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KOPN - Q3 2010 Kopin Corporation Earnings Conference Call

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Kopin Corporation - President and CEO

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CONFERENCE CALL PARTICIPANTS

Matt Robison

Wunderlich Securities - Analyst

Chris Versace

Think 20/20 - Analyst

Rajvindra Gill

Needham & Company - Analyst

Betsy Van Hees

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PRESENTATION

Operator

Good day and welcome to Kopin Corporation's Third Quarter 2010 Financial Results Conference Call. Today's call is being recorded for Internet replay. You may access an archived version of the call on Kopin's website at www.kopin.com.

With us today from the Company are Chairman and Chief Executive Officer, Dr. John C.C. Fan and Chief Financial Officer, Mr. Richard Sneider. For opening remarks, I would now like to turn the call over to Mr. Sneider. Please go ahead, sir.

Rich Sneider - *Kopin Corporation - Treasurer & CFO*

Welcome, everyone, and thank you for joining us this morning. John will begin today's call by discussing the highlights of the quarter and our outlook for the balance of 2010. I will take you through the financials and we'll be happy to take your questions.

Before we begin, let me mention that during this call, we'll be referring to adjusted net income attributable to controlling interest, which is a non-GAAP financial measure that excludes certain gains recorded in the third quarter of 2009. A copy of our earnings press release, along with a reconciliation of adjusted net income attributable to the controlling interest to the most directly comparable GAAP measure used during this call is available on the Investor Relations section of our website at www.kopin.com.

I would also remind everyone that during today's call, taking place on Tuesday, November 2nd, 2010, we will be making forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on the Company's current expectations, projections, beliefs and estimates and are subject to a number of risks and uncertainties. Potential risks include, but are not limited to, demand for our cyber display and III-V products, market conditions and other factors discussed in our most recent annual report on Form 10-K and other documents filed with the Securities and Exchange Commission.

The Company undertakes no obligation to update these forward-looking statements made during today's call. And with that, I'll turn it over to John.

John Fan - *Kopin Corporation - President and CEO*

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Thank you, Rich. Good morning, everyone, and thank you for joining us. Our III-V business has been the growth engine for Kopin this year and this product line continued its growth momentum in the third quarter. III-V sales were up 50% year to date over last year.

We believe this exciting growth reflects both the underlying strength of handset and wireless markets and the leadership position of our HBT transistor technology. Our HBT transistor technology is relied upon by the world's leading power amplifier circuit providers and I'm pleased to report that we grew our business with each of our large customers during the year

Because of their uniqueness and complex structures, Kopin transistors are critical to the performance of those circuits that are powering today's most-advanced smart phones, tablets and other mobile devices.

In addition, we have been focusing to broaden and diversify our III-V customer base. I am pleased to report that in addition to Skyworks, our long-term partner, three additional customers each account for more than 10% of our III-V revenues in the third quarter. They are RFMD, TriQuint and AWSC.

A key reason for the success of our III-V business is our ability to meet our customers' requirements, not just our ability to produce hundreds and thousands of wafers per year, defect free, but more importantly our ability to produce highly engineered and technologically complex transistor structures. These advanced transistor structures are needed by the ever-demanding smart phones and other new wireless mobile devices.

The surging demand for our III-V products has had a positive effect on our pricing. We're not seeing the level of ASP price erosion often seen in the semiconductor component space. Together with our increasing manufacturing efficiency, we are achieving increasing gross margins.

We believe the relative stability of ASPs is also a reflection of our ability to produce highly differentiable technology. In recent years, we have enhanced our product portfolio with additional new structures, such as the (inaudible) and (inaudible). Simply put, we do not believe that anyone in the world can match our manufacturing know-how, engineering scale and nanotechnology transistor technologies.

Kopin plays a very vital role in this dynamic market and the success of our products is a clear validation of our leadership position. Amid such a robust market demand, having the equipment and capability to produce highly qualified, high quality transistor wafers is also a critical attribute. We are also winning in this score, as well.

Our III-V transistors are the world's most advanced metal organic chemical vapor deposition systems. Such systems deposit nano layers of (inaudible) on to gallium arsenide wafers.

Starting from the beginning of this year, our plan is to double our production capacity within 24 months, with the installation of new machines in our facilities in the United States and in Taiwan. Industry projections indicate that worldwide demand for HBT transistor wafers will grow at about 30% per year between 2011 and 2014. Our investment in research and development will enable us to capitalize this strong growth.

From III-V, let's now turn to our display technology, where we are in the midst of transforming our business model. After a soft first quarter caused by delays in the government procurement cycles, our military display business posted another quarter of sequential improvement in Q3.

We expect military revenue to remain solid in the current quarter. However, the momentum will not be enough to make up for the slow start in the year-- in the beginning of the year and, consequently, we expect to be close to the low end of our full-year revenue guidance of \$120 million to \$130 million.

