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THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Micronetics Wireless, Inc. (NOIZ)

CEO INTERVIEW: RICHARD S. KALIN



RICHARD S. KALIN has been Chairman and CEO of Micronetics Wireless, Inc. since 1992. He has over 20 years of experience with entrepreneurial/start-up companies and has been instrumental in taking Micronetics Wireless, Inc. from the military to the commercial communications marketplace. He is a lawyer with expertise in mergers and acquisitions. He was graduated with a B.A. from the University of Illinois and with a J.D. from Georgetown University Law Center. His previous company, of which he remains a director, grew from a start-up to over \$65 million in revenues last year.

SECTOR – WIRELESS/COMMUNICATIONS EQUIPMENT

(JAE605)(14123)TWST: Give us a brief overview of Micronetics Wireless, Inc.

Mr. Kalin: Early in 1999, we reorganized the company to create two distinct divisions: Micronetics/Equipment and Micronetics/Components. We did this because each one of these groups requires vastly different types of marketing, manufacturing and sales strategies and we wanted to get the right people in place to support just the right strategies for each individual product line.

The mission of Micronetics/Equipment is to be the supplier of choice in broadband communications test equipment that uses white Gaussian noise technology to test the quality of information transmission in today's communications networks. We currently market and develop technology that enables users and manufacturers to build this test capability into their products, as well as perform these tests in a factory and/or laboratory setting.

The mission of the second group, Micronetics/Components, is to design, manufacture and market microwave radio frequency (RF) components, sub-assemblies and complementary services that meet both military and commercial customers' needs. Those needs, in addition to high quality and best price, are on time delivery and high levels of customer service. We recently acquired two companies and a product line to enable us to broaden our capabilities and offer our customers more complete solutions.

We've been in business for over 20 years and in New Hampshire since 1990. Along with one of our acquisitions, we added a facility in Danbury, Connecticut, and that brings our current employment level to about 65 people.

TWST: Can you give us an idea of the size of the growth potential of the industry or the markets you serve?

Mr. Kalin: The size and growth potential of the markets is incredible. In our equipment group, we are basically selling to wireless and wired networking companies; they use our equipment to test the integrity of their networks. The market for this type of test equipment is probably several hundred million dollars. Our components group is also a several hundred million-dollar market. We are a very small percentage of both markets at the present time, but given the size of these markets, and our unique product mix, our potential to grow is enormous.

TWST: Tell us what your competitive advantages are.

Mr. Kalin: There are several. First of all, our size enables us to be extremely flexible in terms of meeting our customers' needs, and along with that, we can move very quickly if our customers need us to. However, I believe that the one major advantage we have over our competitors is, in a word, innovation.

While many of our competitors have been fairly complacent in continuing to offer the same group of products year after year, we've chosen to invest a great deal in R&D to both anticipate and meet the future needs of the marketplace. In Y2K, we are launching a suite of new broadband test equipment products, specifically fader products. While our existing test equipment products help our customers to determine the impact that noise will have on their communications systems, these new fader products expand that capability so our customers can test for a wider range of factors that might affect transmission, such as the weather, or the impact of having a building or mountaintop in the way of a signal. There are other fader manufacturers out there, but we think the market is really clamoring for another source. So we think that the opportunity to further expand here is tremendous.

We've also developed a line of built-in test equipment, called MicroCal, that's patented and proprietary. What makes this product group so unique is that it will enable OEMs to now achieve the same results, in terms of testing, with one single component, as opposed to the three or four required today.

MicroCal is a revolutionary idea, and we've already received some early success orders with some follow-on orders. As the market becomes more aware of this technology, we think we'll be seeing more and more applications.

In the components portion of the business, there are fewer and fewer competitors who are offering more and more complete solutions. Our strategy here is to find compatible product lines and companies to add to our capability so that we can offer more comprehensive solutions to our most important customers and really become a preferred partner with them. So we think that the ability to deliver a more comprehensive solution, along with better customer service, is certainly going to give us a competitive advantage in the marketplace.

