Ladies and gentlemen, good afternoon. At this time, I'd like to welcome everyone to QuickLogic Corporation's Fourth Quarter and Year 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 and Sue Cheung, Chief Financial Officer.

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 President & CEO, Brian Faith, then Sue Cheung, its CFO, will review fourth quarter and year 2016 financial results and provide financial guidance for the first quarter before Brian's closing remarks.

At this time, I would like to turn the call over to Brian Faith. Please go ahead sir.

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

Joining us for the first time today is Senior Research Analyst Richard Shannon from Craig-Hallum Capital Group. Richard initiated coverage of QuickLogic last week.

I'm very pleased with the significant progress we have made since our conference call last November. Given this progress and the momentum we are already developing this year, I believe we are on track to realize the strategic objectives for 2017.

Today, we will review our progress on the following initiatives:

- First, our new ArcticPro™ embedded FPGA Intellectual Property or IP licensing business model;
- Second, our core sensor processing solutions focused on enabling immersive user experiences in mobile applications
- And lastly, our display bridge and FPGA design activity

To better monetize our core investments in programmable logic technology, we launched our ArcticPro embedded FPGA IP licensing model last December.

By integrating eFPGA technology, SoC and ASIC customers can enjoy increased flexibility, an ability to differentiate, as well as decrease the incremental R&D costs needed to develop new devices.

This model enables new, high gross margin revenue streams from manufacturing licenses we establish with our strategic foundry partners and from user licenses we negotiate independently with semiconductor companies and OEMs that want to integrate our eFPGA technology in their SoC and ASIC designs.

Manufacturing license agreements are established for a specific fabrication node and user licenses are negotiated for specific SoC and ASIC designs. This means we could establish multiple licenses with a single customer.

Once new devices using our ArcticPro eFPGA technology move into production we will also earn a per unit royalty from semiconductor companies and OEMs. While the royalty stream will take about 18 to 24 months from the time a design starts to when it

moves into mass production, once initiated, it is like an annuity that can extend for years.

Last quarter, we announced joining GLOBALFOUNDRIES' FDXcelerator™ Partner Program and establishing a manufacturing license agreement that enables GLOBALFOUNDRIES to fabricate semiconductors that include our ArcticPro embedded FPGA technology using its 65nm, 40nm and 22nm fabrication processes. In addition to establishing GLOGALFOUNDRIES as the first foundry partner for our IP business model, this agreement also provides us with early access to GLOBALFOUNDRIES cost and power-optimized 22nm FD-SOI technology.

Yesterday, we announced a manufacturing license with a new top-tier semiconductor foundry company. I'm not at liberty to reveal the name of this new foundry partner yet, but I can say the licensed process node is currently running at a high volume and that we expect to recognize a portion of the license revenue in Q1.

While semiconductor companies are the obvious target for our license strategy, OEMs also represent a significant revenue opportunity. Many large OEMs design ASICs that are used exclusively in their finished products. This means that we can monetize our IP to OEMs in vastly different market segments relative to the ones we address with our core SoC business model.

In addition to creating a potentially lucrative license and royalty revenue stream for us, our IP strategy better leverages our engineering investments, while lowering the cost and risk for new SoCs we plan to introduce in the future. We also believe our IP strategy will provide leverage for our core SoC business model by enabling the broader use of our unique ArcticPro eFPGA technology.

We have received extremely broad interest from a number of semiconductor companies and OEMs since announcing the availability of ArcticPro eFPGA last December, and with the introduction of our new Borealis ArcticPro compiler last month, we are moving forward with several engagements that have high-volume potential.

As you may be aware, IP is one of the fastest growing segments of the semiconductor industry, and is forecasted by Markets and Markets to exceed $7 billion by 2022. With the high interest we've seen in our ArcticPro eFPGA technology, we think programmable logic IP will contribute to this forecasted growth in a meaningful way.

There are a number of factors that lead us to believe we have selected the right time and that we are offering the right technology to become a leader in the emerging embedded programmable logic IP market.

1. First, with our rich background in programmable logic, and nearly 30-years of history in the FPGA market we can enable the integration of ultra-low-power programmable logic at a lower risk. Now, we believe we are the first established programmable logic company to license our eFPGA IP to semiconductor companies and OEMs.

2. Second, the fixed costs for sophisticated SoCs and ASICs have increased substantially over the last decade, and that trend is expected to continue going forward. Due to the fact the flexibility of programmable logic enables SoCs and ASICs to address a broader market, its economic benefits are being viewed more favorably by OEMs and semiconductor companies. This is particularly

true for SoC companies that are targeting highly fragmented markets like the Internet of Things or IoT.

