Operator

Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic Corporation's Third Quarter 2017 Earnings Results Conference Call. Today's conference call is being recorded. I would like to turn the call over to the company's Investor Relations representative Ms. Moriah Shilton of LHA. Ms. Shilton, please go ahead.

Moriah Shilton - LHA

Thank you, operator. Welcome, everyone, and thank you for joining us today for QuickLogic's Third Quarter 2017 Results Conference Call. With us today are Brian Faith, President and Chief Executive Officer, and Dr. Sue Cheung, Chief Financial Officer.

Before we begin, I will read a short safe harbor statement. Some of the comments QuickLogic makes today are forward-looking statements that involve risks and uncertainties, including but not limited to stated expectations relating to revenue from new and mature products, statements pertaining to QuickLogic's future stock performance, design activity and its ability to convert new design opportunities into production shipments; timing and market acceptance of its customers' products; schedule changes and projected production start dates that could impact the timing of shipments; our future evaluation systems; broadening our ecosystem partners, expected results and financial expectations for revenue, gross margin, operating expenses, profitability and cash. These statements should be considered in conjunction with the cautionary warnings that appear in QuickLogic's SEC filings. For additional information, please refer to the company's SEC filings posted on its website and the SEC's website. Investors are cautioned that all forward-looking statements in this call involve risks and uncertainties and that future events may differ materially from

the statements made. For more details of the risks, uncertainties and assumptions, please refer to those discussed under the heading "Risk Factors" in the annual report on Form 10-K for the fiscal year ended January 1, 2017 the company filed with the SEC on March 9, 2017. These forward-looking statements are made as of today, the day of the conference call, and management undertakes no obligation to revise or publicly release any revisions of the forward-looking statements in light of any new information or future events.

Please note, QuickLogic uses its website, the company blog QuickLogic HotSpot, corporate Twitter account, Facebook page, and LinkedIn page as channels of distribution of information about its products, its planned financial and other announcements, its attendance at upcoming investor and industry conferences, and other matters. Such information may be deemed material information, and QuickLogic may use these channels to comply with its disclosure obligations under Regulation FD.

The conference call is open to all and is being webcast live. We will start today's call with the company's strategic update from QuickLogic CEO Brian Faith. Then CFO Sue Cheung will provide financial results and guidance. Brian will deliver closing remarks and open the call to questions.

At this time, it is my pleasure to turn the call over to Brian Faith, President and CEO. Please go ahead, Brian.

Brian Faith – President and CEO

Thank you, Moriah, and thank you all for joining our Q3 2017 conference call.

I am very pleased with the progress we have made since our last conference call. We have continued to benefit from a growing influx of new opportunities and with the improvements we've made to our engagement process, a more rapid conversion of opportunities to design wins.

We expect this trend to accelerate as mobile, wearable, hearable and voice-enabled IoT designs continue moving away from push to talk and adopt always-on / always listening technology. To keep pace with this growing demand, we added three senior-level domain experts during Q3 for product management, hardware solutions architecture and system engineering.

Many of our new EOS™ S3 customers are forecasting production starts in Q4 to support product introductions at the January Consumer Electronics Show in Las Vegas. As a result, I believe we'll see a record number of new products at CES with QuickLogic inside.

This tangible success and the building momentum we are enjoying across the board in our strategic Sensor Processing and IP markets not only bolsters my confidence that we will grow our revenue in excess of 50% in 2018, but that we will also start the year with sound footing towards realizing that goal. However, there are three factors that have led me to lower our current Q4 outlook relative to what I anticipated three months ago.

The EOS S3 designs we believe will move into production this quarter and a seasonal increase in mature product revenue will offset these declines to the extent we will guide flat revenue for Q4. Absent these factors our outlook would be about $1 million higher.

- First, display bridge customers recently lowered Q4 forecasts by approximately $450 thousand. While this also leads us to moderate our 2018 outlook for display bridge solutions, that decrease is far more than offset by the significant uptick in opportunities we have experienced during the last several months for our Sensor Processing and embedded FPGA IP solutions.

- Second, we do not have orders yet from our tier one smartphone customer for its new wearable design, and therefore are not including any revenue from the application in our Q4 guidance.

