Ladies and gentlemen, good afternoon! At this time, I'd like to welcome everyone to QuickLogic Corporation's second 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, Chief Executive Officer and Sue Cheung, Principal Accounting 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, market acceptance of its customers' products, 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 a review of the second quarter financial results by QuickLogic's Principal Accounting Officer, Sue Cheung, then its CEO, Brian Faith, will discuss the company's strategic initiatives in the quarter. Then Sue will provide financial guidance for the third quarter before Brian's closing remarks.

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

For the second quarter of 2016, total revenue was $2.7 million, which was at the low end of our guidance range. Our new product revenue was approximately $1.2 million, and mature product revenue was approximately $1.5 million.

Samsung accounted for 31% of total revenue during the second quarter, compared to 35% during the previous quarter.

During the second quarter we took an inventory reserve of $203 thousand. This was primarily driven by the write-off of our first generation PolarPro 3 inventory. Even though this was a non-cash expense, we usually do not adjust for inventory reserves in our non-GAAP presentation. As a result, this reserve lowered our GAAP and non-GAAP gross margin by about 8%, resulting in a reported non-GAAP gross margin of 30%.

Excluding the inventory write-off, our non-GAAP gross margin would be 38%, which was within our guidance range.

Non-GAAP operating expenses for Q2 totaled $5.6 million, which was favorable to our guidance. The lower non-GAAP operating expenses were primarily due to our efficient use of resources and lower than expected engineering related expenses.

On a non-GAAP basis, the total for other income, expense and taxes was a charge of $76 thousand. This resulted in a non-GAAP loss of approximately $4.8 million or $0.07 per share, which was better than our guidance.

We ended the second quarter with approximately $19.0 million in cash, which was favorable to our guidance. Cash usage during the second quarter was $4.3 million which reflects the operating loss and changes in working capital requirements that were partially offset by borrowing $1 million against our existing line of credit with Silicon Valley Bank.

Our Q2 GAAP net loss was approximately $5.6 million or $.08 per share, which was within our guidance range. Our GAAP results included stock based compensation charges of $439 thousand and a non-cash write-off of $312 thousand for our first generation sensor hub mask set. Again, both our GAAP and non-GAAP results included the previously mentioned inventory reserve charge.

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.

Last week we implemented strategic re-alignment measures that resulted in a reduction of eight employees. We expect to incur a one-time severance charge of approximately $170 thousand in the third quarter of 2016 associated with this reduction. Later this quarter we also plan to implement cost reduction measures associated with outside services.

On a non-GAAP basis, we estimate the quarterly savings from these initiatives will be between $500 and $800 thousand beginning with Q4.

In addition to notably lowering our quarterly cash usage, and given the same assumptions we've shared in past conference calls, we expect these cost savings will lower the revenue level required to achieve cash flow breakeven by $1.0 to $1.6 million.

With that, I'll turn the call over to Brian who will update you on the progress of our strategic initiatives.

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

As I'm sure you are aware, following the announcement of Andy's retirement, I took over as CEO on June 24th. Andy will continue to work with us as an active member of the Board of Directors. While his condition is defined as Early Stage 1, his neurologist emphasized to Andy that the best therapy for slowing the progression of Parkinson's disease is to reduce stress and increase physical activity. This retirement optimizes both. We wish Andy the best as he embarks on a well-deserved retirement.

Since this is my first conference call as CEO, I'll take extra time to provide you with some background, a fresh baseline of our strategic initiatives, and my outlook for the future.

During the past twenty years with QuickLogic, I've held a variety of positions in engineering, product line management, marketing and sales. Since I had P&L responsibility as a product line manager, I spent a considerable amount of time being mentored by our then CFO. With this background, I'm very familiar with the operational structure of the company, all of the companies that are affiliated with our ecosystem and all of our major investors. Most importantly, I am intimately familiar with our target markets and have long-standing relationships with our key customers.

Needless to say, I learned many lessons during the past twenty years. Most importantly, I learned what works, and what doesn't work. With those lessons in mind, I believe what we are doing now is working, and I believe that during the coming year we will generate the results to not only prove it is working very well, but also to demonstrate that we have a durable business model capable of delivering long-term growth and profitability.

