

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ANEN.O^B14 - Q1 2003 Anaren Microwave Earnings Conference Call

EVENT DATE/TIME: OCTOBER 22, 2002 / 9:00PM GMT

OVERVIEW:

Company announced 1Q03 results with EPS of \$0.01 on net sales of \$20.4m. Projecting 2Q03 EPS of \$0.01 - 0.02. Q&A focus: 802911 product, space and defense pipeline, cost reduction initiatives.



CORPORATE PARTICIPANTS

Lawrence A. Sala *Anaren Microwave Inc. - President and Chief Executive Officer*

Joseph E. Porcello *Anaren Microwave Inc. - Vice President Finance*

CONFERENCE CALL PARTICIPANTS

Rich Valera *Needham and Company - Analyst*

Greg Patricia *Banc of America Securities - Analyst*

Earl Wam *CIBC World Markets - Analyst*

Cliff Odanodo *RBC Capital Markets - Analyst*

Judson Couplin *Morgan Stanley - Analyst*

Kevin Steedy *Royals Fargo - Analyst*

Arindam Basu *Analyst*

PRESENTATION

Operator

Anaren First Quarter Earnings Release. Today's call is being recorded. At this time for introduction and opening remarks, I would like to turn the call over to Mr. Larry Sala President and Chief Executive Officer of Anaren Microwave, Incorporated. Please go ahead, sir.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Thank you. Good afternoon, and thank you for participating in the Anaren Microwave Fiscal 2003 First Quarter Conference Call. I am Larry Sala, President and CEO and I'm joined today by Joe Porcello our Vice President of Finance. We are going to first provide an overview of the results of the first quarter, which ended September 30, 2002 after which Joe will review the financial highlights. We'll then take few questions. The statements contained in this conference call, which are not historical information are forward-looking statements. These statements involve risks and uncertainties that could cause actual results to differ materially from those discussed. You're encouraged to review Anaren's first quarter press release, Anaren's Form 10-K for the fiscal year ending June 30, 2002 and Anaren's Form 10-Q for the first quarter ended September 30, 2002 and the exhibits to those reports filed with the Securities and Exchange Commission to learn more about the various risks and uncertainties facing Anaren's business and the potential impact in Anaren's net sales and earnings.

Net sales for the first quarter were \$20.4 million, up 36% from the first quarter of last year and down 5% sequentially from the fourth quarter of fiscal 2002. The operating loss for the quarter was \$455,000 compared to operating income of \$700,000 for the first quarter of last year and \$361,000 for the fourth quarter of fiscal 2002. The operating loss for the quarter included a \$403,000 or 1 cent per diluted share restructuring charge or workforce reduction at Anaren Europe. This action was taken to align the workforce at Anaren Europe with the current level of demand and is expected to reduce operating expenses at that facility by approximately \$1 million annually.

The Anaren Europe qualification and designing activity with several leading wireless OEMs are progressing. The lack of visibility across the wireless market resuscitated the action. Net income for the first quarter was \$146,000 or 1 cent per diluted share. Wireless business sales for the quarter was \$13.1 million up 53.6% from the first quarter of last year, but down 12.3% sequentially from the fourth quarter. Sequential decline in net sales from the fourth quarter is the result of an overall decline in demand and not from any one product line or customer. New design activity for both the component and custom product remains strong and during the quarter we began to increasing demand for custom products to support cost reduction program on existing wireless infrastructure and amplifier projects. W



We believe that our technology and product portfolio are very well suited for cost reduction application. Wireless group customer concentration for the quarter as a percentage of wireless group net sales was PowerWave at 19%, Ericsson at 14%, Motorola at 7%, and Lucent at 6%. During the quarter we introduced our first component product for the 2.4 GHz [inaudible] wireless networking access point and client application and began sampling select customers with 5.2 GHz products as well. We are very pleased with our progress in this rapidly growing market having already captured record design win with two leading chipset manufacturers. Our initial product a Balun transformer is used to convert single-ended signal into a balanced or differential signal to interface to the receive low [inaudible] amplifier and the transmit power amplifier. We believe that our product offers superior performance over traditional alternative, improving the range and [inaudible], while reducing the overall power consumption in total [inaudible].