- Third, instead of expanding our license agreement with an existing fab partner to cover a trailing fabrication node, we jointly elected to delay the expansion and focus our efforts towards the currently licensed technology that is running at increasingly high volume. Had we gone forward with the license expansion, the revenue would have been mostly recognized during Q3 and Q4.

Let's start with our embedded FPGA IP business

We have continued to make progress in our engagements with major semiconductor companies and OEMs and in finalizing qualifications with our fabrication partners. We are also in the process of launching a significant upgrade to our Aurora™ embedded FPGA tool suite to enable customers to evaluate and target designs on the new GLOBALFOUNDRIES' 22nm FD-SOI process, called 22FDX®. In addition to improving the design efficiency for all our embedded FPGA customers, this will lower the amount of QuickLogic resources we will have to dedicate during our licensees' design process.

We completed our test-chip qualification for the SMIC low power 40nm process during Q3 and SMIC has been actively promoting our embedded FPGA technology with its customers. As it stands today, QuickLogic's ArcticPro™ is the only embedded FPGA technology that is currently available for SMIC's high-volume low power 40nm process.

We are on schedule to complete our 22nm FDSOI test-chip tape-out with GLOBALFOUNDRIES this quarter and anticipate the test-chip qualification in Q1 2018. We believe this will mark the first demonstration of FPGA technology running on an FDSOI process.

GLOBALFOUNDRIES continues to promote our ArcticPro embedded FPGA IP with its customers for its 22nm FDSOI process in advance of our qualification. We are also seeing continued interest in our 40nm ArcticPro technology that was previously qualified at GLOBALFOUNDRIES.

To broaden our reach and accelerate our penetration in China, we established a partnership agreement with AcconSys to provide sales and support for our ArcticPro embedded FPGA solutions.

AcconSys is the largest EDA tool and semiconductor IP distributor in China and has established relationships with SoC and ASIC design groups throughout China. I believe the breadth of experience and the connections that AcconSys brings will play a key role in accelerating the adoption of our embedded FPGA IP with major Chinese OEMs and semiconductor companies.

In addition to our independent and team efforts with our partners, we generated a noteworthy increase in our IP engagement funnel through our participation in a variety of technical symposiums during the last quarter. These included:

- The 2017 SMIC Technology Symposium

- The Design and Reuse IP-SoC Days

- Three GLOBALFOUNDRIES' Technology Conferences

- The FD-SOI Design and Application panel

- The 15th Annual International System-on-Chip Conference, and

- The ARM TechCon.

Now, turning to Sensor Processing with an initial focus on wearable, hearable and IoT applications:

First, I am proud to say that we have been granted our patent from the United States Patent and Trademark Office for our Flexible Fusion Engine, or FFE.   The FFE is a highly differentiated and proprietary element of our multi-core Sensor Processing architecture, enables very low power always-on use cases, and is used by our tier one smartphone OEM for certain always-on features of their wearable device.

During the last quarter this customer continued to refine its software to optimize accuracy and battery life and is now in the process of expanding its field testing to include several hundred users. I also had an opportunity to briefly try out the new wearable during a customer visit and believe the outcome will be worth the wait.

Given the discussions I've had with this customer's senior executives, and our continued involvement with manufacturing engineering, I have a high level of confidence it will move into mass production during the first half of 2018, but as it stands today, I am unsure about the exact timing. Please note though, while significant, this is only one of many growth drivers I envision coming into play during the first half of 2018.

As I noted last quarter, this tier one OEM has made a top-down strategic commitment to include always-on / always listening voice in all of its future wearable and hearable designs.

Since our EOS S3 SoC can support the customer's always-on / always listening requirement at a fraction of the power needed by other MCU solutions, we believe we have a substantial competitive advantage.

Due to this significant power consumption advantage and the depth of experience the customer has built during its first wearable design using our EOS S3 SoC as a host and sensor processing solution, the OEM is working closely with us on two new high-volume consumer designs that are targeted to include always-on / always listening voice features. Both of these new products are scheduled for production in mid-2018.