Highlights

Last year Micronetics Wireless was reorganized into two distinct divisions. Micronetics/Equipment aims to be the supplier of choice in broadband communications test equipment that uses white Gaussian noise technology to test the quality of information transmission. Micronetics/Components designs, manufactures and markets microwave radio frequency components, sub-assemblies and other services for military and commercial customers. CEO Richard S. Kalin has great hopes that the new suite of fader products will be very successful. Also, the MicroCal Module has enormous potential, giving the company the opportunity to build many more units, as opposed to being stand-alone test equipment.

TWST: How do you expect your markets to change over the next few years?

Mr. Kalin: In the equipment group, we think the market will change simply because it's going to continue to grow very dynamically. There will be more and more systems, more and more networks that require testing. I think one of the trends already evident in the cellular environment is the transition to 3G or broadband cellular. That will bring in new competitors, more infrastructure build, more need for testing and more need for built-in testing. We recently announced that the Home PNA organization has selected some of Micronetics' products to use for testing home networking equipment. You might also be familiar with Blue Tooth, which is another wireless home networking type of equipment we're trying to develop products for. So one of the ways we'll be keeping pace with the changes in the marketplace is to make our products more adaptable across a wider and wider range of test environments.

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In the components environment, the market is changing because there are fewer and fewer companies out there capable of delivering the complete solutions now required by customers.

We think that by acquiring some of the smaller companies in this market, we'll be able to expand and round out our product line, and in the end, we'll be one of the survivors here.

TWST: How do you think your R&D expenditures will change in the future?

Mr. Kalin: They're definitely going to increase on the equipment side of the business. We just introduced our new family of fader products at the CDMA Development Group Conference in San Diego at the end of November. We believe these products will really energize the market, and in order to keep things going at a good pace, we'll continue to require significant R&D expenditures here.

TWST: What are the potential home runs over the next two to three years for Micronetics? Is there a chain of events that could lead the company to really beat expectations in the future?

Mr. Kalin: I think that if this suite of fader products is successful, we could double, triple, maybe even quadruple our revenues in Micronetics/Equipment. With only one competitor, and the market clamoring for more options, we think that these fader products could definitely be a big home run for us in Y2K. Another product I mentioned earlier, the MicroCal Module, also has enormous home run

potential. What we've done here is miniaturize expensive test equipment and drop it into an inexpensive, surface mount component package. This gives us the opportunity to build many, many more units, as opposed to being just stand alone test equipment.

As a result of our efforts in the components side of the business — to focus more on a smaller number of customers, supplying them with a total component solution — we're beginning to get the larger orders, and we think that's going to continue well into next year.

TWST: What are the limitations on growth for Micronetics? Is there a possibility of any bottlenecks or road blocks ahead?

Mr. Kalin: There are challenges in getting the new products launched. For us, one of the biggest challenges was to deepen the management team so we could have the right people to lead our equipment, operations, manufacturing and marketing groups. I think that we now have a great team in place, one that's able to design, engineer and get the products out the door in a timely fashion.

TWST: Are you still on the look out for further acquisitions and mergers, joint ventures, partnerships, those kinds of things?

Mr. Kalin: Yes, especially in the Micronetics/Components group. We acquired two companies — Microwave & Video Systems and Vectronics Corp. — in early 1999 and later acquired a product line. We're continuing to look for acquisitions in this area and we think that we'll eventually be announcing others. In this regard, I'm working with Mike Fields of Heath and Company who is one of the leading M&A people in the microwave industry. He was responsible for introducing most of the acquisitions to M/A Com years ago. So we're aggressively looking to expand our Micronetics/Components capability through acquisition.

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On the Micronetics/Equipment side, we're always looking to build partnerships. When the Home PNA organization selects our equipment, we're very excited by that. When Teradyne selects our equipment to be part of their Catalyst systems, we're excited to be part of something where we deliver one piece of a solution for them.

TWST: Have you completed your organization? Do you have a fully staffed management team now?

Mr. Kalin: Yes.

TWST: How are they doing?

