LightPath Technologies, Inc.

Fiscal 2021 Q2 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Sam Rubin - *President, Chief Executive Officer*

Don Retreage - *Chief Financial Officer*

PRESENTATION

Operator
Good afternoon and welcome to the LightPath Technologies Fiscal 2021 Second Quarter Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a 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, to withdraw your question, please press "*", then "2." Please also note, today's event is being recorded.

I would now pass the call off to Don Retreage, Chief Financial Officer of LightPath Technologies. Please go ahead.

Don Retreage
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 its periodic SEC filings. Although, the company believes that the assumptions underlying these statements are reasonable, any of them can be proven to be inaccurate and there can be no assurance that the results would 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 would now like to turn the conference over to Sam Rubin, LightPath's President and Chief Executive Officer. Sam.

Sam Rubin
Thank you and good afternoon. Welcome to LightPath Technologies Fiscal 2021 second 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, on to my remarks. I'd like to start out by expressing my encouragement from the progress we are making on driving our top line growth and growing the organization amid the limitations imposed on all of us by the COVID-19 pandemic. We have made significant strides with advancements on our long term strategic growth initiatives in the first half of fiscal 2021, which was underscored by achieving record levels for consolidated quarterly revenues and total backlog at the end of the fiscal second quarter. Although, with lower margins than we targeted, which I will address shortly in my comments.

While the growth drivers of our business remain intact and relatively insulated from the coronavirus pandemic, we have been hitting some roadblocks caused by it. This has primarily been in the aspects of the business that require travel, such as, recruiting of senior level employees from out of town, as well as, service of some of our manufacturing equipment, which has been impacted by limitations on travel of service staff. Those limitations primarily impact the operation side, and in particular our ability to implement some of the efficiencies and changes we would like to make, and at the rate we would like to see those changes happened.

We are still very proud of our team to be able to implement the improvements we have and grow the business at a double-digit rate in spite of those challenges and limitations.

On an operational basis, we also took important steps in terms of scaling and diversifying our production facilities, enhancing our global distribution, expanding our international sales presence, and strengthening our product portfolio. However, as pleased as we are with improving our growth rate, and initiating deliveries on some key contracts, we are not satisfied with our performance in terms of gross margins this quarter, and we're taking active steps to remedy this and return to our previous margins.

The growth achieved this quarter and in the first half of fiscal year has resulted both from the capacity we have added in the last 12 months, as well as, the commencement of high volume deliveries on two key BD6 accounts. BD6 is a reminder of being our internally developed infrared glass material. Both of those customer accounts relate to contract from BD6 to replace previously used germanium material. However, as can be the case when beginning to deliver initial production quantities of a new product or a new technology, during this phase-in period of a new product, the margins of those products are impacted by stage production in efficiencies and the learning curve of some new processes and technologies.

In this case, the main contributors to the lower gross margin has been inefficiencies in a stage of the glass production, as well as, low yield in the final coating of the lens. Those issues are being addressed through a concentrated effort by our engineering groups worldwide, supplemented with hiring an industry veteran for the position of Global Coating Manager, a position that has been vacant for over two years.

Additionally, we have put in place a strong review process for any new quotes to ensure our pricing methodology meets our corporate standards and target margins. While we have been focusing on identifying and correcting those issues, it is important to mention that we do not accept those margins and inefficiencies as they are now, and we're placing significant effort and resources to repair the issues we identify, so that within a few months, we will see an impact on our margins in the infrared business.

That said, we have been seeing positive momentum in many areas, including revenue for the first half of fiscal 2021 of $19.4 million, which is an increase of 13% compared to the same period last year. Second quarter revenue of $9.9 million, which marks the highest level of any quarter in the company's history.

EBITDA for the first half of fiscal 2021 was approximately $2.4 million, which is up 33% from prior periods. Cash flow from operations in the first half was up 64% from prior year and final, record level benchmark was achieved with our total backlog increasing to $23.8 million at the end of the second quarter.

