LightPath Technologies Inc.

Fiscal 2021 Q1 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Sam Rubin - *President, Chief Executive Officer*

Donald Retreage - *Chief Financial Officer*

PRESENTATION

Operator
Good afternoon and welcome to the LightPath Technologies Fiscal 2021 First Quarter Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal the conference specialist by pressing the "*" key followed by "0." After today's presentation there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your touchtone phone, and to withdraw your question, please press "*", then "2." Please note, today's event is being recorded.

I'll now pass the call to Don Retreage, Chief Financial Officer of LightPath Technologies.

Donald Retreage
Thank you. Good afternoon. Before we get started, I would like to remind you that during the course of this conference call, the company will be making a number of forward-looking statements that are based on current expectations and involve various risks and uncertainties, including the impact of COVID-19 pandemic, that are discussed in the periodic SEC filings. Although the company believes that the assumptions underlying these statements are reasonable, any of them can prove to be inaccurate, and therefore there can be no assurance that the results will be realized.

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. Following management's discussion, there will be a formal Q&A session open to participants on the call.

I'd now like to turn the conference call over to Sam Rubin, LightPath's President and Chief Executive Officer. Please go ahead.

Sam Rubin
Thank you and good afternoon. Welcome to LightPath Technologies' fiscal 2021 first quarter financial results conference call. Our financial results press release was issued after the market closed today and posted to our corporate website. Following my remarks, our CFO Donald Retreage will further review our financial results and provide more perspective on key areas. We will then conduct a Q&A session.

Now, onto my remarks. Strong sales performance in the first quarter of fiscal 2021 reflects our continued trajectory of growth and performance improvements, as well as initial impact of the strategic review we presented when addressing our yearend financial results.

Our growth and strong performance can be seen both sequentially, compared to the fourth quarter of fiscal 2020, as well as, compared to the first quarter of last fiscal year, a quarter in which we suffered from significant operational challenges that impacted results in that quarter.

Despite the coronavirus pandemic, which has disrupted supply chains and caused an economic upheaval, as an essential manufacturer we have been able to deliver strong results and have positioned the company for more profitable and longer term growth.

Against the backdrop of the pandemic and other socio-economical issues, there have been many challenges. I would like to commend our global staff for their resilience, commitment, and continued effort to support our customers while adhering to health and safety protocols to protect our co-workers and their families.

Sales of all major product groups increased from the first…in the first quarter 2021, on prior year period. Most notable has been the demand for our PMO lenses for the 5G infrastructure build-out, and from our vertically integrated manufacturing platform for optics and optical assemblies made with our own BD6 material. We shipped approximately 1.3 million lenses in first quarter, another record for the company, which is an increase of 105% from 600,000 lenses in the first quarter of last year, and 9% increase from 1.2 million lenses in the previous quarter.

To meet the increasing demand for optics, we have been adding capacity through investments in equipment and process improvements in different areas. Demand-based capacity constraints began to be revealed in the third quarter and continued in the fourth and first quarter, which is why we had front-loaded investments in our manufacturing for this year.

Capital expenditures in first quarter 2021 were $1.2 million, nearly four times the amount spent in prior year period, and more than 25% greater than in the fourth quarter. It is important to note however, that reporting on capital expenditure is based on dates of invoices, and often there is a delay between the timing of decision and order, and actual expenditure is booked.

The additional investments in machinery and related operating personnel typically take several months until achieving full scale output, where we see more meaningful margin contributions. As such, some of the growth in capacity and some of the expenditures are still related to investments initiated in fiscal 2020.

For the time being, although we have added production capacity in the fiscal year to-date, we remain constrained on certain product lines, amid the growth in both revenue and total backlog. And we intend to continue to invest in areas we believe we can get suitable returns. Both revenue and total backlog increased 26% as of September 30th, 2020, as compared to the same time last year.

While our capital expenditures in recent quarters have been focused on capacity increase, as we roll out our new strategic direction, and as we continue to evaluate opportunities for improvements in the organization, we are likely to identify areas for investments that will yield improvements to our operations, and hence to our margins, as well as allow us to attract new business that will help shape our future, and yield higher returns.

As we are still experiencing growth in the demand for our core products, such as molded optics, as well as, a desire to address the future direction and operational improvements, we might choose to invest at a somewhat higher rate than we had in previous years. This is also aligned to the improvement in our capital management, and hence the growth in our cash position…in our cash position, which we have focused on and will continue to focus on.

