Lightpath Technologies (NASDAQ:LPTH)

Q4 2021 Earnings Conference Call, September 9, 2021 5:00 PM ET

Company Participants

Sam Rubin - President and Chief Executive Officer

Al Miranda - Chief Financial Officer

Operator

Good afternoon and welcome to the LightPath Technologies Fiscal 2021 Fourth Quarter Financial Results Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Al Miranda, Chief Financial Officer at LightPath Technologies.

Al Miranda

Thank you. Good afternoon, everyone. This is my first time I am speaking on LightPath's earnings call. I would like to thank Sam and the company's Board of Directors for the opportunity to serve as CFO and I look forward to earning the trust of all our shareholders now and in the future. It has been an incredible pleasure to join LightPath and to participate in the development and execution of our exciting growth plans. For the benefit of our listeners today, I thought it would be helpful to share something about my prior professional endeavors that led me to LightPath. I joined LightPath in April of this year.

Prior to that time, I was the President and Chief Financial Officer of the North American subsidiary of a publicly traded Germany-based Jenoptik AG, where I led their North American subsidiary in top and bottom line double-digit growth. During my tenure, sales went from $30 million to $220 million with a 20% EBITDA. Jenoptik is known globally for specializing in photonic-based technology across several markets. There, we transformed the company from a component manufacturer into providing solutions, which is something that LightPath is doing now. My career spans more than 25 years where I've held executive level positions and contributed to delivering high financial growth across a broad group of products and services in demanding and diverse industries, including health care, defense and security, consumer electronics, automotive and semiconductors. Before Jenoptik, I held executive level management, finance and operational positions in optical products groups within Carl Zeiss AG and the chemical manufacturer Basf.

Now before we get started, I'd 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 question-and-answer 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, Al. Well done. Good afternoon to everyone, and welcome to LightPath Technologies fiscal 2021 fourth quarter and full year financial results conference call. Our financial results press release was issued after the market closed today and posted to our corporate website. I would like to begin my remarks by thanking and acknowledging our employees and team members around the world for their hard work, dedication and devotion to achieving and delivering results during these challenging times.

The company and the business it conducts is defined by the efforts and execution of its employees and our 350 hard-working team members around the world for what makes all of this happen. This year has been very taxing in terms of pressure and personal toll, starting from the impact from COVID-19 on everyone's life in and outside the workplace and continued in driving the growth and changes in the company this year. All of this further compounded by our discovery of years of illicit behaviors in our China operation and the efforts associated with the changes we have been implementing there. So above all, I would like to thank and acknowledge the efforts of the team.

Now on to my remarks, this call concludes my first full fiscal year as CEO of LightPath. It has been a year characterized by change. This began with the process of changing the strategy and cost of the company from a purely component vendor to a solutions partner. Another important change was that of our growth trajectory from years of single-digit growth in the past to double-digit growth. Another critical change that impacted us in part in the past year and is expected to have an even greater effect in the years to come is our efforts in building a strong senior management, Board of Directors and mid-level management team.

Finally, somewhat unexpected change came in the form of the cleanup of our operations in China where we discovered these illicit behaviors that dated back years. Some of those changes are already showing results. In the first 3 quarters of the year, we achieved a 17% year-over-year top line growth rate. This was later dampened by the specific situation we had in China and with a pause in shipments from our largest telecom customer. But even with those, we were able to end the year with a 10% growth. Installing processes, systems and controls, an important step in preparing the company for future growth and development has also helped us eradicate wrongful behavior in our China operations, which we now know has been part of that operation for many years. So the short-term impact to us in the last quarter of this year was painful. We now have a well-controlled and well-managed operation in China and can turn our focus in China back to growth.