Mr. Kalin: Ralph Marrone is our new Vice President of Micronetics/Equipment. He came to us from Alpha, where he spent three years, and before that he was with Hewlett-Packard for 16 years. Since

Ralph's come on board, we've seen record backlogs in our equipment group and he's taken charge of all the new product introductions. I'm really excited by some of the partnerships he's developed and the team that he's built under him in that group. We're in the process of refining an upgraded business plan just to make sure that we're all in alignment. Then there's Dave Robbins, our Senior V.P. of Micronetics/Components. Dave has been with the company for about ten years now, and until Ralph joined us, he ran both the components and the equipment groups. By freeing him from the many responsibilities associated with the equipment group, he's been able to better focus on growing the components line and getting closer to customers. He's already increased the number of engineering and manufacturing people, brought on another marketing professional from Hewlett-Packard, and developed a customer-oriented marketing program. With Dave and Ralph at Micronetics to run the day-to-day activities, I've now got the time to work at developing more strategic partnerships, finding new markets, seeking out acquisitions, and overall trying to expand and increase the rate of growth for the company.

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TWST: How are your management incentives aligned with the interest of your shareholders?

Mr. Kalin: In several ways. First of all, most of the key people either have equity in the company or are granted options.

They're very excited if the stock goes up, but really the stock should go up because the revenues increase and the profits increase. We've spent a lot of time developing very specific goals for people on the Micronetics/Equipment team and the Micronetics/Components team. And if we achieve those goals, that will increase revenues, increase profits and if we can increase revenues and profits, I think that's excellent alignment with shareholder value.

TWST: What are your basic business principles, your management philosophy?

Mr. Kalin: My management philosophy is based on developing a team of excellent people and giving them room as entrepreneurs to grow their groups in a manner that reflects their own goals. Ralph and David are developing a team of people to help them implement their goals and objectives. On a monthly basis, we all sit down and review these goals to make sure we're hitting established targets. We're revising our business plans, checking for alignment and looking for ways to move the organization forward.

Our goal, of course, is to deliver high-quality cost effective solutions to our customers. We've expanded our resources and engineering and customer service organizations to do that. Our financial goals are at least 25 percent internal growth and 25 percent external growth with double digit profit growth. We are trying to do that for the foreseeable future. Dave and Ralph are given the responsibility primarily for the internal growth. I'm primarily responsible for the external growth.

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One of the best things about our organization is that people really seem to like what they are doing. It's always been one of my major goals for our people to have fun. I don't mean the same kind of fun as going to the ball game. I see it as being emotionally involved in the company's success, stretching your ability, often taking a chance and increasing your capability. Frankly, my excitement comes when I see one of our people achieving a great success and I am happy to state that I have had the opportunity to see this several times over the last year. Also seeing some of our people who have earned options be able to exercise some of those options and participate in the profit largely resulting from their efforts, has been very rewarding for me.

TWST: Looking at your company's financial reports, what are one or two items that would give a long term investor greater insight into Micronetics?

Mr. Kalin: Well, first of all, Micronetics is growing at 30 percent to 40 percent this year, maybe even more. We're increasing profitability and the company is cash flow positive with more than a million dollars in cash reserves. I am very focused on increasing the rate of growth and maintaining profitability. We own a 32,000 square foot facility, subject to a mortgage, of course. We have substantial unused lines of credit. So from a down-side point of view, there's not much risk. What we've tried to do is align the organization toward profitable growth. From a long-term investment point of view, this is an excellent opportunity. It's not an Internet company. At the same time, we participate in 3G cellular, home wireless and phone line networking, in addition to satellite communications. We really participate in all the networking or communication markets, which are extremely dynamic. When we hit some of these home runs I've talked about, I think that the company will grow dramatically.

TWST: What should an investor know about your margin dynamics? What are the key factors affecting your margins?

Mr. Kalin: We have different margins in each business.

In the equipment business, new products drive high margins once you get past the development expense. So we think we can increase our margins in the equipment group dramatically. In the components group, you're delivering a more comprehensive solution; your products are less fungible and you have the ability to increase your margins here, too. We've also been trying to outsource or work with overseas foundries in some cases. I often like to challenge our sales people and engineers to find new ways to reduce the size of our products by a substantial amount, increase quality by a substantial amount, and at the same time, increase the gross profit. In some cases, we've been able to do that. So I think that those are the types of opportunities we're going to use to increase margins.

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TWST: How do you feel about your current stock price?

Mr. Kalin: I don't really comment on the current stock price. I think that it's recently moved up a little bit, so it's starting to get closer to a good price. I believe that the continued growth in revenues and profitability and continued success in delivering successful products from both the Micronetics/Equipment and Micronetics/Components groups are going to continually drive the future success of the company.

TWST: Thank you.

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