I would like to now pivot and provide an update on our new strategic direction and company transformation. In this call and in subsequent quarterly calls, I plan to provide updates on activities we are taking and outcomes of…to align the organization to our new direction and execute on this strategic direction.

As mentioned on our previous call and in our latest 10-K, we had identified that while we have served our customers exceptionally well as a component company, the world around us is changing, and photonics as a technology is being integrated into more and more industries and applications. This leads the change in the typical customer profile, with an opportunity to create and capture more value if we focus on solving the customer's optical problems and the needs, rather than being a supplier of components.

This is made possible not only because of the changes unrolling in our markets, but also because of Lightpath's unique positioning as an innovative optics company with strong capabilities in both design and manufacturing of optics. To deliver on this, there are some activities and changes we are implementing.

First with a sales process, along the lines of what I had just discussed and for the purposes of context, in the components business we engage with the customers once they have a complete optical system design, such that the customers engage with us at the point in which they need to procure the components.

In the solutions-oriented business which we are moving toward, the process is different, and we would ideally engage with the customers at an earlier stage, so that we are part of the design process. In other words, instead of receiving an optical design from the customer and fabricating the individual components for them, we are going to design the optical systems for the customer's system and procure the entire optical…and produce the entire optical assembly. To achieve this, we are implementing some changes in our sales processes, and structure, although we will continue to work with and pursue business through our traditional processes that have been successful to-date.

We have created a new role of business development, whose responsibility is to engage with customers early on, and begin our interaction at the system specification stage. We have also established an internal rapid response team that is able to work with customers on their needs and turn around designs for solutions quickly.

Lastly, our sales team is switching from a product-based focus to an account-based focus, thus making the customer's need the center of attention, as opposed to product or technology.

Secondly, to be able to offer unique capabilities to our customers, and to be able to design and deliver great solutions, our product development is now focusing on adding products and capabilities that will allow us to enhance the performance of the customer's system. One such recent example is the addition of a new high-index moldable glass to our product offering. Touch glass allows achieving higher numerical aperture, which in turn translates to better light collection efficiency, or tighter optical focus, all of which are a very important steps in optical system design.

Third as we focus on solutions this naturally means focusing on higher value contracts, with longer duration. As seen in the nearly $2.7 million contract we announced last February, which we will soon commence delivery against, often those contracts are multi-year contracts.

In the past we had disclosed at the end of each quarter our backlog for the forward 12 month period. This view did not include any longer-term supply agreements that extended beyond a one-year period, and that…and that we expect now to see more of. And such, and to be able to provide a more complete picture of the outcome of those efforts, we will now be reporting our complete backlog, and not the 12-month backlog we previously reported. It is our belief that this will allow investors to have a better picture as to our progress with the new strategic direction.

Additionally, as expected, we are also engaging into more solution-based opportunities with customers that have a higher unit value, and longer term engagements. Though we are early on in this…in strategic path, we currently have in our pipeline a number of early stage opportunities. Each has the potential of being a multiyear engagement, with over $1 million of annual spend for each of them,] which we see as a positive sign for the potential of this strategy.

Finally, I would like to address the recent global developments related to COVID-19. While we have been lucky enough to not be significantly impacted by the situation, as I mentioned in previous calls, the dynamic nature of the situation leads to changing conditions and significant uncertainty. In the previous "wave" we have seen some customers defer taking delivery of product, whether due to change in demand, or due to physical closure of their facilities.

In this time around we have not yet experienced such situations. However, we are seeing signs from some of our customers in Europe of potential reductions or order postponements pertaining to some demand during the time of this wave, which may impact future quarters. At the same time, sales to academic customers, which were significantly impacted in the previous wave, are now showing…not showing the same pattern.

Additionally, as we did six months ago, our teams are evaluating potential impact to our supply chains and we'll be adjusting our inventory levels for raw materials to ensure business continuity in our manufacturing.

The results today…the results announced today reflect continued sales growth, improving manufacturing efficiencies and ongoing management of expenses. Our disciplined cash management has allowed us to hold a consistent cash balance at the end of the quarter from beginning of fiscal year at $5.4 million, despite the substantial increase in capital expenditures, while further reducing our total debt. Don will review our cash flow and investments in greater detail during his remarks.