Within the military display end market, our focus is shifting towards sub-systems with higher levels of integration and emphasis on software, hardware and optics. We believe-- we expect our army's thermal weapons sight program will continue to contribute significantly to our display results, subject, of course, to the ups and downs of procurement cycles in the defense budget.

Longer term, we continue to see longer-term growth opportunity in the military sub-system business for programs such as enhanced night vision goggles.

In the industrial end market, we continue to make excellent progress on Golden-i, the world's first hands-free mobile computing experience, controlled by voice and motion, this game-changing platform is based on our innovative hardware and software and is creating excitement across the industry. The technology has been honored by various world class technical organizations.

For example, recently, we won the Recognized Innovator for Mobility for Golden-i by the large Technology Service Association. In October, Golden-i was displayed at a number of conferences, including Technology Service World in Las Vegas, the Police and Public Safety Conference in Orlando and Microsoft's Professional Developer Conference in Redmond, Washington. In the coming weeks, we're planning to roll out a number of new software developer kits.

Our business model for Golden-i focuses on building strong industrial partnerships to bring the technology to market. We believe Golden-i has an addressable market in the billions of dollars and provides us with opportunity to establish a rewarding and profitable business model.

In addition to military and industrial markets, we also are advancing our display technology and strategy in the consumer market where the primary current industry driver is a growing appetite for 3D and HD technologies. The interest in 3D is igniting design activities in the video eyewear market from a number of large and major players in the consumer electronics space. We're continuing to work on multiple 3D reference designs and optical modules to bring to market with strategic partners.

In summary, based on feedback by our customers and the investments that we have made across our business, we're looking forward to a good fall quarter and a strong 2011. The coming quarter we expect to see a solid performance from our military display product line and another excellent quarter from III-V. While fourth quarter, typically is a seasonally slower period for III-V, based on customer demand, we do not expect the business to be affected by seasonality this year.

Longer-term, we believe the foundation we're building in both the III-V and display systems will position us to capture exciting new opportunities and generate profitable growth.

Now we'll turn the call to Rich for his financial review.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Thank you, John. For the quarter, total revenues were \$31.6 million, up from \$30.2 million in the second quarter and essentially flat, year-over-year.

Q3 III-V revenues were \$16.6 million, improved approximately 16% year-over-year and for the nine months, III-V revenues have increased approximately 50% over 2009, driven by the continued strong demand for smart phones and tablet devices.

Display revenues of approximately 15% (Sic-See Press Release) were down about 16% from the year-ago quarter and up approximately 5% sequentially. Looking at display revenue by end market, military display was approximately \$10.4 million for the quarter, compared with \$13.2 million of display revenue in Q3 of 2009 and \$10.1 million in the second quarter. The lower Q3 revenue, year-over-year, military reflects softness in military spending.

Revenues from consumer electronics applications were \$4.3 million, up from \$3.4 million, or 26%, a year ago.

Overall gross margin was 32.3% in the third quarter of 2010, compared with 32.6% in Q3 of 2009. Year to date through September quarter, our gross margin is 28.1% as compared to 29.3% for the same period in 2009. The lower year-to-date gross margin is a result of delays in receipts for the government programs in the first quarter, which resulted in manufacturing inefficiencies.

You may recall, earlier in the year we discussed that the government went through a review process, which held up the release of additional orders for the thermal weapons sight program.

Research and development expense increased to \$4.8 million in the third quarter of 2010, from \$3.6 million in Q3 last year. As expected, the increase is attributable to the ongoing development of III-V structures to support future 3G and 4G products, as well as the Golden-i development.

SG&A expense totaled \$3.9 million or 12% of sales in the third quarter of 2010, from 11% of sales in the year-ago period. The third quarter year-ago-- excuse me, the third quarter year-over-year increase is because Q3 of 2009 had a gain of \$300,000 from receivables which had been reserved for but ultimately were collected.

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Net income for the third quarter was \$1.4 million or \$0.02 per diluted share, based on 66.8 million weighted average common shares outstanding. This compared with net income of \$8.5 million or \$0.13 per diluted share for the third quarter of 2009 based on 67 million weighted average shares outstanding.

The net income for the third quarter of 2009 included \$2.6 million in gains resulting from the increase in the Company's ownership percentage in Kopin Taiwan Corporation from approximately 34% to 87%. Our third quarter and year-to-date 2009 results also included \$2.1 million and \$6.2 million of gains, respectively, from the sale of patents that we were no longer using.

Excluding these items, the 2009 results of operations, net income for the third quarter of 2010 was \$1.4 million or \$0.02 per diluted share compared to \$3.8 million or \$0.06 per diluted share for the third quarter of 2009, while net income for the first nine months of 2010 was \$4.3 million or \$0.06 per diluted share, compared with \$5.3 million or \$0.08 per diluted share for the first nine months of 2009.

