Ladies and gentlemen, good afternoon! At this time, I'd like to welcome everyone to QuickLogic Corporation's third Quarter 2016 Earnings Results conference call.

During the presentation, all participants will be in a listen-only mode. A question-and-answer session will follow the company's formal remarks. To ask a question, press the star key followed by the digit one on your touch-tone phone. I will repeat these instructions after management completes their prepared remarks.

Today's conference call is being recorded.

With us today, from the company are Brian Faith, President and Chief Executive Officer, Sue Cheung, VP of Finance and CAO and Bob Schoenfield, VP of Worldwide Sales and Marketing.

Before we begin our call with QuickLogic's executives, 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, our future evaluation systems, broadening our ecosystem partners, expected results, and financial expectations for revenue, gross margin, operating expenses, profitability and cash.

I'd like to remind you that these statements must be considered in conjunction with the cautionary warnings that appear in QuickLogic's SEC filings. Investors are cautioned that all forward-looking statements in this call involve risks and uncertainty, and that future events may differ materially from the statements made. For additional information, please refer to the company's Securities and Exchange Commission filings, which are posted on its website or available from the company without charge.

This 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's CEO, Brian Faith, then Sue Cheung, its CAO, will review third quarter financial results and provide financial guidance for the fourth quarter before Brian's closing remarks.

Thank you Andrew, and thank you all for joining our quarterly conference call.

Our prepared remarks will be presented in a slightly different format today. I will start with a strategic update. Following that, Sue will provide an analysis of the financial data for Q3 and our forecast for Q4. I will close our prepared remarks with a brief summation of our strategic outlook and then open the call for your questions. At the close of the Q&A session I'll provide a rundown of upcoming events, tradeshows and conferences.

At the bottom line, I'm very pleased with the strategic and tactical progress we made on all fronts during the last quarter, and with that, my confidence in the revenue ramp we forecasted for next year has been bolstered.

However, before I get into our strategic update, I will take a moment to share some unfortunate news. Due to a personal family matter, Bob Schoenfield will resign his position as VP of Worldwide Sales and Marketing at the end of this month. Bob intends to maintain a vested interest in QuickLogic stock, and continue to work with us as a consultant.

Bob has been a tremendous asset for us and is committed to driving certain strategic initiatives that he will manage for us on an ongoing basis. However, since he will not be able to dedicate the time needed to fully manage the scope of his current position, we will initiate the process to hire a new VP of Worldwide Sales and Marketing during the coming months. Bob will be available for your questions following our prepared remarks.

Last quarter Sue and I provided the outline for our strategic realignment. As we described it, this initiative was designed to lower operating costs, reduce cash consumption and better align our assets with the needs of our targeted markets. I'm proud to say our progress and the results have exceeded our forecasts.

As you can see from today's press release, non-GAAP operating expenses and cash consumption for Q3 were better than our forecast. However, much more important than the operational improvements is the significant progress we've made in our strategic market initiatives.

Let's take a minute for a very high-level recap of some of our major milestones. We released our production qualified EOS™ S3 System on a Chip or SoC at the end of Q2. Following that in Q3 we shipped units to a tier one smartphone customer to support preproduction for a new wearable design that we expect to enter mass production in the coming months.

We have presented our EOS S3 Sensor Processing Solution to 14 of the top 15 smartphone OEMs in the world. All 14 have expressed a sincere interest in using the EOS S3 SoC in new designs and tell us it is the right solution, at the right time and at the right price. We have active design engagements with over half of those OEMs. We expect a number of those engagements to move into mass production during the coming year.

Through these engagements, our increased investment in software development, and our very close collaboration with our tier one smartphone customer and ecosystem partners, we have enhanced our evaluation systems and design tools with new software and capabilities. The first of these was released last month, and we will have all of the new systems and tools in the field by the end of Q4.

With these new systems and tools we can manage more simultaneous customer engagements and drive engagements to design wins much more efficiently. With this increased efficiency, we expect to expand our engagement activity with major OEMs this quarter.

Later this quarter we will introduce a new and very unique evaluation system that illustrates our ability to enable the immersive voice activated sensor fusion use cases that top tier smartphone OEMs are targeting for next generation platforms. With these new systems I believe we will be able to move much more quickly from initial engagement to design win.

There are three very distinct trends we are seeing in next generation smartphone designs. We believe these trends play directly into the hand of our competitive advantages.

The first trend is new designs are targeting immersive use cases. These new use cases are driven by sophisticated sensor fusion algorithms that require sensor processing systems to run at a substantially higher duty cycle. Higher duty cycle requirements increase our power consumption advantage over traditional microcontroller based design approaches.

The second trend is the implementation of new use cases that can only be delivered with always-on / always listening voice activation and control. Our unique hardware integrated solution for Sensory voice technology enables this use case with significantly lower power consumption than the software implementations of Sensory's technology that is used in over a billion smartphones today.