We are very pleased with the progress made in the first quarter of fiscal 2021 and are upbeat about future results and implementation of our strategy based on our strengths and our core capabilities to address the largest and fastest growing trends in our industry for visible and infrared optical solutions.

Now, I'll pass the call over to our CFO, Donald Retreage to provide more detail on our first quarter of fiscal 2021.

Donald Retreage
Thank you, Sam. First, I would like to mention that much of the information we are discussing during this call is also included in a press release issued earlier today and in our 10-Q filed with the SEC. I encourage you to visit our website at lightpath.com and specifically the section titled Investor Relations.

Now, on to my remarks pertaining to the fiscal 2021 first quarter ended September 30th, 2020. Sam's remarks covered a lot of our financial performance, so I will be specifically discussing some of the key performance areas.

Revenue for the first quarter of fiscal 2021 was approximately $9.5 million, up from $7.6 million in the first quarter of fiscal '20 and $9.1 million in the fourth quarter of fiscal '20. This marks the highest level of the first quarter revenue in the company's history.

IR product revenue was $4.7 million in the first quarter of fiscal '21, or 50% of the total revenue, up from $4.0 million, or 52% in the first quarter of fiscal '20. Visible precision molded optics, or PMO products, revenue in the first quarter of fiscal ‘21 was $4.3 million, or 45% of the total, up from $3.2 million, or 42% of the total in the first quarter of fiscal 2020.

The balance of our revenues for the first quarter was $491,000 from specialty products and non-recurring engineering projects which vary greatly from quarter-to-quarter but are substantially smaller contributors to the consolidated revenue. Revenues from this group in the prior year period were $408,000, so we realized a 20% improvement.

With respect to our margin profile, generally speaking PMO products are smaller and almost entirely molded, so we have faster turnaround time, higher volume applications, and more automated processing. These products also are generally lower in price. We historically have a margin averaging in the 40% to 50% range. Of our two primary revenue reporting segments, PMO is the smaller group with the higher margin.

The IR product group represents a larger and faster growing market opportunity. IR margins have historically been in the 20% to 30% range. Our molded IR lenses, which use our proprietary, internally developed BD6 material, will come in on the higher end the margin range, and we foresee further increases to our margins within this category as volumes grow and efficiencies improve.

As part of our gross margin improvement strategies, we have been more aggressively working at marketing new products and targeting new customers using our line of innovative BD6 lenses, while attempting to convert existing customers to the extent possible from using our germanium lenses to our BD6 lenses.

As Sam discussed, we also have been making inroads with new and differentiated products, such K-PSFn202, which offers a high index rating for a visible to near infrared spectrum that is very hard to achieve at scale. So, this will be a premium product group.

For first quarter of fiscal 2021, gross margins were $3.9 million, an increase of 61% as compared to approximately $2.4 million in same quarter of the prior fiscal year. Total cost of sales was $5.7 million for the first quarter ’21, up from $5.2 million in the prior year. So, as the cost of sales were up 10% on a 25% improvement in sales, this is the result from some of our operating leverage strength.

While impressive, we did benefit from certain operational challenges that impact results in a prior period, which we estimated at approximately 2.5% increase in cost of sales and a 1.6% decrease in gross margin. Gross margin as a percentage of revenue was 40% for the first quarter fiscal ‘21, as compared to 32% in the first quarter fiscal ’20. On the fourth quarter, we improved by one point.

The increase in gross margin from prior year period was primarily driven due to high…higher revenue and volumes across all product groups. In addition, there were several factors that negatively impact the first quarter of fiscal 2020, such as increase in tariffs, the impact of which have since been mitigated.

From the first quarter of last fiscal year, on the fourth quarter, we're experiencing benefits from yield improvements and efficiency measures, which are all further magnified as the volume of lenses produced continues to increase. In fiscal 2021, we shipped 1.3 million lenses. Up from the fourth quarter of fiscal '21 we shipped 1.2 million lenses. 905,000 total lenses in third quarter compared to 643,000 lenses in the first quarter of fiscal '20.

During the first quarter of fiscal 2021, total operating expenses were approximately $3.2 million, an increase of about $168,000, or 6%, as compared to the $3 million in the same period of the prior fiscal year.

Selling, general and administrative costs increased by approximately 4%, as compared to the same period of the prior fiscal year, due to personnel-related costs associated with a moderate increase in headcount, particularly in filling positions that have been outstanding, as well as, additional outside consulting services for projects related to operational improvements.

