

KOPN Earnings Call Transcript

Date: 2025-11-12

Quarter: 3

Operator: Good morning, everyone, and welcome to the Kopin Corporation's Third Quarter 2025 Earnings Call. Please note that this event is being recorded. At this time, I would like to turn the conference call over to Brian Prenoveau, Investor Relations for Kopin. Please go ahead.

Paul Baker: Thank you, and good morning, everyone. Before we get started, I'd like to remind everyone that during today's call, taking place on November 12, 2025, 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 that could cause actual results to differ materially from those forward-looking statements. Potential risks include, but are not limited to, demand for our products, operating results of our subsidiaries, 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. Although the company believes that the assumptions underlying these statements are reasonable, any of them can be proven inaccurate, and there can be no assurances that the results will be realized. The company undertakes no obligation to update the forward-looking statements made during today's call. In addition, references may be made to certain non-generally accepted accounting principles or non-GAAP measures, for which you should refer to the appropriate disclaimers and reconciliations in the company's SEC filings and press releases. Kopin Corporation's Chief Executive Officer, Michael Murray, will begin today's call with an overview of Kopin's progress within the company's strategy. Following Michael, Kopin's CFO, Erich Manz, will review the company's third quarter 2025 financial results. I would now like to turn the conference over to Michael Murray. Michael, please go ahead.

Glenn Mattson: Thank you, Brian. Good morning to everyone, and welcome to our third quarter earnings call. Firstly, thank you to all the men and women of our armed services and those of our allies for your service. We deeply, deeply appreciate it. It's been an exceptionally busy quarter at Kopin, and we believe some of the best and most exciting opportunities still lay ahead of us. We're happy to be joined by Erich Manz, our new CFO, who officially started on September 2, it's been a baptism by fire for Erich. But we're excited he's on board. Erich joins us from Allegro MicroSystems, where he has spent the last 27 years in various financial and accounting and leadership roles. We're excited to have Erich on board as we believe these are truly transformational times for Kopin. I'll let Erich provide more on his background prior to discussing third quarter financials. Kopin is in a completely, completely different position today than it was even recently as our second quarter 2025 earnings call. Since that time, we have entered into strategic partnerships with well-known, well-respected and global organizations like Ondas Holdings, Unusual Machines and our friends at Theon International. We have won several new multimillion-dollar research, development and production awards and further solidified our balance sheet also. Theon International is a critical relationship for Kopin as they develop and manufacture cutting-edge night vision and thermal imaging systems for defense and security applications with a global footprint. Theon started its operations in 1997 and today occupies a leading role in this sector, thanks to its international presence. Theon's production of night vision and thermal imaging systems aligns perfectly with our microdisplays and optical technologies. And I was fortunate enough to be able to speak and introduce Kopin to their investor base in Greece last week. Increased defense budgets and the need for enhanced situational awareness in nighttime and daytime

