

Energous Corporation

Third Quarter 2016 Earnings Conference Call

Monday, November 07, 2016, 04:30 PM
Eastern

CORPORATE PARTICIPANTS

Steve Rizzone - *Chief Executive Officer*

Brian Sereda - *Executive Vice President and Chief Financial Officer*

Laurie Berman - *Investor Relations*

PRESENTATION

Operator

Good day, everyone, and welcome to the Energous Corporation Third Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." Please note that this event is being recorded.

I would now like to turn the conference over to Laurie Berman. Please go ahead.

Laurie Berman

Thank you, William, and welcome, everybody. I am Laurie Berman, Investor Relations for Energous.

Before we begin, I need to remind everyone that during today's call the company will make forward-looking statements. These statements whether in prepared remarks or during the Q&A session are subject to inherent risks and uncertainties, which are detailed in the company's filings with the Securities and Exchange Commission.

Except as otherwise required by Federal Securities Laws, Energous disclaims any obligation or undertaking to publicly release updates or revisions to forward-looking statements contained herein or elsewhere to reflect changes and expectations with regard to those events, conditions, and circumstances.

Also, please note that during this call, Energous will be discussing non-GAAP financial measures as defined by SEC regulation G. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are included in today's press release which is posted on the company's website.

Now, I would like to turn the call over to Steve Rizzone, CEO of Energous. Please go ahead, Steve.

Steve Rizzone

Thank you, Laurie. I would like to welcome everyone to the Energous third quarter conference call and update.

Joining me today is Brian Sereda, our Chief Financial Officer. I will begin the call with several comments about the very significant announcement that was made this morning regarding our strategic partnership with Dialog Semiconductor, which includes a \$10 million dollar investment through a common stock purchase.

I will follow these comments with a review of our Q3 milestone achievements and progress the company has made since our last update. I will then turn the call over to Brian, who will review the financial results for the third quarter. Following Brian, I will close with an update on the company's progress against the corporate goals we set for the year and then we will open the session to questions.

Moving straight to the Energous Dialog partnership announcement, as most of you are aware, Dialog is a multibillion dollar semiconductor company headquartered in the United Kingdom.

Their product portfolio and customer base is synergistic to ours, as Dialog develops integrated circuits or ICs that are highly innovative and industry-leading in the areas of integrated power management, power conservation and connectivity, serving the markets of portable consumer devices and IoT applications.

Essentially, in these overlapping markets of consumer devices and IoT applications; Energous's ICs interact with Dialog's ICs. Our partnership with Dialog is a long term relationship that will combine all of the components associated with wireless power, power management and Bluetooth Low Energy or BLE connectivity under a single industry-leading umbrella.

By combining our sales, marketing, customer support and manufacturing efforts, the result will be a technically and commercially compelling integration that will yield cost advantages for our common customers leading to the acceleration of the WattUp product integration and ecosystem build out, as well as the creation of significant barriers to any current or potential future competitors.

Clearly, this strategic relationship and Dialog's investment in Energous is a major milestone for us, and advances the company to a new level. The relationship is advantageous for both companies, as we will equally share in the benefits and synergies as together we build a new standard for true wire free mobile power.

Energous's board of directors and executive management team are excited about the Dialog partnership, and believe it represents a tremendous validation of our company and our technology by a top tier semiconductor company. While there are challenges that still need to be overcome, both Energous and Dialog are dedicated to realizing the vision of a WattUp-enabled ecosystem and are jointly committed to achieving success. The partnership and investment do much more than validate our company and technology. We anticipate the partnership will significantly accelerate the adoption of WattUp technology.

Let me give you some examples of how we believe this will happen. First off, the partnership with Dialog has the potential to play a vital role with our largest top tier consumer electronics and IoT customer opportunities, which all require master supply agreements in order to begin shipments of mass quantities of silicon ICs.

For background purposes, master supply agreement requirements are extremely difficult to meet, time consuming and expensive to put in place. Many of our top tier companies we are actively engaged with are now reaching the level of product integration, commercialization and product launch decisions where discussions surrounding master supply agreements with them have begun.

Our partnership with Dialog essentially eliminates this issue, as Energous is either able to leverage an existing Dialog master supply agreement or partner with Dialog to create a new one. This will save Energous months of effort, potential lost business and significant associated expenses. Because we cannot sell mass quantities of chip sets to a company that requires a master supply agreement until one is in place, the relationship with Dialog provides Energous with a great advantage in that we can accelerate this phase of the customer engagement which in turn will accelerate our path to meaningful shipment of mass quantities of silicon chips.

Another significant advantage of our partnership with Dialog is that most, if not all, of Energous's early adopters are existing Dialog customers. Working in conjunction with a well established,

highly regarded company like Dialog increases customer confidence in the WattUp technology, ecosystem roll out and potential supply chain concerns.

