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EDITED TRANSCRIPT

ANEN.O^B14 - Q3 2002 Anaren Microwave Earnings Conference Call

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OVERVIEW:

Anaren Microwave's net sales for 3Q02 were \$19.8m, and operating income was \$551,000. Net income for 3Q02 was \$945,000 or \$0.04 per diluted share. Anticipates net sales to be in the range of \$19-21m and diluted EPS to be in the range of \$0.03-0.05 for 4Q02.



CORPORATE PARTICIPANTS

Lawrence Sala *Anaren Microwave Incorporated - President and CEO*

Joe Porcello *Anaren Microwave Incorporated - Vice President of Finance*

CONFERENCE CALL PARTICIPANTS

Mark Mischeka (ph) *Bank of America Securities*

Rich Alera (ph) *Edenman*

Dale Faha (ph) *CIBC World Markets*

Tom Laview (ph) *Robertson Stevens*

Cliff Maldonado (ph) *RBC Capital*

PRESENTATION

Operator

Please stand by, we're about to begin. Good day, everyone, and welcome to the end of the third quarter earnings release. Today's call is being recorded.

At this time for introductions and opening remarks, I will turn the call over to Mr. Larry Sala, President and Chief Executive Officer of Anaren Microwave Incorporated.

Please go ahead, sir.

Lawrence Sala - Anaren Microwave Incorporated - President and CEO

Thank you. Good afternoon, and thanks for participating in the Anaren Microwave eighth fiscal 2002 third quarter conference call. And we're joined today by Joe Porcello, our Vice President of Finance.

I'm going to begin by reading a cautionary statement relative to forward-looking information. I will then provide the overview of the results of the third quarter, ended March 31, 2002, after which Joe Porcello will review the financial highlights. And then we'll take your questions.

The statements contained in this conference call which are not in historical information are forward looking statements. The statements involve risk and uncertainty that could cause actual results to differ materially from those discussed. Such factors include, but are not limited to, current unfavorable wireless market conditions, additional decline in demands from company products, increased pricing pressure from our customers, decreased capital expenditures by wireless service providers, difficulties and unanticipated expense of and newly required businesses, the difficulty in becoming requalified by customers, unpredictable difficulties or delays in the development of new products, risks associated with any technological shifts away from company technologies or, unanticipated impairment of assets or investment values, informed currency fluctuations.

You're first (ph) to review Anaren's annual report, and Anaren's form 10-K, as amended for the fiscal year, ended June 30, 2001. And you can with the Securities and Exchange Commission to learn more about the various risks and uncertainties facing Anaren's business and their potential impact in Anaren sales and earnings. Anaren disclaims any intention or obligation to update or revise any forward-looking statements.

Net sales for the quarter were \$19.8 million dollars, down nine percent in the third quarter of last year, but up 15 percent sequentially from the quarter of fiscal 2002.



Operating income for the quarter was compared to operating and income of \$2.4 million for the third quarter of last year, and a \$1.8 million operating loss in the second quarter of fiscal 2002, excluding the results of F i t h e m (ph) and Ametron, which enter acquired effective October 1st, and October 30th versus 2001 respectively, and would have had sales of \$17.3 million and an operating income of \$1.8 million dollars, down 21 percent and 25 percent respectively from the third quarter last year, and up 16 percent, and 103 percent sequentially from the second quarter of fiscal 2002.

Net income from the third quarter was \$945,000, or four cents per diluted share, compared to \$2.2 million or 12 cents per diluted share in the third quarter of last year, and a loss of two cents per diluted share for the second quarter of 2002.

Prior to the extraordinary gain, the improvement in profitability over the second quarter was a result of increased ad sales and improved efficiency at a Syracuse operations.

Manufacturing yields, and operating performance of during the third quarter were also better than anticipated. The growth in the third quarter, over the second quarter, was driven by group. Wireless group would acquire over \$13.4 million, up 26 percent sequentially from the second quarter.

Eliminating the impact of the acquisitions of F i t h e n (ph) and Ametron, Wireless Group net sales increased 30 percent sequentially from the second quarter. The growth of Wireless Group net sales was the result of increased marketing share of component products in several of our leading manufacturers. And resumption of demand for our A d r e n a - l i n e (ph) for three G amplifier application.