operations, border security and counterterrorism missions are primary drivers of significant growth expectations, especially in Europe, Southeast Asia and NATO countries alike. Governments worldwide are investing in modernization efforts and advance night and daytime vision technologies. Innovations such as thermal imaging, augmented reality, data overlays, digital night vision and the use of high-resolution sensors are improving performance, durability and cost effectiveness, thus, expanding applications, demand and serviceable available markets. Kopin and Theon together can take advantage of those needs. Turning to Unusual Machines who manufactures and sells drones and components by brands like Fatshark, the leader in first-person viewer drone controls, ultra-low-latency video goggles for drone pilots as well. They also retail small acrobatic FPV drones and equipment directly to consumers through their curated Rotor Riot e-commerce store, through subsidiaries, American Robotics, Airobotics, Apeiro Motion, Ondas, offers the Optimus System, the first U.S. FAA-certified small UAS for automated aerial security and data capture, the Iron Drone Raider and autonomous counter-UAS platform and Apeiro's advanced ground robotics and tethered UAV systems, supported by innovative navigation and communications technologies. Again, our microdisplay products and technologies are well aligned to pair with the growing drone UAV market and their collective strategic investment into Kopin brings confidence in our ability to create value for them with them. Just last week, it was reported that the U.S. Army aims to buy at least 1 million drones in the next 2 or 3 years and could acquire anywhere from 0.5 million drones to millions of them annually, compared to approximately 50,000 annually today. It was estimated that Russia and Ukraine each build 4 million drones annually. China can and will likely produce 8 million drones annually. The ratio between drones and first-person viewers is roughly 4:1 as we understand it. The first person drone market is growing very quickly. This was a small niche market just a few years ago. As recently as last year, it was estimated to be a total market of under \$300 million. By 2030, it's estimated that the first person drone market could be as much as \$1.2 billion, representing an annual -- compound annual growth rate of around 31%. Suffice to say, we believe we can begin meaningful acceleration growth over the next several years as the only manufacturer in the world of four different types of microdisplays that can provide sovereign sourced displays for the U.S. and NATO defense requirements. Our technologies and desire to provide application-specific optical solutions means we can meaningfully capture more orders and demand for some of the fastest-growing industries in defense and we are partnering with global players in these respective fields. Through the U.S. Department of Defense, we are excited about several opportunities to supply new or existing programs across the military. Our current opportunity pipeline of factored opportunities we are pursuing just surpassed \$1 billion. As we continue to supply the current thermal weapon sights, aviation, heads-up displays and advancing our new aftermarket upgrade capabilities with our FLYHT certified monochrome MicroLED, which we just announced. We are also dedicating more focus on armored vehicle applications as well with the advancement of tank and armored vehicle programs as they are now becoming more clearly defined. The largest of these opportunities is clearly the extension of the IBAS program, which is now referred to as Soldier Borne Mission Command or SBMC. This is the \$22 billion Army program that was recently taken over by Anduril. SBMC is an all-encompassing program that has software, hardware and networking elements. As warfare evolves and increases in complexity, having tools that deliver the right information quickly and intuitively becomes increasingly urgent. The U.S. Army selected two prime contractors to provide early demonstrable hardware in 2026, followed by a second phase of demonstrations and production selection awards in 2027. Along with prime selections, we expect wins for critical technology acquisition areas as well, where Kopin fits into to follow a similar path. As a reminder, Kopin was recently awarded a \$15.4 million color microLED award through the industrial-based Analysis and Sustainment Act which will allow for Kopin to design, develop and manufacture a sovereign built, color microLED developed by the Army, for the Army, for applications like SBMC, daytime AR applications and several weapon-sight platforms offering Kopin an additional \$1 billion serviceable available market just for the United States alone. Furthermore, we have negotiated an \$8 million research and development order for a similar product for Theon International and the European markets as part of our strategic investment as well. Given the long-term nature of many of our existing programs and the contract wins so far in 2025, our current pipeline is very strong, and our confidence to hit our revenue and profitability goals in '27 and '28 are quite high. As a reminder,

several of our programs have congressional budget demands through 2030 and several of the program contracts we have are indefinite demand or indefinite quantity, or IDIQs which allows for even greater revenue demands than we currently have on order. Increasing geopolitical tensions mean defense spending is unlikely to decrease and the way wars are fought is evolving. Soldiers in the field are tasked with needing more information sooner to assess level, threats and how to make the best decisions for themselves and their teams. How our products and technologies can help to make soldiers and the soldiers of our allies safer, meaning more men and women in uniform will make it home. This is our ethos. This is what we focus on. Obviously, we have market tailwinds that can propel us to significant growth over the next several years and maybe even decades. I'm also proud of how we positioned ourselves to take advantage of those trade wins and tailwinds. Kopin has almost completely transformed as a company from when I first started just three years ago. We have a clear and focused strategy, a new management team and Board of Directors. Quality issues in our manufacturing facility have largely been fixed, and we have some of the highest quality scores in our history and very strong relationships with our current customers, and we are actively attracting new customers as well. Our website and logo have been updated and modernized. Our capital structure today is in far better shape than it was even just 3 months ago. We have the partnerships and capital to invest aggressively in our people, our technologies and capabilities to significantly ramp growth and production capacity. Further, we've received a lower-than-expected final judgment in our legacy lawsuit in Colorado. Recently, we posted the cash bond required for our federal appeal of the case, which we continue to believe has the potential to further and significantly reduce that liability even more greatly once the case is heard. There have been some trying times over the last few years, but I'm more excited about our outlook today than I ever have been since I joined. We are a completely different company today, and I would argue, a far better and sustainable one that offers significant growth potential, and I believe we're on the cusp of big changes at Kopin in the not-too-distant future. Overall, I'm just incredibly proud of the team for navigating an environment with so much change over a short period of time. Indeed, they have executed on everything I've asked them to do. There have been a lot of distractions as well, but our team have kept focused on controlling what we can control without letting these distractions impact our company's mission direction and potential. I'll now turn the call over to our CFO, Erich Manz, to review our results from the third quarter in further detail. Erich?