Earlier last year, we outlined the beginning of our new strategic path, moving from a component manufacturer to a solution provider and with the goal of being the optics partner to our customers. Though this is only the beginning, in fiscal 2021, we have shipped already over $5 million of such engineered solutions. Those being lens assemblies and optical subsystems we designed specifically for those customers and which we own the design and deliver the complete subsystems assembled and tested for them – to them for further integration. These revenues were derived mostly from applications, applications pertaining to thermal imaging. This is just the beginning that is really exciting to see such immediate results that also show acceptance in the marketplace and validate our strategy. Still, there remain many capabilities that we need to develop or acquire in order to solidify our presence in this new strategic direction, and capitalize on the many existing and emerging opportunities in the rapidly expanding photonics industry.

Like every company, we too have been impacted by the COVID pandemic. In addition to the personal toll of stress which has taken on our employees, we have also had some operational challenges due to this situation. Though I'm glad to report that none of which have been material in nature. Our supply chain, while mostly unimpacted has had occasional disruptions. One such disruption is a current limited supply of pure gases such as nitrogen and oxygen needed in our manufacturing operation in Florida. This temporary disruption is driven by the demand for those same gases by medical facilities in the state. We believe this logistical issue should soon be solved.

Fortunately, our engineering team developed a workaround that enabled us to stay relatively on track. Other disruptions have been around shipping and availability of some more materials all of which have been temporary and have since been resolved. That said, we still face the risk of unexpected disruptions and are constantly evaluating the areas of risk due to COVID. On the health front, although we had a number of employees contract the virus, we have not, to the best of our knowledge, had any outbreak in our facilities and did not need to shut down any facility. This is thanks to very careful precautions the team takes, which has time and again proved itself.

Shifting gears now to discuss our strategy, last year, we presented in general terms our new strategic direction. And I would like to further elaborate on this now and provide updates on our activities. Photonics is an enabling technology that is integrated into many products and devices across many industries and applications. 20 years ago, the use of photonics was mostly limited to optical communication, defense applications and some high-end medical applications. Today, it is finding its way into many use cases and applications. Some of which, like AR, VR and LIDAR are becoming names that we use in everyday life. Many different forces contributed to this over the last 10 to 20 years. Chief among them are the manufacturing costs of key elements such as optical transmitters or light sources and detectors. Photonics is making its way into so many applications in the industries that the recent study by the National Academy of Sciences, estimated that there is as much as 11% of the goods in the world's economy are enabled in some way by photonics.

As is typical in the case with wide adoption of a technology that was previously a specialty, the supply chain and supporting operations needed to adjust. From a technology that was novelly adopted and mostly by experts, we are moving the technology that is becoming widely adopted and utilized by those who lack native expertise. From a fragmented supply chain characterized by mostly small component vendors, we're moving to a more consolidated supply chain that is driven by the technology partners that possess and brings to the table the domain expertise in optics. Such is the case that when such a transformation is complete, the companies integrating photonics into their products will not be managing supply chain with dozens of component manufacturers, but rather small number of partners or even only one, who would provide the optical subsystem for their product. Examples of this can already be seen in press releases by diversified tech companies announcing the outsourcing of optical subsystems to companies that specialize in that. A few recent examples can be found in LIDAR and augmented reality and virtual reality applications. LightPath is very well-positioned to become such a partner for companies looking to use photonics in their hardware.

Through our historical components business, strong industry reputation, innovative manufacturing solutions, high-volume manufacturing focus and of course our overall domain expertise, LightPath can and is already becoming the photonics partner of choice and in particular, in the area of fast-growing infrared imaging. To accomplish this, efforts on multiple fronts are needed. On the sales front, we have switched this year to an account-based sales effort, which is better suited for solution sales as opposed to our legacy components business. To be clear, we view a solutions approach to our customers to be far more advantageous to any other strategy due to the potential for larger revenue opportunities, higher volume, longer OEM products lifetime and mostly positioned as a higher value partner to our customer, which ultimately leads to higher profitability.

Along these lines, we have also opened a direct sales office in Europe, which will provide a more direct interaction needed. And last among recent sales initiatives, we have created a business development function to generate a pipeline of opportunities given the need to interact at earlier stages of the design cycle. On the operations side, we have added a position of VP Operations filled by Peter Greif joining us from running operations at Jabil. Peter and team have begun to identify as well as repair underline the absence operation to reinforce the foundations supporting the growth strategy. There, our balance – we balance our efforts for bolstering our current operations and foundations with initiatives that enable us to run forward and get going with more detailed implementation of our photonics strategy.