3. Third, advancements in semiconductor fabrication technology have recently hit a threshold where the cost to value equation for embedded programmable logic has become extremely attractive for a number of high volume use cases. Going forward, we believe this will only improve as fabrication technology continues to advance at the pace of Moore's Law.

4. And fourth, with the improving cost to value equation, many high-volume OEMs are embracing the flexibility of programmable logic and the fact it gives them a unique way to more easily differentiate their end products. By democratizing its availability with our IP strategy we are enabling this trend to build momentum, and that provides leverage for our core SoC strategy.

As it stands today, we have a number of engagements with top-tier semiconductor foundries, semiconductor companies and OEMs. Going forward, we expect to sign additional license agreements during 2017.

Now on to a review of our sensor processing initiative. In sensor processing our vision is to transform the way people and devices interact with each other and their surroundings. While I realize this is a very broad statement and a seemingly daunting goal for a company like us, I'm proud to say we are executing effectively toward its realization and given our progress, believe sensor processing solutions will drive greater than 50% total revenue growth this year.

Following the release of our best in class EOS™ S3 Sensor Processing Solution last year our biggest challenge was to efficiently move our engagements with top-tier OEMs through the evaluation process and into the design in process.

We responded to this challenge with a four-pronged strategy.

1. First, we strategically realigned to expand our software engineering and support capabilities in a way that enables us to provide our targeted customers across the globe with a 24/7 collaborative environment.

2. Second, we developed new evaluation tools designed to help our targeted customers move more efficiently and more quickly through the evaluation process and into product-specific designs.

3. Third, we established a new partnership with CyweeMotion, the leading supplier of Android-compliant sensor fusion algorithms for Chinese smartphone companies, and expanded our partnership with Sensory, the leading supplier of voice recognition technology.

4. And lastly, we initiated a strategy to work with leading app companies to develop new demonstration tools and reference designs.

With these new capabilities we were able to move multiple smartphone, wearable and IoT OEMs forward from the evaluation stage of our engagement funnel to the design in stage. This includes top-tier Chinese smartphone OEMs and several top-tier wearable OEMs. Our near-term focus is on moving these opportunities from design in to design win, and then to production win later this year.

Through close collaboration with our partners, we developed three new demonstration and evaluation tools last quarter. We displayed these at the January Consumer Electronics Show and had very positive reception. These included:

- A unified evaluation system that integrates Sensory TrulyHandsfree™ voice recognition technology and CyweeMotion sensor fusion. This tool clearly demonstrates our substantial power consumption advantage over traditional microcontroller and Application Processor-integrated sensor hubs and with that, accelerates the evaluation process of our solutions.

- A new voice-activated smartphone-based TV remote control evaluation system that integrates Peel SmartIR™ technology and Sensory voice recognition. We are working with Peel on an EOS S3 reference design that will make it easy for OEMs to enable always-on / always listening voice activated TV remote control in new smartphone designs.

- And lastly, a voice-enabled home automation system using Sensory's "Alexa" voice trigger running on an EOS S3 Sensor Processing Solution.

If you attended or read about the Consumer Electronics Show, you probably noticed the unofficial theme of the show was voice is the next interface. With our new evaluation tools that efficiently demonstrate the ability of our EOS S3 to deliver always-on / always-listening voice interface at substantially lower power than any of the software solutions used in the market today, our timing couldn't have been better.

We have long believed that a truly immersive user experience will drive the next wave of adoption in consumer electronics. What's interesting is it appears that voice might be what enables that wave. While broadening the use of voice interface is clearly the priority today, we are also seeing heightened interest in the use of more advanced sensors and more sophisticated sensor software that will enable multimodal fusion of context, motion, light, sound, biometrics, and location. When coupled with an ultra-low-power always-on / always-listening voice interface, these new capabilities have the potential to transform the way people and devices interact with each other and their surroundings.

If you can't tell, I'm very excited about these trends and what I believe the future holds in store for QuickLogic.

Our wearable design win with the tier one smartphone customer that we've discussed in previous calls continues to move forward and has been deployed for user testing. While this new wearable may still be introduced at Mobile World Congress later this month, we do not think it will move into production until very late in Q1 or more likely during Q2. Due to this, we are not including any revenue from this design in our Q1 guidance.

Interestingly, some of the larger app companies that we have been working with have expanded their business models to include product design. As a result, we've recently turned what was initiated as an ecosystem partnership into a new wearable design win where our EOS S3 is used as an always-on sensor processor.