For the Space and Defense group net sales for the first quarter was \$7.3 million up 13% from the first quarter last year and up 12% sequentially from the fourth quarter of fiscal 2002. Space and Defense group new orders for the quarter were \$5.2 million including a follow on order for missile receiver application. We are seeing strengthening domestic and international defense demand over the last 6 months for radar, [inaudible], and receiver application. And given the current demand we anticipate quarterly Defense group net Sales will continue to achieve \$7 million. Space and Defense group backlog at September 30th 2002 was approximately \$31.3 million. During the quarter we took action to reduce our operating costs at Anaren Europe in line of current wireless market condition. We will continue to diligently review our operations and detect the actions necessary to perform optimally in the current environment. Joe Porcello will now review the financial highlights.

Joseph E. Porcello - Anaren Microwave Inc. - Vice President Finance

The financial highlights of the first quarter income statements from the balance sheet of September 30th 2002 are as follows. The gross profit margin for the first quarter of the fiscal 2003 was 26.4%. This was a 2.6% point decrease from gross margins of 29% in the fourth quarter of fiscal 2002. Gross margins fell on both wireless and Space and Defense products in Q1. Margins fell on wireless products due to decline in net sales and a higher proportion of lower margin products in shipment mix in Q1.

Space and Defense margins fell due to a number of new programs in Q1, which currently have a higher level of engineering costs and a lower initial yields in the programs in the Q4 shipment mix. Going forward in current revenue levels and production shipment mixes. We do not expect to see any significant change in gross margin. Investment in research and development was 6.8% of net sales in the first quarter of 2003 compared to 8.2% in the fourth quarter of fiscal 2002. Research and development expenditures declined slightly from quarter four levels due to the application of internal engineering to new customer funded Space and Defense programs.

Loss from operations was 2.2% of net sales in the first quarter compared to income from operations of 1.7% in the fourth quarter of last year. Operating margins declined due to the drop in gross margins and the restructuring charges at our European facility. Without the restructuring charges, operating expenses fell at approximately \$425,000 in Q1 compared to Q4 including a \$360,000 decline in R&D expense in Q1 due to the shift to new funded transit engineering programs in the Space and Defense group.

At this time the company is reviewing all opportunities to reduce cost and we'll continue to implement cost savings measured when and wherever possible with the goal of making all operations profitable. We presently do not expect significant improvement in operating income over first quarter 2003 levels prior to restructuring, without any increase in sales volume. Net income was 0.7% of net sales for the first quarter of 2003, as compared to 9.4% for the fourth quarter of fiscal 2002, which included a tax benefit of 3.7% of net sales. On a per share basis, diluted earnings per share for the first quarter of fiscal 2003 were 1 cent. This compares to 9 cents per diluted share in the fourth quarter of fiscal 2002, which included a 4 cents per share tax benefit.

The balance sheet highlights includes the following: Cash, cash equivalents, and investments were approximately 125 million in September 30th, 2002 and June 30th, 2002. We have continued to enjoy a positive cash flow from operations in the first quarter despite the lower level of net income. Cash generated by operations was approximately 2.1 million in the first quarter of fiscal 2003. Accounts receivable were 12.5 million in September 30th down 600,000 from June 30th, 2002. Day sales outstanding at September 30th were 56 days unchanged from June 30th, 2002. We continued to expect day sales outstanding to fluctuate between 55 and 70 days as we go forward depending on sales level customer mix and business levels. Inventories this September 30th, 2002 were relatively unchanged from June 30th at 20.2 million. Capital equipment additions in the first quarter of 2003 amounted to approximately 2.1 million. The additions were mainly for automated material handling equipment in Anaren, Europe and



production equipment at our [inaudible] facility. Account sales [of] September 30th, 2002 were 4.8 million, down slightly from 5 million to June 30th, reflecting the small decline in business activities from the June quarter. During the first quarter we purchased 71,800 treasury shares in the open market at an average cost of \$8.27. It is anticipated that we will continue to make open market purchases of shares for treasury under the current board authorization depending on market price.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Thanks Joe.