Along those lines, we have separated our R&D resources into two groups, an engineering group, which supports existing technologies and products and the development group, which focuses on developing new capabilities and technologies. The latter being of particular importance when looking to solve the customer's optical problem as opposed to manufacturing components to the customer's specification and design. Collectively, we are marshaling the expertise and capabilities of over 50 engineers, scientists and technology specialists to execute on this. Being a fast evolving and highly multidisciplinary technology, designing optimal solutions in photonics is often driven by what technologies are available.

Developing and pushing the limits of our technologies and capabilities are key in being able to provide the customer the best solution and are a cornerstone of our strategy. Examples of recent such development work include both molding and being able to mass produce unique optical components, such as Freeform Optics which are a critical component for mass production of AR and VR goggles, reducing the size and the weight of the hardware. We expect to continue to invest in developing such unique fabrication and manufacturing capabilities in part from securing of grants or third-party nonrecurring engineering charges. Part of changing cost also includes building a new team on all fronts.

Over the last year, I have recruited and built a professional team to lead the company and to implement our strategy, a key hire was Al Miranda as CFO to replace the retiring Don Retreage. You've already heard from Al about his impressive background. Peter Greif joined us at the beginning of this summer from Jabil, a multibillion-dollar contract manufacturer, where he was the Senior Business Director for point-of-sale, ATM and self-check health products, managing over $400 million and leading operations in 5 countries. Peter hit the ground running, where we are implementing the necessary operational improvement that, position us to execute on the strategy at an accelerated rate. Mark Palvino has also joined us last year as VP Sales. Mark comes to us having spent his entire career in the world of optics, with experience in building and optimizing performance of global sales teams as well as sales channels. Mark and I actually competed with each other in the past, and I'm happy to have him on my side this time.

Additional multiple other positions in mid-level management have been refreshed from quality to marketing and site managers. We have strengthened the depth and improved the quality of our team, and we are all hard at work on focusing on execution. Lastly, several months ago, we also announced changes to our Board of Directors, adding an age limit for directors, following which two long-time directors have retired, one of which was our Chairman for 25 years. We had also recruited onto the Board, Mr. Eric Creviston, President of the Mobile Division at Qorvo, who brings with him a wealth of knowledge and first-hand experience at transforming a business into a multibillion-dollar business.

Also, as part of better transparency and alignment with shareholders, the board has accepted management's proposal for a new executive bonus program, which will be simpler and easier to track and will be significantly aligned to shareholder value creation and company profitability. With that in mind, we plan to continue focusing in our fiscal '22 on the health of the business and the implementation of our strategy. With the China event, mostly in our rearview mirror, the team has been hard at work in building a strong foundation that can execute accelerated growth, both organically and through acquisitions. I very much look forward to continuing to share our progress along with the new roads we are paving.

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

Al Miranda

Thank you, Sam. I'd like to remind everyone that much of the information we're discussing during this call is also included in our press release issued earlier today and will also be included in the 10-K. I encourage you to visit our website at lightpath.com. Before I dive into the financials, I'd like to take a step back and categorize the major issues that have led to our results. First, our margins were 35% in fiscal 2021, off from last year of 40%. This was due to low coding yields in our IR products segment. The yield and cost issue was exasperated by the year-over-year revenue growth for our IR products of 16%. This is something Sam has talked about before, but really had a large impact in Q4 as we ramped up production.

We estimate our cost basis to have experienced significant headwinds in the back end of fiscal 2021 with low yields, high scrap rates and production rework in the hundreds of thousands. It's not just production inefficiencies and reduced operating leverage is a real cost in terms of material waste. Second, as we publicly discussed, we discovered in our China operation that there were key members of management and staff acting in their own self-interest, and we're preparing to create a competitive company. As Sam has said, we saved the business from harm, but at a cost of $1.4 million in Q3 and Q4.

