LightPath Technologies Inc.

Fiscal 2022 Fourth Quarter Financial Results Conference Call

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CORPORATE PARTICIPANTS

Sam Rubin - *President, Chief Executive Officer*

Albert Miranda - *Chief Financial Officer*

PRESENTATION

Operator
Good afternoon, and welcome to the LightPath Technologies Fiscal 2022 Fourth Quarter Financial Results Conference Call. All participants will be in a 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 note, today's event is being recorded.

I would now like to turn the conference over to Albert Miranda, Chief Financial Officer. Please go ahead, sir.

Albert Miranda
Thank you. Good afternoon, everyone. 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 about various risks and uncertainties, including the impact of COVID-19 pandemic **as** discussed in our periodic SEC filings. Although the company believes that the assumptions underlying these statements are reasonable, any of them can to be proven to be inaccurate and there can be no assurances 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. Sam will begin today's call with an overview of the business and recent developments for the company. I will then review financial results for the fiscal year. Following our prepared remarks, there will be a formal question and answer session.

I would now like to turn the conference over to Sam Rubin, LightPath's President and Chief Executive Officer.

Sam Rubin
Thank you, Albert. Good afternoon to everyone, and welcome to LightPath Technologies fiscal 2022 fourth quarter and full year financial results conference call. Our financial results press release was issued after the market close today and posted on our corporate website.

Looking back on the fourth quarter of fiscal 2022, we see evidence of LightPath Technologies in transition. Earlier in the year, we further laid out our long-term strategy to repurpose LightPath, as a provider of optical solutions, rather than a producer of components. LightPath will leverage the vast amount of engineering and design expertise built up over the years and key owned technologies to provide customers with a compelling value proposition.

We believe that such a transition will result in a company that is an integral partner in our customers design process, and ultimately more profitable. The area of photonics and optics is poised for significant growth and the technology is being more rapidly adopted and implemented into commercial and consumer products.

Optics can be customized for different products applications based on similar core enabling technologies for a diverse customer base. The same technology and knowhow can be used for defense, telecom, and medical fields, automotive, industrial or commercial, to name a few. We believe product development will be instrumental in our transition to a solutions provider. One key product we're excited about is our game changing chalcogenide glasses, third with our US military approved diamond like coating. These products are an alternative to germanium, of which the US imports roughly $675 million worth a year for use in optics, primarily from Russia and China. The benefits of our materials are multilayered. We produce our Black Diamond glasses domestically, allowing for greater supply chain resilience for our partners at a lower price, while reducing reliance on foreign suppliers for germanium.

Black Diamonds materials have the added benefit that sensors can use them across a vast spectrum, making those materials useful for many imaging modalities from night vision all the way to thermal imaging. For additional optics, that serves…there was imaging modalities require at least one camera and lens system for each light spectrum, increasing those solutions' weight and cost due to needing a specific camera system for each imaging modality. Our Black Diamond materials on the other hand will eliminate the extra lenses required today. In practical terms, a thermal and night vision product today requires two cameras, two sensors and two lens systems.

With our technology coupled with multispectral detectors that are already available, such a system can become one camera performing both functions. This means half the weight, half the power consumption and half the size. To visualize this, no pun intended, picture UAVs is currently carrying multiple cameras as payload. Now, imagine this UAV with just one camera, the weight is reduced, leading to increase in distance and air time.

Also the total power consumption is reduced. Those are only two of the immediate benefits from such technology. This technology is going to be a game changer. Its applications include really any situation in which multiple cameras are used, whether airborne, handheld, soldier-carried or elsewhere. In effect, every application that uses infrared imaging will transform in the coming years. And we own one of the key technologies needed to achieve that.

This is a major point and the major element in our strategy. This technology is new and fast growing. And we can position ourselves front and center in this market by controlling exclusively the critical materials needed. Among other technologies and capabilities, black diamond glass is one of our central levers, transitioning from a components company to an imaging solutions provider.