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

As in previous quarter, visibility from our wireless customers remains very limited. Given the current level of market visibility we are projecting net sales for the second quarter to be in a range of \$19-20 million and diluted earnings per share to be in the range of 1-2 cents. Before taking your questions and we also addressed our positions with respect to Celeritek. As you know on September 25th, Celeritek rejected around \$8.75 per share cash offer claiming it was not in the best interest of Celeritek shareholders. Although we continue to believe in the merits of our business combination with Celeritek, given Celeritek projected revenue and profitability decline, we remain committed to the necessity of appropriate due diligence before we can further assess our valuation of Celeritek and our intent to consider all the alternatives available to it and may pursue one or more of the possible actions outlined in its 13B, section 13B filing as amended. Operator we'll now take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The question and answer portion of today's call will be conducted electronically. If you would like to ask a question please do so by pressing the "*" key followed by the digit "1" on your touch-tone telephone. If your using a speakerphone, please make sure your mute option is turned off to allow your signal to reach our equipment, once again "*"1" for questions. We'll pause for just a moment to gather our audience. We'll take our first call from Rich Valera with Needham & Company.

Rich Valera - *Needham and Company - Analyst*

Thank you, afternoon Larry and Joe. First question on the margin, Joe you mentioned in your comment that you didn't expect any improvement in the gross margin barring higher revenue levels or significant restructuring. I am just wondering why there might not be a mix shift back to higher margin products or a mix shift back to higher margin production products in the defense area? Why this sort of certainty that it will stay with this particular mix with a foreseeable future?

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

What we can see now in the second quarter shift index appears to be pretty comparable to the first quarter mix. So the model as it roles out appears to come up with approximately the same gross margins.

Rich Valera - *Needham and Company - Analyst*

Would you expect a longer term lets say the defense side at least with transition more to a higher margin production?

Joseph E. Porcello - Anaren Microwave Inc. - Vice President Finance

Yeah, I think we'll see improvement over the long term as the volume picks up some of the newer products, the yield improved and the engineering begins to slow down a little bit.

Rich Valera - Needham and Company - Analyst

And you eluded to potential restructuring I guess. Is there anything more you can say and what you might do to get the margins up in the absence of the higher revenue levels?

Joseph E. Porcello - Anaren Microwave Inc. - Vice President Finance

Not at this point, that really depends on the market and where it goes over the next couple of months.

Rich Valera - Needham and Company - Analyst

Okay and Larry you mentioned that you lowered the annual OPEX in [entering] year-end by a million dollars. Can you say what the quarterly break-even level is there for 5M at this point?

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

It appears to be somewhere around \$2 million in net sales of quarter, that would get that operation close to break-even or [inaudible], but obviously its mix dependent there as well but given the business that we've seen and what we are pursuing its somewhere in that [2-2.25] million per quarter of net sales and that's our break-even now.

Rich Valera - Needham and Company - Analyst

And are you sort of in the 1.5 million range there now?

Joseph E. Porcello - Anaren Microwave Inc. - Vice President Finance

Not quite there but that's approaching that somewhere between 1 and 1.5 million is where the operation stands. Its been running the last 2-3 quarters.

Rich Valera - Needham and Company - Analyst

Okay and there is been some big contracts announced in China the last couple of days. Have you guys seen any kind of ordering from any of your major OEM customers in relation to that?

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

[Yes today] any significant follow through with the result that the announcements to the last week or so, yes, but we wouldn't expect to see it that quickly and you know sometimes you know we see a little bit in advance and don't know exactly who the end markets for us, so tough for us to say we haven't seen any single event that's follow through from that yet.



Rich Valera - *Needham and Company - Analyst*

And finally in the defense bookings, how does the defense bookings picture look over the next couple of quarters? Do you expect to built that up a little bit and bring that backlog up some?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

You know, we continue to say that the timing of orders in that business is very difficult to project, the things move quarter or two just with no real reason but overall over the next two quarters we would expect to have a positive book to bill ratio, book to bill ratio greater than one. But that timing can move, it's tougher business for us to predict timing in the near term.