Third, the transition of the former CEO, the transition of the CFO, the addition of the VP of Operation and changes to our Board had one-time cost of $550,000. As investors, you're probably asking, what are we doing about it? Regarding revenue, we expanded our sales office in Europe, as Sam just said this past year. We're replacing and expanding our sales office in China. We hired an industry veteran of 35 years for our global Coding Director, who has solved the coding problem and will improve our capabilities in coding in general. This addresses our yield issue that impacted our results in the second half of fiscal 2021.

We are finishing our final investment in Riga to give their production capabilities and capacity and we're completely reorganizing the Orlando production facility. In China, we are rebuilding and there are promising indicators for future business. We are also pursuing the bad actors in China to the fullest extent that the law will allow. And of course, we're tightening our risk and compliance activities in China. We still see China as a growth opportunity and an excellent location for manufacturing and production. These activities don't represent all of our efforts, but I thought it was important under the circumstances to move off script for a moment. Hopefully, the overview will give you some context as I go through the financials.

Now on to my remarks, Sam just covered the highlights of our recent financial performance and strategic plan for the future. I will specifically discuss some of the key financial performance areas during the past year and provide additional color on these metrics to better assist investors in analyzing the company on a trailing basis as well as a forward basis. Revenue for the fourth quarter of fiscal 2021 was $8.3 million, down 9% from $9.1 million in the fourth quarter of last year and down 22% sequentially from the third quarter's $10.7 million. IR revenues increased overall as certain contracts move into production amid a more normalized sales environment pertaining to contactless temperature sensing applications as compared to the heightened demand last year driven by COVID.

IR demand relating to industrial applications, firefighting and other public safety applications continues to be strong. PMO sales declined in the quarter, primarily due to lower sales activity associated with the personnel transition and related organizational disruption in China and also due to customer demand in the telecommunications market. This was partially offset by an increase in sales from catalog and distribution channels as universities and other public private sector businesses resumed purchases compared to last year where it trailed off due to COVID.

Revenues for all of fiscal 2021, was approximately $38.5 million, an increase of approximately $3.5 million or 10% as compared to $35 million in the prior fiscal year. Sales of IR products comprised 55% of the company's consolidated revenue in fiscal 2021 as compared to 52% of consolidated revenue in the prior fiscal year. Visible PMO product sales represented 41% of consolidated revenues in fiscal 2021 as compared to 42% in the prior fiscal year. Specialty products continue to be a small component of the company's business, representing 4% of the consolidated revenue in fiscal 2021 as compared to 7% from the prior fiscal year. IR revenue grew 16% for the year, primarily driven by catalog and distribution sales that were lower last year due to COVID that partially offset by decreases in sales to the telecom sector. I'd like to note that the telecom sector has been – has begun picking back up following the end of our fiscal fourth quarter.

Moving on gross margins as we report today, we have three primary product groups: PMO, IR and Specialty. Specialty is just that sort of a catchall of products, and they represent a very small inconsistent component of our consolidated revenues. Specialty also includes non-recurring engineering service projects. So this is really a different type of revenue altogether. As Sam addressed in his review of our strategic plan, we are aggressively moving into engineered solutions, which may require us to alter our financial reporting segments in the future. But for now, we will continue with the traditional segments.

For the two primary segments that we report on, generally speaking, PMO products are smaller in size and almost entirely molded. So we have faster turnaround time, higher volume applications and more automated processing. These products are typically lower in price as compared to IR lenses. We historically have higher margins averaging in the 40% to 50% range for the PMO lenses, which have been about 10 to 20 points higher than the margins on the infrared lenses. Of the two primary revenue reporting groups, PMO is a smaller group in terms of revenues with a higher margin. So on a consolidated basis, our gross margin will skew more towards IR products, which comprise a greater percentage of revenue. The infrared product group represents a larger and faster growing market opportunity as compared with our PMO lines.