Now, every company always wishes to do more, every company wants to grow vertically or most companies, that's a common goal, but one can't just one day, wake up and say "I'm a system provider instead of being a component provider." You need to give customers a reason to purchase from you something different than what they had in the past.

Changing the underlining technology creates an opportunity, especially where we own a crucial technology that provides us the reason for customers to come to us with the complete system. By owning the critical technology or technologies in our case, we can offer better systems than otherwise available. With the exclusivity we have on those, we are supercharging our sales team with their ability to go out and now sell solutions instead of purely components.

The success of this strategy is starting to show in the record backlog we announced a couple of weeks ago, over 20% of this record backlog is now solutions, significantly more weighted towards the defense business, especially in the US, as one would expect from infrared imaging business.

In short, we're going down a new path. We have multiple exclusive key technologies to achieve that. Chief among them are the Black Diamond materials, and our growing backlog is starting to show the results this effort. Overall, in the strategic direction front, we are doing very well. And the world geopolitical events give us now a strong background in addition, offsetting some of the short-term economic softness we're seeing.

Now I want to take a moment to highlight some other key recent events that we see as further evidence of our transition to a solutions provider. In July, we announced a partnership with QuantLR to develop a free-space quantum encryption system using infrared optical systems developed by LightPath.

Quantum encryption is a key new technology with growing demand due to its ability to provide encryption that is resistant to any existing supercomputer and quantum computers. QuantLR has already an existing proven system for this that works on a fiber optic infrastructure. Like many other funded projects that we take on, this project is allowing us to use of funds to develop a key technology in infrared optics, a key technology that later will be part of our portfolio of technologies and utilize for all our infrared solutions including our infrared imaging system.

In the same month, we announced Seek Thermal's micro core product winning the 2022 Best Sensors award. LightPath has an ongoing long-term relationship with Seek Thermal, and we provide today's optical solutions for their products. And in particular, for the micro core product that won that award allowing the market leading product that is small, light, accurate and lower priced than competitors. That is one example where we are already achieving some of our strategy of creating unique value to the customer, leveraging our technologies and capabilities.

Last month, we also shared that LightPath had reached a record $24 million backlog. While backlogs fluctuate over time, we see them as a best indicator of future revenue. Looking deeper at the backlog, we see some beneficial trends. The first is the quality of the orders in the backlog, which is significantly different from what we had in the past and generally of higher value due to increased demand for custom assemblies and defense related work.

We have been working diligently to ensure we have all the necessary qualifications to compete in the defense space. And those efforts appear to be paying off. The second trend we note is that there has been a significant backlog growth despite the contribution from China orders having been cut by half. Revenue diversification beyond China is a strategic priority. And our efforts there have paid off evident in the current backlog, and we plan to continue with that strategic plan.

The third and final takeaway mentioned earlier also is that as I look at the backlog, 20% of that comes from solutions-oriented orders. As mentioned, LightPath aspires to provide optical solutions rather than simply components. Having a backlog with 20% solutions orders is an encouraging sign. While in many arenas, we see opportunity ahead of LightPath, we're not immune to market forces beyond our control.

We're already beginning to see the impact of recessionary slowdown in China that we anticipate will continue in the near term. While we have been diversifying beyond China, we've increased defense and commercial business, China still comprises a significant portion of our revenue. In addition, energy prices in Europe have spiked due to the war in Ukraine and the EU tensions with Russia. The government in Latvia has previously subsidized energy costs that they had ceased to do so. We expect to see a negative impact at our margins from that facility.

However, I believe that despite some external headwinds, and near-term cost pressures, the outlook for the company and its growth prospects are extremely bright. As I mentioned previously, the technology is now transferable to a host of different products on a much larger scale, and applications across industries are vast. More importantly, our Black Diamond glass has the potential to revolutionize our product portfolio, and growth prospects.

I want to also take a moment and thank our employees and all stakeholders who have continued to work diligently through the various transitions and hurdles we have endured. It is because of their dedication and hard work that we see a bright future in a growing company.