Research and development related to new product development costs increased by 5%, which was needed to address the demand for advanced optical designs. Partially offsetting these increases for limited travel and marketing expenses from the COVID-19 restrictions net of pandemic-related increased cleaning and safety expenses.

Our consolidated corporate income tax in the U.S. is shielded by our net operating loss carry forward benefits of approximately $74 million at September 30th, but we have to pay income tax in the countries of certain foreign subsidiaries. Income tax expense for the first quarter of fiscal 2021 was $435,000, as compared to $148,000 in the same period of the prior fiscal year. Taxes in both periods are primarily related to income generated by one of the company's Chinese subsidiaries.

First quarter 2021 income tax also include Chinese withholding taxes of $300,000 associated with the intercompany dividend declared refractory cash from China into the U.S. Only $100,000 of this tax has been paid as of this September 30th, 2020 with the remainder accrued.

It should also be noted that while intercompany dividends are subject to withholding tax, the total income tax on the earnings of this subsidiary was still lower than it would have been using a normal income tax rate, since this subsidiary currently qualifies for a lower Chinese income tax rate.

Net foreign currency transaction losses due to changes in the value of the Chinese Yuan and the Euro against the U.S. dollar was $98,000 in the first quarter of fiscal '21. But no impact on the earnings per share, compared to net foreign currency transaction losses of $497,000 in the first quarter of fiscal 2020, for a reduction of $0.02 to the earnings per share.

Net income for the fiscal '21 was $97,000, which was breakeven on a per-share basis compared to a net loss of $1.4 million, or $0.05 cents per share for the first quarter of fiscal '20. For the second consecutive sequential quarter, we had higher revenues, stronger margins, and controlled management of expenses.

Income tax expense from the repatriation of cash from China resulted in a meaningful non-recurring impact on earnings in the first quarter of fiscal '21. This was not experienced earlier. For better comparability, we look at the EBITDA to provide important insight into our performance and progress. EBITDA at $1.4 million set a company record for the first quarter and compares to a loss of $236,000 in the same period of fiscal 2020.

In addition to the operational progress that drove the improvement in EBITDA for the first quarter, there was also a favorable difference of approximately $400,000 in foreign currency transaction losses.

Moving to the balance sheet and cash flow related items, capital expenditures was $1.2 million in the first quarter of fiscal ‘21, up from $257,000 in the prior year period. Given that we have been running at near capacity, we intend to continue to invest and project capital expenditures for the year to be in a vicinity of $2.5 million for the year.

Meanwhile, net cash provided by operations was $662,000 for the first quarter of fiscal ‘21, up from $450,000 in the prior year period. Total debt, including finance leases was $5.7 million, which was reduced approximately by $308,000 in the first quarter of fiscal ’21 from $6 million at the beginning of the fiscal year. This represents a 5% reduction since June 30th, 2020, and it's nearly half the amount of the debt reduction from all of last fiscal year.

Our cash balance at September 30th was $5.4 million, consistent with the June 30th, 2020 balance, even though we reduced debt and made significant investment to increase our production capacity to deliver future revenue growth and increased cash flow.

Finally, onto our backlog. As Sam mentioned, in accordance with our new strategic directives, we have taken a refresh view of our key performance indicators. For backlog, we have modified our disclosure from providing a 12-month order outlook to one that emphasizes our focus on long-term customer orders such that we now provide total backlog for all firm orders.

As of September 30th, 2020, LightPath’s total backlog was $20.9 million, an increase of 26% from $16.6 million of the September 30th, 2019. It should be noted that it is natural for our backlog to fluctuate during the year, as a result of the timing of such bookings of large orders and annual renewals.

With this review of our financial highlights and recent developments concluded, I will now turn the call over to the operator, so that we may begin with our question-and-answer session.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question-and-answer session. To ask a question you may press "*", then "1" of your touchtone phone. If you're using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press "*", then "2."

Today's first question comes from Brian Kinstlinger with Alliance Global Partners. Please go ahead.

Brian Kinstlinger
Hi. Good evening, great results. Can you talk about…I think last quarter, you gave a manufacturing capacity number? Can you talk about where you are today and with the investments you're talking about for the rest of the year, where will that be, say mid-2021 or at the end of 2021, what's your goal to get to?