The decrease in 2010 net income, as compared to the adjusted 2009 net income is primarily higher R&D expense previously discussed. Cash and marketable securities at September 25th, 2010, decreased \$4 million to \$110.5 million from \$114.5 million at the year end 2009.

Year-to-date, we have generated \$5.8 million cash from operating activities and we also sold investments which generated \$4.2 million of cash. Offsetting that were the uses of cash, which includes \$9.7 million of capital expenditures year to date and \$5.4 million for the repurchase of our stock year to date.

Stock compensation expense for the third quarter was \$716,000 comprised of \$179,000 in cost of sales, \$135,000 in R&D and \$402,000 in SG&A.

Accounts receivable days outstanding on September 25th, 2010, stood at 59 days. Depreciation and amortization was \$5.1 million for Q3.

Turning to our guidance, based on the current business environment, we believe that we are on pace to achieve the low end of our 2010 revenue guidance of \$120 million to \$130 million.

And with that, we'll take your questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions). Our first question today comes from the line of Matt Robison with Wunderlich Securities. Please proceed with your question.

Matt Robison - Wunderlich Securities - Analyst

Good morning and congratulations on the gross margin progress that you achieved in the quarter.

I guess the top question I've got is your III-V growth of 16% is-- it's basically about half the rate your biggest has characterized with their positive pre-announcement commentary and so can we talk a little bit about what the issue is there? Is there timing? I know there's been some issues with some supply constraints in the smart phone business, but that, obviously, is contrary to what your biggest customer has mentioned in their guidance. So maybe there's a sort of timing issue with the supply chain? But rather than answer the question myself, I'd like to hear what you have to say about it?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Matt, historically, comparing us directly to any of our customers has been difficult. If you think of the way the cycle works, essentially the first six or seven weeks of the third quarter will go into someone like, for instance, Skyworks who will use it in their third quarter production, but our last six weeks of the quarter are really going into their fourth quarter.

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So we, historically, have looked at it on a year-over-year basis-- excuse me, a full-year basis, as opposed to a specific quarter-over-quarter and so we would think that our 50% growth is in line with our customers in the industry.

John Fan - Kopin Corporation - President and CEO

Yes and I think, Matt, I think, of course, now-- there's not just Skyworks. We have four 10% customers now, so, also, I think it's important to look at it, really, over the year, which we have 50% growth, which is, then, over our customers which have grown very well compared with them.

Matt Robison - Wunderlich Securities - Analyst

I understand that and since the other-- then one of the four you mentioned, of course, is pretty closely affiliated with Skyworks but the other two, obviously, are not and those two have given guidance that suggests strength that's a little bit more than 16% growth. So should we expect a year-over-year comparison in the fourth quarter that shows a little more growth than what you showed in the third quarter?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Well, I'm trying to think of what everyone else has said. I mean, I think most of the industry has been saying 4% to 5% growth in Q4. A couple guys are saying they're going to flat or down.

John Fan - Kopin Corporation - President and CEO

Yes and Sky has not announced yet.

Matt Robison - Wunderlich Securities - Analyst

No, I was thinking more in terms of the RFMD and Skyworks commentary or the RFMD and TriQuint commentary. I don't want to-- so does that imply you expect to have another kind of similar sort of a growth comparison in the fourth quarter?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Yes, I think the key message I think I'm just going to relate, though, is you usually would expect to see us seasonally down and we're not going to see that.

Matt Robison - Wunderlich Securities - Analyst

Right. So that-- you didn't have it last year, seasonally down, either, if I remember right.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Right.

Matt Robison - Wunderlich Securities - Analyst

So should we expect to see growth this quarter?

Rich Sneider - Kopin Corporation - Treasurer & CFO

That's the goal.

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Matt Robison - Wunderlich Securities - Analyst

Okay. And the military business, not a lot of sequential growth, was that constrained by your ramp? Because I think there was some commentary indicating there might be a potential for some degree of catch up, but you also have, I think a third customer in that space where we haven't seen much visibility of orders and they've made an acquisition that might imply a change in strategy. So maybe can you comment on what's going on in the military business?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Sure. The softness we referred really is not the thermal weapons sight program. If you look, for instance, our R&D revenue is down about \$1 million Q3 last year to Q3 this year, \$1.3 million versus \$400,000. We have-- as we've discussed previously in the year, we are seeing softness in the government handing out R&D contracts. Frankly, for the time in Kopin's history, there were some contracts that we were given that the government is holding up funding on.

So the R&D-- it's clear to us, as Secretary Gates has said, that they want to deploy product-ready stuff. They're not really interested in funding a lot of R&D at this time. So we're seeing softness in that part and we actually have quite a few military programs beyond the thermal weapons sight. The volumes are not as large and such, and we're also seeing softness in the orders for those types of items. You know, they might only be 3,000 or 4,000 units and such.

So it really hasn't been the TWS, it's been some of those programs which have softened up.