Wireless Group customer concentration for the quarter as a percent of Wireless Group net sales was at 18 percent, Ericsson at 17 percent, Lucent at 10 percent, and Motorola at 90 percent.

We continue to impressively invest in new product development for wireless infrastructure, and wireless applications. New products last quarter have been well received in the market, and more than a dozen new ones have already been achieved.

Sample requests for new design applications continue to be very robust. For the space and defense group, net sales for the third quarter were \$6.5 million, up 14 percent from net sales of \$5.6 million for the third quarter of last year. for the quarter with \$5.9 million, driven by follow-on orders from jamming sub-systems and initial funding for Antennae Distribution Networks for a ground based radio program.

March 31, 2002, was approximately \$35.1 million.

Third quarter made some substantial progress in establishing a presence in China to better serve the Asian market. We now have a facility in China, and the associated licensing to support our product's sales, design, manufacturing and distribution. We have also hired the management, sales and engineering team to support this effort.

We anticipate initiating production at our China facility during the first quarter of fiscal 2003. Joe Porcello will now review the financial highlights.

Joe Porcello - Anaren Microwave Incorporated - Vice President of Finance

Good afternoon. The financial highlights of the third quarter income statement, the 50,000 through our column. The gross profit margin for the third quarter of fiscal 2002 was 32.1 percent. This is a 6.2 percent point increase from gross margin of 25.09 percent in the second quarter of this 2002, and a three point two percentage point decrease from the gross margins of 35.3 percent in the third quarter of fiscal 2001.

The improvement of gross margins from the second to the third quarter of fiscal 2002 came from the overall increase in sales volume and from crafts and performance at 5M, whose manufacturing facility is now fully operational from the July fire.

Including the private and the current acquisitions, growth margins were 39.2 percent for the third quarter of 2002 compared to margins of 36.2 percent of the second quarter and margins of 35.3 percent in the third quarter of last year.

Investment in research and development presented net sales with nine percent in the third quarter of 2002 compared to an ongoing three percent revenue in the second quarter of 2002 and 5.5 percent in the third quarter of the last year.

Research and development expenditures have risen significantly due to an emphasis by the company on developing new standard products for the wireless infrastructure and local area network applications over the last nine months.

This effort has culminated in a number of new purpose station product introductions over the last few months. We assume the same R&D spending will continue with higher rating over the next few quarters as we continue our new product development. Each comes from operations with 2.8 percent of revenue in the third quarter compared to a negative 10.3 percent of revenue in the second quarter of fiscal 2002, and 11 percent of the revenue in the third quarter of 2001.

Operating margins improved over the second quarter of fiscal 2002 just before providing the new sales level ended in the result of operating performance to . We currently do not expect missing an improvement in our operating income over third quarter 2002 while have volume and it will continue to increase in normal development level .

Income before taxes was 6.4 percent for the current third quarter. This compares to a loss before the tax an extraordinary item will negative four point eight percent of revenue in the second quarter of 2002, and it comes before taxes of 19.3 percent of revenue for the third quarter of fiscal 2001.

Improvements from the loss in the second quarter was attributable to operating losses by the two point four million in quarter two for a loss of one point, operating loss of \$1.1 million in quoted .

Well, as the overall for the quarter with approximately 21 percent compared to 34.3 percent in the third quarter of 2001. The third, the current tax rate has declined as tax exempt income has grown as a percent of total income and due to the tax benefit resulting from the proposed buyer and .

In connection with purchase by them in October 2001, we recorded a two point four million dollar extraordinary gain in the second quarter. Directed by the negative goodwill resulting from the transaction, during the third quarter, five of them had loss equal to tax benefits with approximately \$1 million compared to a loss equal tax benefit of two point four million for the second quarter.

The smaller loss defined them in the quarter three compared to quarter two was the result of the resumption in both out sourcing and clean up costs related to the fire and in the movement in manufacturing news.

That income as a percent of revenue was five percent in the third quarter compared to 12.7 percent for the third quarter of 2001 and 17.7 percent for the second quarter of fiscal 2002, which concluded with the extraordinary gain amounting to 19.8 percent of revenue.