Erich Manz: Thanks, Michael. I want to begin by thanking Kopin's Board of Directors, Michael Murray and members of our management team for the opportunity to step into this role at such a pivotal time and for their support in making these first weeks both productive and inspiring. In my short time here, it's been exciting to see how much progress is already underway, confirming the strength of Kopin's direction and the solid foundation in place for future growth. It's clear that Kopin is advancing on multiple fronts, strategically, operationally and financially, and I'm excited to contribute to that continued success. We solidified and stabilized our balance sheet through strong backing of our strategic investors, providing the financial flexibility and stability to execute our growth plans with confidence. At the same time, we're maintaining a disciplined focus on the P&L, driving top line growth while continuing to strengthen our path towards profitability. Our new partnership in Europe expands our access to key markets and positions us for continued growth globally. And with recent design wins from U.S. military, we're strengthening our domestic footprint and reinforcing Kopin's reputation as a trusted defense technology partner. Looking ahead, I'm encouraged by the alignment across our teams and our focus on executing the financial and strategic priorities that will drive long-term value for our shareholders. With that, let's turn to our financial results for the quarter. Total revenues from Q3 2025 were \$12 million versus \$13.3 million for the prior year. Product revenues for the third quarter ended September 27, 2025, were \$10.7 million compared to \$10.9 million in the third quarter of 2024. The decrease was primarily due to a decrease in revenues from products used in pilot helmets and training and simulation, which was partially offset by an increase in sales from products used in thermal weapon sights. In the third quarter of 2025, funded research and development revenues decreased to \$1.2 million from \$2.3 million in Q3 2024, primarily due to the timing of completed projects and a focus on programs moved to production. Cost of product revenue for the third quarter of 2025 was \$8.4 million or 79% of net product revenues, compared with \$8.3 million or 76% of net product revenues for the third quarter of 2024. The increase was due to higher cost to manufacturer training and simulation products

and 3D AOI products, which are partially offset by improved efficiency in making products for thermal weapon sights. R&D; expenses for the third quarter of 2025 were \$2.5 million, a decrease of \$0.1 million from the same quarter last year. The decrease is primarily due to decreased spending on U.S. defense programs and programs previously in development are transitioning into production. SG&A; expenses were \$1.6 million in the third quarter of 2025 compared to \$5.2 million in the third quarter of 2024. SG&A; decreased due to a decrease in accrued legal expenses, partially offset by an increase in noncash stock compensation. Turning to the bottom line. Net income for the third quarter of 2025 was \$4.1 million or \$0.02 per share compared with a net loss of \$3.5 million or \$0.03 per share for the third quarter of 2024. It should be noted that Q3 2025 net income included a \$5.1 million add-back for a reduction in litigation accruals. Net cash used in operating activities was \$7.7 million in the first 9 months of 2025. Our balance sheet and cash position is as strong as ever post Q3. We ended the third quarter with \$26.5 million in cash, which is not significantly different than the prior quarter. However, subsequent to the quarter end, although we posted a \$23 million bond for an appealable lawsuit, we were able to raise \$41 million with several strategic and institutional investors and completed a \$15 million transaction with an individual strategic investor, which significantly improved our overall cash position. As a result, at the end of Q3, with this funding in place, the company was able to remove any significant doubt regarding the ability to operate as a global concern. Listeners should review our Form 10-Q for the quarter ended September 27, 2025, for any possible adjustments and additional disclosures. And with that, I'll turn the call back over to Michael for closing remarks, and we'll take your questions.