John Fan - Kopin Corporation - President and CEO

Yes. I think it'd give a little bit more clarity to it if we are questioned about the acquisition of one of our customers of another small thermal gun sight system. The answer is, we see no impact, whatsoever. In fact, we think there might be some advantage, because the small customer, obviously, we have not been focusing on, now going to go to a much bigger customer, which is a very good partner for us.

So we have no impact now, right now, orders from TWS at this point.

Matt Robison - Wunderlich Securities - Analyst

Okay, thank you.

Operator

Thank you, ladies and gentlemen. Our next question comes from the line of Chris Versace with Think 20/20. Please proceed with your question.

Chris Versace - Think 20/20 - Analyst

Good morning, John. Good morning, Rich.

John Fan - Kopin Corporation - President and CEO

Good morning.

Chris Versace - Think 20/20 - Analyst

Just a couple questions, one on the housekeeping side. Could you let us know what Skyworks was as a percentage of revenue this quarter versus last year?

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Rich Sneider - Kopin Corporation - Treasurer & CFO

We don't disclose that. Obviously, they're a 10% customer, but we only disclose the actual numbers at the end of the year.

Chris Versace - Think 20/20 - Analyst

Okay. Okay.

John Fan - Kopin Corporation - President and CEO

I think suffice to say their percentage has been coming down over our percentage of III-V revenue, because we have now three other 10% customers now.

Chris Versace - Think 20/20 - Analyst

Right. And just directionally with those other three, would you expect them to continue to ramp in the fourth quarter and the first half of next year and see Sky continue to come down as a percentage?

John Fan - Kopin Corporation - President and CEO

That would depend how strong Sky is. Sky is very, very strong right now.

Chris Versace - Think 20/20 - Analyst

Okay, great. And then you had mentioned, John, that ASPs were stable on the III-V side. Is that-- just to give it some context, is that from earlier in the year, from a year ago?

John Fan - Kopin Corporation - President and CEO

Yes, we definitely are seeing the ASP coming down much slower-- I mean, as you know, two or three years ago it really quite rapidly dropped, but now it's really flat, partly also because the structures are more complex and the complex structure has a higher ASP. So all together, we're seeing really a good, a very good trend right now.

Additionally, we see a consolidation in the business. We-- I mean, we're not ready to disclose our market share, but our market share on the HBT transistor wafers has increased.

Chris Versace - Think 20/20 - Analyst

Okay. And then, just on the structure question, is that something that relates to, say, WCDMA or, potentially, 4G, whereas, you know, if 4G rolls out, the ASPs might get even better or at least hold a little bit rather than decline?

John Fan - Kopin Corporation - President and CEO

Yes, 3G and 4G is the smart phones is to our benefit. Also, you have to remember, there's a trend right now to create a more complex structure, which really consists of multiple different (inaudible) for assisting one chip. As you know, (inaudible) has already tried to integrate a switch with a power amplifier and there's a very similar type structure for other-- by using by other people and the trend is growing very rapidly towards that.

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That really adds a lot of advantage for us. Not only the structure is more complex, the etch, because they integrate a switch to HBT, the edge you need more real estate, so more wafers are needed.

Chris Versace - Think 20/20 - Analyst

Okay. And then one last question on the III-V side. I know you guys are going to increase your capacity over the next two years, but where are you now? Is capacity extremely tight?

John Fan - Kopin Corporation - President and CEO

Capacity is not, I would say, extremely tight, but certainly is getting tight. But we're installing systems in a hurry right now, so we expect that we'll be able to fulfill our customers. In fact, we have been. In fact, that's one of the reasons-- there are many reasons why we're winning the marketplace. More importantly, our capacity catch up with all our order demand.

Chris Versace - Think 20/20 - Analyst

Okay. And then just one quick question on Golden-i. Obviously, you guys have been investing for a while in the past year. Is 2011 still on track to be the year we start to see the R&D ramp down and potentially see some, I guess, beta revenue? And just with that, where are you on your industrial partner or partners?

John Fan - Kopin Corporation - President and CEO

The question is on Golden-i, we are in the process-- as you all know, our goal is to get a very strong industrial partner to co-develop the product into the industrial market and that has been our focus in the last few months, so-- and we're making very good progress at that.

But we also expect to get the developer kits out in the next few weeks. There's many, many people now waiting or those kits to develop vertical applications. So I think 2011 is really going to be a very interesting year.

Now, with regard to R&D on the Golden-I, once we have the industrial partner taking over to put it in the market, I think that our R&D pace will begin to wind down and productization phase and that, of course, would be pushed by the industrial partner.

Chris Versace - Think 20/20 - Analyst

Okay. Thank you very much.

Operator

Thank you. Ladies and gentlemen, our next question comes the line of Rajvindra Gill with Needham & Company. Please proceed with your question.

