expenditures made primarily to acquire mask sets, leasehold improvements, software used in the development and production of our products and solutions and other manufacturing equipment.

Net Cash from Financing Activities

In 2015 net cash provided by financing activities was $1.3 million, resulting from the additional borrowing of $1.0 million under the line of credit and from proceeds of $554,000 related to the issuance of common shares to employees under our equity plans. These proceeds were partially offset by payments of $293,000 under the terms of our capital software lease obligations.

In 2014 net cash provided by financing activities was $4.4 million, resulting from proceeds of $4.7 million related to the issuance of common shares to employees under our equity plans. These proceeds were partially offset by payments of $300,000 under the terms of our capital software lease obligations.

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.

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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 sale of common stock in March 2016 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. In order to satisfy our longer term liquidity requirements, we may be required to raise additional equity or debt financing. There can be no assurance that financing will be available or at commercially acceptable terms.

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Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and commercial commitments as of the end of 2015 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 | $2,149 | $804 | $1,345 | |
| Wafer purchases(1) | 1,425 | 1,425 | — | — |
| Other purchase commitments | 1,520 | 1,265 | 255 | — |
| Total contractual cash obligations | 5,094 | 3,494 | 1,600 | — |
| Other commercial commitments(2): | | | | |
| Revolving line of credit | 2,000 | — | 2,000 | — |
| Capital software lease obligations | 489 | 281 | 208 | — |
| Total commercial commitments | 2,489 | 281 | 2,208 | — |
| Total contractual obligations and commercial commitments(3) | $7,583 | $3,775 | $3,808 | $— |

(1) 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 $1.4 million include firm purchase commitments and a portion of our forecasted wafer starts as of the end of 2015.
(2) Other commercial commitments are included as liabilities on our consolidated balance sheets as of the end of 2015.
(3) Does not include unrecognized tax benefits of $696,000 as of the end of 2015. See Note 8 of the Consolidated Financial Statements.

Concentration of Suppliers

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

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Recently Issued Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial condition and results of operations, which is incorporated herein by reference.

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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% change in interest rates during 2015 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. At the end of the fiscal year ended January 3, 2016, we closed Canada activities. 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 17%, 18% and 19% of total operating expenses in 2015, 2014 and 2013, respectively. A majority of these foreign expenses were incurred in India, the United Kingdom and Korea in 2015. A currency exchange rate fluctuation of 10% would have caused our operating expenses to change by approximately $419,000 in 2015, $432,000 in 2014 and $400,000 in 2013.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
QuickLogic Corporation
Sunnyvale, California

We have audited the accompanying consolidated balance sheets of QuickLogic Corporation as of January 3, 2016 and December 28, 2014 and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended January 3, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedule, Valuation and Qualifying Accounts, as of and for the years ended January 3, 2016 and December 28, 2014 listed in Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QuickLogic Corporation at January 3, 2016 and December 28, 2014, and the results of its operations and its cash flows for each of the two years in the period ended January 3, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, Valuation and Qualifying Accounts as of and for the years ended January 3, 2016 and December 28, 2014, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), QuickLogic Corporation's internal control over financial reporting as of January 3, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 18, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California
March 18, 2016

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
QuickLogic Corporation,
Sunnyvale, California

We have audited QuickLogic Corporation's internal control over financial reporting as of January 3, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). QuickLogic Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Item 9A, Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, QuickLogic Corporation maintained, in all material respects, effective internal control over financial reporting as of January 3, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of QuickLogic Corporation as of January 3, 2016 and December 28, 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended January 3, 2016 and our report dated March 18, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California
March 18, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of QuickLogic Corporation:

In our opinion, the consolidated balance sheet as of December 29, 2013 and the related consolidated statements of operations, statements of comprehensive income (loss), stockholders' equity, and cash flows for the year ended December 29, 2013 present fairly, in all material respects, the financial position of QuickLogic Corporation and its subsidiaries at December 29, 2013 and the results of their operations and their cash flows for the year 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 for the year ended December 29, 2013 presents fairly, in all material respects, the information set for the therein when read in conjunction with the related consolidated financial statements.

These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 6, 2014

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

| | January 3, 2016 | December 28, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $19,136 | $30,050 |
| Accounts receivable, net of allowances for doubtful accounts of $0 | 1,601 | 1,552 |
| Inventories | 2,878 | 4,952 |
| Other current assets | 1,312 | 1,146 |
| Total current assets | 24,927 | 37,700 |
| Property and equipment, net | 3,315 | 3,217 |
| Other assets | 219 | 222 |
| TOTAL ASSETS | $28,461 | $41,139 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade payables | $4,032 | $2,506 |
| Accrued liabilities | 1,482 | 1,574 |
| Current portion of capital software lease obligations | 281 | 225 |
| Total current liabilities | 5,795 | 4,305 |
| Long-term liabilities: | | |
| Revolving line of credit | 2,000 | 1,000 |
| Capital software lease obligations, less current portion | 208 | 191 |
| Other long-term liabilities | 133 | 76 |
| Total liabilities | 8,136 | 5,572 |
| Commitments and contingencies (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; 56,904 and 56,182 shares issued and outstanding | 57 | 56 |
| Additional paid-in capital | 241,024 | 238,419 |
| Accumulated deficit | (220,756) | (202,908) |
| Total stockholders' equity | 20,325 | 35,567 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $28,461 | $41,139 |

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 2015 | 2014 | 2013 |
|---|---|---|---|
| Statements of Operations: | | | |
| Revenue | $18,956 | $27,845 | $26,072 |
| Cost of revenue | 11,411 | 16,796 | 17,305 |
| Gross profit | 7,545 | 11,049 | 8,767 |
| Operating expenses: | | | |
| Research and development | 14,144 | 12,186 | 8,375 |
| Selling, general and administrative | 10,619 | 11,663 | 12,002 |
| Restructuring costs | 295 | — | 181 |
| Loss from operations | (17,513) | (12,800) | (11,791) |
| Gain on sale of TowerJazz Semiconductor Ltd. Shares | — | — | 181 |
| Interest expense | (82) | (85) | (54) |
| Interest income and other expense, net | (107) | (126) | (157) |
| Loss before income taxes | (17,702) | (13,011) | (11,821) |
| Provision for income taxes | 146 | 68 | 455 |
| Net loss | $(17,848) | $(13,079) | $(12,276) |
| Net loss per share: | | | |
| Basic | $(0.32) | $(0.23) | $(0.27) |
| Diluted | $(0.32) | $(0.23) | $(0.27) |
| Weighted average shares: | | | |
| Basic | 56,472 | 55,401 | 45,762 |
| Diluted | 56,472 | 55,401 | 45,762 |

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

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QUICKLOGIC CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

| | Fiscal Years | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net loss | $(17,848) | $(13,079) | $(12,276) |
| Other comprehensive income, net of tax: | | | |
| Change in unrealized gain on available-for-sale investments (Note 4) | — | — | 11 |
| Total comprehensive loss | $(17,848) | $(13,079) | $(12,265) |

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

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QUICKLOGIC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

| | Fiscal Years 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $(17,848) | $(13,079) | $(12,276) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 1,409 | 1,510 | 1,338 |
| Shares issued to third parties for services provided | 87 | — | — |
| Stock-based compensation | 1,941 | 2,242 | 1,979 |
| Write-down of inventories | 229 | 119 | 551 |
| Gain on TowerJazz Semiconductor Ltd. Shares | — | — | (181) |
| Tax effect on other comprehensive income (loss) | — | — | 273 |
| Loss on disposal of equipment | — | — | 27 |
| Write-off of equipment | 8 | 5 | 96 |
| Bad debt expense | — | — | (20) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (49) | 1,709 | (1,999) |
| Inventories | 1,845 | (935) | (1,659) |
| Other assets | 300 | 604 | (361) |
| Trade payables | 260 | (2,002) | 1,379 |
| Accrued liabilities | (94) | (882) | 1,817 |
| Deferred income | 26 | — | — |
| Other long-term liabilities | 57 | (45) | (20) |
| Net cash used in operating activities | (11,829) | (10,754) | (9,056) |
| Cash flows from investing activities: | | | |
| Capital expenditures for property and equipment | (346) | (1,046) | (1,257) |
| Proceeds from sale of equipment | — | 2 | — |
| Proceeds from sale provided by TowerJazz Semiconductor Ltd. shares | — | — | 265 |
| Net cash used in investing activities | (346) | (1,044) | (992) |
| Cash flows from financing activities: | | | |
| Payment of capital software lease obligations | (293) | (300) | (216) |
| Stock issuance cost | | 40 | (2,219) |
| Proceeds from line of credit | 1,000 | — | 1,000 |
| Proceeds from issuance of common stock | 554 | 4,702 | 26,311 |
| Net cash provided by financing activities | 1,261 | 4,442 | 24,876 |
| Net (decrease)/increase in cash and cash equivalents | (10,914) | (7,356) | 14,828 |
| Cash and cash equivalents at beginning of period | 30,050 | 37,406 | 22,578 |
| Cash and cash equivalents at end of period | $19,136 | $30,050 | $37,406 |
| Supplemental disclosures of cash flow information: | | | |
| Interest paid | $77 | $85 | $44 |
| Income taxes paid | $121 | $48 | $100 |
| Supplemental schedule of non-cash investing and financing activities : | | | |
| Capital software lease obligation to finance capital expenditures | $489 | $416 | $310 |
| Purchase of equipment included in accounts payable | $977 | $441 | $33 |
| Issuance of restricted stock units for accrued compensation | $— | $1,064 | $— |
| Stock Warrants exercised in cashless transactions, net | $— | $78 | $— |