On a per share basis, there wasn't a v e r y (ph) per share for the third quarter of 2002 exploit them. This is compared to 12 times the diluted share in the third quarter of the previous year and 13 cents including the extraordinary gain of 15 cents per share in the second quarter of fiscal 2002.

The balance sheet highlights include tag cash and quick work for investments for approximately \$125 million in modern 2002, down \$3.6 million from June 2001, namely to the all \$12 million of the tab being used purchased by them and first half of fiscal 2002. We have continued to enjoy a positive cash flow of proper rations in the first nine months of net income.

Cash generated by our operations was approximately 13.9 million in the first nine months of fiscal 2002. Accounts receivable were worth \$18.5 million ended March 31st, 2002, including \$1.9 million in , up \$5 million from June 30th, 2001.

Accounts receivable levels without the Ametron and acquisitions rolled approximately 20.6 percent during the quarter due to the increase in sales volume.

Same sales outstanding were 67,000 at the end of March compared to 67,000 at the end of June 30th, 2001. sales outstanding between 60 and 70 days, as we go forward, depending on current sales levels, customer mix and . Inventories March 31st, 2002, were 20 million compared to 18.6 million in the June 30th, 2001.

The inventory increase was due to the addition of 5M into Ametron who had approximately two million dollars in inventory in March 31st, 2002.

Inventory levels without the acquisition declined approximately three percent during the first nine months. Capital equipment, employees and services in the first nine months of fiscal 2002 amounted to approximately seven million dollars, up to five million dollars represents new equipment purchased by between October and March 2002 in replace of the that were destroyed in the July fire.

Remaining additions were mainly production facility, automated production equipment for our power on Long Island and new and multi-layer manufacturing equipment at in Massachusetts. Accounts payable is March 31, 2002 to 5.1 million dollars. Up 2.8 million from June 30, 2001. The acquisition of side ends and Ametron amounted in \$1.4 million March 31st. And a remaining \$700,000 rise resulted from the current .

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

Thanks Joe. At the previous quarters visibility from our given a current level of market visibility through projecting net sales to the inner range of \$19 million to \$21 million dollars and diluted earnings per share can be in the range of three to five cents for the fourth quarter.

We're now taking questions.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. The question and answer session will be conducted electronically. If you would like to ask a question please press the star key followed by the digit one on your touch-tone telephone.

We will in the order you signal us and questions as time permits. Again please press star one if you would like to ask a question. And we'll hear first from Mark Mischeke (ph) , Bank of America Securities.

Mark Mischeke - *Bank of America Securities*

Hi, yes.

Larry good day, good quarter. The question was, is that really just stepped out. I haven't seen them on them on your customer lists in awhile 17 percent. This is all . Can you describe a little bit about what that is and I think pretty significant to the quarter though.

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

Yeah, they went and tumbled for us in dollar sales as well for the quarter over our previous business levels with them. Mark (ph) , we had announced last quarter that we had gained market share in our businesses in this years volume purchase agreement negotiations back in December.

So we had announced that and that's played out for us and we're seeing that. are falling off into heavy at higher rates than we were in previous quarters.



And we also saw this pick up of with them. It was business we probably haven't seen demand for in more than a year and it came back fairly robustly this quarter.

So both those factors much larger customer purpose for it than they've been for the last year or so.

Mark Mischeka - *Bank of America Securities*

I understand. And then on your visibility you're saying it's, you know, it's still kind of limited t h e m (ph) . Remember last quarter you said that it really increased from a couple weeks to maybe six weeks or so. Are you seeing the change? Are you still up at the six to eight weeks now or has it ticked down. Where are you at with the visibility going into June here?

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

We can still see the people ordering out in time but it's the ordering that's still sporadic.

The demand is not, you know, that's sequentially increasing every month. We go back, you know, we saw strong December, strong January, got a little linger in February and it kind of leveled out there in March, and April so far has been I'd say on the mediocre side. More consistent with February and March than it was with the strife we saw in December and January.

So definitely still think people ordering out in time, making , you know, up relative to what we saw in October, November. But not consistently sequential .

Mark Mischeka - *Bank of America Securities*

Got you. And then one last question is, I know you didn't give guidance at court here but are you getting any kind of indications for the second half of the year? Are you expecting normal seasonality, seasonal spending patterns from the carriers, or is it too early to say?