Rich Valera - *Needham and Company - Analyst*

Great. Thank you.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Yeah.

Operator

Our next question is from Arindam Basu. Please go ahead.

Arindam Basu - *Analyst*

Hi guys. How are you?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Good. How are you?

Arindam Basu - *Analyst*

Good. On the [inaudible] products, could you talk about? I got the first one was a [bio line] transplant, I missed the second one, sorry Larry.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

No it's a [balanced] product is the only one we have announced today.

Arindam Basu - *Analyst*

Okay.



Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

But its used in two places potentially. They can be used as a front-end [citing] a [receive] low noise amplifier where the advantages and enhancement and sensitivity and it can be used at the output, at the power trans -- power amplifier on the transmit side where the advantage is, you know, higher transmit power and lower overall power consumption due to its less [inaudible] insertion mask through our product than competing alternatives. So its one product that can be used in either or both places depending on the design architecture.

Arindam Basu - *Analyst*

Okay. I got it. And on the well, on the actual customer applications, what sense do you get in terms of these parts, of the position or being, are being designed for let us say [PCOEM] wins versus [inaudible] [card] to stand on access points, do you have any sense of that? Or is it simply because its on the [ICU] level, its too hard to tell?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

We have a little insight not a great deal across our whole customer base. We do know our first generation of products are being designed more into access points than into client applications. But we're developing product that we think will have broad applicability across every application. So we foresee over the next couple of quarters, participating across all applications, be it an access point or a client application, be it a PCMCIA card application or other embedded solutions.

Arindam Basu - *Analyst*

Okay. And then the Joe some details on space and defense usually are, your choose and [Ks] talk about operating margins, do you have a sense of space in defense operating margins now and what it was space versus defense?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

No we normally don't disclose that.

Arindam Basu - *Analyst*

And then Larry you are talking about seeing some custom component [float-through] at the end of the quarter. And could you talk a little about custom versus standard wireless component operating margins and how those typically would vary?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

I'll show you product line by product line in our component group. In general, I would say today we see our component products in total be in comparable margins to our custom products, maybe a little stronger margins than our custom products. But if you average all our component products together, they are fairly comfortable.

In the quarter, we saw the mix tend to be more standard products, which should be a component product, which is an area that we've focused more on over the last 9-months or so. But the design activity in the second half of the quarter, we are starting to see more activity on the custom side around cost reduction efforts on existing platforms. Whereas previously, for the last year or more, we saw the majority of custom design activities being on new third generation platforms. So we feel, we're seeing a real trend in the market place towards cost reduction activity and less activity focused on new platform development. For us, we think that means the potential for a nearer term revenue string from our development after expenses targeting existing platforms, and doesn't require new third generation deployment to generate revenue.

Arindam Basu - Analyst

Okay that's good point, thanks. And Joe, could you go over the treasury stock numbers again? Just go with number of shares and average price?

Joseph E. Porcello - Anaren Microwave Inc. - Vice President Finance

We purchased 71,800 shares and the average cost was \$8.27 a piece.

Arindam Basu - Analyst

Okay thanks guys.

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

Sure.

Operator

Our next question is from Mark McKechnie with Banc of America Securities. Please go ahead.

Greg Patricia - Banc of America Securities - Analyst

Hi guys this is [Greg] Patricia for Mark. I had a question for you -- last quarter you commented on visibility, so that's 2-4 weeks I believe. Can you comment on how that looks right now? Is it similar?

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

I would say if anything is [guarding], it's more volatile than it's been for the last couple of quarters. We're seeing a higher percentage of sales generated from orders within the quarter, or within a month, than we have in the past. Our customers are still trying to provide us with 2-4 weeks of visibility, but I think it's less reliable than it was the last couple of quarters. Both positively and negatively.

Greg Patricia - Banc of America Securities - Analyst

Okay. I am shifting over to space and defense real quick. I think you mentioned, I think I may have missed it, but you expect \$7 million in sales over the next couple quarters or is this foreseeable future?