Michael Murray: Thanks very much, Erich. Our products and technology can be applied to a variety of industries across the landscape. But we have chosen to focus on the areas we think will have the highest demand and growth opportunities and provide the clearest path to profitability. With our market-leading strategic partners, we are in a great position to take advantage of their growth and accelerate our own. The geopolitical landscape and increasing tensions mean that more defense departments around the world are looking at their budgets and capabilities and assessing where they need to invest. Much of the time, it's pointing towards better vision and data to get to soldiers to make better decisions and safer decisions, Kopin can be a major solution to some of those challenges. We believe we are at an exciting inflection point for the company. There's no doubt that our future is continuously growing and becoming brighter every day. With that, operator, we'll open up the call to any questions.

Operator: [Operator Instructions] We'll take our first question from George Gianarikas with Canaccord Genuity.

George Gianarikas: Welcome, Erich. I'd like to start maybe on something you didn't talk about this time is neural display. Maybe any developments there, any progress you've made in that product?

Michael Murray: Yes, absolutely. So at AUSA, we demonstrated a first-person viewer, bidirectional, human in the loop microdisplay, which we call neural display that controlled a drone application with your eye. Imagine, if you will, a soldier on the battlefield with a daytime hub like our DayVAS solution or DarkWAVE solution being able to still fire their weapon while looking through a daytime or nighttime AR application and controlling a drone and moving that drone just with their eyes and never taking their eyes off the battlefield. And that is a critical technology area for the United States government. Neural display is demonstrable. We will be investing in it over the course of the next few years. And we will have a road map that has neural display coming right behind our color microLED development that we're embarking upon now. Thanks, George.

George Gianarikas: And maybe just as a follow-up, just some blocking and tackling as a follow-up. In terms of just how we should think about your quarterly OpEx, particularly with Blue Radios seemingly behind you, can you sort of help us understand what the spending should look like over the next several quarters?

Erich Manz: I don't think the spending is going to be much different than what we've seen. We know we have some headwinds there in the OpEx area, but we will be growing into that. That's the objective.

Operator: Our next question comes from Jaeson Schmidt with Lake Street.

Jaeson Schmidt: Michael, it obviously sounds like you're seeing some really nice momentum and expanding pipeline. I know you noted a pretty significant number as far as what is in that potential

pipeline and acknowledging sort of these IDIQ contracts could make it a little difficult. But how should we think about probably kind of 1- or 2-year out pipeline or backlog? And can you help us kind of size some of these near-term opportunities?

Michael Murray: So as we sit here today, Kopin has roughly 80% of the backlog required to hit our plan for 2026. We see visibility on our three major programs until 2027 to 2030. And those programs are thermal weapon sight programs, our aviation helmet programs and one other program that is actually on the medical side. So those three programs, we have very strong visibility, at least for the next 2 years, Jaeson. The task for Kopin right now is to build upon those programs, also intercept whatever the next generation programs will be. As an example, in our aviation head-worn application, as you know, we have an LCD product, we have an OLED product and a microLED product, I can say that. So we're building upon that foundation. We do think those programs have life until 2027 at least, but we're not resting on them alone. We need more programs like them that will continue for the next decade. And we think there are several like Soldier Borne Mission Command, like our DarkWAVE product, like the DayVAS product and several of the first-person viewer products that we're developing right now that will carry us through, I'd say, the next 2 to 3 years of growth. So we're very confident in our backlog. We're also very confident in some of the new programs that we're working on. I hope that's helpful.

Jaeson Schmidt: Yes, that's really helpful. And then just as a follow-up, curious if you could update us on sort of the Kopin One initiatives and automation and where those initiatives are? And if kind of Q4 will be sort of the end of all those being implemented?