One of these new designs is a wearable device where the customer can directly leverage the software it has developed and refined for EOS S3 during the last year. This design opportunity transitioned from an evaluation to an engagement since our last conference call. The second, a hearable device, which can also leverage the customer's software investment, is still in the evaluation stage.

If we are successful in winning these new designs, QuickLogic will exit the first half of 2018 shipping production quantities to support three high volume EOS S3 designs with this tier one customer.

In the broader market we are seeing a growing trend for new mobile, wearable, hearable and battery powered IoT products that require always-on / always listening capability versus the past design approach of using push to talk. This may seem like a subtle change, but it is

actually a significant engineering challenge. To deliver acceptable battery life, a different design approach is required.

Traditional design approaches that run sound detection in software consume an excessive amount of power and would shorten battery life considerably if forced to run constantly to listen for trigger words. That is the primary reason why push to talk has been the dominant interface in past designs. With the trend shift to always-on / always listening, product designers know they need to do things differently, and an increasing number are looking to EOS S3 as the answer.

With its hardware integrated Low Power Sound Detector or LPSD, our EOS S3 SoC enables always-on / always listening while consuming only about one tenth of the power of software sound detection that is used in other MCU based devices. That is why this trend shift has been a significant factor in our growing success.

In addition to the advantages driven by our hardware integrated LPSD, EOS S3 is also designed to intelligently manage power consumption of external devices used in product designs such as microphones, activity and biometric sensors and wireless connectivity ICs like Bluetooth and Bluetooth Low Energy or BLE. With this capability, our EOS S3 can further minimize power consumption by intelligently controlling when subsystems within the design are powered. This is a very important capability for battery powered designs targeting immersive user experiences.

One example of this would be a voice-enabled hearable or wearable device that includes an activity sensor like an accelerometer to track step count. With intelligent power management, our EOS S3 knows if the device is being worn or sitting on a table. If the device is sitting on a table, everything could be shut down except the low power accelerometer and our patented Flexible Fusion Engine or FFE. If the device was picked up, the FFE would signal it is time to activate the microphone to listen for a trigger word like Alexa or OK Google.

Another trend that is driving interest for our EOS S3 is the proprietary software we recently developed that enables EOS S3 to run voice over BLE. BLE lowers the power consumption of the wireless Bluetooth interface that is used on virtually every wearable and hearable device. We are in the process of further leveraging this and our intelligent power management technology through ecosystem partnerships.

Due to the increasing importance of our competitive advantages, we continue to enjoy a growing influx of new opportunities from not only leading Asian companies, but also from U.S. and European sector leaders that have high brand-name recognition. We believe the unique capabilities of our EOS S3 SoC will drive the same success with these large OEMs as it has across numerous Asian customers.

Our investments in developing software and tools during the last year has enabled us to materially improve the efficiency of our engagement process, and with that, significantly shorten the cycle from opportunity to design win from months to weeks in some cases. As a result, we anticipate a significant number of EOS S3 designs will move into production ahead of CES late next month.

We expect these will include new products from Janyun, Qiwo, the wearable and hearable products from the large app companies we've discussed in past conference calls and several others. As a result, we are anticipating an impressive number of wearable, hearable and voice-enabled IoT products with QuickLogic inside will be shown at the Las Vegas Consumer Electronics Show this coming January.

In addition to the traditional consumer use cases for wearable products, we're also seeing more interest from companies that are addressing emerging B to B applications. OEMs that are addressing B to B applications believe there is significant volume potential as hospitals, insurance companies, fitness companies and others leverage sensor data to track activity and biometric information.

We recently won a design with a European OEM that is addressing the B to B market with a new wearable device that utilizes our EOS S3 as the host and sensor processor and its embedded FPGA as a display driver. We expect this design will enter production during Q1 2018.

In addition to the strong interest we've seen from companies addressing wearable and hearable designs, we're also seeing growing interest from companies developing voice-enabled IoT products. The short story here is voice has not only become the next interface, current trends suggest that always-on / always listening voice is on pace to become the dominant interface for a wide variety of technology products, and with that, give rise to the term: Internet of Voice.