These companies which typically engage with just a single product or SKU as an introductory release of a new technology like WattUp may now consider multiple products or SKUs for WattUp integration given our relationship with Dialog. We believe this change in customer dynamic and accessibility will accelerate the overall WattUp adoption rate, thereby accelerating our sales growth especially in the initial years of product rollout.

Finally, under the terms of the partnership, Energous and Dialog will jointly market and sell the WattUp technology. Common reference designs are being developed which integrate WattUp chipsets, software and antennas with Dialog BLE and power management chips, creating a plug and play design for wire free power, connectivity and power control.

As part of the agreement to jointly sell WattUp technology, Dialog will take the sales lead with Energous taking the technical support lead from design end through design win phases. Dialog has a global sales force and worldwide distribution partners, all of whom will be trained on the WattUp technology product line.

Given this natural synergy and the scope of Dialog's sales presence, the effective reach of the combined Energous Dialog reference designs will be dramatically increased. Dialog's sales presence allows Energous to focus its resources on support and engineering services, which translates into faster expansion of the WattUp customer base contributing to the acceleration of WattUp adoption.

In addition to these three key strategic benefits, there are also several natural synergies resulting from the partnership. One of the most significant involves semiconductor operations. Those of you who follow Dialog know they have a world-class operation team with processes in place that will benefit Energous.

Under the terms of the partnership, Energous will continue to develop the WattUp technology maintaining ownership of all of its intellectual property. Energous will take the silicon through the initial qualification phase after which Dialog will assume responsibility and control of the process.

Dialog will become the exclusive component supplier for all WattUp ICs and will be responsible for all post development and qualification logistics including wafer forecasts, foundry management, chip inventory and RMA's resulting in considerable annual cost savings to Energous.

Energous will also be able to take advantage of Dialog's significant wafer purchasing power leading to substantially reduced cost of goods sold. The net result to Energous is a much improved P&L without the need to invest capital in inventory and processes associated with traditional fabless semiconductor companies.

As we now have begun working with Dialog's operation team under this new partnership, there is an expected 30 to 45 days of transition, which we anticipate will impact our schedule for shipments of commercial chipsets. We will have better visibility to this in the next few weeks but first shipments of commercial silicon will now likely begin in January 2017, as our combined efforts ramp up.

The Energous management team and board are especially pleased with the investment element of our partnership as it represents both a tremendous validation as noted earlier, but equally important, it represents a level of commitment on the part of both companies to devote the necessary resources and attention to ensuring the partnership's success. It is our strong belief that the Dialog Energous partnership will aggressively accelerate WattUp adoption and bring the vision of a ubiquitous WattUp ecosystem closer to reality.

One final note regarding the partnership. On Friday November 11, I will be joining the Dialog executive team in London at a Dialog-sponsored investor conference where we will be jointly discussing the details of the partnership and the investment.

Turning to our third quarter progress, it was highlighted by the successful completion of a very, very difficult and significant milestone for our key strategic partner, which resulted in the recognition of an additional \$1 million in engineering services revenue.

As we have previously discussed at great length, we are contractually precluded from commenting on any details of this strategic relationship. But we can tell you at the core of this milestone were innovative new antenna designs, an accelerated tape out, a successful bring up of four ICs with radically new architectures which were originally scheduled for tape out in the first quarter of 2017. These new development efforts had such a significant impact on efficiency and miniaturization of the WattUp technology that they also yielded several additional patent applications.

In addition, we also recognized revenue for engineering services from a second customer that is evaluating our full sized transmitter and network management system. While a large part of our development resources were focused on milestones for our strategic partner during the quarter, Energous was also able to advance our development efforts along a number of additional fronts.

A special priority was continuing progress towards our 2017 forecast of shipping mass quantities of semiconductor ICs with the expectation of generating significant revenues from the sale of chipsets from product shipping to consumers, and reaching cash flow breakeven late in the third quarter of 2017.

Based on our joint sales approach with Dialog, we will now be reporting customer progress consistent with a fabless semiconductor company. Specifically, we will track our customers as they progress through four phases of sales progress, phase one, opportunity, phase two, design-in or evaluation, phase three, design-win where WattUp has been selected as part of a product of record, and phase four, production where WattUp-enabled products are shipping in volume.

Based on this progression, during the last quarter our application engineering team was actively engaged in design-in phases with 12 consumer products and IoT companies. This level of activity is consistent with our goal of adding at least one new customer actively integrating the WattUp technology into a consumer product per month. The first products from these efforts will be on display at the CES show in Las Vegas in early January.