I will now turn the call over to our CFO, Al Miranda, to review the fourth quarter and fiscal yearend financial results. Al…

Albert 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 be included in the 10-K for the period. I encourage you to visit our website lightpath.com to access these documents. I will discuss some of the primary financial performance metrics and provide additional color on them to better assist investors and analysts of the company.

As a reminder, we've been significantly impacted by the transition and business conditions in China during the fourth quarter of fiscal 2021 and into this fiscal year. Revenues from China have been recovering, but they remain well below the pre transition levels.

On a consolidated basis, revenue for fiscal 2022 was $35.6 million, compared to $38.5 million in the year ago period. Sales of infrared products were $18.7 million or 52% of the company's consolidated revenue of fiscal 2022.

Revenue from PMO products were at $15 million or 42% of consolidated revenue, revenue from specialty products were $1.8 million or 5% of the total company revenue. The decrease in revenue from sales of infrared products is primarily due to a decrease in sales to customers in the industrial market. As a reminder, we experienced an increase in demand for infrared products during fiscal 2021 as demand for medical and temperature sensing applications peaked during COVID.

Sales of PMO products decreased primarily due to a reduction in orders from one key customer due to a decrease in that customer's market share, and pre sales in specialty products was primarily due to NRE projects for customers in the industrial and defense industries during fiscal 2022.

Moving on to margins, I'd like to remind listeners that PMO margins are typically higher due to our molding technology, which enables mass production and a more automated machine process. Infrared historically was more manually produced, but with the growth in our molding technology as applied to infrared products being made from our proprietary BD6 material, margins will increase from both the advantage of the material cost and using the automated molding process.

Gross margins in fiscal 2022 was approximately $11.8 million compared to approximately $13.4 million during the prior fiscal year. Gross margin as a percentage of revenue was 33% for fiscal 2022, compared to 35% for the prior fiscal year. Although, fiscal 2022 had a similar product mix of fiscal 2021, the gross margin as a percentage of revenue was unfavorably impacted by the

8% year-over-year decrease in revenue, which resulted in underutilized capacity in some areas. Infrared product margins also reflect increased costs associated with the completion of the coating department in our Riga facility, which began to improve in the fourth quarter of fiscal year 2022 and will continue to improve over time as that facility works through the qualification stages for more products and begins to produce at volume.

In the second half of fiscal year 2022, margins were also negatively impacted by inflationary pressures and the cost of raw materials, and significantly increased energy costs, particularly in Latvia.

Selling, general and administrative costs were approximately $11.2 million during fiscal 2022, a decrease of approximately $768,000 or 6%, compared to the prior fiscal year. The decrease in SG&A cost is primarily due to a decrease of approximately $800,000 of expenses associated with the previously described events that occurred at our Chinese subsidiaries, including legal and consulting fees. This decrease was partially offset due to increases in travel expenses, as well as expenses for certain value added taxes, and related taxes owed by one of our Chinese subsidiaries from prior years, which was identified and settled in fiscal 2022.

Net loss for the fiscal 2022 was approximately $3.5 million or $0.13 basic and diluted loss per share, compared to $3.2 million or $0.12 basic and diluted loss per share for fiscal 2021. The decrease in net income during fiscal 2022 as compared to the prior fiscal year was primarily attributable to a $785,000 decrease in operating income resulting from lower gross margin, which again was partially offset by lower operating expenses.

We believe EBITDA is helpful for investors to better understand our underlying business operations. Our EBITDA for fiscal 2022 was approximately $1.2 million compared to EBITDA of $1.5 million for the prior fiscal year. The decrease in EBITDA for the year was primarily attributable to lower revenue and gross margin, partially offset by decreased SG&A and other expenses due to the decreases in expenses incurred related to the previously described event that occurs in our Chinese subsidiaries.

As of June 30th, 2022, we had working capital of approximately $10.4 million and total cash and cash equivalents of approximately $5.5 million. More than 50% of our cash and cash equivalents were held by our foreign subsidiaries. Cash provided by operations were approximately $1.5 million during fiscal 2022, compared to approximately $4.7 million for the prior fiscal year. The decrease in cash flows from operations during fiscal 2022 is due to decrease in net income and a decrease in accounts payable and accrued liabilities, partially offset by a reduction in inventory.