Through a variety of initiatives, we have continued to grow our engagement funnel for voice-enabled IoT applications and we've won several designs that we expect will enter production during the first half of 2018. To capitalize on this trend, our Japanese distributor, Shinko Shoji, developed, and at CEATEC demonstrated, a new EOS S3 evaluation module that is designed to support voice-enabled IoT and other applications.

Our engagement with the tier one cloud-based IoT provider that I've mentioned on past calls has continued to move forward in line with our expectations. While the NDA with this company prevents me from saying more, I can tell you that I expect this will be one of several drivers that leads to a sharp ramp in battery-powered IoT engagements and design wins beginning in the first half of 2018 and accelerating as we move through the year.

Let's turn now to the smartphone market:

During the last year we have been working closely with a major Japanese smartphone OEM that is targeting EOS S3 for new models scheduled to launch in 2018. We recently shipped prototype units to this OEM for a concept smartphone that they are intending to showcase at Mobile World Congress in Barcelona during late February. If their lead Japanese carrier mandates certain features enabled by EOS S3, the OEM will introduce a high-volume flagship smartphone with that carrier during Q2 2018 that is based on the concept design.

We have continued to move forward with other smartphone engagements that target models that are scheduled to move into production during the first half of 2018. While I

believe we are well-positioned for success, there are still too many variables in the equation to forecast these as design wins.

Now I will turn the call to Sue and return for my closing remarks before we open for Q&A.

Dr. Sue Cheung– Chief Financial Officer

Thank you, Brian. Good Afternoon and thanks to everyone for joining us today. Please note that we are reporting our non-GAAP results here. You may refer to the press release we issued today for a detailed reconciliation of our GAAP to non-GAAP results and other financial statements. We have also posted an updated financial table on our IR web page that provides current and historical non-GAAP data.

For the third quarter of 2017, total revenue was $3.0 million, within our guidance range. Our new product revenue was $1.5 million, and mature product revenue was $1.5 million. New product revenue was slightly below our forecast. This is due to a joint decision we made with one of our fabrication partners not to expand a license agreement to include a trailing fabrication node. Revenue from that agreement would have been largely recognized during Q3 and Q4 2017. Instead we are jointly focusing our efforts toward the currently licensed technology that is running at increasingly high volume.

Third quarter 2017 mature product revenue was above our forecast due to higher than anticipated demand from a single customer in the military/aerospace industry.

Samsung accounted for 24% of total revenue during the third quarter, compared to 21% during the previous quarter.

Our Q3 2017 gross margin was 44%, within our forecasted range.

Operating expenses for Q3 totaled $4.3 million, which was at the low end of our forecasted range. SG&A expenses were $2.1 million and R&D expenses were $2.2 million. The decrease in OpEx was mainly due to a one-time adjustment of accrued variable expenses in the quarter.

The total for other income, expense and taxes in Q3 2017 was a charge of $95 thousand, which was greater than our forecast due to a one-time tax adjustment related to our foreign subsidiaries. This resulted in a net loss of approximately $3.1 million, or $0.04 per share, essentially at the midpoint of our forecasted range.

Our Q3 cash usage was $3.2 million, which resulted in an ending cash balance of $19.0 million. This was within our forecasted range.

In August, we renewed the line of credit agreement with Silicon Valley Bank with more favorable covenant terms. This agreement allows us to borrow up to $6 million, with an option to increase to $12 million at our election.

Let's now turn to the fourth quarter 2017 outlook:

Our revenue guidance for Q4 is approximately $3.0 million, plus or minus 10%. Total revenue is expected to be comprised of approximately $1.2 million of new product revenue and $1.8 million of mature product revenue. The expected sequential increase in mature product revenue is primarily due to strong demand from another customer in the military/ defense sector.

On a non-GAAP basis, we expect gross margin to be approximately 48% plus or minus 3 percent. The sequential increase in gross margin is expected to be driven mostly by the product mix.

We are currently forecasting non-GAAP operating expenses at approximately $4.6 million, plus or minus $300 thousand. We expect our non-GAAP R&D expenses to be approximately $2.3 million and non-GAAP SG&A expenses to be approximately $2.3 million.