We have confirmed that we will have a minimum of four fully integrated and fully commercialized WattUp enabled products from four different licensees on display and for demonstration at our suite. It is our expectation that these products which are receivers coupled with mini WattUp contact based transmitters will reach the consumer in Q1 of 2017 depending on how quickly we can transition our operations over to Dialog and the final products can receive certification from

the FCC. Also at this show, we will have three separate commercially viable transmitters from an efficiency cost and footprint perspective.

A mini WattUp transmitter, a mid-sized and a full sized transmitter with a common receiver that can be charged by all three transmitters ranging from zero separation with a mini WattUp transmitter all the way up to 15 feet with the full size WattUp transmitter. This year's show will also be very special for us as we will be jointly participating in a number of different ways with our new partner Dialog. The specifics of this joint participation are in the process of being finalized, but we do know that we will be well represented in each other's demo suites.

Another priority for the company was our continued investment in the regulatory approval process. During the quarter we expanded our world class regulatory team to allow us to begin to focus attention on international certifications.

Based on progress to date, during the quarter Energous built and tested a fully commercialized ready for the consumer transmitter and receiver system that we believe meets all of the current FCC requirements for RF exposure and emissions. At the appropriate time and through the appropriate process it is our intent to submit this system for certification by the FCC.

While there are additional steps to be take, all indications are that Energous is making significant progress on the path to achieve certification of a commercially viable power at a distance system, and we believe we will receive approval in time to meet our goals of WattUp enabled mid-sized transmitters, shipping to the consumer in late third quarter to fourth quarter of 2017 and full-size WattUp enabled transmitters in the first quarter of 2018.

Intellectual property continues to be a major focus for Energous, given our licensing model. Protecting our intellectual property has always been a top priority for the company.

The wire free charging ecosystem is made up of a number of key technologies including, semiconductors, antennas, hardware, firmware and algorithms which all combine to enable what we believe is a fundamentally disruptive offering for electronic devices.

As many of you know, we have filed over 250 patent applications to-date. And we are now starting to see some of those first applications being awarded. As of today, we have a total of 20 patents awarded or being allowed and expected to issue shortly.

We also recently were challenged on one of our patent awards. It is a minor patent and is not core to any of our current applications of technology. However, as an industry leader it is important that our intellectual property and our ownership is respected. So we are preparing an appropriate response to the challenge which will be announced in the next few weeks.

I would now like to make a few comments on our expenses, as a precursor to Brian's comments on the company's financial performance for the quarter. During the last quarterly conference call, we commented that it was our expectation that operating expenses beginning in Q3 would be reduced quarter-to-quarter because of an expected reduction in spending on semiconductor development, due to three development related reasons we were not able to accomplish this goal.

First, in order to meet our key milestone with our key strategic partner which was expanded from the original PRD, we advanced our semiconductor roadmap and brought in four tape outs,

from Q4 of 2016 and Q1 of 2017. This semiconductor roadmap acceleration is significant in and of itself. However, it did require additional investment in the quarter.

Second, given the timing of the milestone, several hundred thousands of dollars were spent on accelerated sub-contractor deliverables, rushed orders, specialty shipments et cetera. These increased costs were necessary to deliver the milestone on time for our strategic partner.

Finally, we had to convert all of our reference designs to support the Dialog ICs in anticipation of our partnership and joint reference design developments which were another unaccounted expense for the quarter. Because of these three development-related expenses and higher than expected expenses related to our intellectual property, our non-GAAP expense was approximately \$300,000 higher than Q2, the bulk of which again was tied to engineering. It is our expectation that cash expenses in Q4 will remain at a similar level to the third quarter, and we will not see relief until we enter the first quarter of 2017.

Also in conjunction with our continuing efforts with our strategic partner, a key milestone originally scheduled in November has been delayed until early next year. This delay will result in a rollover of the majority of our engineering services revenue originally forecast for the fourth quarter of this year to Q1 of 2017, thus impacting our revenue forecast for the 2016 calendar year. Having said this, the executive management of Energous remains focused on the continuing execution across a broad front of milestones, objectives and partners.

As we have said from our very first conference call, we believe we have a very special and significant opportunity to fundamentally change a major consumer paradigm and build a very significant, very relevant and very valuable business. We will continue to make our decisions with a clear intent and focus on this substantial goal.

In short, Energous continues to aggressively move forward. Our vision of a WattUp enabled ecosystem spanning a broad spectrum of devices, markets and technology remains on track, and it is now in fact accelerated through our partnership with Dialog.

I will now turn the call over to Brian for comments on the company's financial results for the third quarter.

Brian Sereda

Thanks Steve. Before I get started, as you saw at the close of the market today, we issued a press release announcing our operating and financial results for our fiscal 2016 third quarter ended September 30.