Rajvindra Gill - Needham & Company - Analyst

Yes, thanks for taking my question. So the military business, or the cyber display business is probably on track to be down about 19% year-over-year, primarily due to the delays in the first quarter. How are you looking at the military business in terms of 2011? Are-- should we be expecting a ramp back into production? You had talked about the thermal weapons sight program, the bridge program, having a mandate of at least 150,000 soldiers. So even if it was delayed, that would, then, flow into the 2011 calendar year.

So just wondering how you're looking at military exiting this year, what type of growth projection should we be factoring in next year.

Rich Sneider - Kopin Corporation - Treasurer & CFO

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Well, we're not really prepared to give 2011 guidance on this call, and we'll do that when update the fourth quarter, as we historically have done. The TWS program should be fine next year. There are other programs that are on the burner and, frankly, a lot's going to depend on what happens today at the voting booths and what Congress decides to do with the federal deficit and the budget. And so--

Rajvindra Gill - Needham & Company - Analyst

Right, but you had said, though, that the TWS bridge program, there's at least a mandate of a certain number of units and that was a minimum of 150,000 units. So I'm just wondering if that-- you said it should be fine next year, but is that going to be-- should we be looking at those type of units over the next 12 to 18 months or should we be looking at a lesser type of number of units?

Because, I mean, there's a tremendous amount of uncertainty in this business now that is causing a lot of confusion in terms of how to model this.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Well, okay, I was trying to answer your question regarding growth. What I was trying to indicate is that new programs, there are a number that we will-- that we have proposed on and we just don't know where that's all going to settle out.

As far as the TWS, we don't know of anything to date that's going to change how the program's been running and how the product's going to ship.

Rajvindra Gill - Needham & Company - Analyst

All right. Now the-- if you kind of look more on the III-V business, I think Dr. Fan mentioned a little bit about it, but this trend to convergent PAs, power amplifiers, that are now converging with multiple bands into one PA, from a technology point of view, how does that impact the III-V wafer content? And maybe you could describe that trend?

John Fan - Kopin Corporation - President and CEO

Yes, it's a very good question. Obviously, we've been studying this. We do know-- I'm going to have several kind of early answers at this point. If you try to integrate a switch with a PA, power transistor, that activity is very good for us, but now you actually-- we don't provide amps to the world. Now the amps actually have to be provided by us. So now you actually increase the area for the same power amp, but it does have a switch inside.

How much area increase is what we estimate or our customer, each one, has a little bit different and certainly we're not about to reveal whether the area increases. So I think what happens right now if you look at handset growth, handset growth is projected to grow about 9% year per year. PA projections is around 23% a year.

Our projection for material growth for us, so the wafer growth, is 30% a year right now. And that's a number I think generally accepted and we are scaling to that point.

Rajvindra Gill - Needham & Company - Analyst

So you expect, right, to grow in line with the wafer growth next year, then?

John Fan - Kopin Corporation - President and CEO

Well, the growth is 30% estimate for the area. The ASP may be coming down 5%, 6%. But we also think our market share is also increasing, so we expect to grow-- certainly this year we grow about, revenue-wise, we grow over 30%, about 33%, 34%. In the area-wise this year, we grow about 40%.

Rajvindra Gill - Needham & Company - Analyst

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I see.

John Fan - Kopin Corporation - President and CEO

I'm talking about 2010. In 2011, we're not ready to advise what's going on, but we're certainly installing capacity to grow a little bit over 30% in area per year for the next three years.

Rajvindra Gill - Needham & Company - Analyst

Okay. Very good. And then the OpEx, maybe you can provide a little bit of color, Rich, in terms of how that OpEx is split between the various segments, maybe qualitatively. Does military consume a lot of it? Does III-V? And any sense of what the OpEx you're spending on Golden-i is on a run-rate basis?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Well, taking it apart, the majority of R&D is display related and as it relates to SG&A, one of the beauties of the III-V business is that there's really about 10 big customers, relatively speaking, maybe four that are really 80% of the business. So we only have one sales guy who handles all of it. Now, obviously, he has support with him, support engineers, but there's no worldwide sales forces and stuff. So the selling aspect for III-V has always been very lean. So the majority of the selling and such is related to the display industry, display business, excuse me.

Research and development is primarily the display.

Rajvindra Gill - Needham & Company - Analyst

So, also-- so 80% or 90% of the OpEx is primarily related to military or display?

Rich Sneider - Kopin Corporation - Treasurer & CFO

I wouldn't--

Rajvindra Gill - Needham & Company - Analyst

And would you say the Golden-i, I mean, how much are you spending on Golden-I? I mean, a couple million a quarter?

Rich Sneider - Kopin Corporation - Treasurer & CFO

We don't break that number out, of what we're spending on Golden-i.

Rajvindra Gill - Needham & Company - Analyst

Okay. All right. Thanks a lot. That's it for me.

Operator

Thank you. Our next question comes from the line of Betsy Van Hees with Wedbush Securities. Please proceed with your question.