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

It's probably too early to say, M a r k (ph) . I think the only guidance we can give you now is that anything out in time is relatively consistent with rates of use and order patterns.

It's not dramatically up and it's not dramatically down. So , you know, when we were looking in negotiating and discussing with people back in December they saw appreciable pick up in the second half of the year.

I think we found the first half to be stronger than our expectations in the second half to be a little lighter than their expectations. So we're seeing things be pretty consistent out in time with what people are consuming right now.

Mark Mischeka - *Bank of America Securities*

Got you. OK. Thanks, Joe and Larry.

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

Sure.



Operator

Our next question comes from Rich Alera (ph) of Edenman (ph).

Rich Alera - Edenman

Thank you, nice job on the quarter, Larry, and obviously a tough environment here. In terms of the sequential this quarter it seems like you saw a fairly small pick up in the combined contribution from 5M to Ametron and I thought we'd hope in the June quarter, possibly both of them could kick in more significantly.

Do you still expect this? And if so is the sort of sequentially guidance really, 'cause we're expecting maybe other parts of the wireless business to maybe not pick up as much.

Lawrence Sala - Anaren Microwave Incorporated - President and CEO

Yeah, that, we fully expect to see some pick up from -- both Ametron and 5M's production rates have consistently come up in the last, at the end of the last quarter and we expect that to continue.

Not an obviously dramatic contribution but certainly a higher contribution than it's been. And we're just being cautious in this potentially small for what we've seen over the last couple of months.

So, you know, obviously we'll need some contribution. We're at the high end of our range. We're expecting to see some sequential growth but if things back off as they've been during the summer, we just aren't seeing out that far yet.

Rich Alera - Edenman

Sure. Power Wave is a pretty basic customer. Could you characterize how much of that is unit driven and how much of that is new content driven? I think I understand that you've got some nice content on some of their newer platforms.

Lawrence Sala - Anaren Microwave Incorporated - President and CEO

Yeah, that quarter I'd say, is still predominantly unit driven. Just pick up and demand, you know, working off of inventory and using, you know, higher rates of compliment usage. This month we're starting to see more higher dollar product use more consistently from them. So I think a higher dollar content will show more this quarter than it did last.

The Power Wave, you know, historically has been a larger customer of ours and they've been or so, you know, 12 to 15 percent more for quite awhile.

Rich Alera - Edenman

On the Ericsson business, and I know this is a tough one but do you have any feel, they obviously had a spurt in the beginning of last year where they ordered a bunch of three G adrenaline and that kind of went away for several quarters and it sounds like you've had another spurt here.

Any feel for if it's going in inventory or if are being shipped out into the field?



Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

No, we can never see that for absolute certain. All we can say is that the demand for goes out a long, long time.

There's no, no appreciable holds, no demand right now that we've seen. pretty consistent week to week and month to month for more than a year. And they manufacture at multiple facilities now around the world.

So all that we can see, the demand should sustain itself but we don't know where the equipment's going. We don't know if it's going out the door or not. We don't get that kind of visibility.

Rich Alera - *Edenman*

But right now their forecasts have been pretty inconsistent looking out.

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

Yeah.

Rich Alera - *Edenman*

You mentioned the land products in your comments. Can you give us some more on kind of what you're doing in that area and when we might see some revenue impact on that?

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

which we introduced last quarter as part of the multiple product introduction that we had.

What we're starting to introduce and past more and more miniaturized products from what we've sold. So they're, you know, our traditional we're one dollar, one dollar and 50 cent ASPs sold into relatively high power applications.

Some of these newer products are a quarter of the size or an eighth of the size of those high power products. And we're looking at ASP's of 50 cents down to maybe even 20 to 25 cents over the next couple of quarters. For products going into, you know, 2.4 g i g a h e r t z (ph) and five g i g a h e r t z (ph) wireless networking application.

So that's near at the targeting and, and some of our product development and focus is miniaturizing some for the zinger types of products that we've been susceptible with and high power applications and targeting more feed and networking applications going forward.

So we're pretty optimistic about our ability to begin miniaturization. but we're still looking at a quarter or two before we'll be introducing a product publicly with those implications.

Rich Alera - *Edenman*

Thank you.

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

Yep.



Operator

Our next question comes from Dale Fahha (ph) of CIBC World Markets.