I am pleased to say that in addition to the Dialog partnership and independent \$10 million investment we announced this morning, we recognized \$1 million in engineering services revenue during the quarter. This compares to approximately \$182,000 last quarter and \$2.1 million in the same period last year.

As in previous quarters and in the prior year, revenue in this year was derived for meeting certain milestones with our tier one strategic customer. However, in the third quarter we also recognized a small amount of revenue tied to engineering services from another major commercial products customer focused on applications requiring our far-field technology.

I'd remind you that comparing revenue progress year-over-year at this stage is not necessarily a good indicator of progress with our tier one customer. As you know, the deliverables are complex, constantly changing and span quarters within and across fiscal years.

Although, we believe, we are making good progress towards commercialization, the timing and predictability of future project completion is a challenge as the project definitions change. This complicates estimating the timing of revenue recognition due to the rules surrounding this area of accounting.

As discussed during the last quarter's call, we expect the revenue associated with engineering services from our tier one partner to follow our forecast and plan of record co-developed with them. Our current outlook now has most of our Q4 engineering services pushed into Q1 2017. During the same timeframe we expect to add product based revenues, allowing us to forecast top line growth in the coming quarters, leading us to a cash flow breakeven point in late Q3 of 2017.

Moving on to expenses and net operating results. Third quarter GAAP operating expense totaled \$11.1 million, an increase of \$663,000 over the second quarter. Stock compensation and increased engineering expenses were the main drivers, and I will drill down on that in my non-GAAP discussion.

On a year-over-year basis GAAP operating expense increased by \$3.4 million. This was due in part to a 38% increase in headcount year-over-year to 65 people at the end of Q3, mainly in engineering, as well as the associated costs relative to our investment in next-generation chips designs for the reasons Steve highlighted in his discussion.

Our GAAP operating loss for Q3 was \$10.1 million, approximately \$160,000 better than the second quarter as the higher spend was offset by the \$1 million of engineering services recognized year-over-year. Year-over-year our operating loss increased by \$4.5 million, primarily due to \$3.4 million higher in engineering driven expenses and lower revenue.

Net of other income and expense, our GAAP net loss for the third quarter was also \$10.1 million versus \$10.3 million last quarter and \$5.6 million in Q3 last year. On a per share basis this translates to a \$0.57 loss in Q3, versus a \$0.62 loss per share in Q2, and a \$0.43 loss per share in Q3 of last year. Weighted average shares outstanding increased in Q3 to 17.9 million, from 16.7 million in Q2, mainly due to the \$20 million private placement from Ascend Capital completed in early August which added approximately 1.6 million shares to our un-weighted outstanding share count.

Now, let me switch over to a non-GAAP year-over-year results for the quarter, as we believe adjusted or non-GAAP EBITDA provides a usual tool to investors, especially when used in conjunction with GAAP information.

Excluding stock compensation and depreciation, totaling \$2.1 million for the third quarter, on a non-GAAP basis the adjusted EBITDA loss was \$8 million, approximately \$500,000 better compared to an \$8.5 million loss in the second quarter and \$4.1 million higher than the \$3.9 million loss in the third quarter of last year, all on a similar non-GAAP basis. Total non-GAAP operating expense for Q3 was \$9 million, compared to \$8.7 million in Q2 and approximately \$6 million in Q3 of last year.

As I discussed in our Q2 earnings call, we had expected the transfer of costs from our external engineering and development sources to internal teams, the main expense driver beyond headcount to occur in the beginning of second half of this fiscal year, but for the three main reasons Steve mentioned. Advancement of our chip roadmap and resulting tape-outs, expediting cost related to the deliverables to meet milestones with our tier one partner, and acceleration of reference designs in anticipation of our partnership with Dialog, our non-GAAP cost structure will remain in this range through the end of the year, after which we do foresee the opportunity to reduce our design cycle intensity, beginning in Q1 of fiscal 2017 and transfer the work back to our internal design teams.

Moreover and once underway the Dialog partnership will allow us to somewhat flatten our expense structure as our business ramps by us foregoing replicating operations capabilities and inventory management associated with fabless semiconductor companies.

For additional granularity, on a non-GAAP basis, engineering expense for Q3 rose by only \$235,000 over Q2, but increased by approximately \$2.8 million on a year-over-year basis. Our consistent quarter-over-quarter spending on engineering reflects the reasons I just spoke about, and includes increased headcount from recent hires that will eventually allow us to transition most of the chip development work back inside.

On a year-over-year basis the variance is also due to increased headcount and expanded chip roadmap that we have discussed, and additional expenditures on patent administration as our patent portfolio has grown significantly due to the ongoing filing of core patents to protect our intellectual property.