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

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

| | Common Stock at Par Value | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance at December 30, 2012 | 44,506 | $45 | $204,797 | $ (11 ) | $ (177,553 ) | $ 27,278 |
| Common stock issued under stock plans and employee stock purchase plans | 542 | 1 | 965 | — | — | 966 |
| Private stock offering, net of issuance costs and warrants | 8,740 | 8 | 23,118 | — | — | 23,126 |
| Change in unrealized gain on available-for-sale securities (See Note 4) | — | — | — | 11 | — | 11 |
| Stock-based compensation | — | — | 1,493 | — | — | 1,493 |
| Net loss | — | — | — | — | (12,276 ) | (12,276 ) |
| Balance at December 29, 2013 | 53,788 | 54 | 230,373 | — | (189,829 ) | 40,598 |
| Common stock issued under stock plans and employee stock purchase plans | 2,358 | 2 | 4,700 | — | — | 4,702 |
| Adjustment of Common stock and Warrants issuance costs | — | — | 40 | — | — | 40 |
| Issuance of Common stock from exercise of Warrants | 36 | — | — | — | — | — |
| Stock-based compensation | — | — | 3,306 | — | — | 3,306 |
| Net loss | — | — | — | — | (13,079 ) | (13,079 ) |
| Balance at December 28, 2014 | 56,182 | 56 | 238,419 | — | (202,908 ) | 35,567 |
| Common stock issued under stock plans and employee stock purchase plans | 722 | 1 | 553 | — | — | 554 |
| Stock-based compensation | — | — | 2,052 | — | — | 2,052 |
| Net loss | — | — | — | — | (17,848 ) | (17,848 ) |
| Balance at January 3, 2016 | 56,904 | $57 | $241,024 | $ — | $ (220,756 ) | $ 20,325 |

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

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NOTE 1-THE COMPANY AND BASIS OF PRESENTATION

QuickLogic Corporation, referenced herein as QuickLogic or the Company, was founded in 1988 and reincorporated in Delaware in 1999. The Company develops and markets low power customizable semiconductor and software algorithm solutions that enable customers to differentiate their products by adding new features, extending battery life, becoming more contextually aware and improving the visual experience of the Smartphone, Wearable, Tablet, Internet-of-Things (IoT) and electronics markets. The Company is a fabless semiconductor provider of comprehensive, flexible sensor processing solutions, ultra-low power display bridges, and ultra-low power Field Programmable Gate Arrays, or FPGAs.

QuickLogic's fiscal year ends on the Sunday closest to December 31. Fiscal years 2015, 2014 and 2013 ended on January 3, 2016, December 28, 2014, and December 29, 2013, respectively.

Liquidity

The Company has financed its operations and capital investments through sales of common stock, capital and operating leases, and bank lines of credit. As of January 3, 2016, the Company's principal sources of liquidity consisted of its cash and cash equivalents of $19.1 million and $4.0 million in available credit under its revolving line of credit with Silicon Valley Bank, which expires on September 25, 2017. Additionally, we have an accumulated deficit of approximately $221 million and experienced net losses in the past years and expect such losses to continue through at least the year ending January 1, 2017 as we continue to develop new products, applications and technologies.

The Company currently uses its cash to fund its capital expenditures and operating losses. Based on past performance and current expectations, the Company believes that its existing cash and cash equivalents, together with available financial resources from the revolving line of credit with Silicon Valley Bank and equity funding raised during March 2016 will be sufficient to fund its operations and capital expenditures and provide adequate working capital for the next twelve months.

The Company's liquidity is affected by many factors including, among others: the level of revenue and gross profit as a result of the cyclicality of the semiconductor industry; the conversion of design opportunities into revenue; market acceptance of existing and new products including solutions based on its ArcticLink® and PolarPro® solution platforms; fluctuations in revenue as a result of product end-of-life; fluctuations in revenue as a result of the stage in the product life cycle of its customers' products; costs of securing access to and availability of adequate manufacturing capacity; levels of inventories; wafer purchase commitments; customer credit terms; the amount and timing of research and development expenditures; the timing of new product introductions; production volumes; product quality; sales and marketing efforts; the value and liquidity of its investment portfolio; changes in operating assets and liabilities; the ability to obtain or renew debt financing and to remain in compliance with the terms of existing credit facilities; the ability to raise funds from the sale of equity in the Company; the issuance and exercise of stock options and participation in the Company's employee stock purchase plan; and other factors related to the uncertainties of the industry and global economics.

Over the longer term, the Company anticipates that the generation of sales from its new product offerings, existing cash and cash equivalents, together with financial resources from its revolving line of credit with Silicon Valley Bank and its ability to raise additional capital in the public capital markets will be sufficient to satisfy its operations and capital expenditures. However, the Company cannot provide any assurance that it will be able to raise additional capital, if required, or that such capital will be available on terms acceptable to the Company. The inability of the Company to generate sufficient sales from its new product offerings and/or raise additional capital if needed could have a material adverse effect on the Company’s operations and financial condition, including its ability to maintain compliance with its lender’s financial covenants.

See Note 18 for the details of the subsequent event relating to the announcement of new Common Stock offering and pricing of the offering.

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles, or GAAP, in the United States of America and the applicable rules and regulations of the Securities and Exchange Commission, or SEC, and include the accounts of QuickLogic and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

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Foreign Currency

The functional currency of the Company's non-U.S. operations is the U.S. dollar. Accordingly, all monetary assets and liabilities of these foreign operations are translated into U.S. dollars at current period-end exchange rates and non-monetary assets and related elements of expense are translated using historical exchange rates. Income and expense elements are translated to U.S. dollars using the average exchange rates in effect during the period. Gains and losses from the foreign currency transactions of these subsidiaries are recorded as interest income and other expense, net in the statements of operations.

Use of Estimates

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

Concentration of Risk

The Company's accounts receivable are denominated in U.S. dollars and are derived primarily from sales to customers located in North America, Asia Pacific, and Europe. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. See Note 13 for information regarding concentrations associated with accounts receivable.

For the twelve months ended January 3, 2016, the Company generated 43% of its total revenue from shipments to a tier one customer, Samsung Electronics Co., Ltd. ("Samsung"). See Note 13 for information regarding revenue concentrations associated with our customers and distributors.

NOTE 2-SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

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

Fair Value

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

Foreign Currency Transactions

All of the Company's sales and cost of manufacturing are transacted in U.S. dollars. The Company conducts a portion of its research and development activities in Canada and India and has sales and marketing activities in various countries outside of the United States. Canada operations were closed down at the end of fiscal year 2015 as a part of restructuring plan initiated in the second quarter. Most of these international expenses are incurred in local currency. Foreign currency transaction gains and losses, which are not significant, are included in interest income and other expense, net, as they occur. Operating expenses denominated in foreign currencies were approximately 17%, 18% and 19% of total operating expenses in 2015, 2014, and 2013, respectively. The Company incurred a majority of these foreign currency expenses in India, the United Kingdom and Korea in 2015, 2014 and 2013. The Company has not used derivative financial instruments to hedge its exposure to fluctuations

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in foreign currency and, therefore, is susceptible to fluctuations in foreign exchange gains or losses in its results of operations in future reporting periods.

Inventories

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

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

Property and Equipment

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

Long-Lived Assets

The Company reviews the recoverability of its long-lived assets, such as property and equipment, and investments, annually and when events or changes in circumstances occur that indicate that the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows, undiscounted and without interest charges, of the related operations. If these cash flows are less than the carrying value of the asset or asset group, an impairment loss is recognized for the difference between the estimated fair value and the carrying value, and the carrying value of the related assets is reduced by this difference. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets. During 2015, 2014 and 2013, the Company wrote-off equipment with a net book value of $8,000, $5,000 and $96,000, respectively.

Licensed Intellectual Property

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

Revenue Recognition

The Company supplies standard products which must be programmed before they can be used in an application. The Company's products may be programmed by us, distributors, end-customers or third parties.

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The Company recognizes 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 its standard warranty policy. The Company records allowance for sales returns.

Warranty Costs

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

Advertising

Costs related to advertising and promotion expenditures are charged to “Selling, general and administrative” expense in the consolidated statements of operations as incurred. Costs related to advertising and promotion expenditures were $60,000 in 2015. In 2014 and 2013 these costs were not material.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of the amended authoritative guidance, and related interpretations which require the measurement and recognition of expense related to the fair value of stock-based compensation awards. The fair value of stock-based compensation awards is measured at the grant date and re-measured upon modification, as appropriate. The Company uses the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under the Company's 1999 Employee Stock Purchase Plan, or ESPP, consistent with the provisions of the amended authoritative guidance. The fair value of restricted stock awards, or RSAs, and restricted stock units, or RSUs, is based on the closing price of the Company's common stock on the date of grant. Equity compensation awards which vest with service are expensed on a straight-line basis over the requisite service period. Service based Performance awards are expensed on a straight-line basis over the vesting period. If performance conditions are other than service, an accelerated method of amortization is used, which treats each vesting tranche as a separate award over the expected life of the unit. The Company regularly reviews the assumptions used to compute the fair value of its stock-based awards and it will revise its assumptions as appropriate. In the event that assumptions used to compute the fair value of its stock-based awards are later determined to be inaccurate or if the Company changes its assumptions significantly in future periods, stock-based compensation expense and the results of operations could be materially impacted. See Note 11 for further details.