Dale Fahha - CIBC World Markets

Afternoon, guys.

Joe Porcello - Anaren Microwave Incorporated - Vice President of Finance

How are you doing, Dale?

Dale Fahha - CIBC World Markets

Good. A question here on your margins. In your commentary you mentioned that with the 5M and a brother acquisition that you would have had a 39 percent gross margin. Is that correct?

Joe Porcello - Anaren Microwave Incorporated - Vice President of Finance

Yeah, that's correct.

Dale Fahha - CIBC World Markets

So when we look into the doom quarter as, can we see that a total gross margin begin to pick up? And then maybe you can give me some idea of what kind of run rate you need at those guys to get us back up to some of your historical corporate gross margins.

Joe Porcello - Anaren Microwave Incorporated - Vice President of Finance

Well, going forward we're seeing somewhat of a change in the next very large in the third quarter. We don't see the same thing happening in quarter four. We actually see the margins I think will be some here.

Dale Fahha - CIBC World Markets

At what level of revenue at Ametron and 5M do you think you can get their gross margins up to the corporate average, Joe?

Joe Porcello - Anaren Microwave Incorporated - Vice President of Finance

We need significantly lower coming up from the fire, and the revenues now are probably at a third of what they were at their peak.

So we would see a significant increase probably in 5M facility. And probably pretty close to that is the Ametron facilities from the kind of margins we expect to see.

Dale Fahha - CIBC World Markets

Do you have any hope of achieving those kinds of revenues rates during this calendar year?

Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

Maybe towards the latter part of the year. It's really too early to tell at this point.

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

You know just to give you a , in this last quarter revenues were pretty much sequentially flattened by them over the prior quarter.

It's just in the prior quarter we were manufacturing an outside facility as well as their own. In this last quarter all of our production was shipped out of our facility.

We're expecting an increase in revenue there this quarter from last, you know, off of the base that they had.

But there's still a long way from getting back the revenue rate where they were. So we've got a ways to go. Actually next week we have a sales meeting at the 5M facility where we're going to engage our global sales force to start pursuing new business at 5M.

And we think we have, you know, many opportunities to gain share. We're selling to the paying customers our to our application as we develop our other products. So it assimilates well into the sales force. But today we've just been getting back up to production with existing customers and the existing business that they had that had been put off after the fires.

So we hadn't engaged our sales force yet because, you know, we would not be able to respond to it until the factory was fully running and we're back caught up on our customers .

So we're pretty optimistic that sales could grow at 5M fairly rapidly once we engage our sales forces here. So I think by the end of next quarter we'll have a pretty clear picture as to how sales are going well because our sales force will have a couple months of activity in the marketing place to see how we can share.

But it's a little early to say that it's the end of the year or it's, you know, a quarter or two quarters, three quarters away yet. But by the time we're in call on this quarter we should be prepared to answer that question more accurately.

Dale Faha - *CIBC World Markets*

And tax for next quarter and looking into the next fiscal year?

Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

Tax rate for the next portion would be similar to this quarter. we may see a one time come through here or if there's some territorial sales credits. I would say normally to 20 percent.

Dale Faha - *CIBC World Markets*

What about next year?



Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

Next year's gonna depend on the income level and how the business comes back. If business comes back we'll be expecting up into the low thirties somewhere and the normal rate.

Dale Faha - *CIBC World Markets*

And one final question. Could you give me some indication of your core wireless business. What percentage of the business with components and was any of your business higher level assembly or point?

Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

Yeah, I mean we're always generating some business and historically it's been about 50/50, Dale (ph). This past quarter was somewhere between component business and more custom types of products.

It's probably more 55 percent components and 45 percent other stuff. And I'd say that mix is probably going to stay in that range.

Dale Faha - *CIBC World Markets*

Great. Thank you much.

Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

Thank you.

Operator

Once again, please press star one at this time if you would like to ask a question. We'll move now to Tom Laview (ph) with Robertson Stephens.

Tom Laview - *Robertson Stevens*

Thank you, guys. Good quarter there.

You talked a little bit about the China announcement and what a little bit more meat on the bone in terms of when you believe production and general business proceeded.

Unidentified

Sure. We actually initiated that late last calendar year, about the fourth calendar quarter of last year, signed our business license and leased our facility in February, March time frame.