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

We are expecting to see a minimum of \$7 million in net sales per quarter for at least the remainder of the fiscal year. And depending on how order flow is for the remainder of the year, we'll have a better feel for if that's sustainable longer term.

Greg Patricia - Banc of America Securities - Analyst

Okay and can you comment on how the Boeing program right now plays into that and where are you filling in for that program, as it doesn't effect to go off before fiscal year's end?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Well we're at later stages of that project. So the contribution into net sales per quarter has declined over the last year or year and a half and will decline throughout the remainder of this financial year when bookings complete. But we've delivered, probably, 75% of that contract already.

Greg Patricia - *Banc of America Securities - Analyst*

Okay, great. And I guess one last note -- just kind of on a house keeping -- on the tax rate going forward, do you have anything?

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Tax rate should be some where around 25%. That depends a little bit on the exact levels of the income.

Greg Patricia - *Banc of America Securities - Analyst*

Exactly.

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

and credits over the rest of the year. But it's modeled on what we want we currently expect now at 25%.

Greg Patricia - *Banc of America Securities - Analyst*

Okay, I appreciate it. Thank you, that's all the questions I have.

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Sure.

Operator

As a reminder to our listening audience, if you would like to ask a question please press "*" "1" on your touchtone phone. We will now go to [Earl Wam] with CIBC World Markets. Please go ahead.

Earl Wam - *CIBC World Markets - Analyst*

How are you guys doing?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Sort of okay.

Earl Wam - *CIBC World Markets - Analyst*

Joe just a couple of housekeeping -- what do you expect CAPEX to be in Q2 and do you have a full year number for us?

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

The full year should be somewhere in the vicinity of \$5 million. We were, kind of, healthy in quarter 1, at close to \$2 million. We would expect it would drop-off the other year. 3 million should be split out pretty much about 1 million a quarter going forward.

Earl Wam - *CIBC World Markets - Analyst*

Okay, great. And what was the depreciation in the quarter?

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Depreciation in the quarter was [inaudible], about \$1.2 million, Earl.

Earl Wam - *CIBC World Markets - Analyst*

Okay great. And then where there any 10% customers that you guys had during the quarter?

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

10% of the overall sales were [Power Wave] what we said it was 19% of our [roads] group net sales. And I don't know if we had a space and defense customer over 10%.

Earl Wam - *CIBC World Markets - Analyst*

Okay, so 19% of the wireless revenues?

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Right.

Earl Wam - *CIBC World Markets - Analyst*

Okay.

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

It is wireless.



Earl Wam - *CIBC World Markets - Analyst*

And as you -- out of this [802.11 B] product that you guys introduced, you mentioned two reference design wins with chip manufacturers. Is this knocking out an existing component that's using a different technology [variable], can you walk us through if this is, one of these were -- is an absolute requirement that the use of [balon] versus some other type of technology, if they want to follow the reference design?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Sure. Each customer from our understanding that we get designed in our reference design. I think, likelihood is exceptionally high that it will be manufactured to that reference design, especially relative to our product. As it's very -- has a significant impact on overall system performance. So I think, if we succeed in achieving reference designs, there is an exceptionally high likelihood of production follow through.

In terms of what our product does in alternative there are several. Some of our customers to discrete implementation, using discrete components. Some of our customers purchase a [balon] device that's typically manufactured in a different type of technology, where we think we have significant performance advantages over those other product solutions. And some of our customers actually implement [balan] device on chip, so to speak. So they use a single-ended input as opposed to a balanced input. So there are some alternatives. But we feel very confident that if we can achieve design wins, we will see the production follow through.

Earl Wam - *CIBC World Markets - Analyst*

Okay and my guess is your strategy is the same thing for the A band in terms of at the 5 gig-?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Correct.

Earl Wam - *CIBC World Markets - Analyst*

In terms of again focusing on the reference designs?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Correct.