Accounting for Income Taxes

As part of the process of preparing the Company's financial statements, it's required to estimate its income taxes in each of the jurisdictions in which the Company operates. This process involves estimating the Company's 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 the Company's balance sheets. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not likely, it must establish a valuation allowance. To the extent the Company establishes a valuation allowance or increase this allowance in a period, it must include an expense within the tax provision in the statements of operations.

Significant management judgment is required in determining the Company's provision for income taxes, the Company's deferred tax assets and liabilities and any valuation allowance recorded against the Company's net deferred tax assets. The Company's deferred tax assets, consisting primarily of net operating loss carryforwards, amounted to $69.4 million tax effected as of the end of 2015. The Company has also recorded a valuation allowance of $69.3 million, tax effected as of the end of 2015 due to uncertainties related to the Company's ability to utilize its U.S. deferred tax assets before they expire. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, ability to project future taxable income, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, the Company would make an adjustment to the deferred tax assets valuation allowance, which would reduce its provision for income taxes.

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

Concentration of Credit and Suppliers

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained with high quality institutions. The Company's accounts receivable are denominated in U.S. dollars and are derived primarily from sales to customers located in North America, Europe and Asia Pacific. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. See Note 13 for information regarding concentrations associated with accounts receivable.

The Company depends on a limited number of contract manufacturers, subcontractors, and suppliers for wafer fabrication, assembly, programming and test of its devices, and for the supply of programming equipment, and these services are typically provided by one supplier for each of the Company's devices. The Company generally purchases these single or limited source services through standard purchase orders. Because the Company relies on independent subcontractors to perform these services, it cannot directly control its product delivery schedules, costs or quality levels. The Company's future success also depends on the financial viability of its independent subcontractors.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all temporary changes in equity (net assets) during a period from non-owner sources.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board, or FASB issued Accounting Standards Update No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

In November 2015, FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This update eliminates the current requirement for organizations to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments are effective for annual reporting periods beginning after December 15, 2016 and interim periods beginning after December 15, 2016 for public business entities, and for all other entities annual periods beginning December 15, 2017 and interim periods beginning after December 15, 2017. The amendments may be applied prospectively to all deferred assets and liabilities, or retrospectively for all periods presented. Early adoption of the amendments is permitted. The Company early adopted ASU 2015-17 retrospectively in the current reporting period. Adoption had no impact on our consolidated balance sheets. No reclassification was required in the prior year financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the measurement of Inventory,which amends the accounting guidance on the valuation of inventory. The guidance requires an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. This guidance is effective for reporting periods beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact of ASU 2015-11 on its consolidated financial statements and footnote disclosures.

In April 2015, the FASB issued ASU 2015-03, Simplifying Presentation of Debt Issuance Costs, which amends the accounting guidance on the presentation of debt issuance costs. The guidance requires an entity to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt, consistent with debt discounts. The guidance is effective for annual reporting periods beginning after December 31, 2015 and interim periods beginning after December 15, 2016, and must be applied retrospectively to each prior reporting period presented. The Company is currently evaluating the impact of ASU 2015-03 on its consolidated financial statements and footnote disclosures.

In February 2015, the FASB, issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (ASU 2015-02), which is intended to improve the targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations and securitization structures. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB accounting standards codification and improves the current U.S. GAAP by: placing more emphasis on risk of loss when determining a controlling financial interest; reducing the frequency of the application of related party guidance when determining a controlling financial interest in a variable interest entity, or VIE and changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. This ASU 2015-02 is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2015. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (ASU 2015-01). This ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, requires that an entity separately classify, present and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of a reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show such item separately in the income statement, net of tax, after income from continuing operations. The entity is also required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. This ASU 2015-01 is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2015. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers. The amendments in this ASU defer the effective date of ASU 2014-09. Public companies should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We continue to evaluate the expected impact of this new guidance and available adoption methods.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Sub Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15). This ASU 2014-15 provides guidance to an entity's management with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are currently commonly provided by entities in the financial statement footnotes. This ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued.

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NOTE 3-NET LOSS PER SHARE

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

For 2015, 2014, and 2013, 7.6 million shares, 7.0 million shares, and 8.0 million shares, respectively, associated with equity awards outstanding and the estimated number of shares to be purchased under the current offering period of the 2009 Employee Stock Purchase Plan were not included in the calculation of diluted net loss per share, as they were considered antidilutive due to the net loss the Company experienced during those years.

NOTE 4-INVESTMENT IN TOWERJAZZ SEMICONDUCTOR LTD.

During the second quarter of fiscal year 2013, the Company sold its remaining 42,970 TowerJazz ordinary shares. This sale resulted in a gain of $181,000. The number of TowerJazz ordinary shares sold by the Company reflect the 1-to-15 reverse stock split implemented by TowerJazz effective August 3, 2012.

NOTE 5-BALANCE SHEET COMPONENTS

| | January 3, 2016 | December 28, 2014 |
|---|---|---|
| | (in thousands) | |
| Inventories: | | |
| Raw materials | $— | $— |
| Work-in-process | 1,720 | 1,191 |
| Finished goods | 1,158 | 3,761 |
| | $2,878 | $4,952 |
| Other current assets: | | |
| Prepaid expenses | $1,184 | $1,042 |
| Other | 128 | 104 |
| | $1,312 | $1,146 |
| Property and equipment: | | |
| Equipment | $14,531 | $14,047 |
| Software | 3,114 | 3,332 |
| Furniture and fixtures | 131 | 710 |
| Leasehold improvements | 714 | 595 |
| | 18,490 | 18,684 |
| Accumulated depreciation and amortization | (15,175) | (15,467) |
| | $3,315 | $3,217 |
| Accrued liabilities: | | |
| Employee related accruals | $1,237 | $1,356 |
| Other | $245 | 218 |
| | $1,482 | $1,574 |

The Company recorded depreciation and amortization expense of $1.4 million, $1.5 million and $1.3 million for 2015, 2014 and 2013, respectively. Assets acquired under capital leases and included in property and equipment were $1.0

million and $1.2 million at the end of 2015 and 2014, respectively. The Company recorded accumulated depreciation on leased assets of $503,000 and $689,000 as of the end of 2015 and 2014, respectively. As of January 3, 2016 and December 28, 2014, the capital lease obligation relating to these assets was $489,000 and $416,000 respectively.

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NOTE 6-OBLIGATIONS

| | January 3, 2016 | December 28, 2014 |
|---|---|---|
| | (in thousands) | |
| Debt and capital software lease obligations: | | |
| Revolving line of credit | $2,000 | $1,000 |
| Capital software leases | 489 | 416 |
| | 2,489 | 1,416 |
| Current portion of debt and capital software lease obligations | (281) | (225) |
| Long term portion of debt and capital software lease obligations | $2,208 | $1,191 |

Revolving Line of Credit

On September 25, 2015, the Company entered into the Second Amendment to the Third Amended and Restated Loan and Security Agreement dated September 25, 2015 ("the Loan Agreement") with Silicon Valley Bank ("The Bank") to extend the line of credit for two years through September 25, 2017. The Second Amendment to the Loan Agreement provides for committed loan advances of up to $6.0 million, subject to increases at the Company's election of up to $12.0 million. Upon each advance, the Company can elect a prime rate advance, which is the prime rate plus the prime rate margin, or a LIBOR rate advance, which is LIBOR plus the LIBOR rate margin. As of January 3, 2016, the Company has $2.0 million of revolving debt outstanding with an interest rate of 3.38%.

The Bank has a first priority security interest in substantially all of the Company's tangible and intangible assets to secure any outstanding amounts under the Third Loan Agreement. Under the terms of the Loan Agreement, the Company must maintain (i) a tangible net worth of at least $12 million, plus (a) 50% of the proceeds from any equity issuance, plus (b) 50% of the proceeds from any investments, tested as of the last day of each fiscal quarter; (ii) unrestricted cash or cash equivalents at the Bank or Bank's affiliates at all times in an amount of at least $6 million; (iii) a ratio of quick assets to the results of (a) current liabilities minus (b) the current portion of deferred revenue, plus (c) the long-term portion of the obligations of at least 1.1-to-1 tested as of the last day of each month. The Loan Agreement also has certain restrictions including, among others, restrictions on the incurrence of other indebtedness, the maintenance of depository accounts, the disposition of assets, mergers, acquisitions, investments, the granting of liens, cash balances with subsidiaries and the payment of dividends. The Company was in compliance with the financial covenants of the Loan Agreement as of the end of the current reporting period. See Note 18 for subsequent event regarding the new terms of the line of credit.

Capital Leases

In December 2015, the Company leased design software under a two-year capital lease at an imputed interest rate of 4.88% per annum. Terms of the agreement require the Company to make quarterly payments of approximately $22,750 through November 2017, for a total of $182,000. As of January 3, 2016, $173,000 was outstanding under the capital lease, $85,000 of which was classified as a current liability.

In July 2015, the Company leased design software under a three-year capital lease at an imputed interest rate of 4.91% per annum. Terms of the agreement require the Company to make annual payments of approximately $67,300 through July 2017, for a total of $202,000. As of January 3, 2016, $125,000 was outstanding under the capital lease, of which $61,000 was classified as a current liability.

In July 2014, the Company leased design software under a 41 month capital lease at an imputed interest rate of 3.15% per annum. Terms of the agreement require the Company to make payments of principal and interest of

$42,000 in August 2014, $16,000 in December 2014, $58,000 in January 2016 and $58,000 in January 2017. The total payments for the lease will be $174,000. As of January 3, 2016, $111,000 was outstanding under this capital lease, of which $55,000 was classified as a current liability.