Sam Rubin
Our goal for the entire year, as I mentioned, is 2.5 as a firm number. However, we will adjust accordingly based on the continuous flexibility of the...of where logistically we need to adjust, number one, to choose for Covid-19. And number two, how we can better collaborate with our manufacturing processes.

Brian Kinstlinger
$2.5 million was a CapEx number, right?

Sam Rubin
Correct.

Brian Kinstlinger
What about in terms of units? Sorry, I should have stated that more clearly. Where are you today in terms of capacity, your ability…the number of units you can manufacture? And what do you hope to get to a year from now?

Sam Rubin
A year from now, I mean, our speculation is probably be closer to double., I mean, our capacity unit is about PMO, and again on the IR it is not going to be as much, even though we are increasing.

Brian Kinstlinger
Got it. That's helpful. And then in terms of the DLC coating on BDC, as I understand it's important for exterior facing IR lenses. Do you know, roughly what percentage of IR lens sale is maybe that you have or in general, or exterior facing lenses that need that DLC coating?

Sam Rubin
Yes, typically a minimum design of an optical system would be two lenses. So, in the most basic optical system, one lens would be facing outside, one lens internally, then all internal surfaces are coated with a different coating, a much more standard thin film coating called AR anti-reflective. In more complex systems, if you're talking about static systems without the dynamic zoom or change, it could be three or four lenses. In much more complex systems, it can be up to seven lenses or eight lenses.

Brian Kinstlinger
Got it, that’s great. So, there's competitors, I take it, that are going through the process of selling a similar version of what you're selling in terms of a generic germanium. Are customers, are they generally be as successful as you? Are you taking much more market share, given this DLC? I would think, given how would they handle those exterior facing issues that the generic has?

Sam Rubin
The DLC is definitely an advantage. To my knowledge, in the U.S. there are two other companies that can do DLC on chalcogenide on material like that were BD6. And probably another couple outside the U.S. So, there’s definitely an advantage there. What is really unique in terms of LightPath and that there were advantages and this comes from the integration of ISP LightPath, it’s our ability to combine the molding technology with standard fabrication technology for large lenses. Typically, one can mold lens up to a diameter of one inch. Above that it’s difficult to mold the lens and get consistent results. So, above what I would need to do is to fabricate the lens using other techniques, which are far less cost effective than molding. What

we have developed and patented and I think we issued a press release on that patent about half a year ago, is a technology that allows us to mold the lens into a near shape. So, very, very close to the final lens and then only touch it really with fabrication equipment. It's a very end just to get the final results to be a perfect optical surface. So, it's really combining the both…the best of both worlds. And as far as I know, that is one of our biggest advantages and allows us to offer cost effective large diameter chalcogenide lenses.

Brian Kinstlinger
Great. Two more questions I have. The first is, looking at the current situation of where we are with a pandemic coupled with the U.S. China tensions, has there been any change to the pace or expected pace of the 5G rollout in China?

Sam Rubin
We have not seen any change in that. We monitor it regularly, and we also raise the question every time we hear about any updates from other countries. As far as we know, any changes that other countries have seen are mostly related to other elements of the 5G and not the optical infrastructure. We have not seen any change in the demand.

Now, it could be that there is a change in the demand and it hasn't yet reached us or that it is impacting more of our competitors, because there's multiple vendors often providing to the same customer. As of now, we have not seen a change from the demand and we keep receiving orders from 5G-related customers in China on a very regular basis.

Brian Kinstlinger
Great. That's helpful. Last question I have, which is related to the 5G rollout in China. Well during the Chinese New Year, as I think about seasonality, will that be impacted? Will you see lower volumes or will you be able to replace that demand with other customers?

Sam Rubin
Yes. Well, what happens, when I reflect back on the six years I lived in China and have been through that, is in preparation of the Chinese New Year holiday, typically companies or employees work weekends and companies operate over the weekends and far more than usual in order to build up the inventory and whatever is needed in anticipation of the downtime during Chinese New Year. The Chinese government even mandates that while the holiday formally is only four days, if companies want to give a seven day holiday, they have to substitute those additional with days over the weekends, and that's how output isn't impacted. So, I've lived through that and seen it and our operations and other operations, both foreign and domestic lives like that, and have really built a very stable flow during that time.

Brian Kinstlinger
Great, thanks. Thanks for answering my questions.

Operator
And the next question is from Gene Inger at IngerLetter.com. Please go ahead.