While QuickLogic has executed successful business models in the past, none of them proved to be durable. The reason is that those models competed against the persistent cadence of semiconductor integration that is commonly described by Moore's Law. As a result, the value propositions of our past business models were eventually integrated into higher functioning chips by our competitors. Said another way, we were operating on the wrong side of Moore's Law, and that doesn't work.

With our Sensor Processing Solution business model we are the integrator, and that means for the first time since I've been at QuickLogic, we are on the right side of Moore's Law. In addition to this, I believe we have the best solution in the market today, and are at the front end of what will prove to be a very significant growth opportunity for QuickLogic.

New product development by top-tier customers in our targeted markets is rapidly trending towards immersive user experiences that substantially increase the demands placed on Sensor Processors. With these trends, customers are focusing more on the power consumed by the Sensor Processing

Solutions. I believe we are extremely well positioned to capitalize on these trends, and my goal is to capture as much of this emerging market as possible.

While my confidence in realizing this goal is bolstered by the feedback we've received from many of the leaders in our targeted markets, it remains difficult to predict the timing and shape of the production ramp for the products that will incorporate our solutions. Let's take a minute now to baseline our activity and some recent developments.

First, let's start with the strategy behind the strategic re-alignment initiative Sue briefly covered. With the EOS S3 now qualified for production, our hardware design engineering requirements are much lower than they were a quarter ago. Due to this we reduced our hardware design engineering staff in Sunnyvale last week. This provides us with the opportunity to expand our software engineering capabilities and reduce costs at the same time.

Going forward our biggest challenge is keeping pace with the engagements we have with top-tier OEMs in our targeted markets. Once a customer engagement is established it quickly becomes very software intensive. The trends we are seeing tell us this intensity will increase as OEMs implement features that require more sophisticated software fusion of voice and sensor data.

These trends increase the demand and duty cycle for the sensor processing system and that benefits us. However, to realize that benefit, we need to increase the number of software engineers we have available to support customer engagements. To accomplish this and enable 24/7 support for our customers, we are increasing our software engineering staff in India.

As we forecasted in our last quarter earnings conference call, we shipped a modest quantity of our production qualified EOS S3 to a tier one smartphone customer last quarter to support its preproduction of a new wearable device.

During the Q&A session of the last conference call we stated that while this customer told us its new wearable device is designed to be a high volume product, the marketing team had not decided how it would stage the launch, or if it would couple it with the launch of other products. While these decisions are still not firm, the indications are the new wearable device will launch during the three-month window that concludes with Mobile World Congress in February of 2017.

The good news is the customer is extremely pleased with the design of our EOS S3 Sensor Processing Solution and is timing its introduction to maximize the volume potential and media coverage for the product. Moreover, we have continued to broaden our engagement activity with this customer on other potentially high volume sensor processing applications. Unfortunately, the anticipated launch schedule means the significant ramp in revenue we were anticipating in Q4 will likely be pushed out by one quarter.

During the last six weeks I've spent a considerable amount of time auditing our operational structure and our strategic customer engagements. This includes visits to our field sales offices and customer locations in South Korea, China and India.

With data gathered from these efforts, and the support of our executive team, we have prioritized our engagements, and defined the resources we need to optimize our success. While this process led me to temper our outlook for the second half of 2016, it also increased my confidence in our longer term growth potential.

This optimism is based on the fact that 14 out of the top 15 smartphone OEMs in the world today have expressed interest in evaluating our EOS S3 Sensor Processing Solution. That being said, not all of these OEMs have a product they are ready to target for development at this time.

To optimize our return on investment, we have refined our active engagement focus to include opportunities where the OEM has a target product with high volume potential that can benefit from the unique advantages of our sensor processing solutions. With this filter in place, we removed several engagements from our active list and replaced them with a similar number of new engagements that meet those criteria.

Most of the engagements that we suspended were engagements where the OEM either removed a product from its development pipeline or had not yet assigned a specific product to the engagement.

In all of these cases the OEMs remain interested in our sensor processing solutions, and have stated they will welcome reengaging with us when they can identify a high-volume target product.

As a result of these adjustments, we now have a more qualified set of active engagements with nearly half of them being with top-tier smartphone OEMs that have very significant volume potential.

At this juncture, we believe there will be several new devices launched during the second half of 2016 by top-tier OEMs that use our sensor processing solutions. Among these is the design we have mentioned in the past with a top-tier semiconductor company that we now expect will enter production in very late Q4.