Unfortunately – excuse me ultimately, as we generate more and more revenue from Engineered Solutions, we look forward to even higher consolidated margins. During fiscal 2021, the company began high-volume delivery of several key OEM projects, which orders consisted of products with both molded and diamond-turned BD6 material for IR products. As is typical scaling new products into volume production, a number of technical challenges have been experienced, both related to the fabrication of the components as well as some of the value-added activities such as coating and assembly. While such early-stage problems are common, the company resolves the issues as they occur, which will subsequently improve production yields and elevate the production – the products to higher gross margin levels.

These different fundamentals for our business, during the past year, we have been encouraging investors to focus on our revenue and gross margins as a percentage of the revenue over the long-term, not necessarily on a quarterly basis. New production lines may make experience yield issues initially, which is simply the nature of the business. Because we had so many new products coming online at once, the impact on our financials in the fourth quarter is even more pronounced. Over the course of the year, however, we are pleased that we have proven that we can manage problematic but inherent issues associated with technical innovation. We have several new successful product launches where some involve proprietary and unique material. We moved into volume production phases for new customers and new contracts and expect our margins to normalize now that we have rectified the yield problems.

Gross margin as a percentage of revenue was 25% for the fourth quarter of fiscal 2021 compared to 39% for the same period of the prior fiscal year. Gross margin for all of fiscal 2021 was 35% compared to 40% for the prior fiscal year. The decrease in the gross margin is primarily due to the mix of products sold in each respective period and yield efficiencies pertaining to newly launched products entering into volume production, which I explained in my opening remarks a few moments ago. We continue to produce more lenses overall. Again, this KPI is best viewed on a longer term basis since revenue mix and production ramp-ups come into play as they did this year. Longer term, we believe lens production as a KPI will be less relevant since we expect to do more and being paid more for our engineering capabilities and value as a photonics solutions provider. During fiscal 2021, we continue to invest in our manufacturing plants, which enable increased lens production to address growing industry trends. Total production for all product lines increased to 3.8 million lenses, not including the scrap production and during the 12 months ended June 30, 2021, up from 3.6 million lenses in the prior year.

Moving on to operating expenses, during the fourth – excuse me, during the fourth quarter of fiscal 2021, total operating expenses increased $1.9 million or 67% from the prior year period, of which selling, general and administrative costs increased by approximately $1.8 million. As previously disclosed, additional legal fees, consulting expenses and severance expenses associated with changes in our operations in China were incurred in the fourth quarter of this year. We encourage you to read our SEC filings for a more detailed explanation of these charges. Slightly higher SG&A on an ongoing basis was designed to accommodate additional headcount and costs associated with operational improvement and to support the growth strategies that Sam addressed in his remarks. During the year, we also incurred elevated charges in the third quarter relating to China of $194,000. And in the second quarter charges related to the former CEO for about $400,000 and certain other expenses in connection with other leadership changes. Collectively, and including Q4, these non-recurring items added nearly $1.8 million of one-time expenses for the fiscal year.

During fiscal 2021, total operating expenses were approximately $15.3 million, an increase of $3.6 million or 31% as compared to $11.7 million in the prior fiscal year. Of that amount, SG&A costs were approximately $12 million during the fiscal 2021. The increase of approximately $3 million or 34% as compared to the prior fiscal year, inclusive of the $8 million I mentioned a moment ago. Net loss for the fourth quarter of fiscal 2021 was approximately $2.9 million or $0.11 basic and diluted loss per share compared to net income of $657,000 or $0.03 and $0.02 basic and diluted earnings per share, respectively, for the fourth quarter of fiscal 2020. Net loss for the fiscal 2021 was approximately $3.2 million or $0.12 basic and diluted loss per share compared to net income of $867,000 or $0.03 basic and diluted earnings per share for fiscal

2020. The decrease in net income for fiscal 2021period as compared to the prior fiscal year was primarily attributable to lower gross margins, coupled with approximately $1.8 million of nonrecurring SG&A and $200,000 of other expenses related to China as well as increased new product development costs.

Moving through the balance sheet and cash flow-related items, capital expenditure was $3.2 million for fiscal 2021 versus $2.4 million in fiscal 2020. This level was on track for our capital investment plan for the year, with the majority of spending related to the continued global expansion of IR coding capacity as well as increasing lens pricing and pricing capacity to meet current and forecasted demand.

