



QuickLogic Corporation
1277 Orleans Drive
Sunnyvale, CA 94089-1138 USA

Sue Cheung, Principal Accounting Officer and Corporate Controller speaking

Q3 Financial Results:

Thank you Operator, and thanks to all of you for joining us today. Before we begin with our prepared remarks, I'll take a moment to read our Safe Harbor statement.

During this call we will make statements that are forward-looking. These forward-looking statements involve risks and uncertainties including but not limited to stated expectations relating to revenue from our new and mature products, statements pertaining to our design activity and our ability to convert new design opportunities into production shipments, market acceptance of our customers' products, our expected results, and our financial expectations for revenue, gross margin, operating expenses, profitability and cash. QuickLogic's future results could differ materially from the results described in these forward-looking statements. We refer you to the risk factors listed in our annual report on Form 10-K, quarterly reports on Form 10-Q and prior press releases for a description of these and other risk factors. QuickLogic assumes no obligation to update any such forward-looking statements. This conference call is open to all and is being webcast live.

For the third quarter of 2015, total revenue was \$4.2 million which was below our guidance range. As we stated in the pre announcement of our Q3 results, the primary reason for this shortfall to guidance was an unexpected and temporary decline of mature product revenue. As a result, mature product revenue was approximately \$1.3 million. Our new product revenue was \$2.9 million, which reflects increased shipments of sensor processing and display



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bridge solutions that were offset by a larger than expected decline in smart-connectivity solutions.

Samsung accounted for 57% of total revenue during the third quarter as compared to 41% during the previous quarter.

Due to lower mature product revenue, and a notable increase in display bridge shipments to Samsung, our non-GAAP gross margin for the third quarter was 30% and was below our forecast.

Non-GAAP operating expenses for the third quarter totaled \$5.7 million, which was in line with our forecast.

On a non-GAAP basis, the total for other income, expense and taxes was a charge of \$59 thousand. This resulted in a non-GAAP loss of approximately \$4.5 million or \$0.08 per share.

We ended the quarter with a cash balance of \$23.4 million. Due to the timing of our working capital needs, cash declined by \$3 million, which was at the low end of our forecasted cash usage.

Our Q3 GAAP net loss was \$5.1 million or \$.09 per share. Our GAAP results include stock based compensation charges of \$479 thousand, restructuring charges of \$77 thousand and \$8 thousand of a fixed asset write-off.

Please see today's press release for a detailed reconciliation of our GAAP to non-GAAP results and other financial tables. In addition, you will also find a financial table published on our IR web page that provides current and historic non-GAAP data.



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With that, I'll turn the call over to Andy Pease who will update you on the status of our strategic efforts.



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Andy Pease, President and CEO speaking

Strategic Comments:

Thanks Sue. While the temporary decline in mature product revenue in Q3 was disappointing, our strategic initiatives are progressing in line with our expectations. Before we focus on the status of those initiatives, let's take a minute to baseline some of our other activities.

Mature Business:

Order flow for our mature products is usually fairly predictable. However, an unusual customer demand pattern led to a shortfall from last quarter's outlook. As Sue will note, we expect mature product revenue to rebound to approximately \$1.7 million in Q4. We think that will be the new normal going forward.

Smart Connectivity:

As discussed in our July conference call, revenue from smart connectivity products declined again in Q3. This decline was primarily driven by lower demand for PHS handsets in Japan. At the peak, we were supporting five unique PHS handset designs with our smart connectivity solutions, and some of these designs used two of our devices. Due to the market's shift away from PHS, we anticipate supporting only one PHS handset design during Q4.

While the decline in PHS demand negatively impacted new product revenue during the last two quarters, we continue to win new designs, and believe smart connectivity revenue will begin to rebound modestly in Q4. Our recent smart connectivity design wins include Thinkware and Sharp. These are new



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customers for QuickLogic, and we hope to win new designs with them in the future.

Thinkware is a rapidly growing South Korean company that is the world leader in dash-cam video recorders. Thinkware is using our PolarPro® 2 solution for smart connectivity applications in two new products - a dash-cam and an automotive navigation device. Dash-cam videos of events like meteor showers, earthquakes, floods and plane crashes are common on YouTube, and are often used worldwide by news reporters. Dash-cams are also gaining popularity for recording vacation memories and are increasingly being used to protect drivers against liability claims following accidents. Thinkware dash-cams are available worldwide. In the United States, they are sold at Best Buy, Sam's Club and Amazon.