The third trend is an extreme focus on minimizing power consumption. While power consumption has always been an issue, the importance of lowering power consumption in new designs has increased during the last quarter. Given the fact OEMs want to support immersive voice activated use cases in new designs, smartphone designers are facing a challenge that we can uniquely address.

In addition to these trends, we are seeing an increased interest in the use of programmable logic. Obviously, since we have the only sensor processing solution that includes integrated programmable logic, this trend provides us with a unique competitive advantage.

Later this week we will issue a press release to formally announce our partnership with CyweeMotion and the introduction of our CyweeMotion sensor fusion evaluation system. CyweeMotion is by far the leading provider of sensor fusion algorithms used by Chinese smartphone companies.

With this new evaluation system, smartphone OEMs can quickly and efficiently evaluate the performance of Cywee's Android CTS compliant sensor fusion algorithms running on our EOS S3 sensor processing SoC. The system also provides power consumption data that will show the significant advantages of our EOS S3 Sensor Processing Solution.

Given the fact that 11 of the top 15 smartphone companies in the world today are based in China, and the majority of those 11 companies use CyweeMotion algorithms, this is a very big deal.

We are already seeing early evidence that this partnership and our new evaluation system will shorten the evaluation cycle and lower the development risk for the major Chinese smartphone OEMs that use CyweeMotion algorithms. Due to the improved efficiencies, we expect to broaden our engagement base in China this quarter and deliver an impressive flow of design wins with major Chinese OEMs during 2017.

Later this month we will introduce a more advanced evaluation system that integrates Sensory voice technology and CyweeMotion algorithms in a single platform. This integrated evaluation system will enable OEMs to efficiently evaluate immersive voice activated sensor fusion use cases and clearly illustrate the substantial power savings delivered by our EOS S3 Sensor Processing Solution.

To extend this leverage, we are in the process of broadening the scope of our ecosystem partnership strategy to include leading smartphone application providers that have already established installed bases in excess of 100 million smartphones.

We are currently in discussions with multiple software companies that could benefit from incorporating our unique ultra-low power always-on / always-listening voice interface. We expect to display a joint reference design that we developed with one of these partners at the Consumer Electronics Show in Las Vegas this coming January. We will announce additional partnerships and reference designs as we move through 2017. We think this strategy has very significant potential.

An exciting leverage point of this strategy is the fact our current and potential ecosystem partners are extending the technologies they have developed for the smartphone market into the rapidly growing IoT markets where always on voice activation and control is often a requirement. Going forward, Bob Schoenfield will work closely with these and other companies to help us develop a scalable strategy that leverages our core competencies in the IoT market.

The bottom line here is we are making investments that provide us with operational and competitive leverage, shorten our engagement cycle, improve our design win conversion ratio and are extensible across our targeted markets.

During the last quarter we continued to work closely with the tier one smartphone company that has designed our EOS S3 SoC into a new wearable device. We continue to believe this will be a very high volume product.

I'm very proud to say that through this work we were able to achieve an even lower power consumption goal than the customer originally asked us to target during the quarter. While we still don't have a firm schedule from the customer, we continue to anticipate the wearable device will enter mass production between December and Mobile World Congress, which is scheduled for the end of February 2017.

The short story here is the customer is very happy with our EOS S3 sensor processing solution and the support we have provided throughout the development cycle, and we are thrilled with what we believe will be a very high profile and high volume design win.

Please note that, while we will increase our EOS S3 inventory during Q4 in preparation for this and other new product launches by our customers, we are not including any meaningful revenue from this design win in our Q4 guidance.

Last quarter I mentioned we were working with a Top-tier OEM on a press release to announce the use of our Sensor Processing Solution in a highly sophisticated VR camera. While we have made initial production shipments to support this design, we are waiting for the customer to approve our press release. I expect we'll get that approval later this quarter.

As I noted last quarter, we do not anticipate this being a high volume product. However, given the high brand recognition of the customer and the fact the end product is designed to set new standards for VR Video Recording, we view it as a great showpiece for the capabilities of our unique sensor processing solution.

In addition to the significant progress we've made in our Sensor Processing Solution engagements, we are also winning new display bridge designs. We issued a press release last quarter for a new display bridge design at Motorola, and we more recently won a display bridge design in a new tablet from Sanyo. We believe that display bridge activity will continue through at least 2017, and possibly well beyond that.

I'll now turn the call over to Sue, and I'll rejoin you after her presentation with my closing remarks.

Thank you, Brian. Good Afternoon and thanks to everyone for joining us today.

For the third quarter of 2016, total revenue was $2.8 million, which was at the midpoint of our guidance range. Our new product revenue was approximately $1.3 million, and mature product revenue was approximately $1.5 million.

Samsung accounted for 39% of total revenue during the third quarter, compared to 31% during the previous quarter.

Our Q3 non-GAAP gross margin was 34%, which was slightly below our guidance range. This is primarily due to the product mix shipped during the quarter.