We expect our other income, expense and taxes will be a charge of approximately $60 thousand.

At the midpoint of our forecast, our non-GAAP loss is expected to be approximately $3.3 million, or $0.04 per share.

As was the case in prior quarters, the main difference between our GAAP to non-GAAP results is our stock-based compensation expense, which we expect to be approximately $480 thousand for the 4th quarter.

In Q4, we expect to use between $2.8 million and $3.2 million in cash. The forecasted cash usage will be primarily driven by working capital needs and capital expenditure associated with our eFPGA and SoC development efforts.

Starting with fiscal year 2018, we are required to adopt the new revenue standard, ASC 606. We expect to adopt this standard using the Modified Retrospective Transition method. With this approach, we will not have to restate prior years' financial statements. We do not expect this new standard to affect us materially, other than increased disclosures. You will find more disclosures on this change in our Q3 2017 10-Q, which we plan to file tomorrow, November 9th.

With that, let me now turn the call back over to Brian for his closing remarks.

Brian Faith – President and CEO

Thank you, Sue.

When voice interfaces were introduced in mainstream consumer products roughly ten years ago, they were buggy and frustrating to use. The primary problem then was poor voice recognition – in other words, the software did not correctly recognize what was being said.

Driven by software companies like our partner, Sensory, Inc., voice recognition has improved dramatically, and today financial institutions commonly use very high-resolution voice recognition to provide positive ID for customers.

These improvements in voice recognition enabled the popularity of Siri, OK Google and more recently, Alexa. As a result, we saw a flood of voice-enabled home automation or more broadly, IoT products at the 2017 Consumer Electronics Show in Las Vegas.

In our conference call that followed CES 2017 I stated the theme of the show was "voice is the next interface." Since then, this theme has built traction and become the dominant design trend.

While improved voice recognition was clearly the obvious enabling driver of this trend, it is important to note there was one other change that led to the successful commercialization of voice as the next interface. That change was the shift from push to talk to an always-on / always listening voice interface.

Early implementations of voice interfaces required users to push a button before saying, "OK Google" or asking Siri a question, and for the most part, push to talk was still a requirement for the battery powered devices shown at CES 2017.

However, push to talk was simply not an option for Alexa – she needed to be awake all the time; ready and waiting for you to ask questions and issue commands from your easy chair. Just like you wouldn't buy a TV without a remote control, you probably wouldn't buy Alexa if you had to get up and push a button before asking a question or issuing a command.

Amazon's Alexa, and the host of similar products that followed, have changed the way consumers expect to interface with technology using voice commands. With its success, Alexa proved the value of the immersive always-on / always listening use cases I described earlier this year.

Delivering an immersive always-on / always listening experience was easy for AC powered devices like the Echo. However, to deliver these immersive use cases in battery powered devices presented new challenges.

The traditional MCU-based design approaches used to deliver push to talk cannot be economically adapted to deliver the always-on / always listening experiences consumers expect today without notably shortening battery life. Our EOS S3 enables always-on / always listening without this penalty and that is the primary driver that has led to a significant increase in our flow of opportunities, engagements and design wins during the last several months.

I believe you will begin seeing tangible evidence of this success as customers start shipping new always-on / always listening products enabled by EOS S3 later this quarter. And, if you attend CES in January, I think you'll be impressed by the number of new always-on / always listening designs that have QuickLogic inside.

I'd now like to open the call for Q&A. Ashley.

Thanks everyone for joining our call today.

We will be participating at the following events:

The 3rd Annual ROTH Technology Corporate Access Day on November 15th in New York City.

The 8th Annual Craig-Hallum Alpha Select Conference on November 16th in New York City.

The Benchmark Company Micro Cap Discovery One-on-One Conference on December 14th in Chicago.

The Reuse 2017 on December 14th, where our CTO & SVP Engineering Dr. Tim Saxe will be presenting on the topic, "Slash the Cost and Time of SoC Design Reuse."

CES 2018 on January 9th through January 12th.

Our next call is scheduled for Wednesday, February 14th at 2:30 PM PT.

Thanks for your continued support. Good bye.

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