With regard to headcount, this time last year the company was approximately 47 people, and has now grown to 65 at the end of Q3, with most of these new hires in the area of engineering, as I mentioned earlier. We anticipate they will expand to approximately 70 to 75 people by year end.

The remainder of our cost structure, again on a non-GAAP basis was relatively flat compared to last quarter, with sales and marketing increasing approximately \$70,000, as we've built up our applications engineering capabilities, and G&A increasing by only \$17,000

Year-over-year sales and marketing grew by \$82,000 and G&A on the other hand grew by approximately \$183,000 compared to last year as our legal expenses and other corporate overhead grew along with the company size and complexity.

Reviewing our balance sheet, we ended September with \$25 million in cash and cash equivalents. This reflects the \$20 million private placement in August, net of Q3 operating cash cover of \$9.2 million. I do want to emphasize that this does not include the \$10 million from Dialog.

Although much of the engineering service revenue we expect to occur in the third and fourth quarter are now expected to be recognized in Q1 2017, the \$10 million investment from Dialog combined with our expected future revenues from chip shipments beginning in Q1 of 2017 continue to support our view of attaining cash flow breakeven in late third quarter 2017.

Timing aside the company continues to execute and attract the attention of some of the most prominent companies in the world in their respective markets. As evidenced by our partnership announcement today with Dialog semiconductor. This is bringing us closer to proving that the

new paradigm of delivering power to everyday devices through a WattUp enabled ecosystem will be a reality beginning in 2017.

I will now turn it back to Steve for his closing comments.

Steve Rizzone

Thank you, Brian. Before we turn the call over to the operator for questions, as has been our practice in past conference calls, I would like to update our investors on the progress of the company as it relates to our primary goals we have set for 2016.

Goal number one is to have WattUp enabled consumer products shipping late 2016 early 2017, even with the transition of operations to Dialog and the corresponding coordination of our efforts. We are still anticipating that a number of our partners who will be demonstrating at CES will begin to ship their products to consumers in Q1 of 2017.

Goal number two is to have multiple licensees displaying WattUp enabled consumer products in their respective booths at the CES show in 2017. As noted earlier, we will be demonstrated in four fully integrated WattUp consumer products at CES in January. So this goal will be met.

Goal number three is to obtain the required regulatory approval for our WattUp implementation. We have obtained the necessary approvals for the release of our first implementations of the WattUp technology, the mini WattUp transmitter. Our early adopters will be going through their respective certification processes which are by reference in early Q1 in order to ship WattUp enabled products to the consumer.

As noted earlier, we believe we are on track to receive FCC approval for our first power at a distance transmitter and have the system built and are ready to begin the process at the appropriate time. We remain optimistic that we will have the necessary approvals in time for the currently rescheduled first release of the mid-size WattUp transmitter late Q3 to Q4 2017.

Goal number four is to successfully transition from a development company to a fabless semiconductor company, this goal will be met as our chipsets have been qualified for mass production and we will be receiving our first revenues from the sale of chipsets for mass production purposes before the end of the quarter.

Goal number five is to maintain our current momentum with our top tier strategic partner while expanding our base of customers. As announced we delivered a very important and difficult milestone to our strategic partner in the third quarter and we are on track to deliver our fourth quarter milestone.

The specifications for the fourth quarter milestone have mutually agreed changes from the original PRD which will cause the milestone to be delivered later in the fourth quarter than originally planned. The result is that some portion of the \$2 million in engineering services revenue allocated for this milestone will be delayed until the first quarter of 2017 as our partner has 30 days from delivery to review and accept the milestone before the revenue can be invoiced.

As mentioned earlier, Energous is considerably ahead of our goal of engaging at the product integration level with one new customer per month, as we are actively working on 12 separate and distinct WattUp enabled products, at least four of which we expect to be shipping to the consumer within the first few months of 2017. Given our newly announced partnership with

Dialog, we expect to see a number of companies and the number of products within these companies moving forward with WattUp enabled products to increase at an accelerated rate.

Goal number six is to maintain adequate fiscal control, liquidity and run rate to meet our objectives and demands of our technology. The company remains on target with respect to our financial elements of the accelerated annual operating plan we announced at the last earnings call taking into consideration the fact that in Q3 we pulled in the semiconductor roadmap by taping out four new chips early.

We also have been increasing our engineering headcount to reflect the expanded requirements we have to support both our key strategic partner and our new partner Dialog, as well as new customers being brought on board at a rate of greater than one per month.

Having said this, we have an additional \$10 million of committed cash and hold firm on our belief that we will begin generating revenues from the sale of chipsets from production purposes supported by seven-figure engineering services revenue leading to a run rate of cash flow breakeven in September of 2017.