Sharp selected our PolarPro 3 silicon platform for a smart connectivity application in its innovative RoBoHoN design. RoBoHoN also uses our VEE-enabled display bridge for its built-in pico projector. RoBoHoN is a Mobile Robot Phone. While RoBoHoN won't begin shipping until the first half of 2016, Sharp gave it prominent placement at the recent CEATEC trade show in Japan, and will feature it at CES in January. If you run an internet search for Sharp RoBoHoN, which is spelled R-O-B-O-H-O-N, you will find numerous articles and videos.

Samsung:

In addition to our recent successes in smart connectivity, I'm also very proud to announce we have won our seventh display bridge design at Samsung. While we believe revenue from display bridge designs will continue through at least



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next year, our customers are forecasting a sequential decline in overall demand for Q4 that we do not think will be fully offset with increased revenue from smart connectivity and Sensor Processing Solutions.

Patents:

Before I provide our update on our Sensor Processing Solutions, I am very pleased to announce we have been awarded our first patent for the new programmable fabric design that is used in our PolarPro 3, PolarPro 3E and throughout our Sensor Processing Platforms. We are aggressively seeking patents to protect our new innovations, and currently have several key patent applications that are still pending.

Sensor Processing Solutions:

In line with our prepared remarks from last quarter's call, we shipped Sensor Processing Solutions to support eight unique designs during Q3. We expect to support at least that many unique designs during Q4. This will include initial production shipments to support a new wearable design that will be branded by a major Asian cellular carrier. All of these designs use our Sensor Processing Silicon Platforms and our SenseMe™ Algorithm Library.

Revenue generated from our Sensor Processing Solutions grew again in Q3. We expect this trend to continue, and by the end of 2016, we believe Sensor Processing Solutions will drive the vast majority of our total revenue. Supporting this outlook is the fact we are rapidly gaining traction with large OEMs that have high brand-name recognition and substantial volume potential in the smartphone, wearable and IoT markets.



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Today, we have engagements and/or design wins with nine OEMs that have high brand-name recognition and are top-tier players within their product sectors. We look forward to providing you with more detail on these activities and design wins in the future.

In addition to concentrating our engineering resources on top-tier OEMs, we are narrowing our focus to a select number of large ODMs and IDHs that are actively incubating innovative designs in our target markets. This strategy allows us to leverage our engineering investment across a broad set of end products and markets while focusing our direct design support efforts with large OEMs and the selected ODM and IDH companies. This represents a major shift from where we were at the start of this year.

Last quarter we introduced you to our new EOS™ Sensor Processing Platform. Since then, we have initiated sampling of the first member of this family, the EOS S3 to strategic customers. This includes our Alpha customer, a top-five smartphone company, as well as one other smartphone company with high brand-name recognition. We are scheduled to deliver samples and a development platform to a third smartphone company in November that is a top-tier OEM with high brand-name recognition.

We also have early EOS S3 engagements with several high-profile wearable device manufacturers that we expect to support with samples and development tools in the near future. We are on schedule to initiate production shipments of our EOS platform during the second quarter of 2016.

In July, I described how our SenseMe Algorithm Library licensing strategy led us to win an S2 design with a well-recognized European company. Last



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month we identified this company as Runtastic, which is now a part of adidas. We're extremely pleased our SenseMe license engagement led us to a production win for our S2 Sensor Processing Solution. We have already shipped orders to support initial production of the Runtastic Moment family of smart watches.

For additional information about the Runtastic Moment, and how our Sensor Processing Solutions enabled some of its key features, please see the September 9th press release on the QuickLogic web site.

As you know, things change quickly in the tech sector. As recently as 18 months ago our strategy was to partner with algorithm development companies, and focus on silicon solutions. However, after learning that our lead algorithm partner would be acquired, we decided to establish an internal algorithm development team. The resulting SenseMe Algorithm Library represents a significant differentiating advantage for us in the market.

Earlier this year we announced our SenseMe algorithm licensing strategy. With this strategy we can engage with customers that may not be ready to adopt our silicon solutions. As was the case with Runtastic, we think some of these SenseMe engagements will lead to the customer using our silicon solutions.

Today we have three active SenseMe license engagements with large OEMs. All three OEMs have high brand-name recognition, and two are sector leaders. I am very pleased to announce that we have received our first purchase order for a SenseMe license from one of these OEMs, and we expect to announce further details on the design once the customer releases its new product in conjunction with CES.



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I can't get into the detail right now, but I am excited about the number of new products using QuickLogic's Sensor Processing Solutions that will be displayed at CES in 2016. If you plan to attend CES in January, I encourage you to make an appointment to visit us.

With that, I'll turn the call back over to Sue for our Q4 guidance. Following that, I'll rejoin you for my closing comments.