Michael Murray: Great question. I'm remiss in updating you. So Kopin One, I would say, is fully integrated at this point. Everyone is under the Kopin umbrella. So that's number one. And our HR team has done a fantastic job with that transition as it is a cultural one. So that would be number one. Number two, just to touch on our fab-lite model. I haven't briefed on that in several quarters. But as you know, we embarked on a fab-lite strategy, which is sourcing the best wafers and deposition technologies worldwide and focusing on U.S. DoD and NATO applications, specifically. And that transition has been a great one. We're almost fully complete, and I expect to be complete by the end of this year. From an automation perspective, we have put in our first wave of automation back in June. It is now operational. It is working. We're seeing efficiencies and quality increases with that. The second phase does go in, in December this year, and we're hopeful that, that will add OpEx savings as well throughout the course of next year and add throughput capability to the fab. So we're not planning on any material changes in headcount. It's the ability for us to have higher throughput of the fab for next year, and we're fairly confident that's going to go well.

Operator: Our next question comes from Glenn Mattson with Ladenburg Thalmann.

Glenn Mattson: Congrats on the results. Could you just dive into the pilot, the aviation heads-up display issue that came up this quarter, just as is it a onetime timing thing? Or just a little background on that.

Michael Murray: I'm not sure, Glenn. Can you explain that a little bit more? There was no issue.

Glenn Mattson: In the press release, I think you guys highlighted that the pilot headsets was one of the reasons why military was down year-over-year, so just curious about that.

Michael Murray: Yes. I see the question. So no, that was just a manufacturing to demand push from this quarter to next, just a timing issue.

Glenn Mattson: Okay. Yes. And I'm not sure you kind of touched on the SG&A, but it was down significantly sequentially. I know the lawsuit expenses came out. Is this the run rate? Or was there some onetime items that caused it to be lower this quarter?

Erich Manz: Yes. No, thank you. No, it was not going to be the new run rate. The cost there from an SG&A perspective will go back to a more normalized trend. There were onetime events, the litigation move of \$5.1 million, and we had other legal fee expenses. The accruals for those came down as well fairly significantly.

Michael Murray: One other thing on OpEx, I think this goes to potentially George's question. But from an appeal standpoint, we are not expecting a run rate like we've seen on legal expenses. This is a onetime and I stress, onetime expense, which we're already incurring, which we expect to be around \$500,000 of expense to appeal the judgment in Colorado. So we expect our SG&A to hold at a more normalized level throughout 2026 where you're kind of seeing it now in that range. So I hope that

provides better color.

Glenn Mattson: Yes. And then, Michael, curious, I think there's -- well, maybe you said it before, but just being medical being such a big aspect of your kind of confidence for the next 2 years out, could you -- is that HD Medical partnership? Or is there something else going on there that you could help explain?

Michael Murray: Yes. So first things first, HM DMD is growing. They are creating more of a pipeline of their own. It's now public knowledge that they have signed an agreement with Carl Zeiss, who I understand is one of the world's leaders in that specific field of advanced surgical vision systems. And we're also working with HM DMD on potential other products in the medical market, which we're not talking about just yet. But we do believe that there's more of a portfolio of medical products. And one of the other things, just from a growth standpoint, Glenn, we do see -- and I mentioned this in my prepared remarks, we do see increased inbound requests for armored vehicle weapon sights and armored vehicle head-mounted systems across the globe. And we're working on several projects globally in armored vehicle projects, which we're also excited to see have come back into focus.

Operator: We will move next with Jonathan Siegmann with Stifel.

Jonathan Siegmann: So a lot of good news you announced in Europe. As investors, we're going to have a view of revenues that you disaggregate from Europe as well as I presume a new equity, a minority interest line. Can you just maybe talk level set how we should think about the pace of improvement? Just what is the capacity in Europe or just anything about how the improvement there will develop would be great?

Michael Murray: Absolutely. It's exciting and great question. Thanks, Jon. We have 0 revenue, roughly speaking, in Europe in defense today. And we already have agreements for \$8 million of development with Theon for a color microLED for Europe, Southeast Asia and NATO, one. Two, we expect orders for our DarkWAVE strategy in Europe. We've been competing on several bids together with Theon. And we are hopeful for research and development contract for DarkWAVE to be developed with Theon for their end markets, which they enjoy a significant market share in Europe and specifically with NATO countries. So we think we're going to expand our European business exceptionally quickly in 2026. But the real revenue growth rate starts in '27 and '28, where you'll see tens of millions of revenue in 2027 and 2028 in Europe. So starting from 0, we'll be in the single high millions for next year of revenue from research and development and production, followed by tens of millions of revenue in '27 and '28.