Cash was $6.8 million at year end versus $5.4 million at the end of the prior year, a 24% increase. Cash flow provided by operations was approximately $4.7 million. Cash invested was $3.2 million, cash used in financing activities was $843,000 and effects of exchange rates on cash, was a positive $657,000. Therefore, the change in cash was a positive $1.4 million for the fiscal year. Our backlog as of June 30, 2021, was $21.3 million, up from $19.5 million at the end of March and slightly down from $21.9 million as of June 30, 2020.

Our production capacity has grown, which enabled us to deliver on more contracts. Meanwhile, certain of our sales volumes have been reduced as the transition in China takes hold. It should be noted that it is natural for our backlog to fluctuate during the year because of the timing of bookings of large orders and annual renewals. Our single largest contract valued at nearly 18% of our total backlog at the time was renewed during the second quarter, and we delivered against that contract during the course of the year.

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 the question-and-answer session.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Today's first question comes from Brian Kinstlinger with Alliance Global Partners. Please go ahead.

Brian Kinstlinger

Great. Thanks so much for taking my questions. So clearly, the – and you addressed it a lot, the margins are what stick out in the fourth quarter. Can you tell us when exactly you were able to fix the yield issue? And then help us understand the expected recovery you expect in gross margin maybe in the first and the second quarter. And then you said you can get margins back to where they have been historically. Is that around 40%? I know there is a bunch of things that I just want to kind of focus on when and how you expect to recover that margin?

Sam Rubin

Yes, definitely. Good to hear from you, Brian. The yield issue was resolved early July. I think we mentioned it in another press release that we had at the beginning of July as a side note in that press release, that happened to be that both two yield issues, one from the coating and one from stains that we had, were resolved roughly around the same time. Now given that this is the pipeline of products and pipeline and manufacturing, so it takes time to flush it out. I would not expect the margin to be impacted instantly by that, but it could take, I would expect a couple of months, even a quarter for the – to go through a whole inventory cycle and such, and to see that improvement in the margin. In terms of where we see this in the longer term, I would say, inherently infrared always has a lower margin than in PMO. We have seen that in the past. That's because of the mix of products in infrared that some of them are pure build to print as we call, where margins tend to be lower and some of them where we have more unique technology and our own advantages and therefore, some premiums to it. I would say that overall, we would be happier when the margins of the company towards the end of the year would have before the beginning of them. When exactly that will happen...

Brian Kinstlinger

And you can get back there, you think? When everything gets corrected, do you think you can get back?

Sam Rubin

I believe so. It depends highly on the mix of products also. Not to forget that at the same time, it happened to be the sort of perfect storm where we also lost our biggest PMO customer, who was a high-margin telecom customer. And that customer while it's starting to come back has himself lost his main contracts. So, it's not going to come back at full speed with that one. And PMO being a higher margin did pick up margins last year in the two quarters where we were in the mid-40s. So, a lot of it depends on that mix. But all things considered, if it would be the same mix, we would definitely be in those same margins and in the 40% plus.

Brian Kinstlinger

That brings me to my second question that was already there was maybe commenting on the PMO lenses, when you expect recovery there. First, telecom providers outside of China as it relates to 5G, talk about, I think it's small, but how and when that starts to break out? But then on your Chinese telecom customer, should we not expect any material growth from where you were maybe recently over the remainder of the year, given what you just highlighted?