Also, during the second quarter we were awarded the renewal of an annual infrared supply agreement valued at over $5.8 million, which is a 16% increase over prior year contracts. This renewal has since been supplemented with two…with additional orders from this customer, bringing the annual growth from this customer to over 20%. Our success with this customer's representative of this strategy, we are deploying globally, where we have been leveraging initial entry points, in order to provide a more comprehensive solution approach to all our customers optical and photonics needs.

I'd like to now switch gears and provide an update on the efforts around our new strategic direction and the transformation of the organization. In our previous quarterly call, I have provided an update on changes we have done to our sales process, new products and technologies we were working on, operational improvements and large contracts in the pipeline. Along the same line, our team's…team has focused and continuing to position us to provide more value-added solutions, while growing the organization and improving the operation as a whole.

Some of those activities include, on the sales side, we have recently announced the opening of our sales office in Germany for coverage of the entire continent of Europe, the Middle East, and other close by regions. We're excited to welcome to our team Dr. Thanassis Kokorakis, who will manage the direct sales interactions and be responsible for driving revenue growth in this territory. Thanassis comes to LightPath with over 20 years of sales experience, including time with companies like Ocean Optics, Newport Spectra Physics and Lightwave Electronics.

Secondly, on the technical capabilities and products front. Our team has continued to focus on developing both unique technologies, such as for example, Freeform Optics, a component that as the name indicates, has a form or shape that is free from constraints that are typical in optics, such as symmetrical constraints.

This unique new technology requires very careful machining of each piece on a multi-axis optical CNC or diamond-turning machine. This has been prohibiting the adaptation of this technology in any applications that require mass production, and therefore, makes it a perfect fit for our own optical molding technology, which can replicate items in mass production. We expect to begin to take orders using this technology within the next few quarters.

In the last call, I had mentioned some high value longer term contracts we're working on. While many of those opportunities have a lengthy proposal and prototype process, we have had satisfactory results already with some of those. One such customer has recently decided to adopt the use of our new 75 millimeter lens assembly, which we've announced through a press release a few days ago in lieu of the optical systems they had previously used. That same customer further went and requested us to design the optical system for their next two future products.

Additionally, one of our largest customers for discrete infrared components has recently accepted prototypes for a complete optical assembly, designed and produced by LightPath, which will replace their own designed optical assembly. Those types of wins, while still relatively small in terms of value of initial orders, paves the way for more multiyear orders for complete assembly and brings us a step closer to our new strategic path.

Lastly, in terms of updates on…of transformation of the organization, I will provide an update on our operational improvements. After the end of the fiscal second quarter, we announced the completion of the first phase of our facility expansion in Riga, Latvia, adding new infrared coating capabilities as part of our operational improvement plans, as well as, our global production capacity expansion. This expansion will enable our facility in Riga to coat all infrared components produced at this location.

For reference, in the world of optics, each optical component needs to be coated from both sides with different coatings, depending on the customer's application. Being able to do this last step at the component production in same and the component production in same site will lead to an increase in margins, shorter lead time and improved customer service overall. This also will free up some of our coating capacity in Orlando and China to develop new products and capabilities. This is the beginning of an effort that will take about a year to complete, at which point the Riga facility will be fully integrated, such that we can improve the margins on our infrared products.

I would also like to thank the LightPath team that, in spite of the significant constraints due to the COVID travel restrictions, have been able to develop this new technical capability in Riga, as well as, many other achievements that would typically require significant travel and on-site presence.

In conclusion, we're seeing the impact of our sales efforts and improvements to customer service, driving the growth to double-digits, something we had set as a goal for this fiscal year. We're seeing our investments and focus on differentiating technology and value-added solutions, result in both new customers, as well as converting component customers into solutions customers.

And lastly, we are successfully implementing some of the operational elements required to execute on our strategy. With our expanding product platforms and global team in pursuit of a solutions oriented approach for our customers, we believe will ultimately deliver greater sales and improved consolidated margins and profitability.