In May 2014, the Company leased design software under a three-year capital lease at an imputed interest rate of 4.8% per annum. Terms of the agreement require the Company to make annual payments of approximately $84,000 through April 2016, for a total of $252,000. As of January 3, 2016, $80,000 was outstanding under the capital lease, all of which was classified as a current liability.

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NOTE 7-FAIR VALUE MEASUREMENTS

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

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

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Money market funds classified within Level 2 because they are not actively traded, have been valued using quoted market prices or alternative pricing sources and models utilizing observable market inputs. The following table presents the Company's financial assets that are measured at fair value on a recurring basis as of January 3, 2016 and December 28, 2014, consistent with the fair value hierarchy provisions of the authoritative guidance (in thousands):

| | As of January 3, 2016 | | | | As of December 28, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | | | |
| Money market funds[1] | $18,021 | $2,137 | $15,884 | $— | $29,425 | $874 | $28,551 | $— |
| Total assets | $18,021 | $2,137 | $15,884 | $— | $29,425 | $874 | $28,551 | $— |

(1) Money market funds are presented as a part of cash and cash equivalents on the accompanying consolidated balance sheets as of January 3, 2016 and December 28, 2014.

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NOTE 8-INCOME TAXES

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

| | Fiscal Years 2015 | 2014 | 2013 |
|---|---|---|---|
| Income (loss) before income taxes: | | | |
| U.S. | $(17,897) | $(13,172) | $(11,888) |
| Foreign | 195 | 161 | 67 |
| Income (loss) before income taxes | $(17,702) | $(13,011) | $(11,821) |
| Provision for (benefit from) income taxes: | | | |
| Current: | | | |
| Federal | $37 | $— | $58 |
| State | 2 | — | 1 |
| Foreign | 99 | 95 | 83 |
| Subtotal | 138 | 95 | 142 |
| Deferred: | | | |
| Federal | — | — | 225 |
| State | — | — | 48 |
| Foreign | 8 | (27) | 40 |
| Subtotal | 8 | (27) | 313 |
| Provision for income taxes | $146 | $68 | $455 |

Based on the available objective evidence, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company has provided a full valuation allowance against its U.S. federal and state deferred tax assets at January 3, 2016. Any future release of the valuation allowance may be recorded as a tax benefit increasing net income or as an adjustment to paid-in capital, based on tax ordering requirements. The Company believes it is more likely than not it will be able to realize its foreign deferred tax assets. Deferred tax balances are comprised of the following (in thousands):

| | January 3, 2016 | December 28, 2014 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating losses | $45,148 | $42,049 |
| Capital losses | 2,938 | 5,143 |
| Accruals and reserves | 1,732 | 2,247 |
| Credits carryforward | 5,831 | 5,455 |
| Depreciation and amortization | 12,738 | 10,709 |
| Stock-based compensation | 1,012 | 1,078 |
| | 69,399 | 66,681 |
| Valuation allowances | (69,349) | (66,618) |
| Deferred tax asset | $50 | $63 |
| Deferred tax liability | — | — |

In November 2015, the FASB issued ASU 2015-17, which simplifies the presentation of deferred income taxes. ASU 2017-17 requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position. QuickLogic early adopted this guidance in the Company's current fiscal year ending January 3, 2016 on a retrospective basis. Adoption of this guidance resulted in no reclassification of the net current deferred tax asset to the net non-current deferred tax asset in the consolidated balance sheet as of January 3, 2016 and December 28, 2004.

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Income tax (benefit) at statutory rate | $(5,962) | $(4,423) | $(4,019) |
| State taxes | 2 | — | 1 |
| Stock compensation and other permanent differences | 286 | 6 | 316 |
| Foreign taxes | 41 | 22 | 101 |
| Benefit allocated from other comprehensive income (loss) | — | — | 273 |
| Future benefit of deferred tax assets not recognized | 5,779 | 4,463 | 3,783 |
| Provision for income taxes | $146 | $68 | $455 |

As of January 3, 2016, the Company had net operating loss carryforwards of approximately $134.4 million for federal and $50.8 million for state income tax purposes. If not utilized, these carryforwards will expire beginning in 2016 for federal and state purposes. Included in the net operating loss carryforwards amount is $9.6 million for federal and $4.3 million for state income tax purposes, in which, the Company expects to record a credit to additional paid-in capital when the windfall tax benefits are realized in the future.

The Company has research credit carryforwards of approximately $3.5 million for federal and $4.2 million for state income tax purposes as of January 3, 2016. If not utilized, the federal carryforwards will expire in various amounts beginning in 2018. The California credit can be carried forward indefinitely.

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

U.S. income taxes and foreign withholding taxes associated with the repatriation of earnings of foreign subsidiaries were not provided for on a cumulative total of $400,000 of undistributed earnings for certain foreign subsidiaries as of the end of fiscal 2015. The Company intends to reinvest these earnings indefinitely in the Company's foreign subsidiaries. The Company believes that future domestic cash generation will be sufficient to meet future domestic cash needs. The Company has not recorded a deferred tax liability on the undistributed earnings of non-U.S. subsidiaries. If these earnings were distributed to the United States in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, the Company would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The additional net taxes due would be immaterial or would not have a material impact on the Company’s financial position and results of operation. If the Company decides to repatriate foreign earnings, the Company would need to adjust its income tax provision in the period in which it is determined that the earnings will no longer be indefinitely reinvested outside the United States.

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

| | January 3, 2016 | December 28, 2014 | December 29, 2013 |
|---|---|---|---|
| Beginning balance of unrecognized tax benefits | $516 | $79 | $79 |

| | | | |
|---|---|---|---|
| Additions for tax positions related to the prior year | (3 ) | 330 | — |
| Additions for tax positions related to the current year | 199 | 162 | — |
| Lapse of statues of limitations | (16 ) | (55 ) | — |
| Ending balance of unrecognized tax benefits | $696 | $516 | $79 |

Out of $696,000 of unrecognized tax benefits, approximately $36,000 of unrecognized tax benefit would result in a change in the Company's effective tax rate if recognized in future years. For the twelve month period ended January 3, 2016, the Company accrued $3,000 of interest. As of January 3, 2016 and December 28, 2014 the Company had approximately $17,000 and $25,000 of accrued interest and penalties related to uncertain tax positions.

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

The Company is subject to U.S. federal income tax as well as income taxes in many U.S. states and foreign jurisdictions in which the Company operates. As of January 3, 2016, fiscal years 2011 onward remain open to examination by the U.S. taxing authorities and fiscal years 2007 onward remain open to examination in Canada. The U.S. federal and U.S. state taxing authorities may choose to audit tax returns for tax years beyond the statute of limitation period due to significant tax attribute carryforwards from prior years, making adjustments only to carryforward attributes.

NOTE 9-STOCKHOLDERS' EQUITY

Common and Preferred Stock

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

Issuance of Common Stock

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. The Company's 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 from this offering of $23.1 million, net of underwriter's commission and other offering expenses of $2.2 million.

As of January 3, 2016, 2.3 million warrants were outstanding. Approximately 1.9 million warrants with a strike price of $2.15 were issued in conjunction with a November 2009 financing. These warrants expired in May 2015. Approximately 2.3 million warrants with a strike price of $2.98 were issued in conjunction with a June 2012 financing. These warrants expire in June 2017. After August 2016, the warrants can only be exercised on a cashless basis.

See Note 18 for the details of the subsequent event relating to the announcement of new Common Stock offering and pricing of the offering.

NOTE 10-EMPLOYEE STOCK PLANS

1999 Stock Plan

The 1999 Stock Plan, or 1999 Plan, provided for the issuance of incentive and nonqualified options, restricted stock units ("RSUs") and restricted stock. Equity awards granted under the 1999 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter. In March 2009, the Board adopted the 2009 Stock Plan, which was approved by the Company's stockholders on April 22, 2009. Effective April 22, 2009, no further stock options may be granted under the 1999 Plan.

2009 Stock Plan

The 2009 Stock Plan, or 2009 Plan, was amended and restated by the Board of Directors in January 2015 and approved by the Company's stockholders on April 23, 2015 to, among other things, reserve an additional 2.5 million shares of common stock for issuance under the Plan. As of January 3, 2016 approximately 9.7 million shares were reserved for issuance under the 2009 Plan. Equity awards that are cancelled, forfeited or repurchased under the 1999 Plan become available for grant under the 2009 Plan, up to a maximum of an additional 10.0 million shares. Equity awards granted under the 2009 Plan have a term of up to ten years. Options typically vest at a rate of 25% one year after the vesting commencement date, and one forty-eighth for each month of service thereafter. RSUs typically vest at a rate of 25% one year after the vesting commencement date, and one eighth every six months thereafter. The Company may implement different vesting schedules in the future with respect to any new equity awards.

Employee Stock Purchase Plan
The 2009 Employee Stock Purchase Plan, or 2009 ESPP, was adopted in March 2009. In January 2015, the 2009 ESPP was amended by the Board of Directors and approved by the Company's stockholders on April 23, 2015 to reserve an additional 1.0 million shares of common stock for issuance under the 2009 ESPP. As of January 3, 2016, approximately 3.3 million shares were reserved for issuance under the 2009 ESPP. The 2009 ESPP provides for six month offering periods. Participants purchase shares through payroll deductions of up to 20% of an employee's total compensation (maximum of 20,000 shares per offering period). The 2009 ESPP permits the Board of Directors to determine, prior to each offering period, whether participants purchase shares at: (i) 85% of the fair market value of the common stock at the end of the offering period; or (ii) 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period. The Board of Directors has determined that, until further notice, future offering periods will be made at 85% of the lower of the fair market value of the common stock at the beginning or the end of an offering period.