Our total backlog on June 30th, 2022, is approximately $17.8 million, a decrease of 17% as compared to $19.7 million at the end of the prior fiscal year. The decrease in backlog during fiscal 2022 is primarily due to the timing of annual and multiyear contract renewals. These renewals may substantially increase backlog levels at the time the orders are received, and backlog will subsequently be drawn down as shipments are made against these orders. Our annual and multiyear contracts are expected to renew in future quarters.

For example, in August 2022, we announced a $4 million supply agreement for PMO with a long time European customer of precision motion control systems and OEM assemblies. That new supply agreement will go into effect in the second half of our fiscal year 2023 and is expected to run for around 12 months. And as Sam mentioned earlier, we recently announced our backlog was approximately $24 million in August.

Similar to last year end call, I'd like to go off script to give the investor some insight into our activities this year. A glimpse of what we're working on for next year. We certainly have been negatively influenced by world events such as COVID, the war in Ukraine, inflationary cost pressures and the beginning of a global recession. While we're not certain about these events continuing in the future, we are assuming that for fiscal year 2023, they will be negatively impacting us.

Even with these events, we continue to take a longer term view. In fiscal year 2022, we invested heavily in Latvia, giving the facility the ability to coat lenses locally rather than shipping back and forth to Orlando. We've just begun seeing the financial benefit of doing so in June. The ability to produce locally also means we will soon qualify for production in the defense markets in Europe. This paves the way for bringing our new multispectral Black Diamond materials for imaging to the European defense markets as well as the US market. While we did not invest in China, the new management team did make substantial efficiency improvements in the operations. Most of these facilities are now good examples of low cost flexible manufacturing.

In addition, during the year, we substantially changed and restructured our organization, the result of which is less headcount and less personnel expense year-over-year without sacrificing our ability to deliver quality products. Sam mentioned our historic high backlog. The mix of the backlog and our growth is heavily geared towards the US and European markets and engineered solutions.

Backlog is a sign that we are moving in the direction of our strategy. To continue to execute on our strategy on fiscal year 2023, we're consolidating and reconstructing our two Orlando manufacturing facilities. A step that is key to production flow, improving yields improving margins, and enabling our future growth plans in engineered assemblies. The Orlando project brings us all under one roof, but more importantly, provides the proper space and access to equipment that our engineers need to perform new product development and testing, the key to our future success.

While these are the larger and more ambitious activities, our people have additional well defined projects big and small to improve efficiency and capacity, which we believe are key to margin improvement and profitability. These endeavors are the strengthening of the LightPath foundation and are prerequisites for the execution on our growth strategy that Sam just outlined.

With this review our financial highlights and recent developments concluded, I'll now turn the call over to the operator to begin the question and answer session.

QUESTION AND ANSWER

Operator
Thank you. And we will now begin the question and answer session. To ask a question, you may press "*" then "1" on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2." And at this time, we will pause momentarily to assemble the roster.

And our first question today will come from Brian Kinstlinger with Alliance Global Partners. Please go ahead.

Brian Kinstlinger
Hey, great. Thanks so much for taking my questions. I have several questions. The first is kind of an easy numbers question. If we excluded that one large customer where revenue was pressured, what would the year-over-year revenue growth comparison be for PMO?

Albert Miranda
Yes, a great question, not specifically on PMO, Brian, but our year-over-year increase in sales would have been 8% for both for all three product lines, if we…if you back out the one customer.

Brian Kinstlinger
Okay. And then I want to dig into the backlog. I know you gave a bunch from the August backlog. But first, how was it weighted infrared versus PMO. I didn't hear anything. Secondly, on freeform optics, the opportunities there, and so if anything is there that's materialized that'd be great to hear.