Betsy Van Hees - Wedbush Securities - Analyst

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Thanks for taking my question and good morning. I was wondering if we could just go back-- I just wanted to make sure that I understood correctly what changed in terms of your guidance because last quarter you reiterated your guidance range of \$120 million to \$130 million and now you're saying that you're going to come in at the lower end of that.

So, is that because of a change in the military business? Were you expecting military to be much greater than it's coming in? I was wondering if you could help me understand that?

Rich Sneider - Kopin Corporation - Treasurer & CFO

It primarily is the military business. As you can see, the R&D revenue that I mentioned earlier was off \$1 million this quarter and some of the other programs are softening up. And so we thought-- we had a tough first quarter. We got the orders, we thought we could make it up, but we're going to have to fall a little short.

Betsy Van Hees - Wedbush Securities - Analyst

Okay.

Rich Sneider - Kopin Corporation - Treasurer & CFO

So we're going end up at the low end.

Betsy Van Hees - Wedbush Securities - Analyst

Thanks. That was very helpful. And speaking of R&D and OpEx in general, how should we be looking at that for Q4? Is it going to be flat? Is it going to be up?

Rich Sneider - Kopin Corporation - Treasurer & CFO

It should be relatively flat.

Betsy Van Hees - Wedbush Securities - Analyst

Okay. And it should be relatively flat if we look at it, R&D and SG&A is going to be relatively flat or R&D is going to be a little bit higher?

Rich Sneider - Kopin Corporation - Treasurer & CFO

No, they'll be relatively flat.

Betsy Van Hees - Wedbush Securities - Analyst

Okay, great, thank you. And then, as we look at the gross margins for the fourth quarter, are we looking at it being roughly flat, as well? You talked about the fact that ASPs were coming down at a lower rate than you had expected in the III-V business and that margins were improving there, if I heard correctly?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Well, I mean, if you think about it, if, for instance, we hit the lowest point on our range, the \$120 million, we'd be looking at around \$33 million in revenues and so there wouldn't be a significant change in the gross margins, because there wouldn't be a significant change in the revenue.

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Betsy Van Hees - Wedbush Securities - Analyst

Okay. Thank you very much, Rich. You talked about 10% customers in the III-V business. Can you tell us how many 10% customers you had in - I know you don't like to talk about who they are, but how many 10% customers you had in Q3?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Two.

Betsy Van Hees - Wedbush Securities - Analyst

You had two? Okay, great. And then I noticed that inventories went up in Q3. I was wondering if you could tell us what is attributed to that and if we're going to be looking at inventory moving up as you exit Q4 or going down or staying flat?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Our inventory builds are predicated on forecasts received from our customers. The majority of our inventory is consignment inventory, which our customers are obligated to take after a certain period of time. And so if you really look, our inventory is either raw materials, which really have no obsolescence issue and we buy based on what we think the growth is going to be, and then the finished goods is predicated on forecasts given to us by our customers that they're obligated to take after a certain period of time.

So that's-- it's really more of a reflection on our forecast on growth.

Betsy Van Hees - Wedbush Securities - Analyst

Okay. And then going back to the ASPs, what is normal-- what's the normal type of decline that you expect to see in terms of a range and then what range are you seeing as an ASP decline, just to give us a perspective of how different than is, year-over-year?

John Fan - Kopin Corporation - President and CEO

You mean, talking about III-V?

Betsy Van Hees - Wedbush Securities - Analyst

Yes, please, III-V. Thank you.

John Fan - Kopin Corporation - President and CEO

III-V, the normal range of decrease is similar to semiconductors, roughly usually around 15% and we're seeing less than 10% now.

Betsy Van Hees - Wedbush Securities - Analyst

Okay, great. Thank you very much, Dr. Fan. Then just another housekeeping question. How should we be looking at tax rates in Q4?

Rich Sneider - Kopin Corporation - Treasurer & CFO

9%.

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Betsy Van Hees - Wedbush Securities - Analyst

At 9%? Thanks. And then I know you don't want to give guidance for next year, but as we're looking at the mix of business for next year, how should be comparing III-V to your display business?

Rich Sneider - Kopin Corporation - Treasurer & CFO

I think, clearly, III-V has a higher growth trajectory at this point in time. So it should continue to increase as a total percentage.

John Fan - Kopin Corporation - President and CEO

We are very, very bullish on the III-V for the next few years.

Betsy Van Hees - Wedbush Securities - Analyst

Okay. And then I just had one final question and I'll jump out of the queue. I was wondering-- a previous question was asked about Golden-i and in terms of actually seeing some revenue from that and you did give us some explanation as to what's happening there, but when do you think we can actually see revenue from Golden-i?