Sam Rubin

Yes, definitely. Good question. So first of all, in telecom outside of China, we are starting to see some positive activities there and some orders coming in from manufacturers that also provides for the 5G. There as we mentioned before, the supply chain is structured slightly differently so we don't have as much visibility. Sometimes it comes through a contract manufacturer. But in general, the designs are also different. The telecom manufacturer in China, we had worked very closely with over the years to design specific lenses that had improved their efficiency in the next manufacturing process. And therefore, the price of the lenses and our margin was different. So, we would not expect necessarily the exact same margins from other telecom customers. That said, we are not sitting idle waiting for 5G to come back. We have had some very, very encouraging progress in other projects that utilize PMO. I mentioned briefly in my notes, the thing called Freeform Optics, which is really as a name implies, allows us to involve the lens. It doesn't really look like a lens. Certainly, it's no longer around symmetrical product that is actually has all sorts of odd shapes to it, sometimes sharp corners and so on. And we have at least three projects that include that every one of them has the potential of very nice volumes to it and much higher unit prices and later much higher margins. So, we are very positive about PMO coming back. We are looking for other places to utilize the technology and to continue to advance the technology. As a reminder, we make our own machines to make PMO lenses, that gives us great flexibility in being able to advance it further. We don't want to get stuck in a more commoditized area and just be one of many. So, we are continuing to innovate there and push the boundaries to be able to charge premiums and therefore, be more profitable in that part.

Brian Kinstlinger

Okay. I have a bunch more, but I am going to ask one more and then get back in the queue. Demand for your BD6 products, it looks like revenue was down year-over-year by a small amount. But maybe if you can comment on what's happening there? And what you think needs to happen to drive greater adoption of that alternative?

Sam Rubin

Yes. That's a great point. Definitely, some of the higher volume BD6 orders had less shipments in the past quarter. That was actually the biggest one was not related to us at all, it was related to a change internally at our customer, which changed teams and their strategy and therefore paused shipments for a while. They are back taking products, and it's going very well with them. More generally, in terms of BD6 adoption, that's – as you pointed out, that's actually a very, very important element of our strategy. And as I mentioned in the strategic direction of being more the partner to the customer and being the one to design the optics for him or to design the complete optical solution, the more advantages we have technically the better we can differentiate our solution, we can design a better solution. So, we are investing a lot into creating sort of unique differentiators in that area. Some of them started with things like the DLC coated – coatings that we mentioned that we published a while ago and ship of that. Some of them are much more unique coatings. For some of them, we already applied for patents. So for example, coatings that reject water and that way, you can work in an environment where rain is coming down and the water doesn't stain the lens, different advantages in materials and so on, all of those actually continue to provide BD6 and other chalcogenide glass like that, unique advantages that give it more than what can achieve elsewhere.

Brian Kinstlinger

Okay. Thanks. I will get back in the queue.

Sam Rubin

Thank you.

Operator

Our next question will come from Gene Inger with ingerletter.com. Please go ahead.

Gene Inger

Hi, Sam and Al. First, I would say kudos for your efforts of delving into this company. I think, Sam, when you got there, you thought it was a turnaround, and it looks like it's still turning around.

Sam Rubin

Yes. Well, it's surprises for sure, yes. But all good.

Gene Inger

Yes. What I am going to say, I am just curious about something. I want to look to the future and optimism rather than the past, which you are sorting out. Do you think that so much of the expectations of LightPath that some of us have had for years would be eroded because of the fraud or the misallocation of components in China? And I know you are expanding your facilities in Orlando or consolidating. Is this an expansion or just consolidation? And are you preparing to increase production of BD6 and so on in Orlando, where you have absolute control on the spot?

Sam Rubin

Yes, absolutely. In regards to China, as I say, I need to tread delicately here because there is different activities we are doing legally in China. So, I can't talk a great detail about it, but we are obviously pursuing every option we can. I would say that at the end of the day, it's a zero-sum game. If someone did something wrong and benefited, someone else lost. And definitely, the company would have been better off if what happened there didn't happen. And definitely, as you hinted, we realize now that bad things have been going on there for a while. This is actually very long time. So, we are pleased that we got to the bottom of it. Also the ripping the mandate was very painful in Q4 and very painful also emotionally, I think, to the team that has invested so much in the China observation and in the success there for years to find out that this was going on below the surface. That's it in terms of the expansion in Orlando. So first of all, it's a consolidation of the two business – two buildings for sure, and an expansion as well. The expansion was negotiated very well by Peter in a way that we actually are not going to start paying any additional rent or not going to have any additional expenses and until we start using the space there. So, although we announced this a few months ago, we are not yet incurring any additional costs related to that. In terms of the BD6 manufacturing in the U.S., we very, very strongly believe that being vertical and having control of the materials allows us to provide far better solutions in infrared imaging and we plan to continue to invest in that direction. We are actually working closely with some organizations in the U.S., which are not companies, academics and others, to develop new innovative materials and commercialize them. And I think that those will give us an enormous advantage in the long run.