However, as we've noted previously, and as certain of our second quarter results bear out, the additional capacity…the additional investments in machinery capacity and improvements related this operational…operating personnel, typically takes several months until achieving full scale output and productivity, where we see more meaningful margin contributions.

Now, I'll pass the call over to our CFO, Don Retreage, to provide more details on our recent financial performance.

Don Retreage
Thank you, Sam. First, I'd like to mention that much of the information we're discussing during this call is also included in our 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 second quarter and half year ended December 31st, 2020. Sam's remark covered a lot of our financial performance, so I will be specifically discussing some of the key performance areas.

Revenue for the second quarter of fiscal 2021 was approximately $9.9 million, up 4% sequentially from $9.5 million in the first quarter of 2021, and up 3% from $9.6 million in the second quarter of fiscal 2020, when we had about $0.5 million in holdover revenue on the first quarter 2020. Revenue for the first half of fiscal 2021 was approximately $19.4 million, an increase of $2.3 million, or 13%, as compared to $17.2 million in the same period of prior fiscal year.

Infrared product revenue was $4.8 million in the second quarter of fiscal '21, or 48% of the total revenue, down from $5 million, or 52% in the second quarter of fiscal 2020. Visible Precision Molded Optics or PMO products revenue in the second quarter of fiscal 2021 was $4.7 million, or 48% of the total, up from $7.7 million, or 39% of the total in the second quarter of fiscal 2020.

The balance of our revenues for the second quarter was $372,000 from speciality products…specialty products and non-recurring engineering projects, which vary greatly from quarter-to-quarter, but are substantially smaller contributors to the consolidated revenue. Revenue from this group in the prior year was $885,000.

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 low in price. We historically have a margin averaging in the 40s to 50 range. Of our two primary revenue reporting groups, PMO is the smaller group with a higher margin. With the higher volumes and margins, you can determine…one can determine that our average unit selling prices will trend lower than with the infrared groups.

Infrared product group represents a larger and faster growing market opportunity. Infrared margins have historically been in the 20% to 30% range, and depending on the revenue mix in any particular period under review, our ASPs can vary, so we do not believe that this is a meaningful performance analytics. Instead, we encourage investors to focus on our revenue and gross margin as a percentage of the revenue over the long term, not necessarily on a quarterly basis, since we are relatively a small company where order completions can influence our results in any particular short term or quarterly period.

In the first quarter of 2021, our top line growth was much higher than a traditional quarter due to the holdover revenue on the prior year period, where revenues were pushed from the first quarter 2020 to the second quarter 2020. Similarly, the second year…second quarter year-over-year comparison masked our second quarter 2021 growth, since the second quarter 2020 included the holdover revenues from the first quarter 2020.

Our margins…our gross margins can similarly fluctuate depending on order completions, product groups that dominate the quarter, and other important operational issues. As Sam mentioned, we have a significant amount of new product launches coming online, which generally have much lower yields and efficiencies, which reduce our gross margin on the unit ship in that quarter.

When the product line is bolstered with fine tuning, we will increase volumes and output, which will elevate gross margins to a more normalized basis. Many of our product lines coming into production volumes in the second quarter 2021 are from our molded infrared lens family of products, which use our proprietary internally developed BD6 materials. These will come in on the higher end of the margin range. Increases to our margin will be realized within this category as volume grow and efficiencies improve.

Gross margin as a percentage of revenue was 38% for the first half of fiscal 2021, compared to 37% for the same period of the prior fiscal year. So, we are moving in a positive direction, even though our second quarter 2021 margin were impacted by a fair amount of product launch dilution.

As we have discussed, we have new production lines being introduced, which have lower initial outputs. These will increase and with it, so will the margins. Some of these new lines are converting all lower margins, germanium lenses to our new BD6 material, which also will lend to higher gross margins.

At the same time, we continue to produce more lenses overall. Total production for the product lines increased to 1.1 million lenses in the second quarter, up from 900,000 lenses in the second quarter of last year. In the first six months of fiscal 2021, we shipped 2.4 million lenses, up from 1.5 million lenses in the prior year period.