In summary, Energous continues to accelerate and to execute at a high level, and it is on track to meet or exceed all of the aggressive goals that we have set for the company in 2016. The partnership with Dialog adds a firmer foundation to all of these efforts.

Operator, we will now take questions.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pickup your handset before pressing the keys, to withdraw your question, please press "*" then "2." At this time, we will pause for a moment to assemble our roster.

And our first questioner today is William Gibson from Roth Capital Partners. Please go ahead.

William Gibson

I would like a little bit of detail, if I could or as much as you can share, on the business relationship with your new partner. Is this...are we going to be seeing chip revenue coming through the company or is it licensing royalty revenue, or exactly how does that work and how do we model it?

Brian Sereda

Bill, you are going to see some details come out later this week, as we file the 8-K. But it could go both ways, and I want to be...I don't want to sound wishy-washy or cagey, but primarily the revenues will flow through Dialog, and we'll recognize a portion of those, whether they'd be recognized as royalty or royalties license and/or chip components sales is TBD.

William Gibson

Okay, and then given its dominance with one of its customers, I assume the strategic relationship you talked about how to accelerate your path to market, but is that the confidence on the part of the tier one partner that speeds that up?

Steve Rizzone

Not sure, we understand the question.

William Gibson

Yes, I think, I was maybe just regurgitating what you said. I was trying to understand the acceleration, that it gives people confidence that you can deliver large quantities of chips?

Steve Rizzone

Well, I mean, I think that's the basis of it, maybe we didn't articulate it that well. But as a small company when you are engaged, especially when you are engaged with a top tier consumer electronics company, there is always a level of nervousness in our ability to meet their requirements from a supply chain perspective. Our relationship with Dialog now eliminates that concern because Dialog will be essentially providing the supply chain. And so all of those issues...they basically disappear. The other, I think element to this that becomes clear, and I was hoping to articulate, is that we are engaged with a number of common customers.

For the most part, we have an identical customer base, and whereby customers have been looking at Energous for inclusion in perhaps one of their products. Now that there is this partnership with a very credible and a top-tier company like Dialog, we believe that the same customers will now look to actually accelerate their consideration of the integration of the WattUp technology into multiple products because the risk factor has been significantly reduced. A company like Dialog is not going to enter into a partnership with Energous if the technology is not real, if there is not clear path to next generation's technology, if the path the FCC approval is not there, if the supply chain can't be maintained, so on and so forth. So a number of the risks that have been associated with the company, I think have been...are no longer called into question based on the relationship that is now brought out with Dialog.

William Gibson

Thanks, Steve.

Operator

Our next questioner today is Andrew Uerkwitz from Oppenheimer & Company. Please go ahead.

Andrew Uerkwitz

Gentlemen congratulations on the Dialog announcement, that's big news I think. I just want to make sure I understood this correctly. You are kind of going through your OPEX trajectory, and it sounded like there is a bit of work on your part to try to contain OPEX growth. I want to push back on that if that's true, it seems to me you have enough positive things going on, you guys would kind of just you know, open up the wall here and try to move as fast as possible to get these customers lined up and not to worry too much about OPEX the next couple of quarters. Can you help me out there?

Brian Sereda

Well, Andrew this is Brian. I think it is key to point out that the bulk of our spending is all engineering. And as you could see the other areas are relatively flat quarter-over-quarter, year-over-year. We will continue to spend as necessary. I mean this is brand new technology. As we get deeper in the relationship with Dialog and additional customers, other discoveries may come out of this and require us to develop entirely new chipsets to meet the demand. So we are going to be careful, we are going to be measured about where we spend the money. We are squeezing every nickel into our engineering spend and that will be the bulk of the expenses.

I don't think there is a need to build out a worldwide sales force now essentially after this deal has been signed, we will leverage a lot of the operational and business capabilities of Dialog.

Steve Rizzone

I think it's also important to...so that we are clear since we have the opportunity to comment on this. As we went into the quarter, I think we had pretty clear visibility as Brian said that we were going to be able to lower our expenses because we had...we thought that the bulk of our silicon development was behind us, and that it was going to level off. As we got into the details of this absolutely critical development for our key strategic partner, it became very, very clear that the only way we were going to be able to meet this requirement was for us to bring in four tape outs.

And I think it's important to point out that for a company our size to be able to tape out and bring up four silicon chips in a quarter is a tremendous testament to the capabilities of the company in and of itself. But that obviously did impact our expense line. And it was unforeseen going into the quarter, but we had to do that. Now, those were brought in from the fourth quarter and the first quarter and we don't anticipate obviously that we will have to repeat that, but we do have some additional expenses based on the change in the PRD for the fourth quarter milestone, that are brought in from PRDs that were scheduled for the first and second quarter of 2017.