NOTE 11-STOCK-BASED COMPENSATION

The Company's equity incentive program is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. The Company provides stock-based incentive compensation, or awards, to eligible employees and non-employee directors. Awards that may be granted under the program include non-qualified and incentive stock options, restricted stock units, or RSUs, performance-based restricted stock units, or PRSUs, and stock bonus units. To date, awards granted under the program consist of stock options, RSUs and PRSUs. The majority of stock-based awards granted under the program vest over four years. Stock options granted under the program have a maximum contractual term of ten years.

Stock-based compensation expense is recognized in the Company's consolidated statements of operations and includes compensation expense for the stock-based compensation awards granted or modified subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of the amended authoritative guidance. The impact on the Company's results of operations of recording stock-based compensation expense for fiscal years 2015, 2014, and 2013 was as follows (in thousands):

| | Fiscal Years | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Cost of revenue | $109 | $137 | $232 |
| Research and development | 826 | 924 | 666 |
| Selling, general and administrative | 1,064 | 1,181 | 1,081 |
| Restructuring costs* | 29 | — | — |
| Total costs and expenses | $2,028 | $2,242 | $1,979 |

* Stock-based compensation related to restructuring plan initiated in Q2-15.
No stock-based compensation was capitalized during any period presented above.

In 2015, the Company granted restricted stock units, or RSUs, to employees with various vesting terms. Total stock-based compensation related to RSUs was $834,000 in 2015. The Company issued net shares for the vested RSUs, withholding shares in settlement of employee tax withholding obligations. In 2015, the Company also granted performance-based restricted stock units, or PRSUs, to new employees and the stock-based compensation related to

PRSUs was $101,000.

The amount of stock-based compensation included in inventories at the end of 2015, 2014 and 2013 was not significant.

Valuation Assumptions

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The Company uses the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under the Company's 2009 ESPP. Using the Black-Scholes pricing model requires the Company to develop highly subjective assumptions including the expected term of awards, expected volatility of its stock, expected risk-free interest rate and expected dividend rate over the term of the award. The Company's expected term of awards assumption is based primarily on its historical experience with similar grants. The Company's expected stock price volatility assumption for both stock options and ESPP shares is based on the historical volatility of the Company's stock, using the daily average of the opening and closing prices and measured using historical data appropriate for the expected term. The risk-free interest rate assumption approximates the risk-free interest rate of a Treasury Constant Maturity bond with a maturity approximately equal to the expected term of the stock option or ESPP shares. This fair value is expensed over the requisite service period of the award. The fair value of RSUs and PRSUs is based on the closing price of the Company's common stock on the date of grant. Equity compensation awards which vest with service are expensed using the straight-line attribution method over the requisite service period.

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

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

| | Fiscal Years | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 | |
| Expected term (years) | 6.3 | | 6.6 | | 6.1 | |
| Risk-free interest rate | 1.75 | % | 1.98 | % | 1.74 | % |
| Expected volatility | 56 | % | 58 | % | 59 | % |
| Expected dividend | — | | — | | — | |

The methodologies for determining the above values were as follows:

- Expected term: The expected term represents the period that the Company's stock-based awards are expected to be outstanding and is estimated based on historical experience.
- Risk-free interest rate: The risk-free interest rate assumption is based upon the risk-free rate of a Treasury Constant Maturity bond with a maturity appropriate for the expected term of the Company's employee stock options.
- Expected volatility: The Company determines expected volatility based on historical volatility of the Company's common stock according to the expected term of the options.
- Expected dividend: The expected dividend assumption is based on the Company's intent not to issue a dividend under its dividend policy.

The weighted average estimated fair value for options granted during 2015, 2014 and 2013 was $0.87, $1.99, and $1.82 per option, respectively. As of the end of 2015, the fair value of unvested stock options, net of expected forfeitures, was approximately $2.7 million. This unrecognized stock-based compensation expense is expected to be recorded over a weighted average period of 2.45 years.

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Stock-Based Compensation Award Activity

The following table summarizes the shares available for grant under the 2009 Plan for 2015:

| | Shares Available for Grant (in thousands) | |
|---|---|---|
| Balance at December 28, 2014 | 1,139 | |
| Authorized | 2,500 | |
| Options granted | (225 | ) |
| Options forfeited or expired | 521 | |
| RSUs granted | (817 | ) |
| RSUs forfeited | 122 | |
| PRSUs granted | (311 | ) |
| Balance at January 3, 2016 | 2,929 | |

Stock Options

The following table summarizes stock options outstanding and stock option activity under the 1999 Plan and the 2009 Plan, and the related weighted average exercise price, for 2015, 2014 and 2013:

| | Number of Shares | | Weighted Average Exercise Price | Weighted Average Remaining Term | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| | (in thousands) | | | (in years) | (in thousands) |
| Balance outstanding at December 30, 2012 | 6,960 | | $2.55 | | |
| Granted | 716 | | 3.26 | | |
| Forfeited or expired | (269 | ) | 2.65 | | |
| Exercised | (165 | ) | 2.21 | | |
| Balance outstanding at December 29, 2013 | 7,242 | | 2.62 | | |
| Granted | 428 | | 3.51 | | |
| Forfeited or expired | (219 | ) | 3.56 | | |
| Exercised | (1,769 | ) | 2.57 | | |
| Balance outstanding at December 28, 2014 | 5,682 | | 2.67 | | |
| Granted | 225 | | 1.64 | | |
| Forfeited or expired | (521 | ) | 2.87 | | |
| Exercised | (120 | ) | 0.98 | | |
| Balance outstanding at January 3, 2016 | 5,266 | | $2.64 | 4.56 | $ 94 |
| Exercisable at January 3, 2016 | 4,546 | | $2.63 | 3.94 | $ 94 |
| Vested and expected to vest at January 3, 2016 | 5,132 | | $2.64 | 4.45 | $ 94 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of $1.13 as of the end of the Company's current reporting period, which would have been received by the option holders had all option holders exercised their options as of that date.

The total intrinsic value of options exercised during 2015, 2014 and 2013 was $83,000, $3.7 million and $139,000, respectively. Total cash received from employees as a result of employee stock option exercises during 2015, 2014 and 2013 was approximately $117,000, $4.5 million and $365,000, respectively. The Company settles employee stock option exercises with newly issued common shares. In connection with these exercises, there was no tax benefit realized by the Company due to the Company's current loss position. Total stock-based compensation related to stock options was $861,000, $1.1 million, and $1.1 million for 2015, 2014, and 2013, respectively.

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Significant exercise price ranges of options outstanding, related weighted average exercise prices and contractual life information at the end of 2015 were as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Vested and Exercisable | Weighted Average Exercise Price |
| | (in thousands) | (in years) | | (in thousands) | |
| $0.78 - $1.55 | 552 | 4.63 | $ 1.04 | 407 | $ 0.90 |
| 1.63 - 1.63 | 793 | 3.10 | 1.63 | 792 | 1.63 |
| 2.00 - 2.52 | 529 | 6.69 | 2.21 | 367 | 2.25 |
| 2.65 - 2.76 | 41 | 3.15 | 2.73 | 38 | 2.73 |
| 2.78 - 2.78 | 1,459 | 4.53 | 2.78 | 1,460 | 2.78 |
| 2.82 - 3.20 | 585 | 3.74 | 3.02 | 451 | 2.97 |
| 3.21 - 3.48 | 612 | 7.09 | 3.40 | 416 | 3.40 |
| 3.54 - 3.92 | 166 | 7.71 | 3.69 | 86 | 3.68 |
| 4.17- 4.17 | 501 | 1.82 | 4.17 | 501 | 4.17 |
| 5.94 - 5.94 | 28 | 0.32 | 5.94 | 28 | 5.94 |
| $0.78 - $5.94 | 5,266 | 4.56 | $ 2.64 | 4,546 | $ 2.63 |

Restricted Stock Units

RSUs entitle the holder to receive, at no cost, one common share for each restricted stock unit on the vesting date as it vests. The Company withholds shares in settlement of employee tax withholding obligations upon the vesting of restricted stock units. The stock-based compensation related to grants of vested RSUs was $834,000 in 2015. In 2015, the Company also granted PRSUs to new employees and the stock-based compensation related to PRSUs was $101,000.

| | RSUs & PRSUs Outstanding | |
|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value |
| | (in thousands) | |
| Nonvested at December 28, 2014 | 650 | $ 3.47 |
| Granted | 1,128 | 1.46 |
| Vested | (221 ) | 1.42 |
| Forfeited | (122 ) | — |
| Nonvested at January 3, 2016 | 1,435 | $ 2.30 |

Employee Stock Purchase Plan

The weighted average estimated fair value, as defined by the amended authoritative guidance, of rights issued pursuant to the Company's ESPP during 2015, 2014 and 2013 was $0.42, $0.96 and $0.71, respectively. Sales under the ESPP were 458,000 shares of common stock at an average price of $1.26 for 2015, 278,000 shares of common stock at an average price of $2.76 for 2014, and 357,000 shares of common stock at an average price of $1.74 for 2013.