And we have actually hired our agent's sale manager, our agent's operations manager and we're relocating from our Syracuse facility over to our China operations.

So are hear training now at the Syracuse facility on production activities and sales activities that we'll be initiating over the next couple months. So they should be out of sight within the next couple months. The facility is being outfitted and equipped now.



And we're probably looking at something between \$250,000 and \$500,000 investment to get up and running.

Mainly replicating some of the equipment processes we have here at . Nothing too new or too r i s k (ph) from what we do now. And so they should be on site during the middle of this current quarter to the end of this current quarter.

So sometime between late May and June they'll be on site and up and going and we expect to have production initiated some time in the first quarter of fiscal 2003. So before the end of September we'd like to be up and running.

we have a couple product lines we'd like to get going with over there. Some new product lines that we'd like to get started with an relocating some product lines and we're seeing some growth. We'd like to address that growth out of that facility because we believe we can be more competitive.

Tom Laview - *Robertson Stevens*

One question on the space and defense business. The operating is there. The last couple quarters have been north of 20 percent. Should we assume that that's continuing and working until the end of this year?

Unidentified

Those margins that are really dependent upon the at the kind of business level we would expect that we could probably maintain time margins, yes.

Tom Laview - *Robertson Stevens*

OK. And then by that estimation that would be the wireless business has made a dramatic gain in the operating margin.

Could we expect even with sort of flattish revenue growth, getting back to almost a break even in operating margins? Sort of getting back to zero there.

Unidentified

Yeah. We're really . Yes.

Tom Laview - *Robertson Stevens*

OK. And , can you give me the operating income that you stated in the call excluding the Ametron and 5M?

Unidentified

It's .

Tom Laview - *Robertson Stevens*

Well I've got one question here while you're looking for that. With the break out ...

Unidentified

Operating, I'm sorry, operating income without 5M and Ametron was \$1.8 million.

Tom Laview - *Robertson Stevens*

In the break period of 2000 two products you obviously spent a lot of time this quarter introducing products. Can you talk a little bit about the vector modulator, the applications there? And then also some application where imbedding active devices.

Unidentified

Yeah, we've been doing this for quite some time, actually, building products that corporate . This is the first time though in a couple of years that we really aggressively started doing this again in partnership with some .

The vector modulator was used at the front end of a power amplifier and actually can do the single manipulation required for linearization.

So when somebody instructs it to or amplitude of the signal or improving the amplifier performance . As far as the technology, we can imbed just about any kind of active or passive component into our multi-layer strip line technology. And as I said we promoted it's sole product more than five or six years ago for wireless applications at that point. components.

So the technology is not brand new but we're doing a lot of different and new things with it these days. You know, an example is our .

Going forward we're looking to do a lot of different things from different types of amplifiers with applications as well as module applications with a technology from both transmit high power applications low power applications.

So it's really a platform for us to do many different functions with the modulators. Just the first of those products.

Tom Laview - *Robertson Stevens*

OK, that's all. Thank you very much.

Unidentified

Thanks.

Operator

from Mark Mischeka (ph) at Bank of America Securities.

Mark Mischeka - *Bank of America Securities*

All right. a little housekeeping. Joe, did you have the customer mix for last, I guess not, yeah for last quarter?

Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

Customer mix?

Mark Mischeka - *Bank of America Securities*

Yeah.

Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

Yes I did get and I have the Motorola Power Wave. But we were with Ericsson last quarter.

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

The quarter before .

Mark Mischeka - *Bank of America Securities*

December, yeah.

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

Yeah.

Mark Mischeka - *Bank of America Securities*

OK.

Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

Last quarter Ericsson was about 20 percent of our wireless net sales.

Unidentified

That's good because we had at 16. at 12 and Power Wave at 15.

Mark Mischeka - *Bank of America Securities*

similar patters in March or do you expect Ericsson to become next quarter?

Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

No I think we're right now seeing things stand relatively where they are.

Mark Mischeka - *Bank of America Securities*

OK. Got you. And then a question on the 5M acquisition. It seemed like, you know, your gross margin took a hit because of that. Can you explain, is there some amortization or accounting that's going on there that goes away at some point? How should we look at that?