Gene Inger
Hi, Sam and Don. It's the IngerLetter and not Injure and we hope to not injure investors. But guys, it was an interesting quarter, interesting comments that have been made. So, let's start with China. So Sam, you were talking about China. And when I look through the report and listen to what you said, it looks like you had the majority of the increase, that 4% sequential, which is not that impressive as the year-over-year. It's another world we're in right now. I

understand. But it looks like business perked up in China from 5G and contracted with infrared or are contracted other than in China, is that correct basically?

Sam Rubin
So Gene, in our record on our track that we have right here for the past one, two, three, four quarters, including this one, the telecom increase for us was from 12% to 21% of our income, sequentially 12% to 19% to 22% and this quarter was down just a little bit because of capacity constraints. It has been increasing ever since as far as telecom is concerned, and China is concerned.

Gene Inger
And as far as Europe, I know it's an aside, but just today, the United Kingdom talked about starting to vaccinate, probably the Oxford vaccine, everybody in England starting next month. So, if you're envisioning a slowdown in Europe, I guess you're also envisioning that, that would pick up and give you sort of a compounded growth from both areas--Europe, and China, not just North America. If we get through, I hope that, which ultimately, we must.

Sam Rubin
Well, we're not envisioning a slowdown in Europe as much as we are relaying information we received from customers about possible impact from the stay-at-home orders of closures that they see in Europe. And hopefully, everything gets resolved quickly everywhere, and then we can all go back to normal.

Gene Inger
Well, from the standpoint of investors, I think, because I heard somebody unless I misunderstood, maybe Don half kiddingly suggested PMO business might double in a year. So, I could see and I referred to the LightPath of the stock, as a speculative long term investment was not too much risk as a growth stock. But what would you say to traders or shorter-term oriented people that really have a three-to-six months visibility because the volume has been low and ran up at one point in the summer? Is there a short term reason for a player in the market to be interested in this company or only for long-term growth?

Donald Retreage
First, let me clarify, Gene, the question I understood it was to ask about the units and, based on our run rate we see we're increasing 25%, 30% every quarter. So, my answer to that was that the PMO could easily double within a year unit wise. Remember these are based on our capacity constraints, but the run rate that we're using, that would be that, providing nothing else happens and telecom continues.

Gene Inger
Ok, this may all be fine, but I see by the relatively steady growth of the company really turned around more than a year ago, digested the cost of ISC, divesting New York and so on. And that's all great. But I think the new direction that Sam refers to, I don't know if it involves autonomous driving modules for different companies or devices for companies like SpaceX or Velodyne or others you might be working with. But I would hope that you're not concentrating on only three or four core customers that make up a big portion of the business, as I think was the case in the past. Could you guys reflect on that for us?

Sam Rubin
Absolutely, right. We’re diversifying both in customer and industries is something we see as important and something that really almost comes naturally from the fact that the optics gets

integrated into many different technologies and industries. So, I don't think we have any specific industry today that accounts for more than 20% of our revenue. That said, to answer your earlier question about timing, I think it's important to note that we're in here for the long game.

Investments we're making, decisions we're making, the path we're taking, are all because we believe there is tremendous value for us to create in the long term for shareholders, and have…while we always try to improve everything as quickly as possible as we can, we're not doing this to achieve quarter-to-quarter of big bangs necessarily as much as we're focusing on building something stable and strong that can grow further.

Gene Inger
Sam, if I might ask one more, is this a little bit as you're transitioning even further and your business looks promising, especially as we get through, so that's infrared and so on? Does this give you this integration on devices almost like a little if not Taiwan Semiconductor or a little Foxconn, where you have a core business, but they expand that and doing work for others. So, you end up perhaps assembling devices? I don't mean to put words in your mouth, but I'm just asking. And you're actually bringing in components from other vendors in order to do assembly work, not just design.

Sam Rubin
That's a very interesting point, because very often in our world, the optics are one of the most sensitive parts of assembly, given the sensitivity to dust and such. So, it would not be completely unheard of, of a customer wanting us to do more than just the optical assembly, since people do not want to touch that part of the system too many times. So, it could be in the long term, but it wouldn't be out of an attempt to be a contract manufacturer as much as it would be a service to the customer that can just enhance our offering and services in optics.