Under the 2009 ESPP, the Company issued 458,000 shares at an average price of $1.26 per share during 2015. As of January 3, 2016, 1,420,000 shares under the 2009 ESPP remained available for issuance. For 2015, the Company recorded compensation expenses related to the ESPP of $232,000.

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Expected life (months) | 6.0 | 6.0 | 6.1 |
| Risk-free interest rate | 0.21 % | 0.07 % | 0.09 % |
| Volatility | 55 % | 49 % | 39 % |
| Dividend yield | — | — | — |

The methodologies for determining the above values were as follows:

- Expected term: The expected term represents the length of the purchase period contained in the ESPP.
- Risk-free interest rate: The risk-free interest rate assumption is based upon the risk-free rate of a Treasury Constant Maturity bond with a maturity appropriate for the term of the purchase period.
- Volatility: The Company determines expected volatility based on historical volatility of the Company's common stock for the term of the purchase period.
- Dividend Yield: The expected dividend assumption is based on the Company's intent not to issue a dividend under its dividend policy.

As of the end of 2015, the unrecognized stock-based compensation expense relating to the Company's ESPP was $102,000 and was expected to be recognized over a weighted average period of approximately 4.4 months.

NOTE 12-ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

There were no reclassifications out of accumulated other comprehensive income (loss) for the year ended January 3, 2016 and December 28, 2014.

The following table provides details about reclassification out of accumulated other comprehensive income (loss) for the year ended December 29, 2013:

| | Change in unrealized gains on available for sale securities (in thousands) |
|---|---|
| Accumulated other comprehensive income (loss), net of tax, as of December 30, 2012 | $(11 ) |
| Other comprehensive income (loss) before reclassifications | (77 ) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 88 |
| Net change in other comprehensive income (loss) | 11 |
| Accumulated other comprehensive income (loss), net of tax, as of December 29, 2013 | $— |

NOTE 13-INFORMATION CONCERNING PRODUCT LINES, GEOGRAPHIC INFORMATION, ACCOUNTSRECEIVABLE AND REVENUE CONCENTRATION

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

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Revenue by product line (1) : | | | |
| New products | $12,020 | $19,311 | $18,219 |
| Mature products | 6,936 | 8,534 | 7,853 |
| Total revenue | $18,956 | $27,845 | $26,072 |

(1) For all periods presented: New products include all products manufactured on 180 nanometer or smaller semiconductor processes. Mature products include all products produced on semiconductor processes larger than 180 nanometers

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Revenue by geography: | | | |
| Asia Pacific (1) | $12,650 | $20,157 | $20,099 |
| Europe | 1,859 | 3,371 | 1,788 |
| North America (2) | 4,447 | 4,317 | 4,185 |
| Total revenue | $18,956 | $27,845 | $26,072 |

(1) Asia Pacific includes revenue from South Korea of $8.3 million or 44% of total revenue in 2015 and $14.4 million or 52% of total revenue in 2014.

(2) North America includes revenue from the United States of $4.3 million or 22% of total revenue in 2015 and $4.1 million or 14% of total revenue in 2014.

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Distributor “A” | 23 % | 16 % | 18 % |
| Customer “B” | 13 % | * | * |
| Customer "G" | 43 % | 52 % | 56 % |

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

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

| | January 3, 2016 | December 28, 2014 |
|---|---|---|
| Distributor “A” | 24 % | 34 % |
| Distributor “B” | 11 % | * |
| Distributor "G" | 11 % | * |
| Customer "G" | 20 % | 28 % |
| Customer "H" | 11 % | * |

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

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As of January 3, 2016, less than 10% of the Company's long-lived assets, including property and equipment and other assets were located outside the United States.

NOTE 14-SHELF REGISTRATION STATEMENT

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. The Company's shelf registration statement was declared effective on August 30, 2013 and expires in August 2016.

In November 2013, the Company received net proceeds of $23.1 million, net of underwriter's commission and other expenses of $2.2 million, by issuing 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. As of January 3, 2016, the remaining balance on the shelf was approximately $14.7 million.

See Note 18 for the details of the subsequent event relating to the announcement of new Common Stock offering and pricing of the offering pursuant to the above shelf registration.

NOTE 15-COMMITMENTS AND CONTINGENCIES

Commitments

Certain wafer manufacturers require the Company to forecast wafer starts several months in advance. The Company is committed to take delivery of and pay for a portion of forecasted wafer volume. As of the end of 2015 and 2014, the Company had $1.4 million and $552,000 respectively, of outstanding commitments for the purchase of wafer inventory.

The Company has purchase obligations with certain suppliers for the purchase of goods and services entered into in the ordinary course of business. As of January 3, 2016, total outstanding purchase obligations due within the next 12 months were $1.3 million.

The Company leases its primary facility under a non-cancelable operating lease that expires on December 31, 2018. In addition, the Company rents development facilities in India as well as sales offices in Europe and Asia. Total rent expense, net of sublease income, during 2015, 2014 and 2013 was approximately $878,000, $947,000 and $947,000 respectively.

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

| | Operating Leases (in thousands) |
|---|---|
| Fiscal Years | |
| 2016 | 804 |
| 2017 | 704 |
| 2018 | 641 |
| | $ 2,149 |

Contingencies

One of the Company's licensors contends that the Company owes back royalties on sales of the Company's ArcticLink III VX devices. Based on the terms and conditions of the Amended and Restated License Agreement between the parties, the Company does not believe it is liable for any royalty payments on these sales. The parties have agreed to mediate the matter and are in the process of selecting a mediator. As of January 3, 2016, the Company estimates the possible loss relating to this matter to be in the range of $25,000 to $250,000.

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NOTE 16-LITIGATION

From time to time, the Company may become 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 any such 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 which may adversely impact gross profit.

NOTE 17-RESTRUCTURING CHARGES

In June 2015, the Company implemented a restructuring plan to re-align the organization to support the Company's sensor processing provider business model and growth strategy. This re-alignment resulted in a reduction of nine employees or 9% of the Company's global workforce. Pursuant to the restructuring plan, the Company recorded $169,000, $77,000 and $49,000 of restructuring charges in the second, third and fourth quarter of 2015, respectively, consisting primarily of employee severance related costs. The restructuring liabilities are included in the "Liabilities" line item in the consolidated balance sheet. The activities affecting the restructuring liabilities for the year ended January 3, 2016 are summarized as follows:

| | Restructuring Liabilities In Thousands |
|---|---|
| Balance at December 28, 2014 | $— |
| Accruals | 295 |
| Payments and non-cash items adjustments | (166) |
| FX translation adjustment | (8) |
| Balance at January 3, 2016 | $121 |

NOTE 18-SUBSEQUENT EVENTS

a) On February 10, 2016, the Company entered into a Third Amendment to Third Amended and Restated Loan and Security Agreement with the Bank to amend certain covenants contained in the Loan Agreement. As amended, the Company is required to maintain, beginning in the quarter ending March 31, 2016, (i) a tangible net worth of at least $12,000,000, plus (a) 50% of the proceeds from any equity issuance, plus (b) 50% of the proceeds from any investments, tested as of the last day of each month; (ii) unrestricted cash or cash equivalents at the Bank or Bank's affiliates at all times in an amount of at least $6,000,000; and (iii) a ratio of quick assets to the results of (i) current liabilities minus (ii) the current portion of deferred revenue plus (iii) the long-term portion of the obligations of at least 2.00 to 1.00, tested as of the last day of each month. Beginning with the second fiscal quarter of 2016, the tangible net worth requirement, is reduced as follows: For the quarter ending June 30, 2016, at least $10,000,000; for the quarter ending September 30, 2016, at least $8,000,000; for the quarter ending December 31, 2016, at least $6,000,000; for the quarter ending March 31, 2017, at least $4,000,000; for the quarter ending June 30, 2017, at least $8,000,000. Beginning with the third fiscal quarter of 2016, the Company is required to maintain a ratio of quick assets to the results of (i) current liabilities minus (ii) the current portion of deferred revenue plus (iii) the long-term portion of the obligations of at least 1.50 to 1.00 in the fiscal quarters ended September 30, 2016 and December 31, 2016 and of at least 1.25 to 1.00 in the fiscal quarters ended March 31, 2017 and June 30, 2017.

b) On March 16, 2016 the Company announced the pricing of its firm underwritten public offering of an aggregate of 10.0 million newly issued shares of common stock at a price of $1.00 per share, $0.001 par value. The Company expects to receive gross proceeds of $10.0 million, before deducting underwriting discounts and other estimated offering expenses. The net proceeds to the Company from the Offering are expected to be approximately $8.9 million after deduction of underwriting discounts and assuming no exercise of the underwriters' over-allotment option. The underwriters have also been granted a 30-day option to purchase up to 1.5 million shares of common stock to cover over-allotments, if any. The Company expects to use the net proceeds from the Offering for working capital and other general corporate purposes. The Company may also use a portion of the net proceeds to acquire and/or license technologies and acquire and/or invest in businesses when the opportunity arises.

The Shares are being offered by the Company pursuant to a shelf registration statement previously filed with the the SEC, which was declared effective by the SEC on August 30, 2013, and as supplemented by a prospectus supplement dated March 17, 2016 filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act of 1933, as amended. See Note 14 for details.