Earl Wam - *CIBC World Markets - Analyst*

And, if you look at where the potential for these margins are relative to some of your other standard component products, are they kind of in the same average or are you going to get better margins on this products? Or obviously given this market, there is significant pricing pressure, what do you think margins are going to be for this new product, I guess new product application line?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Earl, we are never going to see it, where a customer like you are listening that these are expected to be very high margin products [laughter]. They are consistent with our other Xinger type of solutions. So we use the same basic manufacturing technology and expect margins error consistent with our Xinger compliment platform.

Earl Wam - *CIBC World Markets - Analyst*

Okay and speaking of Xingers could you talk a little bit about obviously with the Xinger isolator parts that were introduced. What is the design in activity on that particular product and is that sorting to gain some fraction with some of these cost reduction efforts that are out there or is that more targeted for a completely new type of system level platform.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Well, our Xinger circulator designed to date. The design activity has been high. The production activity has been quite low. We targeted some of the higher frequency applications initially, which appear to be obviously growing out slowly in the market place. We hope to introduce over the course of the next quarter or so. What we think is an exceptionally cost effective Xinger circulator solution for our customers that will be -- have higher applications to cost reduction efforts that are on going and applicable across our frequency band. So we hope that by the end of this quarter or as late as the end of next quarter we have product that covers every frequency band and covers applications from the higher and high-power applications to the medium-power applications where we think our punch line will be very attractive to our customers.

Earl Wam - *CIBC World Markets - Analyst*

Okay, great and then just one final question. You were mentioning certainly visibility remains somewhat limited. Can you talk a little bit about -- sounds like you got a some amount of [terms] business in the quarter. Can you quantify that for us and are you expecting that kind of a same level for Q2.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

We are even more significant, I would say within a month we have seen a growth from shipping something like 25% of our shipments in a month on orders that are received that month to moving to something between 30-40% of our shipments in a month being orders received that month in our wireless business. So some product lines are even higher percentage in a month and our custom stuff tends to be a little bit more predictable. But we have seen a pretty appreciable change in shorter-term order patterns.

Earl Wam - *CIBC World Markets - Analyst*

And is this causing you to have the stock more inventory and finished goods to meet these shorter-term cycles.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

It is in some products. Yes.

Earl Wam - *CIBC World Markets - Analyst*

Okay, great thank you gentlemen.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Sure

Operator

Our next question will be from Cliff [Odanodo] with RBC Capital Markets, please go ahead.

Cliff Odanodo - *RBC Capital Markets - Analyst*

Thanks. This is Cliff [Odanodo] for Michael [Oakhly]. I wanted you to give some more color on your new product pipeline? Possibly the number of new products you are looking a launch and maybe the type?

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Our goal is to launch something between 2-5 products per quarter and our target market place is today are to continue to try to expand our footprints and infrastructure size, both within the power and transmit side as we played historically, but also introducing products on the receipt side in small signal lower power application. And [inaudible] level markets, we believe that there continues to be opportunities to grow our footprints and [inaudible] application and we expect to be continuing to introduce products to that market over the course of the rest of fiscal year.

Cliff Odanodo - *RBC Capital Markets - Analyst*

So in total 2-5 per quarter is your target?

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Yes.

Cliff Odanodo - *RBC Capital Markets - Analyst*

Okay and then as far as the China facility, is production up and running there?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

We actually started producing parts there late last quarter. We are qualifying those products now and expect to get into full-qualified production in this quarter. So we did start producing products there last quarter.

Cliff Odanodo - *RBC Capital Markets - Analyst*

Okay. Great. That's all I had. Thanks.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Sure.

Operator

At this we have one question remaining in the queue. I would like to remind everyone that if you like to ask a question, please do so by pressing "*", "1" on your touchtone phone. We will take our question from Judson [Couplin] of Morgan Stanley. Please go ahead, sir.



Judson Couplin - *Morgan Stanley - Analyst*

Hi guys. Most of my questions actually have been answered. So I just have a quick one for you. I was wondering if you could break out percentage of wireless revenues from our [inaudible] revolution. Just give us an idea of much that comes from [Selium and Andrew].

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Well, we -- report from Lucent is actually from Lucent. From [Selium and Andrew] I have to give you an estimate that estimate would be something on your probably 4% of our wireless net sales. Something like 4-5% with their -- that's the estimate that I can give you.