Gene Inger

That would be one of my questions. Partnerships, acquisitions, mergers, not sure what you are willing to entertain, but I wouldn't be surprised. I do remember the first time I visited LightPath, I was told that you had many times the landscape of capacity in China that you did here, which is why I asked that question, if you are increasing the capacity here. And I know that American cuts. Do you have competition in the United States, or is most of your competition offshore giving you a better supply chain arrangement with customers here?

Sam Rubin

Yes. So first of all, we do have some competition in the U.S. It's one small company in Rochester, New York, that competes in this area, but is very different, I think, in the direction they are going, and it's not sort of designed for volume as much. We have been increasing volume of manufacturing in the U.S. and plan to do so as much as possible. Definitely, our growth in the infrared and infrared imaging solutions is such that it's going to be driven significantly by the U.S., but not only and therefore, will require some expansion in the U.S., hence, our additional states. In terms of partnerships, acquisitions and so on, I tend to say yes to all, but we only do what makes sense and what we can afford to do. There are many, many great opportunities out there. There is many incredible things different companies and organizations have been working on, both in terms of technology and applications. And we look closely at that. And – but there is no doubt that some level of acquisitions will be part of our life in the future.

Gene Inger

I might ask briefly if – and then I will get back in the queue if I have more.

Sam Rubin

Sure.

Gene Inger

I would ask briefly about Riga, Latvia, I haven't heard you mention Latvia and I would also have because they are so big in Photonics in general, whether there is more ties with companies or your own plants with – in Israel?

Sam Rubin

Yes, definitely. So, we have now a grant that we got from Space Florida in conjunction with the Ministry of Science in Israel, in which we received money together with Israeli partner, and we are developing a thermal camera, or thermal assemblies for space. And that's going to be both a complete thermal camera as well as qualifying all our materials and processes for use in space and mostly in low earth orbit. And we have some other additional projects we are working on in Israel, which we hope to be able to announce in the near future. This is both from the U.S. and from Latvia. We have a great advantage of being able to both do U.S. defense work with ITAR as well as foreign defense work in some level through the Latvia operation and we want to make the most out of that. The Latvia operation, just as a reminder, we have expanded it in the last 12 months, added a coating facility there that next month I hope to be able to share that it's complete and fully running. And we will have a, I think, also a great impact on both our performance, working capital and margins.

Gene Inger

I hate to ask one more quick question. You have touched on it with space. A lot of – some people thought it was like when you talked about being in the Mars Rover. I think it's significant. I don't think they appreciate although your new video hinted at it, your extensive involvement. And I guess my specific question would be, are you involved with the low earth orbit communication satellites in terms of wireless infrared linkage maybe between the satellites? And is that a big business?

Sam Rubin

In short, yes, we are involved in it. Also in short, yes, we believe space is a big business. That's why we have been investing in that and working in that direction. We have multiple projects. So the Mars, as you mentioned, is actually not much of a revenue driver as much as it is a very significant seal of approval from NASA. And allows us to now go and apply a lot of our technology to a lot of the nano satellites or satellite tubes and so on projects, and we have many of those in to work with customers. Thank you, Gene.

Gene Inger

Thank you.

Operator

We show no additional questions. I would like to turn the conference back over to management for any closing remarks.

Sam Rubin

Thank you for participating in today's conference call. As you have heard, we have been extremely busy implementing our new strategic plan and are encouraged by the favorable top line growth we have experienced in just a short time. We look forward to speaking with you next quarter to continue to share our progress. But until then, we have been invited to present at the H.C. Wainwright and the Taglich Brothers conferences, both of which take place on the coming Monday, September 13th. We hope you can join us. Thank you again, and goodbye.

Operator

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