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Sue Cheung, speaking

Guidance:

Thank you, Andy.

Our guidance for Q4 2015 is for total revenue of \$4 million, plus or minus 10%.

The total revenue is expected to be comprised of approximately \$2.3 million of new product revenue and \$1.7 million of mature product revenue. While we expect revenue from our Sensor Processing Solutions and Smart Connectivity applications to increase sequentially in Q4, these increases are not expected to fully offset the reduced shipments of display bridge solutions.

As in prior quarters, our actual results may vary significantly due to schedule variations from our customers which are beyond our control. Schedule changes, and projected production start dates, could push or pull shipments between Q4 2015 and Q1 2016 and impact our actual results significantly.

On a non-GAAP basis, we expect gross margin to be approximately 42% plus or minus 3 percent. The anticipated increase in gross margin reflects the impact of product and customer mix.

We are currently forecasting non-GAAP operating expenses to be \$6 million, plus or minus \$300 thousand. The expected increase in OPEX is primarily driven by engineering expenses associated with the release of the EOS S3 platform and ongoing development of our EOS hardware and software solutions.



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Non-GAAP R&D expenses are forecasted to be approximately \$3.7 million and our non-GAAP SG&A expenses are forecasted to be flat at approximately \$2.3 million.

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 \$4.3 million or \$0.08 per share.

Our stock based compensation expense during the fourth quarter is expected to be approximately \$660 thousand. This increase is due to the timing of our annual employee stock grants.

During Q4 we expect to accrue approximately \$70 thousand in restructuring charges. As was the case last quarter, our non-GAAP results will not reflect these charges or charges associated with stock based compensation and fixed asset write-offs.

Including the favorable impact of an additional \$1 million loan from our bank line of credit, we expect to use approximately \$3.8 - \$4.3 million in cash. This would result in a quarter-ending cash balance in the range of \$19.1 - \$19.6 million. The increase in cash usage in Q4 is primarily driven by the lower revenue level from the prior quarter, planned increases in our inventory level and other anticipated increases in working capital.

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



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Andy Pease, speaking

Closing Bullets:

I'm pleased to announce that Mark Sprague has joined the QuickLogic family as our new Vice President of Worldwide Sales. Mark is an experienced sales leader with more than 23 years of semiconductor and system level experience. He has a strong track record of consistently exceeding revenue targets along with his excellent business development, account management and solution selling skills. Immediately prior to joining QuickLogic, Mark was Director of Worldwide Sales at Trimble Navigation. Mark has held a variety of sales management positions at a number of companies including RFMD, IDT, Zilog, AMD and Marvell.

Mark started last week and is in the process of assuming responsibility for our entire sales process. This is key as it will enable Brian Faith to focus his efforts on Product Marketing, Business Development and Investor Relations.

Our sensor processing solutions have generated considerable interest, and that has enabled us to shift the focus of our go-to-market strategy to larger, brand-name OEMs and narrow our focus at ODM and IDH companies. This is a significant development in our evolution which will enable us to scale our business by engaging in opportunities that have much higher revenue and ROI potential.

As you can see from the steady increase in our R&D activities, we have made substantial investments in our Sensor Processing Solutions. These solutions



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include sophisticated programmable SoC platforms, a wide variety of sensor software algorithms, and comprehensive reference designs for our target markets. We expect these investments to establish QuickLogic as a premier supplier for Sensor Processing Solutions in 2016.

With that, we'll turn the call back over to the operator, and open the floor for your questions.



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AFTER Q &A:

Before we conclude this call, it is with great sadness that I share with you the passing of Evelyn West - long time spouse, companion and soul mate of Bob West.

I met Bob about 7 years ago. One of the great aspects of being in this business is you get to meet extraordinary people. Bob is certainly one of those people. Over these years Bob has become more than just a business associate to me and I am honored to call him my friend. Please join me in letting Bob know that he and his family are in our thoughts and prayers.

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

- Dr. Timothy Saxe will be presenting at the Wearable Sensors and Electronics Show in Santa Clara on November 16 and 17.
- Sue and I will be at the ROTH Technology Corporate Access Day in New York on November 18th,
- Sue and Brian will be at the Benchmark Microcap Discovery Conference in Chicago on December 10th,
- We will have our largest private suite ever at CES in Las Vegas on January 6th through the 9th, 2016,
- And finally, Sue, Brian and I will be at the Needham Conference in New York on January 12th to the 14th, 2016

Details will be included in our upcoming Media Alerts.



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We thank you for your continued support and I look forward to reporting our strategic progress on the next earnings call which is scheduled for Wednesday February 10th, 2016.