Sam Rubin
Yes, so in this the freeform optics, we continue working on those projects, we've shipped I believe at least three prototypes that have passed qualifications or in final stages of qualifications by the customer. As I mentioned in the past, it's not only sufficient for our product to be qualified within the customer, the customer needs to have his or her own product qualified. And so, that's the stage we're in where I believe three of the eight large opportunities. I did not provide the update on those opportunities this time, thanks for reminding me, somehow slipped. But we're still around the same volume of work as we were three months ago into last call, so seven or eight opportunities. Three of them have moved into the customer qualification. So we passed our qualification, pretty encouraging there, but also we need to remember, these are mostly LiDAR and ALDL applications. And so, the market acceptance of those both applications and our customers products are key here.

Brian Kinstlinger
Yes, and just before [indiscernible].

Sam Rubin
Yes. So in terms of the backlog, I don't know if you have the exact number Al, separating between the two…

Albert Miranda
51% infrared, 45% PMO.

Sam Rubin
Got it. I guess I missed this. I do want to emphasize it. See, that's about the same an encouraging backlog what we have right now, really indicating again and again on multiple fronts that what we've been investing our efforts in the last 12 months or so, is bringing results.

Brian Kinstlinger
Yes. You've talked a few times about a higher quality backlog. How will that…how is that measured? Is that…and how will that be evident on the income statement? Is it bigger revenue opportunities? Is it higher margins, just talk about when you're saying quality, how that can translate for investors?

Sam Rubin
Yes, it's pretty much in the margins to be frank, it's just about there. So on the infrared part of the solutions, it's higher margins because we're doing more…significantly more value added. As I mentioned, even two years ago, when we started down this strategic path, most of those engineered solution projects can take up to two years until they reach actually even low volume production. And this is just about that two year cutoff. So a lot of those are things that we've started even as far back as two years ago, we're seeing more defense related, mostly infrared, but not only, and that is good for us. Defense is a good market for us. It is multiyear contracts, which is being locked into designs. And as the saying goes, more is good for business and now that it's good for business.

The other front is Europe, in Europe until a few months ago, all I would [indiscernible] distributor and that was both a significant discount we gave the distributor as well as some additional price pressure from it. In January of this year, we just continued to work with the distributor. And also some contracts are still phasing out, most of the sales now in Europe are completely direct. So that has the direct impact on our margins. The last part is also in China where the fraud that we discovered a year ago, impacted our gross margins because of the way these former employees were stealing money. And without that, the margins are higher because the unit sale price is high. So this is already evident, I think, in average sale prices of our products if you look at that trend over the last year.

Brian Kinstlinger
But I guess my question is, I mean, you've got high energy prices, you've got a couple of other things impacting the margins. How do we think about with the new strategy, the solutions, freeform optics, probably have higher margins long-term, what's your reasonable long-term margin, gross margin goal for this business? And if you want to split by the segments, that's fine. If you want to talk about the entire business, that's fine, too. However way you think about it.

Albert Miranda
So, Brian, I think 35% to 40% is where we should be with our current…our sort of our current mix and what you can imagine our…what our backlog looks like. Like, I think we can do better as we shift more towards assemblies in the near-term, but in the short-term, our backlog looks like that's where we should be. Will we get there? That's the big question that is more environmental at this point. Utility costs are skyrocketing. Recession is…not even depression [ph] is how you can describe China at this point. And in raw materials, there's a lot of cost pressure on raw materials, I think we've mitigated pretty well, we certainly mitigated personnel expense very, very well. So the things that we can control we have, the things that we can't control, probably will hurt margins, in the short-term, but 35% to 40% is well within what we wouldn't be able to do under normal circumstances.

Brian Kinstlinger
Understood. Last question I have, and I'll get back in the queue. You mentioned 20% of your backlog is solutions. Was there any in that record, the previous record backlog that was I think three quarters ago that was close to this number? And what's the sales cycle of solutions?

Sam Rubin
Yes, so I believe the last time we had a backlog that was close to this, it was below 10% for the solutions.

Albert Miranda
I think it was 8%, Brian.