I recently met with the CEO from the products group of this company to discuss this new design and his outlook for the future. A key takeaway from our conversation is

that our heterogeneous multi-core architecture and eFPGA in the EOS S3 Sensor Processing Platform is the right architecture to enable the more immersive experiences the wearable market needs.

We have numerous ongoing engagements with app companies, and believe this strategy has very significant potential to drive new design wins.

I'll finish with a brief update on our other design activity.

While we are forecasting a seasonal decline in display bridge revenue for Q1, we continue to win new designs across an expanding number of end market segments. Most recently, we won a design with a large OEM for an automotive application.

We also initiated two new engagements with large OEMs during the last quarter for our PolarPro® 3 FPGA.

Before turning the call over to Sue, I'd like to congratulate her on her promotion to CFO. Over the past decade, Sue has been extremely dedicated to our company. I believe her financial acumen will be a true asset to the company as we implement our growth strategy. With that I will now turn the call over to Sue for our Q4 financial review and Q1 guidance.

Thank you, Brian. Good Afternoon and thanks to everyone for joining us today. Please note we are reporting our non-GAAP results. 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.

For the fourth quarter of 2016, total revenue was $2.9 million, reflecting the continuing shipments of our display bridge solutions. Our new product revenue was approximately $1.6 million, and mature product revenue was approximately $1.3 million.

Samsung accounted for 29% of total revenue during the fourth quarter, compared to 39% during the previous quarter, reflecting our diversification to additional customers.

Our Q4 gross margin was 33%, compared to 34% in Q3. The variance is primarily due to customer mix and the product mix shipped during the quarter. As we broaden our customer base and grow new product revenue, we expect margins to trend higher.

Operating expenses for Q4 were better than expected and totaled $4.6 million, an 8% decrease sequentially. This reflects savings from our cost reduction initiatives.

The total for other income, expense and taxes was a charge of $106 thousand. This resulted in a net loss of approximately $3.7 million, or $0.05 per share.

We ended the fourth quarter with approximately $14.9 million in cash. The net cash usage during the fourth quarter was $2.9 million, which was lower than expected, reflecting both the cost savings from our strategic realignment efforts and the timing of working capital requirements. The timing is also reflected in the inventory build-up and increase in accounts payable. The cash usage was partially offset by borrowing an additional $1 million against our existing line of credit.

Let's now turn to Q1 2017.

Our revenue guidance for Q1 is approximately $3.1 million, plus or minus 10%. The $3.1 million in total revenue is expected to be comprised of approximately $1.7 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 Q1 and Q2 2017 and impact our actual results significantly.

Non-GAAP gross margin is forecasted to be approximately 40% plus or minus 3 percent. There are three drivers to the higher gross margin. The portion of eFPGA IP license revenue being recognized in Q1, the mix of customers and products shipped during the quarter, offset by continued unfavorable absorption of operational overhead.

Non-GAAP operating expenses are expected to be approximately $4.8 million, plus or minus $300 thousand. Non-GAAP R&D expenses are forecasted to be approximately $2.5 million and our non-GAAP SG&A expenses are forecasted to be approximately $2.3 million. Our stock based compensation expense for the 1st quarter is expected to be approximately $400 thousand. As was the case in prior quarters, our non-GAAP results will not reflect the charges associated with stock based compensation.

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 $3.3 million or $0.05 per share.

For the first quarter of 2017, we expect to use between $3.4 million and $3.8 million in cash. The forecasted cash usage will be primarily driven by working capital needs including inventory buildup.

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

Thank you Sue.

- Overall, we are very excited about 2017. We believe QuickLogic is positioned to drive substantial revenue growth and fortify the company for long-term shareholder value creation.
- In our sensor processing initiative, the enthusiastic reception at CES for our voice technology, and the design activity we are seeing with OEMs across the Smartphone, Wearable and IoT segments underscores the opportunity in front of us.
- In our eFGPA IP licensing initiative, we are broadening our reach by adding another foundry to our list of manufacturing licensees, and expect to generate additional licensing revenue from SoC or ASIC vendors during 2017.
- And finally, our display bridge and FPGA design activity remains strong.

Thank you for joining us today. We will be participating in a number of industry events during the next few months:

- We will be presenting and will be on a panel at the Wearable Technology Show in London in March.

- Dr. Tim Saxe, our CTO and SVP Engineering has been invited to give the keynote at the IoT Summit at the Santa Clara Convention Center on March 17th.

- And, Sue and I will be at the 29th Annual ROTH Conference in Orange County in March and the Craig-Hallum Conference in May. We hope to see you there or on the road in between.

Operator, we are ready to open the call for questions.

The first quarter earnings conference call is scheduled for Wednesday, May 10th. Thank you for your participation today.