Moving on to operating expenses. During the second quarter of the fiscal 2021, total operating expenses was approximately $3.6 million, an increase of about $700,000, or 24%, as compared to $2.9 million in the same period of the prior fiscal year. The increase is primarily due to $400,000 of non-recurring additional compensation that accompanies former CEO and higher SG&A for a moderate increase in headcount and costs associated with operational improvement projects.

New product development costs increased by approximately $61,000, or 13% which was needed to address the demand for advanced optical designs, partially offsetting these increases was limited travel and marketing expenses from the COVID-19 restrictions met a pandemic-related increases of cleaning and safety expenses.

Operating expenses for a life…for the second quarter of the fiscal 2020 was also reduced by a net gain on disposal of property and equipment of $79,000, which did not repeat in the second quarter of fiscal 2021.

Our consolidated corporate income tax in the U.S. is shielded by our net operating loss forward benefits of approximately $74 million on December 31st, but we must pay income tax in the countries of certain foreign subsidiaries.

Second quarter **2**021 income tax expense was approximately $241,000, compared to approximately $322,000 for the same period of the prior fiscal year, primarily related to income taxes from the company's operation in China. Income tax for the second quarter included Chinese withholding taxes of $200,000 associated with intercompany dividends declared by the company's Chinese subsidiary in December of 2019.

Net foreign currency translation gains due to changes in the value of the Chinese yuan and the euro against the U.S. dollar was $77,000 in the second quarter of fiscal '21 compared to $119,000 in 2020, with no impact on the earnings per share in either period.

Net loss for the second quarter 2021 was $147,000, or $0.01 per share compared to a net income of $769,000, or $0.03 per share…earnings per share for the second quarter of fiscal 2020. For EBITDA, a non-GAAP measure, which we believe provides important insight into our performance and progress, we had a positive EBITDA of approximately $1 million in 2021, as compared to $2 million for the second quarter of fiscal 2020. This decrease was primarily due to the lower operating income from lower gross margin and increased SG&A, primarily again for the $400,000 of non-recurring additional compensation for the former CEO, and to a lesser extent, the increase in new product development expenses.

Again, looking at a longer term progress, which is more meaningful, EBITDA for the first-half of fiscal 2021 was approximately $2.4 million, or $2.8 million, excluding the one-time non-recurring departed executive additional compensation, as compared to $1.8 million for the first-half of fiscal 2020.

Moving to the balance sheet and cash flow related items, capital expenditure was $1 million in the second quarter of 2021 and $2.2 million for the first-half of the year, up from under $1 million in the second quarter of 2020 and $1.2 million for the first-half of the fiscal 2020. Given that we have been running at near capacity and our backlog continues to grow, where we increased our expected capital expenditures for the year to come within a range of $2.5 million to $3 million for the year, up from the $2.0 million vicinity.

It is important to note, however, that the recognition of capital expenditures is based on the dates of invoices, and in some cases prepayments, and often these are delayed between the timing of decision on order to when the capital expenditure is booked and when the equipment is received, and brought online.

Meanwhile, net cash provided by operation was $1.5 million for the first-half of fiscal '21, up from $938,000 in the prior year period. Total debt, including financial leases, was $5.7 million, which was reduced approximately by $246,000 in the first-half of fiscal '21 from $6 million at the beginning of the fiscal year. This represents a 4% reduction year-to-date. Our cash balance on December 31, 2020, was $5.3 million, down modestly from $5.4 million at the beginning of the fiscal year, even though we reduced debt amid significant investment to increase our production capacity to deliver future revenue growth and increased cash flow.

Finally, onto our backlog. As of December 31, 2020, LightPath's total backlog was $23.8 million, an increase of 6%, from $22.6 million as of December 31, 2019, and an increase of 9% of $21.9 million as of June 30, 2020. Our December 31, 2020 backlog is the highest level in the company's history. It should be noted that it is natural for our backlog to fluctuate during the year because 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 solutions. Thank you.