Judson Couplin - *Morgan Stanley - Analyst*

Okay. That's great, thanks a lot.

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Sure.

Operator

Our next question is from Kevin [Steady] with [Royals Fargo]. Please go ahead.

Kevin Steady - *Royals Fargo - Analyst*

Hi guys. Good job given the conditions.

Joseph E. Porcello - *Anaren Microwave Inc. - Vice President Finance*

Is it?

Kevin Steady - *Royals Fargo - Analyst*

Larry, just from the 20,000 foot level can you kind of give us a read on what you might see coming up in defense, what you think you might have a short -- short of getting and what you still have in your plate?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Yeah, I think the opportunities that were pursuing some of which are follow-on opportunities, we expect to see follow on opportunities on the radar side. We see funding flow to our customers and radar side and so we would expect over the next quarter to achieve those orders flow down to us. Pursuing some space-defense opportunities that utilize some of our receiver technology. We are pursuing some follow on orders for our [ship-- jamming] technology in South Korea, in Greece, as well as in Turkey and we also expect to see continuing orders for our location technology that we licensed to Lockheed Martin. And probably half of what we expect our customer responded and we feel to more of the timing issue on the other half of the opportunities, it is something that's being aggressively pursued and we are seeing some pretty positive signs.

Kevin Steedy - *Royals Fargo - Analyst*

Do you think anything might come your way out of the missile defense initiatives?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

That's where most of our radar work is targeted. So that's the application that we see pretty strong funding and would expect to see orders over the next couple of quarters.

Kevin Steedy - *Royals Fargo - Analyst*

Great. Okay, thanks.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Sure.

Operator

We have follow up question from Rich Valera with Needham & Company. Please go ahead.

Rich Valera - *Needham and Company - Analyst*

Thank you. Larry or Joe, I'm just wondering what it would take for you guys to make those more aggressive cost cuts? How many quarters say, what sort of flattish revenue and sort of break even operating profitability before you might take some more aggressive steps to bring the cost structure down?

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Rich, if we see to try and continue -- we'll take that action this quarter.

Rich Valera - *Needham and Company - Analyst*

Okay. Thank you.

Lawrence A. Sala - *Anaren Microwave Inc. - President and Chief Executive Officer*

Yeah.

Operator

And for our final question, we have a follow up from [Earl Wam] with CIBC World Markets. Please go ahead.



Earl Wam - CIBC World Markets - Analyst

Yeah, Larry you mentioned 4-5% of wireless for [Selium Andrew]. I have missed the number for Lucent, if you could repeat that?

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

[37%.]

Earl Wam - CIBC World Markets - Analyst

Okay, and could you talk a little about -- certainly you are looking to release a bunch of new products per quarter. If you have to look right now in terms of your overall mix in terms of new versus -- new products versus, I guess your older product line, what is that mix looking like in? And are you seeing the traction shifting towards the newer products?

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

You know, when we started really aggressively introducing products last February or so, it was typical for us that at least the nine-month cycle to see those turn into -- turning to significant revenue streams in the infrastructure market. So we really aren't seeing a great deal of revenue generation out of the new product site yet. But we also expect that [inaudible] market we will see a faster transition to production when we achieve design length that we have in the wireless infrastructure market. So we expect in that market to see more like six-month cycle time from reference design win verification to moving into generating revenue.

Earl Wam - CIBC World Markets - Analyst

So you expecting at least, for example on the 802.11 by Q3 of your fiscal year, you would [inaudible] revenue?

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

Yeah, late Q3 more likely Q4, but that sort of timeframe.

Earl Wam - CIBC World Markets - Analyst

Okay, great. Thank you.

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

Yeah.

Operator

Gentleman there is no questions in the queue at this point. I would like to turn the call back over to Mr. Sala for any additional and closing remarks.

Lawrence A. Sala - Anaren Microwave Inc. - President and Chief Executive Officer

Well, thank you again for participating in our call and we look forward to speaking to you on future calls.



Operator

This concludes today's conference. Thank you for your participation.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.