We are currently working with one of these top-tier OEMs on a press release that announces our sensor processing platform and algorithms have been designed into a highly sophisticated VR camera. While we are not anticipating this will be a high volume product, it is designed to set new standards for VR video recording, which makes it a great showpiece for the capabilities of our solution.

We are also working with a top-tier smartphone company on a press release that will announce the use of our display bridge in a new smartphone accessory.

In addition to these press releases that we plan to announce this month or next, we believe we will get permission from other customers to issue additional design win press releases later this year.

While we are on the subject of press releases, I would like to take a moment to highlight the recent press release issued by our Ecosystem Partner, Sensory. Sensory is the clear leader in voice triggering and recognition software and its technology is used pervasively by the leaders in the smartphone, wearable and IOT markets.

In its press release, Sensory announced partnerships with us and two other companies. Of the three, QuickLogic is the only company that offers a hardware integrated version of Sensory's technology in a sensor hub or MCU. We view this as a very significant competitive advantage that plays favorably to the design trends we're seeing in the market today.

New designs from top-tier OEMs expand the use of always on voice applications such as "OK Google" to improve the user interface and enable new immersive user experiences. The main challenge they face is to accomplish these goals while still maximizing battery life. Our EOS S3 integrated hardware solution supports these applications while reducing power consumption by approximately 50% relative to the traditional MCU solutions being used in the market today.

Going forward, the best route to further optimize our unique silicon platform and leverage our engineering resources, is by partnering with leading software companies such as Sensory. With that in mind, we are in the process of establishing a partnership with an Asian software company whose smartphone solutions are used by many of the top-tier Chinese OEMs. Once this initiative is completed, I believe our design engagements in China will accelerate significantly.

While I believe we have the best sensor processing hardware platform in the market today, the strategic steps we are taking now will bolster that strength with software solutions that enhance its value. We believe these steps will not only help us expand our value proposition, but also better leverage our investments in engineering and customer support.

At the bottom line, I firmly believe that with the engagement activity we have today, the strategic steps we've taken during the last six weeks, and plan to expand upon during the second half of 2016, we will accelerate our ability to finalize design wins, and with that, drive our revenue growth in 2017.

I'll now turn the call over to Sue for our third quarter guidance and rejoin for my closing remarks.

Thank you, Brian.

For the third quarter of 2016, we are forecasting total revenue of approximately $2.8 million, plus or minus 10%.

The $2.8 million in total revenue is expected to be comprised of approximately $1.4 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 Q3 and Q4 2016 and impact our actual results significantly.

On a non-GAAP basis, we expect gross margin to be approximately 38% 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 $5.3 million, plus or minus $300 thousand. The expected decrease in OPEX is a result of the cost reduction measures we discussed earlier.

Non-GAAP R&D expenses are forecasted to be approximately $3.0 million and our non-GAAP SG&A expenses are forecasted to be 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 $4.1 million or $0.06 per share.

Our stock based compensation expense for the third quarter is expected to be approximately $400 thousand.

As mentioned before, during Q3 we expect to incur a one-time severance charge of approximately $170 thousand. As was the case in prior quarters, our non-GAAP results will not reflect this charge, or charges associated with stock based compensation.

Including the favorable impact of an additional $1 million borrowing from our bank line of credit, we expect the net Q3 cash usage to be approximately $2.2 - $2.7 million. The forecasted cash usage is primarily due to our working capital needs and payments associated with our new product development costs.

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

Thank you, Sue.

- The feedback we've received from literally every top-tier customer we've shown the EOS S3 to tell us it is the right part at the right time and that it is priced correctly for the market. We are engaged today with many of these top-tier customers on specific programs.
- While the aggregate number of engagements has held fairly constant, the quality and potential of our engagements has improved significantly. Approximately half of our engagements are targeting specific new smartphone designs with top-tier OEMs, and virtually all of those engagements have multi-million unit annual volume potential.
- After auditing every aspect of our business, we have implemented a strategic realignment that will significantly lower our fixed costs and, at the same time, provide us with the software engineering resources we need to accelerate our ability to win new designs.
- With this progress, I'm more confident than ever that we will grow our revenue very significantly in 2017, and end the year as a profitable enterprise.

Operator, I'd now like to open up the call for Q&A.

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 November 2nd, 2016.