QUESTION AND ANSWER

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

Our first question comes from Brian Kinstlinger with Alliance Global Partners. Please go ahead.

Brian Kinstlinger
Hi, good evening, guys. Thanks for taking my questions. Can you talk about the outlook for the 5G build out in China and, based on your capacity and with the recent investments you've made to capacity, do you expect supply will catch up to demand this year, or will it be more like next year in terms of the PMO side of the business?

Sam Rubin
Well, we're seeing a continued demand for 5G in China, and of recent growing demand for 5G outside of China. Now as a reminder, oftentimes we provide the components to suppliers that could be two to three tiers removed from the final deployment of 5G. And therefore, we do not always have the visibility on to where physically or geographically the 5G equipment ends up and to the demand for that ends 5G equipment. As of now, we continue to see similar demand from our customers for 5G inside China, and growing demand for our customers for 5G-related

lenses outside of China. Nothing is indicating, any of that is going to change in the near future. And as we noted previously, we typically see such rollouts of a new technology and optical communication to last about four-to-five years, and we're now about the beginning of the second year of that rollout.

Brian Kinstlinger
The second part of that question is, I mean let's assume, or hypothesize that there could be a 30% increase in unit demand for the number of units. Do you have the capacity to meet that? Do you not? I guess from a capacity standpoint, where are you in terms of your investments in need to build out?

Sam Rubin
Yes. So, definitely, so we've been investing in capacity growth and we think that in the growth of our top line right now. But earlier about a year ago, the constraints in capacity was on the molding equipment itself, the machines, which we use to make the molding…molded lenses. Later on, it was on some auxiliary equipment, such as saws and coating and dicing machines. We've been investing in both of those.

As of now, while we were able to catch up with the demand at that point from the 5G customers, demand in other areas have been has been growing again thankfully. And we're still running at capacity in our molded optics. We're not turning down any orders, but our lead times for some of the orders that we're delivering on longer than what we and our customers would want. We've revisited that recently and started to invest…another set of investments into molding machines, which will go into effect next quarter or maybe beginning of this quarter, we're in now and into next quarter. And then, we'll take a few months until it is actually fully in place and operational.

Brian Kinstlinger
Got it. And then, on the infrared side of the business, to the continuing resolution the government impact or timing of the defense side and while the December quarter was a difficult comparison you highlighted, given the delays last year that move again from the first quarter to the second. Is this segment a double-digit grower in the near term or is it grow a bit slower than that in the near term?

Sam Rubin
Well, the defense is not fast growing because of the turnaround. You recall both of the defense lenses which are large lenses, which are CNC per se. Those are six to nine months at least. So, the growth double-digit, I think, yes, because we have some of the…we have some good things in a pipeline, but that term we will not see until probably a year from now. If we should…

Brian Kinstlinger
I am going to ask one more question. I will get back in the queue, because I have a few more. But I am sure others have some questions. Regarding the lower yield, how long do you think it will take for the changes you've made to repair the issues and then return to the stronger gross margins in that business, and well the March quarter gross margins look stronger, given you highlighted the BD6 materials contributing a higher gross margin.

Sam Rubin
Yes. So, as I mentioned in my notes is at least two areas where were seeing those yields, two areas that are significant enough to easily identify probably a few more that we haven't reached yet. In those two areas, one of those areas, the team feels fairly confident we will revolve within the next two to three months. With the second area, we are not yet down the path enough to

know when the solution will be. In either case, it would not be more than few months. Keep in mind also that some of those products have a production cycle that can last as much as six weeks from beginning to end, and we have cycle set up in production, even an impact on solving the problem on the root cause of glass production, for example, won't actually show up in the cost of materials until at least six weeks later.

So, the short answer is, possibly we are aiming for some of that to impact in the quarter ending in March, but definitely by the quarter after that we should have it under control.

Brian Kinstlinger
Great. I will get back in the queue to ask my other questions after others had a chance.

Operator
Once again, if you have a question, pleases press "*," then "1."