Non-GAAP operating expenses for Q3 totaled $5.0 million, which was favorable to our guidance. The total for other income, expense and taxes was a charge of $55 thousand. This resulted in a non-GAAP loss of approximately $4.1 million or $0.06 per share, which was right at the midpoint of our guidance. Please note, our non-GAAP results included a $170 thousand severance charge associated with our strategic realignment initiated last quarter.

Our Q3 GAAP net loss was approximately $4.6 million, or $0.07 per share. Our GAAP results included stock based compensation charges of $457 thousand and a non-cash fixed asset write-off of $39 thousand.

For a detailed reconciliation of our GAAP to non-GAAP results and other financial statements, please see the press release we issued today. We have also posted an updated financial table on our IR web page that provides current and historical non-GAAP data.

We ended the third quarter with approximately $17.8 million in cash, which exceeded our guidance. The cash usage during the third quarter was $1.2 million. This reflects the cost savings from our strategic realignment efforts and the timing of working capital requirements. The cash usage was partially offset by borrowing $1 million against our existing line of credit.

For the 4th quarter of 2016, we expect the net cash usage to be approximately $3.8 - $4.2 million. This includes the favorable impact of an additional $1 million borrowing from our line of credit. The forecasted increase in cash usage will be driven mostly by an increase in working capital as we plan to build our EOS S3 inventory. While we are not forecasting significant shipments for EOS S3 until 2017, we are taking steps to insure we have adequate inventory to support any upsides to our forecast.

For the second half of 2016 we anticipate net cash usage of $5 to 5.4 million. This will result in a greater than 40% reduction in cash usage from the first half of the year.

Our revenue guidance for Q4 is approximately $2.9 million, plus or minus 10%. The $2.9 million in total revenue is expected to be comprised of approximately $1.5 million of new product revenue and $1.4 million of mature product revenue.

As in prior quarters, our actual results may vary significantly due to things that are beyond our control, such as schedule variations from our customers. Schedule changes, and projected production start dates, could push or pull shipments between Q4 2016 and Q1 2017 and impact our actual results significantly.

On a non-GAAP basis, we expect gross margin to be approximately 32% plus or minus 3 percent. Gross margin is driven primarily by the mix of customers and products shipped during the quarter, and continued unfavorable absorption of operational overhead.

We are currently forecasting non-GAAP operating expenses at $4.8 million, plus or minus $300 thousand. The expected decrease in OPEX is a result of continuing cost savings we implemented last quarter.

Non-GAAP R&D expenses are forecasted to be approximately $2.6 million and our non-GAAP SG&A expenses are forecasted to be approximately $2.2 million.

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

At the midpoint of our guidance, our non-GAAP loss is expected to be approximately $3.8 million or $0.06 per share.

Our stock based compensation expense for the fourth quarter is expected to be approximately $450 thousand.

As was the case in prior quarters, our non-GAAP results will not reflect the charges associated with stock based compensation.

Before I turn the call back to Brian, I'd like to report one last housekeeping item: our previous shelf registration statement on Form S-3 expired on August 30, 2016. As a matter of good business policy, we plan to file a similar or smaller shelf registration in the coming weeks.

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

We have released a new evaluation system that enables our customers to accomplish in weeks what has been taking months, and with that, move much more quickly and efficiently into the final design process.

We will introduce a new evaluation system this month that combines the Cywee and Sensory evaluation systems into a single platform. This new evaluation system will enable smartphone OEMs to efficiently evaluate and verify our ability to enable new immersive voice enabled sensor fusion and clearly illustrate the substantial power consumption advantage we have over traditional design approaches.

14 out of the top 15 smartphone OEMs in the world have expressed sincere interest in our Sensor Processing Solutions. We are currently engaged with more than half of these OEMs. With our new evaluation systems in place we expect to increase the number of engagements this quarter, and shorten the cycle from evaluation to design win.

With these accomplishments, and the progress we've made with our strategic engagements, we are rapidly nearing the time when our conference call presentations will focus mostly on design win activity versus what we are doing to win new designs. Please believe me when I say; no one is looking forward to that and the revenue ramp we anticipate for 2017 more than me.

Operator, I will now turn the call over for questions.

We will be participating in a number of industry events during the next 3 months:

- Sue and I will be at the 2nd Annual ROTH Technology Corporate Access Day in New York City on November 16.
- We will also be attending the Benchmark Micro Cap Discovery One-on-One Conference on December 1 in Chicago.
- We will have two QuickLogic Meeting suites at the Consumer Electronics Show in Las Vegas from January 5-8, 2017.
- I will be presenting in a panel discussion titled "Where are Consumer Electronics Taking the Sensor Industry?" on January 5, 2017 at the MEMS & Sensors Track at CES.

- And lastly, Sue and I will be at the 19th Annual Needham Growth Conference from January 10-12, 2017 in New York City.

Details will be included in our upcoming Media Alerts.

I want to thank you for your participation in today's call. I also want to thank my QuickLogic colleagues for their hard work and commitment to our customers and business. We look forward to reporting our strategic progress on the next earnings call which is scheduled for Wednesday, February 15, 2017.

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