So while we are accelerating the expenses, the good news is that the PRD is accelerating for our key strategic partner. And so, again, I think that overall the news is positive and we are meeting these objectives. But going into the quarter, we were not aware of the need for us to do those. And as Brian said, we think that after the fourth quarter we will then start to see the release come into play because we'll have brought in a great deal of the roadmap from what was anticipated. Q4 and Q1 will be brought in at least one to two quarters early.

Andrew Uerkwitz

Alright, I appreciate that, I really appreciate that color. Moving to my follow-up just quickly, when we think about the tier one, it seems like milestone payments, it's like a moving goal post here. Could you give us some color on why that is, is it just...they are still learning about the technology and seeing what they can do with it and kind of flexing the contract as they see fit or what's kind of the underlying the motivation to some of these changes? Thank you.

Steve Rizzone

Well, I think that...I mean, I am not sure I would characterize it that way. I think there is still a process. We are testing the bounds and the limits of the technology, and we are exploring how it can be applied. And as we understand and they are learning how it can be applied internally to their product lines and so things change. And we think it is in our best interest to be as responsive to their needs as possible. So we still maintain that this represents a tremendous opportunity long-term for the company and so we intend to be as flexible as we can. And I think overall that we also have to recognize that in working with this customer, although it has...it's been difficult at times and while they've stretched us, the bulk of our acceleration is because of the developments that they've pushed us towards.

I mean, the efforts or the success that we've had in our miniaturization, in our efficiencies, in our cost reduction, all of these can be directly put back to our efforts here. And so, while it's focused...all these efforts are focused on our key strategic partner, they do play out across all of the company and impact our overall development. So the point is that, yes, we continue to invest a great deal and some of these change, some of their requirements change and there is a level of un-predictableness as it relates to the requirements and payments, but we maintain that we will be as responsive as we can and we'll continue to do that.

Andrew Uerkwitz

Thank you, gentlemen for answering my questions so candidly. I appreciate it. Thank you.

Operator

Our next questioner today is Ilya Grozovsky from National Securities. Please go ahead.

Ilya Grozovsky

Thanks, guys. Can you just walk me through the actual mechanics of the investment of the \$10 million that Dialog is making? I think you had said in your prepared remarks that they are buying shares in the open market. Just...can you just clarify that?

Brian Sereda

No. It's a typical private placement type investment and details will be out this week on the 8-K, but it's a straight common at market.

Ilya Grozovsky

Okay, got it. And then just looking at Dialog Semi, is it correct that 70% to 80%, and I've seen different numbers on this, but say...roughly 70% of their business is Apple.

Steve Rizzone

Perhaps not sure.

Ilya Grozovsky

Okay. And as far as the relationship with Dialog, were you looking at any other potential companies that Dialog came up ahead of them, or were you...have you guys been in conversation with them for some time. Can you just walk me through how long this has been going on and the process?

Steve Rizzone

We've been engaged with Dialog for some period of time and we believe that Dialog represents an ideal fit for us. They are a market leader in virtually every market that we look to participate in they have their chipsets interact with our chipsets. And so, it was...while there are other silicon companies out there, we believe that they are an ideal fit for us. I think we also complement them very well. They now have all of the pieces of the puzzle so to speak, as it relates to wireless and wire free power. And so, we think it's a very natural agreement and it's a quality company and it's a very well-managed company. And we are very, very pleased to be associated with them.

Ilya Grozovsky

Okay, thank you.

Operator

And our next questioner today is Jon Hickman from Ladenburg. Please go ahead.

Jon Hickman

Hi, could you comment maybe in a little more detail the expense acceleration due to the reference designs associated with Dialog?

Steve Rizzone

I mean we can, it's not substantive. It was part of the expense. Reference designs of course are what we provide our customers and what they use to integrate our technology into their products. And initially our reference design contained components from another silicon company. And we changed all of our reference designs to contain only those components from Dialog.

Jon Hickman

Yes, okay. That makes sense. Is that...I thought you said that that was still ongoing?

Steve Rizzone

No.

Jon Hickman

Is that going to affect you in Q4 too?

Steve Rizzone

No. I mean the reference designs are complete. What is happening now is that there is a combined...our reference design, so I'm very specific, our reference design that we are presenting to our customers is complete, it has only Dialog components on it. What we are doing now is there is a combined reference design with Dialog components, their Dialog power management chip and their Dialog BLE chip and the WattUp chips from Energous are being combined into a single design that will be made available to the combined Dialog Energous customer base.

Jon Hickman

Okay. So just so I understand. If you are telling us that customers are going to have your chipsets in products to ship to consumers early in Q1, does that mean that you are going to ship chipsets maybe in late Q4 to those customers?