John Fan - Kopin Corporation - President and CEO

We expect to see some revenue come in 2011, but the real hockey stick is 2012. It sort of depends on an industrial partner, which we, obviously, are working with right now. So when the product comes out, which we expect the end of next year or beginning of 2011-- 2012, that would be the hockey stick. But there will be some revenue next year.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Just to clarify, John, obviously, is referring to the final production unit. There will be revenue generated from the SDK kits, but that's--

John Fan - Kopin Corporation - President and CEO

That's what they call the beta site-- beta products are coming out next year.

Betsy Van Hees - Wedbush Securities - Analyst

Okay. And then, with your industrial partner, where are you in terms of getting this finalized and completed? If you were to look at it as a baseball game, are you towards the latter end of the game or in the middle of the game?

John Fan - Kopin Corporation - President and CEO

We're afraid to even ask the question. I think we will present it this way. We are very delighted with the progress.

Betsy Van Hees - Wedbush Securities - Analyst

All right. Well, thank you very much for taking my questions.

John Fan - Kopin Corporation - President and CEO

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Thank you.

Operator

Thank you. Our next question comes from the line of Matt Robison with Wunderlich Securities. Please proceed with your question.

Matt Robison - Wunderlich Securities - Analyst

Hey, thanks for taking the follow up. A couple things. One, it looks like your CapEx in the quarter was about \$5.4 million. That seems like it could be a little bit ahead of the plan that we talked about three months ago. Should we-- is that-- or should we expect a similar rate for the next couple of quarters? And I've got a couple other follow ups.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Honestly, Matt, we're pushing the manufacturers to deliver the equipment as soon as possible, so I asked the question, too, because I have to, obviously, budget my cash flow. So that's higher than we would expect. We wouldn't expect that in the fourth quarter. That being said, if we can get the manufacturers to deliver the equipment, we'll take it.

Matt Robison - Wunderlich Securities - Analyst

So then if you-- if it's at this rate, then we can think of it maybe coming down in the first quarter of next year?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Well, we have equipment scheduled out through June deliveries.

Matt Robison - Wunderlich Securities - Analyst

Okay.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Again, we'll get it delivered as soon as possible.

Matt Robison - Wunderlich Securities - Analyst

Okay. Now you mentioned D&A of \$5.1 million. Can you break the depreciation out of that?

Rich Sneider - Kopin Corporation - Treasurer & CFO

There's very little A.

Matt Robison - Wunderlich Securities - Analyst

Okay. And the share repurchases, were those all in the third quarter?

Rich Sneider - Kopin Corporation - Treasurer & CFO

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When you say the--

John Fan - Kopin Corporation - President and CEO

Just buy-backs.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Yes. Yes.

Matt Robison - Wunderlich Securities - Analyst

Now the non-military display business, how was that broken down between eyewear and consumer or camera-type applications?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Eyewear was \$2.4 million and digital still camera and others was \$8.3 million. I'm sorry, that's year to date. Let me give you the quarter. For the quarter, it was \$900,000 for eyewear, \$3.3 million for digital still camera.

Matt Robison - Wunderlich Securities - Analyst

And that's-- that's a pretty-- the digital still camera is hanging in there pretty good. Has that completely shifted now to the high-end-type cameras, I presume?

John Fan - Kopin Corporation - President and CEO

Yes, the answer is yes. Also, we have been only focused on a couple market leaders and those market leaders are selling higher than they, themselves, expected. So we're actually-- the market shows that the premium guys are selling well and we're selling well because of them.

Matt Robison - Wunderlich Securities - Analyst

And on your funded R&D, it seems like that's the biggest area of weakness in the business model. Is-- and that's-- I can see where that's just largely a budgetary issue. It doesn't sound like you expect much of a fourth quarter budget flush in that area. Is that the principal area-- is that the principal backdrop for the decline for the full year military revenue spend?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Yes.

Matt Robison - Wunderlich Securities - Analyst

Military spend. Okay, so-- and is-- how have you gone-- how has the ramp gone on the thermal weapons sight side? Are we-- do you feel like you'll be pretty well caught up with the volume that Command is looking for this year or do you think some of it will slip into the first quarter?

John Fan - Kopin Corporation - President and CEO

We're caught up with their run rate there, also.

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Matt Robison - Wunderlich Securities - Analyst

You've already caught up?

John Fan - Kopin Corporation - President and CEO

Caught up the run rate, yes.

Matt Robison - Wunderlich Securities - Analyst

Okay, thanks a lot.

Operator

Thank you. Our next question comes from the line of Rajvindra Gill with Needham & Company. Please proceed with your question.

Rajvindra Gill - Needham & Company - Analyst

Yes, thanks, again, for the follow up. Just wanted to get an understanding of the gross margins by segment, because your margins have recovered a little bit. Are you kind of approaching a 20% margin business, gross margin business in III-V? And, I guess, what percentage of mix is on the 6-inch wafer? And what are the-- kind of what are the margins on the military side now?

Rich Sneider - Kopin Corporation - Treasurer & CFO

The III-V margins are in the mid to high 20s.

Rajvindra Gill - Needham & Company - Analyst

Okay. That's very high, right, I mean, historically?