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SUPPLEMENTARY FINANCIAL DATA
QUARTERLY DATA (UNAUDITED)

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | January 3, 2016 | September 27, 2015 | June 28, 2015 | March 29, 2015 | December 28, 2014 | September 28, 2014 | June 29, 2014 | March 30, 2014 |
| | (in thousands, except per share amount) | | | | | | | |
| Statements of Operations: | | | | | | | | |
| Revenue | $3,630 | $ 4,194 | $4,973 | $ 6,159 | $ 5,721 | $ 4,124 | $6,836 | $ 11,164 |
| Cost of revenue | 2,349 | 2,952 | 2,830 | 3,280 | 3,509 | 2,361 | 3,820 | 7,106 |
| Gross profit [1] | 1,281 | 1,242 | 2,143 | 2,879 | 2,212 | 1,763 | 3,016 | 4,058 |
| Operating expenses: | | | | | | | | |
| Research and development | 3,490 | 3,684 | 3,493 | 3,477 | 3,432 | 3,057 | 3,056 | 2,641 |
| Selling, general and administrative | 2,461 | 2,508 | 2,690 | 2,960 | 2,771 | 2,579 | 2,848 | 3,465 |
| Restructuring Costs [2] | 49 | 77 | 169 | — | — | — | — | — |
| Loss from operations | (4,719 ) | (5,027 ) | (4,209 ) | (3,558 ) | (3,991 ) | (3,873 ) | (2,888 ) | (2,048 ) |
| Interest expense | (18 ) | (35 ) | (15 ) | (14 ) | (18 ) | (34 ) | (17 ) | (16 ) |
| Interest income and other expense, net | (9 ) | (39 ) | (33 ) | (26 ) | (47 ) | (17 ) | (36 ) | (26 ) |
| Loss before taxes | (4,746 ) | (5,101 ) | (4,257 ) | (3,598 ) | (4,056 ) | (3,924 ) | (2,941 ) | (2,090 ) |
| Provision for (benefit from) income taxes | 100 | (15 ) | 21 | 40 | 86 | 6 | (44 ) | 20 |
| Net loss | $(4,846 ) | $ (5,086 ) | $(4,278) | $ (3,638 ) | $ (4,142 ) | $ (3,930 ) | $(2,897) | $ (2,110 ) |
| Net loss per share: | | | | | | | | |
| Basic and Diluted | $(0.09 ) | $ (0.09 ) | $(0.08 ) | $ (0.06 ) | $ (0.07 ) | $ (0.07 ) | $(0.05 ) | $ (0.04 ) |
| Weighted average shares: | | | | | | | | |
| Basic and Diluted | 56,729 | 56,588 | 56,359 | 56,190 | 55,982 | 55,812 | 55,379 | 54,433 |

(1) Gross profit percentage ranged between 30% to 47% in the last 8 quarters primarily as a result of changes in customer and product mix, favorable purchase price adjustments, and favorable standard cost variances during these quarters.

(2) Restructuring costs in 2015 were related to the Company's effort to re-align the organization to support the Company's sensor processing provider business model and growth strategy.

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

Not Applicable

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management, with the participation of the Chief Executive Officer and Principal Accounting Officer, has performed an evaluation of our disclosure controls and procedures as required by the applicable rules of the Exchange Act. Based on this evaluation, our Chief Executive Officer and Principal Accounting Officer have concluded that, as of January 3, 2016 our disclosure controls and procedures were effective.

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Management's Annual Report on Internal Control Over Financial Reporting

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of the end of the period covered by this Annual Report on Form 10-K. In making this assessment, we used the criteria based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in “Internal Control - Integrated Framework (2013).” Based on the results of this assessment, management (including our Chief Executive Officer and our Principal Accounting Officer) has concluded that, as of January 3, 2016 our internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of January 3, 2016 has been audited by BDO USA, an independent registered public accounting firm, as stated on their report appearing in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION
None.

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PART III

Certain information required by Part III is incorporated by reference from the definitive Proxy Statement regarding our 2016 Annual Meeting of Stockholders and will be filed not later than 120 days after the end of the fiscal year covered by this Report.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

There are no family relationships between any of our directors, executive officers, or persons nominated or chosen to be a director or officer, and no such persons have been involved during the last ten years, in any legal proceedings material to their abilities or integrity.

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is set forth under the caption “Fees Billed to QuickLogic by BDO USA, LLP during Fiscal Years 2015 and 2014" in our Proxy Statement, which information is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

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

2. Financial Statement Schedules
QuickLogic Corporation
Valuation and Qualifying Accounts
(in thousands)

| | Balance at Beginning of Period | Charged to Costs and Expenses | Deductions/Write-offs | Balance at End of Period |
|---|---|---|---|---|
| Allowance for Doubtful Accounts: | | | | |
| Fiscal Year 2015 | $— | $— | $ — | $— |
| Fiscal Year 2014 | $— | $— | $ — | $— |
| Fiscal Year 2013 | $20 | $(20) | $ — | $— |
| Allowance for Deferred Tax Assets: | | | | |
| Fiscal Year 2015 | $66,618 | $2,731 | $ — | $69,349 |
| Fiscal Year 2014 | $63,528 | $3,090 | $ — | $66,618 |
| Fiscal Year 2013 | $60,223 | $3,305 | $ — | $63,528 |

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

3. Exhibits

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

(b) Exhibits

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

| Exhibit Number | Description |
|---|---|
| 3.1(1) | Amended and Restated Certificate of Incorporation of the Registrant. |
| 3.2(5) | Bylaws of the Registrant. |
| 3.3(27) | Certificate of Elimination of the Series A Junior Participating Preferred Stock. |
| 4.1(1) | Specimen Common Stock certificate of the Registrant. |

| | |
|---|---|
| 4.3[19] | Form of Common Stock Warrant. |
| 10.1[4,11] | Form of Indemnification Agreement for directors and executive officers. |
| 10.2[10,11] | QuickLogic Corporation 1999 Stock Plan. |

| | |
|---|---|
| 10.3[10,11] | Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement under the 1999 Stock Plan. |
| 10.4[10,11] | Notice of Grant of Stock Options and Stock Option Award Agreement under the 1999 Stock Plan. |
| 10.5[10,11] | Notice of Grant of Stock Purchase Right and Restricted Stock Purchase Agreement under the 1999 Stock Plan. |
| 10.6[8,11] | QuickLogic Corporation 1999 Employee Stock Purchase Plan. |
| 10.8[1,3] | Lease dated June 17, 1996, as amended, between Kairos, LLC and Moffet Orchard Investors as Landlord and the Registrant for the Registrant's facility located in Sunnyvale, California. |
| 10.9[1] | Patent Cross License Agreement dated August 25, 1998 between the Registrant and Actel Corporation. |
| 10.13[11,15] | Form of Change of Control Severance Agreement. |
| 10.14[11,15] | Form of Change of Control Severance Agreement for E. Thomas Hart. |
| 10.15[7,11] | 2005 Executive Bonus Plan, as restated. |
| 10.17[6] | Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 30, 2006. |
| 10.18[9] | First Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 27, 2007. |
| 10.19[12] | Second Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 27, 2008. |
| 10.20[12] | Third Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective July 31, 2008. |
| 10.21[13] | Fourth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective August 19, 2008. |
| 10.23[14] | Second Amendment to Lease Agreement between NetApp, Inc. and QuickLogic Corporation effective September 25, 2008. |
| 10.24[11,16] | QuickLogic Corporation 2009 Stock Plan. |
| 10.25[11,16] | QuickLogic Corporation 2009 Employee Stock Purchase Plan. |
| 10.26[11,17] | Form of Notice of Grant and Stock Option Agreement under the 2009 Stock Plan. |
| 10.27[11,17] | Form of Notice of Grant of Stock Purchase Rights and Restricted Stock Purchase Agreement under the 2009 Stock Plan. |
| 10.28[11,17] | Form of Notice of Grant of Restricted Stock Unit and Restricted Stock Unit Agreement under the 2009 Stock Plan. |
| 10.29[18] | Fifth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective September 25, 2009. |
| 10.30[20] | Form of Subscription Agreement. |
| 10.31[21] | Sixth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 28, 2010. |
| 10.32[22] | Seventh Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 9, 2011. |
| 10.33[23] | QuickLogic Corporation 2009 Stock Plan (Amended and Restated March 10, 2011) |

| | |
|---|---|
| 10.34[24] | Eighth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 4, 2012. |
| 10.35[25] | Third Amendment to Lease between NetApp, Inc. and QuickLogic Corporation dated August 3, 2012. |
| 10.36[26] | Ninth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 14, 2013. |

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| | |
|---|---|
| 10.37[28] | Fourth Amendment to Lease between NetApp, Inc. and QuickLogic Corporation dated April 4, 2014. |
| 10.38[29] | First Amendment to Third Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective September 26, 2014. |
| 10.39 [30] | Second Amendment to Third Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective September 25, 2015. |
| 10.40 [31] | Third Amendment to Third Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective February 10, 2016. |
| 21.1[2] | Subsidiaries of the registrant. |
| 23.1 | Consent of BDO USA, LLP, Independent Registered Public Accounting Firm. |
| 23.2 | Consent of PricewaterhouseCoopers, LLP Independent Registered Public Accounting Firm |
| 24.1 | Power of Attorney. |
| 31.1 | CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | CEO and CFO Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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(1) Incorporated by reference to QuickLogic's Registration Statement on Form S-1 declared effective October 14, 1999 (Commission File No. 333-28833).

(2) Incorporated by reference to QuickLogic's Annual Report on Form 10-K filed on March 14, 2002 (Commission File No. 000-22671).

(3) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on November 13, 2002 (Commission File No. 000-22671).