Steve Rizzone

I'm sorry. I'm not sure...

Jon Hickman

Okay. That's okay. So if you are going to...if consumers are...if there is going to be product on the shelf for consumers in Q1 of next year, does that mean you are going to be shipping chipsets or Dialog is going to be shipping chipsets in the fourth quarter of this year?

Steve Rizzone

No, we are going to be shipping...chipsets will ship in the first quarter of next year.

Jon Hickman

Okay. Thank you. And then one last question, with this new relationship with Dialog, how does that interface with or relate to your Tier-1 strategic partner? Is there any change in that and I mean those two things co-habitat nicely together.

Steve Rizzone

Our relationship with our key strategic partner is our relationship with our key strategic partner.

Jon Hickman

And the Dialog thing doesn't affect that in anyway shape or form.

Steve Rizzone

Our relationship as I said is with our key strategic partner. And we wouldn't comment beyond that.

Jon Hickman

Okay, thanks. That's it for me.

Operator

Our next questioner today is Lou Basenese from Disruptive Tech Research. Please go ahead.

Lou Basenese

Congrats on the quarter, guys, and thanks for taking my questions. Just with the choppy trading in the stock there has been some questions about the CTO's remaining ownership. Can you just shed any light on the situation for shareholders?

Steve Rizzone

Hello, Lou. Yes, and excuse me, if I get on my soap box here for a minute. Yes, I can. This is...first of all; let me make it clear that Michael Leabman did not sell 90% of his holdings. That's yet another example of a statement that was taken completely out of context. Michael Leabman, what he did was transfer ownership of a portion of his holdings to his children. And it was filed and in conjunction with that, it was completely misinterpreted. Michael is still a major holder in the company.

And this is all part of a continuing process by a number of persons that are very, very focused for their own I think self interest in attacking the company. And I think that it's probably going to accelerate. There is a very, very large short position in the company right now. And so, I would assume that this is a part of...what we'll see is another effort and quite frankly, our investors are going to have to make some decisions. I would assume that there will be more attacks like this, because the shorts are going to have to get desperate at some particular point in time. But I would ask our investors...I would make some very clear points. All of these people that are so-called experts have absolutely no visibility whatsoever as to what's going on within this company. None of them have come forth with any kind of special information from inside Energous or any ex-employee or anything like that that can give them any details as to what's happening or what we are doing or what approaches we are taking.

Anyone that publishes these kinds of pieces is just guessing. And they are guessing for their own benefit. And what they are attempting to do is to cause a level of uncertainty, again for their own benefit. But we now have multiple data points by knowledgeable people and knowledgeable companies that in fact, Energous is a viable company moving forward in a very aggressive way to fundamentally change a paradigm. You have Ascend Capital; you have very knowledgeable investors from the very beginning of Energous, who have put \$20 million of their own money into the company. And have held firm throughout this period. You now have Dialog, one of the top tier semiconductor companies in the world entering into an exclusive relationship, making a \$10 million investment, after working with Energous for over a year. And so, you have data points that have...I think the level of basis that in fact everything that we are seeing is true and viable. And so, you have to ask yourself, who do you want to believe?

Do you want to believe these so-called experts who only make these comments for their own self-interest or do you want to believe individuals and companies that have a good understanding of the technology and the company, and I think it's an important consideration, because as I said, it's probably not the end of these things. But in reality the fact is the

company is executing, it is moving ahead and we are building a very, very significant and a very valuable business. So thanks for the question, but again just to answer it, no, Michael did not sell all of his shares, he simply transferred them.

Lou Basenese

I appreciate the clarity, that's not evident in the filings. One more question and I hopefully won't prompt a soap box response. So just...I do agree with you that Dialog validates the technology. Can you just give us any color in terms of what type of diligence they've done before they entered into this strategic investment, I know that they have been partners with you since at least August of 2014.

Steve Rizzone

Well, I mean, we've been working with them together for quite some time. They've had their engineers in here, we've worked together on a number of joint...actually, I guess, it's inappropriate for me to get into too much detail. I will tell you that we've been together for over a year, we know each other well, we know our customers well, and we wouldn't have engaged with each other, if weren't comfortable with each other.

Lou Basenese

Fair enough. Thanks guys. I appreciate it.

Operator

Ladies and gentlemen, due to time constraints, this will conclude our question and answer session. I would now like to turn the conference back to Stephen Rizzone for any closing remarks.

CONCLUSION

Steve Rizzone

I'd like to thank everybody for participating in this call. Again, the company continues to progress forward. I think we will have a number of additional positive things to say at our next conference call. And we'll look forward to talking to you then. Thank you very much.

Operator

The conference has now concluded. Thank you all for attending today's presentation. You may now disconnect your lines.