Rich Sneider - Kopin Corporation - Treasurer & CFO

We're clearly seeing margin expansion in the-- I mean, the III-V is really your traditional semiconductor model. It's volume, volume, volume. I mean the fixed costs are the people and the facility and the more we can crank out, the more we make, which is why we expect further expansion with these new machines coming in, which will do more larger wafers.

So, again, the fixed costs stay flat and the volume increases. So that's why we're very bullish on the III-V business going forward.

The military margins, again, they're in the 40% to 50% range. We've had these discussions before. It's a mix issue. Some customers buy a straight display. Some buy a full system and others buy in between, so there's a different mix, ends up with a different margin, so that figures out whether you end up in the 40% or the 50% type range.

Rajvindra Gill - Needham & Company - Analyst

Okay, thank you.

John Fan - Kopin Corporation - President and CEO

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Thank you. I think the Golden-i causes the early spend because of software and hardware involvement with that Golden-i, we have very good margins.

Rajvindra Gill - Needham & Company - Analyst

Very good. Thank you, Dr. Fan.

Operator

Thank you. Ladies and gentlemen, our next question comes from the line of Chris Versace with Think 20/20. Please proceed with your question.

Chris Versace - Think 20/20 - Analyst

Hi. Thanks for the follow up. And really just following up on that last question, Rich, you said you were in the mid to upper 20% gross margin, and it's a volume-driven business, right? But you're going to be adding a lot of machines over the next-- I think you said at least through June and then beyond.

So just in terms of the margin profile, what's kind of the revised outlook for target margins for the III-V business kind of over the next two years? Can we get to or past 30% gross margin?

Rich Sneider - Kopin Corporation - Treasurer & CFO

Yes. We should be in the mid-30s. I would note that not only are we adding equipment, we are retiring equipment. So we currently have four-inch reactors that will be retired and so, obviously, there's an incremental decrease in cost associated with those. So net/net we're going to win out with the larger wafers. And so, yes, we do think we can hit the mid-30s consistently.

Chris Versace - Think 20/20 - Analyst

Okay. And is that something that will be kind of a slow creep or will we kind of-- it'll be several quarters and then we'll see a step up?

Rich Sneider - Kopin Corporation - Treasurer & CFO

We're working that our right now. We really only have one customer left who's doing four-inch and they're, we believe, converting to six-inch and so we're trying to work out that timetable. I don't suspect that it will be a quick shutdown. I think it will be a slow-- he'll bring on new six-inch slowly and phase out four-inch and we'll do the same over, probably, two or three quarters next year.

John Fan - Kopin Corporation - President and CEO

Yes, the answer is that it is going to be phased out in a few quarters, but it's not going to take years.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Right.

Chris Versace - Think 20/20 - Analyst

Great. Thank you very much.

John Fan - Kopin Corporation - President and CEO

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Another thing that's very important is that although the gross margin maybe get towards the mid-30s, the net margin is actually very good, because of the way that our business is.

Chris Versace - Think 20/20 - Analyst

Correct. Okay, thank you.

Operator

Thank you. Our next question comes from the line of Betsy Van Hees with Wedbush Securities. Please proceed with your question.

Betsy Van Hees - Wedbush Securities - Analyst

Thank you. I do have a follow up. We talked about bucking seasonality in the III-V business in Q4. As you were looking into Q1 from the orders you're receiving from your customer, do you think we're going to experience normal seasonality or are also going to have another non-seasonal quarter?

Rich Sneider - Kopin Corporation - Treasurer & CFO

I don't want to get too ahead of ourselves, but we do not expect to see the normal seasonal decline.

Betsy Van Hees - Wedbush Securities - Analyst

Okay.

John Fan - Kopin Corporation - President and CEO

The whole situation in III-V, as I say, we're very bullish, because of multiple reasons. The market itself, of course, everything's going to wireless anyway. We have four customers over 10% now and, honestly, we are winning market share now. '

Betsy Van Hees - Wedbush Securities - Analyst

Thank you, Dr. Fan. And what would normal seasonality be for your III-V business in Q1, as well as your display business, typically seasonality?

Rich Sneider - Kopin Corporation - Treasurer & CFO

It has run anywhere from 10% to 15%. Historically Q4 decline was 5% to 7% and Q1 could be 10% to 15%.

Betsy Van Hees - Wedbush Securities - Analyst

Okay. Thank you very much.

Rich Sneider - Kopin Corporation - Treasurer & CFO

Sure.

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Operator

Thank you. Ladies and gentlemen, unfortunately, we have no time for further questions. At this time, I'd like to turn the floor back to Dr. Fan.

John Fan - Kopin Corporation - President and CEO

Thank you very much for joining us in this morning. We look forward to keeping you update on our progress. That concludes today's call. Thank you.

Operator

Once again, ladies and gentlemen, this concludes our conference call for today. Thank you for joining us.

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