Gene Inger
Well, I thought about this because what you're talking about with design goes beyond even a Foxconn, because what I mean, you know them from China, because what I what I meant is you're talking about being more…almost an integrated manufacturer, which would really elevate the perception of the company, if you're doing that, because you're not just talking about designs. Let's say when you use Apple, they design something, and they give it to Foxconn or they design an arms chip and they give it to CSP in Taiwan. But they're the designers. You're talking about doing the design to meet the customer desire. I think it's a really good idea and obviously creates residual or annuity style income, which I'm guessing is what you're shooting for.

Donald Retreage
Yes, that would definitely be a nice outcome. I'd say that also optics have some…one difference, well, it has many, but one very important difference compared to, say, electronics and PCB, and that is the uniqueness of the knowledge and the transfer from the design to the manufacturing is not as straightforward as sending prints or feeding into an SMT machines the program and just letting it run. And I think that uniqueness and that very particular expertise needed in optics is the reason why our customers entrust us with such parts of their business and why they also believe, and so do we, that we can create a unique value compared to them doing it in-house or giving it to their contract manufacturer to do.

Gene Inger
Yes. But first of all, I like the vision, Sam, and I think if the performance is delivered, I suspect that the market cap of the stock will reflect that eventually. But basically, I'll let you go with a last thought and congratulate you on the work you guys are doing. But the last thought might be a question. If you could say a little bit more on how your linkage comes into some of the new technologies, AR [ph] autonomous driving, even as…even the space program, which you're somewhat connected with.

Sam Rubin
Sure. I mean, that's something probably I can talk quite a bit at length about and bore everyone. But photonics is an incredible technology. It's something that's enabling so many places. And 20-30 years ago, Photonics had some applications, today the number of applications and uses for photonics have grown exponentially and continue to grow. And that's part of the beauty of what we do. We're enabling other technologies, other industries to make use of this technology by providing this expertise and I've seen that throughout my career, how this is growing and I continue to see it. And for me, it's an exciting thing, because it's living up to the potential of a life changing technology.

Gene Inger
Thank you, Sam. I appreciate it. I'll let somebody else ask questions.

Sam Rubin
Thank you, Gene.

Operator
And ladies and gentlemen, as a reminder, if you'd like to ask a question, please press "*", then "1."

Our next question today comes from Jeff Peterson with Red Sparrow Capital. Please go ahead.

Jeff Peterson
Thanks, guys, for taking my questions. Can you talk about the gross margins of the BD6 molded lenses versus diamond-turned infrared lenses, and what are the differences between the manufacturing processes?

Sam Rubin
Yes, go ahead.

Donald Retreage
The difference between the BD6 lenses, which is still new product for us, is that the range could be from 17% to 23% on the gross margin range. That's getting better as our yield comes up and as all material goes up. And the IRGC, it could be a bit higher because it is a bit bigger and it's…the average selling price is also higher.

Sam Rubin
So, maybe just to add to that from a technical point of view in the IRGC, the material is one of the main drivers of the price and is outside of our control. So, the material is a naturally occurring material. It's not synthetic, cannot be produced. And so the price of it really depends on the availability of material from mines in Russia and China. And any fluctuations there greatly impact the gross margin.

In our molded BD6, really what our technology and our innovation is similar to what PMO was in the earlier years is something that really scales with volume. So, fairly high investment at the beginning if you are only making very low volumes, but really grows to substantially better margins over time when volumes increases. We are early on in the adaptation of molded BD6 in the customers' designs, it's naturally going to happen this way because many of the designs have a long life cycle and you cannot replace existing designs in aerospace and defense. So, we work today on designs that will become production maybe two years from now. And so, we're not really fully absorbing the costs of the BD6 molding and the production of the BD6 glass until we reach certain volumes. But when we do there's no reason why the margin in the long-term of molted BD6 would not be similar to PMO.

Jeff Peterson
That's very helpful, thanks. Who is your largest infrared customer and can you discuss the various products they buy from you and the size of these contracts or expected renewals?

Sam Rubin
The largest infrared customers' is you're not to look at our vertical. First of all, for most of our customers in this area; we have NDA's where we cannot disclose their name. But in our verticals, I mean, we…you know, we're covering defense, industrial, medical. And in those areas, for example, in the defense industry, we've grown we've averaged about total revenue between 39% and 34% and 39%, in the industrial area…in the defense side, we're between 4% to 10% of our revenue, and in industrial it's about 34% to 43%. I mean those are a mixture of infrared and then commercial is also a mixture because of the are…they are lens with rifle scopes are used both in defense. They are used most in some industrial and qualify also in the commercial. And we have an annual contract with one of our biggest customers, which is between $5 million to $6 million dollars a year. And that is mostly the telescopic lens that they use. And for rifles, I mean hunting and also some of it I think is defense.