Lawrence Sala - *Anaren Microwave Incorporated - President and CEO*

Well, what basically happened was that all this business interruption insurance that we've received for the fire was what has basically covered the expenses of the company for probably after we bought them were recognized in the purchase accounting.

we have plenty of cash and if you look at their balance now they're still sitting on about \$3.6 million dollars in cash and we're nine months out from the fire.

So they're covering their expenses with the resources they received from the insurance company. But it was all recognized in terms of the revenue gaining back when we purchased the company.

So now we're basically having expenses with significant revenues to off set the expenses. That's where you're getting your operating loss.

And going forward until revenues rise to the prior levels, we're still going to suffer some kind of operating loss. We had 2.4 million dollar operating loss which has dropped to about one million dollars in quarter three and we expected the smaller improvements in quarter four because most of the are between two and three to put the factory back together.

When you look at, if you lay the two against each other, *Mark (ph)*, when we recognize the gain of somewhere in \$4 million to pay at the end of last quarter, we had estimated that that gain would cover their operating losses through probably September with a fairly conservative assumption of how revenue is gonna come back again. This quarter was actually a little bit better than we expected in terms of performance.

So we have, you know, things are coming back a little bit better than we expected them to so far. The real telltale will be how in selling our technology and getting the revenue level up from here. So far it's operating better than we expected but if we had to recognize it as a one time gain and now we're taking in the operating losses .

Mark Mischeka - *Bank of America Securities*

Got you. OK. And then just on what gets revenue going back there again. Is this picking up some of the them actually giving design that Nokia .

Joe Porcello - *Anaren Microwave Incorporated - Vice President of Finance*

That's exactly it. That's where we're focusing first is on our big amplifier customers. They actually had relationship with Nokia prior to our involvement.

We believe they have some fairly unique technology in building very cost effective high power amplifier microwave circuit boards. So we think their technology applies to all of our customers and that they have some pretty unique capabilities to do things competitors and that's getting anybody introduced to the market place.

So I saw shorter selling cycles than a lot of the other products that we offer because they can come in, take the drawing and get into production within a matter of a month. They don't have to wait for designing cycles to get in and get going. So there is better opportunity to get the revenue rate up quickly than say products that we introduce that have to go through a new design cycle.

Mark Mischeka - *Bank of America Securities*

OK, great. Thanks for the explanation there.



Joe Porcello - Anaren Microwave Incorporated - Vice President of Finance

Sure.

Operator

Mike Lawcid (ph) of RBC Capital with our next question.

Cliff Maldonado - RBC Capital

Yes, hi, this is Cliff Maldonado (ph) for Mike Lawcid (ph).

I was wondering if you could review the competitive landscape for the .

Unidentified

We really don't see a big difference in landscape around the world. We pretty much deal with the same global competitors everywhere. We've been competitively I think like anything we're seeing, you know, see competition.

A lot of people try to get into different product areas and try to do anything they can do to get their revenue rate up.

But not a lot changing quarter to quarter in the competitive landscape. We're still seeing this .

Cliff Maldonado - RBC Capital

How about pricing pressure?

Unidentified

Well, you know, continues to be strong. Customers are all looking to enhance their margins. I'd say that changes in the marketplace has probably been more frequent.

Price and negotiations with our customers, some customers wanting to negotiate every six months or even every quarter versus annually. But, you know, certainly more pressure than we saw even a year ago.

Cliff Maldonado - RBC Capital

What do you expect for for the next quarter? You know you mentioned you had some pressure on the margin. Do you expect to be ?

Unidentified

Somewhere around 20.12 percent of the sales. Somewhere in that .

Cliff Maldonado - RBC Capital

OK, thanks.

Operator

And a final reminder, please press star one if you would like to ask a question at this time. We'll hear now from J u d s o n C o p l a n d (ph) of Morgan Family.

Unidentified

Hi. for J u d s o n (ph) . How are you guys doing?

Unidentified

Good.

Unidentified

A couple quick questions. We didn't talk about Nokia too much on your core wireless business. But you did have a lot with those folks. Have you got any business attached to that?

Unidentified

Nothing substantially different. We do have a volume purchase agreement, we gained some share but it's off of obviously a very small paced, small customer of ours in the past.

So they've pretty much called off the products to their forecast today. And not yet a large customer of ours. We would expect them next couple of quarters.