Jonathan Siegmann: That's great. That's great. And we'll see orders from Europe? Or is that going to be not needle movers in 2026?

Michael Murray: We will definitely see orders from Europe potentially in Q4 of this year. I have a high degree of confidence in that.

Jonathan Siegmann: Good luck with the rest of the year.

Operator: [Operator Instructions] We will move next with Christian Schwab with Craig Hallum.

Christian Schwab: I just wanted to follow up on the U.S. Army SBMC program. It wasn't crystal clear on what I heard, sorry. But I think you talked about seeing a \$1 billion opportunity TAM with the U.S. Army alone is that program coupled with the new expanded number of drone opportunities or units that the U.S. Army wants to procure on a yearly basis. That seems significantly bigger than I guess we were previously thinking. Can you expand upon when material revenue from both of those initiatives would begin to hit? I know you kind of talked about the end of '26 maybe program awards and ramps in revenue in '27 and '28, but it's a substantial number. I'm just wondering when we should be thinking that could move to revenue?

Michael Murray: Sure. So let me take the first part. The pipeline of opportunities we have currently, 40% of it, roughly speaking, is Soldier Borne Mission Command and programs around Soldier Borne Mission Command. I can't go into too much detail around that. But that would be the production Soldier Borne Mission Command opportunity level. It's about 40% of that \$1 billion. The rest of the \$1 billion opportunity pipeline that we have is a combination of armored vehicle programs, advanced night vision goggle programs as well as thermal weapon sight programs or next-generation thermal weapon sight programs. So that's the mix of that \$1 billion. Of course, there's medical in there, too, but it's much smaller. So I hope that gives you a sense of the scale of opportunities that we're looking at. With regard to Soldier Board Mission Command specifically, to remind folks, there are two prime contractors competing. One is Anduril Meta. The other is Rivet, which is a Palantir based or not based but funded

company. And below that, there were two selections for critical technology acquisition areas. Kopin was one of those selections to develop a sovereign-based, color microLED technology here in the United States for programs like Soldier Borne Mission Command, next-generation thermal weapon sights and goggles and that technology development is the \$15.4 million contract award that we received already. We're expecting to receive further investments from the U.S. Army to develop this technology in 2026. I've already mentioned that would be in several tens of thousands or pardon me, several tens of millions of dollars of investment in 2026 or production in 2027 and our goal is to have our device be designed into Soldier Borne Mission Command applications for production in 2027. But our goal and our task is to create a demonstrable color MicroLED for that to happen. And yes, there is another competitor, as I've mentioned previously, that also received an award. They have not gone public, so we're not going to mention them, but that's how we get to production in Soldier Borne Mission Command. And that production color microLED is being designed by the Army with Kopin for the Army specifically in Soldier Borne Mission Command type applications. I hope that clarifies things for you. And again, welcome, Christian. I do want to take a point to welcome Jon at Stifel and Christian at Craig-Hallum. Welcome to our analyst team.

Operator: Thank you. And this will conclude our Q&A session. I will now turn the call over to CEO, Michael Murray, for closing remarks.

Michael Murray: Thank you, operator. I hope you all leave the call today with the impression that this is a new day, a new Kopin and a new opportunity for the company. Whether the application is a thermal weapon sight, a head-mounted display or a high refresh display in armored vehicles, the goal is the same, to provide our allies and our troops, the ability to see their adversary before they are seen. If we're able to do that, our troops will come home first and safely. Providing the same technology to surgeons worldwide will also save lives. And this is a responsibility that we take very seriously for those reasons. And we have partnered with Tier 1 defense and medical contractors and that's why we are the sole source provider of microdisplays for several programs of record within the Department of Defense and worldwide leading medical device manufacturers as well. Again, thank you for your time today, and thank you for your investment in Kopin. Have a great day.

Operator: Thank you. And this does conclude today's program. Thank you for your participation. You may disconnect at any time.