Donald Retreage
And that comes up for renewal in the current quarter. That's every November, December.

Jeff Peterson
Ok, thanks. That is all my questions at this time.

Sam Rubin
Hi, thank you.

Operator
Next question today comes from Brian Paragamian, a Private Investor. Please go ahead.

Brian Paragamian
Hi, guys. I appreciate you taking my call.

Sam Rubin
Absolutely.

Brian Paragamian
I have a question with regards to with you…with you being an essential business and being able to have operations up and running in China basically saying giving the go ahead to run your operations. Considering you're running at full capacity and basically 24/7, I'm a little perplexed with that as to how earnings weren't better than what they were. It's…I understand the 26%

year-over-year gain touched down to 4% sequentially. It's perplexing how earnings aren't better, revenues aren't better, when you've expanded operations. So, I guess my question is, had you not expanded operations and you weren't running at full capacity as you are, we would be looking at a significant loss or a loss, at least we could say in earnings?

Sam Rubin
No, I don't think we'd be looking at a loss. I think we have a stable, consistent operation now and we've done quite a bit in the last half a year to achieve that. I think what you're seeing is two different things. I think it helps him to do different things. One is, we have in our molded optics, in our PMO, we have really what I call two very different price ranges. And one is the telecom, which is the lowest priced range and single dollars, but fairly good margins. And the other is the medical and others which are higher units, price and a different type of margins, too.

When we added capacity, we added it because at that time we had large telecom orders, which ,which, again are the lower unit prices, and so it is not as visible in the dollar amount of revenue, but you can see it very clearly in the number of units we produced and the very nice, consistent growth in that. This is not to say that it would remain forever like this. Our product mix changes and our orders from different industries change. And we also navigate that, knowing what capacity we have and what orders we want when it's very possible and expected that some of that capacity that we added at some point down the road and again, telecom, usually a rollout like this, 5G lasts for three or four years. So, at some point down the road, some of that capacity that we added is going to switch over to products with higher average sales prices and will see the impact on the revenue.

On the bottom line, I think this quarter specifically, we had a few expenses. One of them is the $300,000 tax to China for the dividend, which really impacted our earnings per share. Otherwise, we would have expected our earnings per share without that expense and a couple of other one-time expenses are too important for us for the long run, but really, we don't expect them to occur every quarter. Then we expect our results, our bottom line results to continue to be as strong as we've had in the last couple of quarters.

Brian Paragamian
Okay, so without those couple of expensive you referenced, you would have seen several cents per share in earnings.

Donald Retreage
Yes.

Brian Paragamian
Okay. What would you say… would you say to investors from the standpoint of the lack of insider buying? Because I know, you know, you guys have this vision and we saw, as you did mention, your run-up in the summer in the stock. And at least we pulled back some 50%, 50% to 60% percent in price. And I know there has been a…you had a recent insider purchase of…I forget what it was…3,000 or 4,000 shares. But what would you say to investors, to the point where there's very little insider buying, and I know and I know there is some options based on…incentive options, based on the price of the stock, but nothing gives investors more confidence than seeing true, meaningful insider buying as opposed to a token several thousand shares.

Donald Retreage
So I think that we do…I cannot speak for others, I can speak for myself that I buy as possible and when possible, depending obviously on our blackout and different personal cash flows. But I would also remind that we just…that our fiscal year ends on June 30th. And from that period until fairly recently, we were in a very extensive long blackout period in which we, obviously, could not trade anything, as much as we would have loved to, because we all felt the share price was very low and a very good buy.

Brian Paragamian
Okay.

Operator
That's all the questions we have. We will now turn…we will now pass the call back to management for closing remarks.

CONCLUSION

Sam Rubin
Thank you for participating in today's conference call. We look forward to speaking with you next quarter. Until then, we encourage our shareholders to join us as we conduct our virtual annual meeting on November 12th. We also will be participating in the Diamond Equity Research Virtual Conference on December 1st and the 21st Annual Needham Conference in January. We hope you join us to continue to follow our progress. Thank you again and goodbye.

Operator
Thank you, this concludes today's conference call. You may now disconnect your lines and have a wonderful day.