Unidentified

From the core business or for 5M or both?

Unidentified

From a core business. 5M is qualified hopefully by Nokia in this current quarter. They're actually visiting our 5M facility over the next couple of weeks I believe and hopefully we'll successfully complete the qualification with them. But it won't be after that that we start to see any kind of pick up at 5M.

Unidentified

OK. Could you quickly talk about your revenues from new products?

Unidentified

Our new products, well I guess that's how you define new products. As far as any of the new things that we've introduced in the last quarter or these breaking products, we don't expect to see revenue from them for at least another probably two quarters. Maybe some in our late third or fourth quarter of this calendar year. But the status . For us it's typically a nine month cycle to get new products in.

We're seeing a little bit of revenue earlier than we've ever seen it before. But whether it'll start to be a impact within the next quarter or two is yet to be seen. So maybe six months from the introduction we might see some production but nine months is more of the typical.

The only other new thing this quarter was with the 3G adrenaline our first production of that product and probably at least a year.

Unidentified

What ?

Unidentified

We're seeing, you know, we've actually shipped reels of thousands of products out already even though we've just introduced that product a month and a half ago.

So to our surprise, yes, some of the lower line products and some of the zinger circulator products, we're actually seeing a little bit of .

But still we expect it to be another quarter or two before we see any steady significant production there. But that's pretty . In the past we -- typically it's been a longer time before we see products procured in those kind of volumes.

Unidentified

Why do you think that is for those two particular products? delay line.

Unidentified

I think it's because they're brand new concept products that offer savings, you know, appreciable savings over alternatives.

So the delay line is very unique. There was never to our knowledge a product like that in the marketplace and it's substantially lower cost than alternatives that were out there. And similar with the zinger circulator, it's something brand new and fairly weak in the market. And so I think people are looking at it as a figure .

Unidentified

OK, and last question. Andrew Corporation announced the purchase of a company called Q u a s a r (ph) yesterday. products. Can you give a sense for what you think that purchase or that category of product is placed within the .

Unidentified

To my knowledge is a lot more competitive with some of our older traditional products, case products than with anything that we really sell into the wireless marketplace today.

I'm not super familiar with that product line. We never that I ever remember in our history running to them as a competitor or even considered an alternative to the things that we focus on. .



Unidentified

And how or your new with our amplifiers or other components within the base station. What's kind of happening from the perspective and ?

Unidentified

Well we're, you know, we're definitely seeing the desire from to buy higher levels of assemblies. But for us it's really a potentially into a different customer.

It's not really worth creating more opportunity for us or less so where as, you know, today we might sell to an amplifier manufacturer and we might sell to a manufacturer and we might sell to another sub-assembly manufacturer.

As we go forward it's looking like that might be one big customer instead of three separate customers. But at the end of the day where we play in this food chain, we're still typically selling our components be it at L&A or combiner or at power amplifier.

Unidentified

You mentioned that they only wanted to buy higher level assemblies and one of your comments back at the was that you started to get some more of the signaling of base band signaling protocols from the . Is this the way that they're indicating that they want higher level assemblies by communicating some more of those protocols?

Unidentified

Not quite sure I fully understand your question. We're just saying that some of our customers sub systems rather than just so we're finding that, you know, our customers who might have just been doing a before or combiner or power amplifier before are now dabbling in all of those technologies and product areas and going after assemblies as opposed to just one piece.

Unidentified

Is there some kind of parallel behavior here appearing at the OEM's that you from your volume purchase agreement that is with that behavior from your customers?

Unidentified

No, I mean, from what we've seen in our limited view of the world, you know, our customers, you know, before they out sourced our and they out sourced filters and they out sourced L&A's.

They still are, just might be trying to go to the one customer, one supplier instead of three different ones. And our customers traditionally build their own PA's or build their own filters, build their own L&A.

They're still doing that. We haven't what they're doing. It's just how they're doing it and trying to find maybe one source instead of three different sources.

Unidentified

OK. That makes sense. Thank you very much.



Operator

At this time there are no further questions. I'll turn the conference back to our presenters for any closing or additional remarks.

Unidentified

Well, thank you for your time and we look forward to speaking with you against next quarter.

Operator

That concludes today's conference. Thank you, everyone, for your participation.

END

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