The next question is from Marc Wiesenberger with B. Riley FBR. Please go ahead.

Marc Wiesenberger
Yes. Thank you. Good afternoon. Thanks for taking the question. I believe the company might have had yield issues with IR molding in fiscal…late fiscal 2019 or maybe early fiscal 2020. Are these the same issues that you previously had before and maybe could you quantify the impact the yield had on COGS this quarter?

Don Retreage
So, good to hear you. Marc. They should sum up the same one the company had the year or so or year and a half ago. Back then, it was a step called an annealing, which is a step early on in the process of the glass production. Right now, the issues we are having are, what part of them are into glass production in a slightly different step than the annealing, and the most significant ones have been in the coating. And significant ones…the reason why I say significant in coating because that is where is a very last step. It is an entire length of production. So, anything that reaches that step and then gets disqualified because of a damage or yield issue or so on, the entire value of the production assets, all the label, all the material and everything that went into that gets scraped with it.

Other parts, like an annealing and like the problem we are having right now in the pre-form production of glass, are much earlier on, and so the financial impact of them is lesser, while the impact of being able to deliver could be higher. And that's why last year, the annealing issue impacted the Q1 delivery much more significantly, but those deliveries that moved into Q2 but did not have as much of a financial impact. With the coating issues we have been experiencing, those have a bigger financial impact because you are essentially throwing away a nearly ready product.

Marc Wiesenberger
Understood. That's really helpful. And just would be able to quantify kind of was it a 200 or 300 basis point hit to gross margins or what is that…what does it stand there?

Don Retreage
I mean, it is around anywhere from 2.5% to 3% on the margin. I mean that's the infrared roughly.

Marc Wiesenberger

Understood. Thank you. You noted in the press release and earlier in the call that the 5G demand remain steady and growing in some other places. So I am wondering if you could layout the demand and growth expectation we should see in the fiscal third quarter and maybe for fiscal 2021 in aggregate?

Sam Rubin
Yes. So, I think several times I mentioned in the past, I believe or at least I wanted to mention if I haven't, that our goal is to get a double-digit growth. That's what we would consider a sustainable growth and a sort of almost minimum that we expect from the company in a growing segment and growing market such as photonics. We are right now at a…as of now, for the first two quarters with 13% growth compared to the first two quarters in the last fiscal year. And that definitely is a place where I wouldn't say content with but we are satisfied reaching this within a fairly short period of time. And I wanted to stay at least in this level of above 10%.

Marc Wiesenberger
Very helpful. Thank you. And I guess, as you look at the business, what parts have gotten back to pre-pandemic levels? What parts are still lagging and what are some of the expectations for when it will catch up?

Sam Rubin
I would say items related to some consumer products, but it is very sporadic. It is not systematic in anyway, where some customers are still lagging and those customers still hurting. For example, one customer in which our parts go into products used in elective surgeries, that has not gone back to the level pre-pandemic. In many other places, it has gone back or remains fairly steady. In some places like the contract temperature measurement, we could see once in…sometimes some spikes, some demand, such as recently in China when the number of cases went up, there was another wave of demand for contact-less temperature measurement but nothing anywhere near to what we had a year ago. So I think we are fairly steady for the most parts.

Marc Wiesenberger
Great. Thank you. And then, last one from me. You talked about that this was the initial phase of the facility expansion in Riga and also get some other CapEx plans as well. I think you had mentioned at one point doubling the molding capacity. I guess that we are still on track for that and what time period there. And if the initial phase has been done in Riga, what are some of the subsequent steps, and where should we look to see some of the most proximate CapEx dollars going to? Thank you.

Sam Rubin
Yes. So, in terms of the Riga facility, I would say the initial phase is, I think in about roughly half of the capacities they need in order to satisfy all of their needs for coating. The second half of it is in progress and some of the equipment is on order, that we can see that actually in our higher CapEx numbers this quarter. But, unfortunately, that equipment can…has a very long lead time with some pieces of it was longer in the year lead from the moment of order and such like have large prepayments for that equipment. I would say that probably from the moment that equipment arrives until it's fully functional, we would expect the Riga facility to be fully in place in terms of coating by the beginning of our next fiscal year, meaning end of summer. In terms of CapEx altogether, Don, do you want to?