(4) Incorporated by reference to QuickLogic's Annual Report on Form 10-K filed on March 17, 2005 (Commission File No. 000-22671).

(5) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 5.03) filed on May 2, 2005.

(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on December 22, 2006 (Commission File No. 000-22671).

(7) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on April 28, 2008.

(8) Incorporated by reference to QuickLogic's Annual Report on Form 10-K filed on March 15, 2007 (Commission File No. 000-22671).

(9) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on August 10, 2007 (Commission File No. 000-22671).

(10) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01 and Item 5.02) filed on September 4, 2007.

(11) This exhibit is a management contract or compensatory plan or arrangement.

(12) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on August 7, 2008 (Commission File No. 000-22671).

(13) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on August 19, 2008.

(14) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on November 6, 2008 (Commission File No. 000-22671).

(15)

Incorporated by reference to QuickLogic's Annual Report on Form 10-K filed on March 11, 2008 (Commission File No. 000-22671).

(16) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01 and Item 5.02) filed on April 28, 2009.

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(17) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01 and Item 5.02) filed on August 4, 2009.
(18) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on October 1, 2009.
(19) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on November 17, 2009.
(20) Incorporated by reference to QuickLogic's Current Report on Form 8-K/A (Item 1.01) filed on November 17, 2009.
(21) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on July 1, 2010.
(22) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on June 14, 2011.
(23) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on August 11, 2011 (Commission File No. 000-22671).
(24) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on June 28, 2012.
(25) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on August 3, 2012 (Commission File No. 000-22671).
(26) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on June 18, 2013.
(27) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 5.03) filed on November 26, 2013.
(28) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on April 8, 2014.
(29) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on November 4, 2014 (Commission File No. 000-22671).
(30) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on October 1, 2015.
(31) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on February 10, 2016.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this March 18, 2016.

QUICKLOGIC CORPORATION

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

POWER OF ATTORNEY

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

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

| Signature | Title | Date |
|---|---|---|
| /s/ ANDREW J. PEASE<br>Andrew J. Pease | President and Chief Executive Officer; Director<br>(Principal Executive Officer) | March 18, 2016 |
| /S/ SUPING (SUE) CHEUNG<br>Suping (Sue) Cheung | Principal Accounting Officer and Corporate Controller<br>(Principal Financial Officer and Principal Accounting Officer) | March 18, 2016 |
| /S/ E. THOMAS HART<br>E. Thomas Hart | Chairman of the Board | March 18, 2016 |
| /S/ MICHAEL R. FARESE<br>Michael R. Farese | Director | March 18, 2016 |
| /S/ ARTURO KRUEGER<br>Arturo Krueger | Director | March 18, 2016 |
| /s/ DANIEL A. RABINOVITSJ<br>Daniel A. Rabinovitsj | Director | March 18, 2016 |
| /S/ CHRISTINE RUSSELL<br>Christine Russell | Director | March 18, 2016 |

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| /S/ GARY H. TAUSS<br>Gary H. Tauss | Director | March 18, 2016 |

EXHIBIT INDEX

| Exhibit Number | Description |
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| 3.1[1] | Amended and Restated Certificate of Incorporation of the Registrant. |
| 3.2[5] | Bylaws of the Registrant. |
| 3.3[27] | Certificate of Elimination of the Series A Junior Participating Preferred Stock. |
| 4.1[1] | Specimen Common Stock certificate of the Registrant. |
| 4.3[19] | Form of Common Stock Warrant. |
| 10.1[4,11] | Form of Indemnification Agreement for directors and executive officers. |
| 10.2[10,11] | QuickLogic Corporation 1999 Stock Plan. |
| 10.3[10,11] | Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement under the 1999 Stock Plan. |
| 10.4[10,11] | Notice of Grant of Stock Options and Stock Option Award Agreement under the 1999 Stock Plan. |
| 10.5[10,11] | Notice of Grant of Stock Purchase Right and Restricted Stock Purchase Agreement under the 1999 Stock Plan. |
| 10.6[8,11] | QuickLogic Corporation 1999 Employee Stock Purchase Plan. |
| 10.8[1,3] | Lease dated June 17, 1996, as amended, between Kairos, LLC and Moffet Orchard Investors as Landlord and the Registrant for the Registrant's facility located in Sunnyvale, California. |
| 10.9[1] | Patent Cross License Agreement dated August 25, 1998 between the Registrant and Actel Corporation. |
| 10.13[11,15] | Form of Change of Control Severance Agreement. |
| 10.14[11,15] | Form of Change of Control Severance Agreement for E. Thomas Hart. |
| 10.15[7,11] | 2005 Executive Bonus Plan, as restated. |
| 10.17[6] | Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 30, 2006. |
| 10.18[9] | First Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 27, 2007. |
| 10.19[12] | Second Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 27, 2008. |
| 10.20[12] | Third Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective July 31, 2008. |
| 10.21[13] | Fourth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective August 19, 2008. |
| 10.23[14] | Second Amendment to Lease Agreement between NetApp, Inc. and QuickLogic Corporation effective September 25, 2008. |
| 10.24[11,16] | QuickLogic Corporation 2009 Stock Plan. |

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| 10.25[11,16] | QuickLogic Corporation 2009 Employee Stock Purchase Plan. |
| 10.26[11,17] | Form of Notice of Grant and Stock Option Agreement under the 2009 Stock Plan. |

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| 10.27[11,17] | Form of Notice of Grant of Stock Purchase Rights and Restricted Stock Purchase Agreement under the 2009 Stock Plan. |
| 10.28[11,17] | Form of Notice of Grant of Restricted Stock Unit and Restricted Stock Unit Agreement under the 2009 Stock Plan. |
| 10.29[18] | Fifth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective September 25, 2009. |
| 10.30[20] | Form of Subscription Agreement. |
| 10.31[21] | Sixth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 28, 2010. |
| 10.32[22] | Seventh Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 9, 2011. |
| 10.33[23] | QuickLogic Corporation 2009 Stock Plan (Amended and Restated March 10, 2011) |
| 10.34[24] | Eighth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 4, 2012. |
| 10.35[25] | Third Amendment to Lease between NetApp, Inc. and QuickLogic Corporation dated August 3, 2012. |
| 10.36[26] | Ninth Amendment to Second Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective June 14, 2013. |
| 10.37[28] | Fourth Amendment to Lease between NetApp, Inc. and QuickLogic Corporation dated April 4, 2014. |
| 10.38[29] | First Amendment to Third Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective September 26, 2014. |
| 10.39 [30] | Second Amendment to Third Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective September 25, 2015. |
| 10.40 [31] | Third Amendment to Third Amended and Restated Loan and Security Agreement between Silicon Valley Bank and the registrant effective February 10, 2016. |
| 21.1[2] | Subsidiaries of the registrant. |
| 23.1 | Consent of BDO USA, LLP, Independent Registered Public Accounting Firm. |
| 23.2 | Consent of PricewaterhouseCoopers, LLP Independent Registered Public Accounting Firm |
| 24.1 | Power of Attorney. |
| 31.1 | CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | CEO and CFO Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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(1) Incorporated by reference to QuickLogic's Registration Statement on Form S-1 declared effective October 14, 1999 (Commission File No. 333-28833).

(2) Incorporated by reference to QuickLogic's Annual Report on Form 10-K filed on March 14, 2002 (Commission File No. 000-22671).

(3) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on November 13, 2002 (Commission File No. 000-22671).

(4) Incorporated by reference to QuickLogic's Annual Report on Form 10-K filed on March 17, 2005 (Commission File No. 000-22671).

(5) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 5.03) filed on May 2, 2005.
(6) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on December 22, 2006 (Commission File No. 000-22671).
(7) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on April 28, 2008.
(8) Incorporated by reference to QuickLogic's Annual Report on Form 10-K filed on March 15, 2007 (Commission File No. 000-22671).
(9) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on August 10, 2007 (Commission File No. 000-22671).
(10) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01 and Item 5.02) filed on September 4, 2007.
(11) This exhibit is a management contract or compensatory plan or arrangement.
(12) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on August 7, 2008 (Commission File No. 000-22671).
(13) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on August 19, 2008.
(14) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on November 6, 2008 (Commission File No. 000-22671).
(15) Incorporated by reference to QuickLogic's Annual Report on Form 10-K filed on March 11, 2008 (Commission File No. 000-22671).
(16) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01 and Item 5.02) filed on April 28, 2009.
(17) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01 and Item 5.02) filed on August 4, 2009.
(18) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on October 1, 2009.
(19) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on November 17, 2009.
(20) Incorporated by reference to QuickLogic's Current Report on Form 8-K/A (Item 1.01) filed on November 17, 2009.
(21) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on July 1, 2010.
(22) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on June 14, 2011.
(23) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on August 11, 2011 (Commission File No. 000-22671).
(24) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on June 28, 2012.
(25) Incorporated by reference to QuickLogic's Quarterly Report on Form 10-Q filed on August 3, 2012 (Commission File No. 000-22671).
(26) Incorporated by reference to Quicklogic's Current Report on Form 8-K (Item 1.01) filed on June 18, 2013.
(27) Incorporated by reference to Quicklogic's Current Report on Form 8-K (Item 5.03) filed on November 26, 2013.
(28) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on April 8, 2014.
(29) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on November 4, 2014 (Commission File No. 000-22671).
(30) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on October 1, 2015.
(31) Incorporated by reference to QuickLogic's Current Report on Form 8-K (Item 1.01) filed on February 10, 2016.