Don Retreage
Yes. CapEx altogether, some as we stated earlier, the increase…meeting the demands on increasing the capacity to meet the demands and also to meet the [indiscernible] because of some of the issues that we are having on the yield, so, now that delays the product. So, we definitely need more machines.

As was mentioned also, we are putting online new modulating machines coming out in the next quarter or two. This will not double the capacity in molding, but it will increase the capacity in trying to meet the demand. And again, it's varied because at the varied size of the lenses. If you are looking at the one-dollar lenses, you could easily double those, but as you go up the line, we can't double them. But we are definitely increasing the machines. And we see probably an extra $500,000 to $600,000 compared to the prior year's where we were at the 2.5 level.

Marc Wiesenberger
Great. Thank you.

Operator
The next question is a follow-up from Brian Kinstlinger with Alliance Global Partners. Please go ahead.

Brian Kinstlinger
Great. Can you talk about how customers are responding or receiving LightPath message become an engineering solutions partner instead of a supplier, is there a pushback in your excitement, is there some of both?

Sam Rubin
Yes. So, I think one of the…one good examples of that is that 75 millimeter assembly I mentioned in my remarks. And that is a U.S. customer that serves the defense industry that came over, has been buying individual components from us. Came for a site visit and inspection. During that visit saw and noticed some of the assemblies we are putting together, a dialogue started around that. We happened to have a few ready to take a look at and measure, and that was for them enough to decide to replace the existing assembly they have with our assembly and to proactively reach out to us and ask if we would designing that assembles for the optical part of the next two systems.

And I think that to me is a great example, it wasn't…it was very subtle in terms of the sales team and the message, no one was pushing it down their throats in a sense of stop buying components from us and you have to stop buying solutions. But the customer got to see the value created through that and chose to go down that part. We believe there is far more to do in that direction, although it can be slower in terms of adaptation.

And so, in parallel to that we are also developing our sales capabilities to proactively go out to customers and offer our engineered solutions part and they will be more selective towards the customers that we think we can create value to both of them. We are not going to a customer that I would say knows Optics inside out and doesn't need our help in designing. There, there would be probably a pushback. We would go to the customers that we believe optic is something that they could use better knowledge and experience with and then our offering would be accepted.

Brian Kinstlinger

Okay. Lastly for Don, responded and gave about 2.5 to 3 points in the market is the impact of the...of the issues on the yield. Can you quantify for the first half of the year on revenue, if you had unlimited capacity, if you will, and the yield issue didn't exist, how much revenue was left on the table?

Don Retreage
It's hard to give you a number and the reason for that is, remember in these components, you have a lens that's Germanium and a lens that's, that's the new BD6. So, that's kind of hard to spread out.

Brian Kinstlinger
I see, without going to specific numbers, would you have shipped materially more lenses?

Don Retreage
Yes, for sure.

Brian Kinstlinger
Yes. So, there is an impact on both revenue and margin. Correct?

Don Retreage
That's correct.

Sam Rubin
Yes. And we definitely believe that once...the more efficient is we put in Delta-Vision just as we saw now by growing to $9.9 million in revenue this quarter. This was efficiencies are not only on the cost and bottom line. They also enable us to shift more with the existing capacity and equipment and resources we have.

Brian Kinstlinger
Okay. Alright, guys. Thanks so much.

Operator
At this time, we show no additional questions, I would like to turn the conference back over to Mr. Rubin or any closing remarks.

CONCLUSION

Sam Rubin
Thank you. Thank you for participating in today's conference call. We look forward to speaking with you next quarter. But, until then, we are excited to be participating in tomorrow's Alliance Growth Partners virtual emerging growth technology conference. We hope our institutional investors following us will join us at the conference and that all of you continue follow our progress. Thank you again and goodbye.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.