Sam Rubin
And even there, it was I'd say, on the simpler side of the solutions, it was really basic lens assembly that we were starting to get into. Now, we have much more defense work, much more proper imaging solutions, I'd say, which are multi element, more complex systems, which is part of the evidence of the sort of trust the customers are giving us and the success in upselling ourselves into there. The cycle time on the solutions can be in the defense world, two to three years from the beginning of engagement until we start some volume of production. And then it can one up to 15 years in the defense world, typically something like 10 years of production in another five years of post-production support. In the commercial world, it is obviously much faster. This can be half a year to a year of from engagement until their production and production can scale much, much faster. But the lifetime of the design is usually around five years.

Brian Kinstlinger
Great. Thanks for taking my questions.

Sam Rubin
Absolutely**.** Yes, Brian. Thank you.

Operator
And our next question will come from Gene Inger with ingerletter.com. Please go ahead.

Gene Inger
Hi, gentlemen, Al and good metrics on the numbers. I appreciate it. You've already answered a number of questions. I would have. Sam, perhaps you can give us a little more color. First of all, on the backlogs I've heard all this discussion, and yet I'm not sure if we've addressed whether the customers find the lead times acceptable in terms of…probably to take two or three years to develop for the military. But basically are you able to get things out the door in a timely manner. And so your customers aren't upset?

Sam Rubin
Oh, absolutely, let me clarify that, two to three years is a customer's timeline. It's not the time it takes us to develop the solution. Our solution is usually from the moment the customer have signed off on the design, it's very fast, and it's a matter of a few months. It takes two to three years in the defense world to go through all the field testing for the customer, to have hit a product, whether it's a weapon or anything like that, pass all of the qualifications required by the DLT. It's not to confuse things.

Gene Inger
Okay, go ahead.

Sam Rubin
However, in terms of our lead times on delivering, I'd say definitely in the component parts of the business, we've had some challenges with supply chain pressure over the last six months or so. I don't think we've had too many issues on delivery time or turnaround time on the solution side. And I think the very diligent supply chain teams that we have here is constantly looking for solutions around that. One area that we mentioned in previous call, I think it was the one before that was that for example, when the invasion of Ukraine started, we had to immediately

discontinue all purchases from Russia, which is one of the two sources of germanium in the world. So we had to switch all orders over to China, and that caused some delays. Not sure that answers the question.

Gene Inger
Yes, what would happen if there was the Chinese invasion of Taiwan? To what extent you're not involved with Taiwan particularly that I'm aware of, but you have no idea, I presume, how that would affect your operations in China?

Sam Rubin
Well, that's a great question. I cannot guess what the State Department will do in such a situation. I can say that, from our point of view, the China portion of the backlog is cut by half. So China is half of the significance it was up to a year ago in our future business. So from that point of view, that dependence is reduced. From the operational logistics point of view, since the day I joined, regardless of the fact what was happening in China, we have worked hard and diligently to diversify internally. So we are not dependent on any one facility whatsoever. And that is…as well be seen in Orlando with essentially doubling our manufacturing space here, and mostly dedicated for molding PMO lenses, which was done in China till now, only in China. Additionally, in the Riga, we set up the clean room facility for the coating and left enough rooms there that we can also set up moldings in Riga as a lower cost ITAR approved facility. So I'd say I sleep much better at night from that point of view. But nothing ever goes smoothly. So hopefully they do not invade.

Gene Inger
I played better as well, with respect to LightPath because you speak Mandarin. You turned around the company before in China. And I think if you did not come upon LightPath, I don't know if they would have been able within reasonable time to catch the fraud that was going on and clean it up which you did.

Sam Rubin
I appreciate the nice words. I mean, that's what that has been going on for over 10 years, as far as we know. And although the quality of my Mandarin deteriorates every day, I don't use it. I appreciate you pointing that out. I do want to go back a second to the China Taiwan question because there is one very important element that we didn't touch on. And that is Germanium. The US today imports 95% of the germanium, so $675 million a year of germanium, for the optics industry alone. 95%, two thirds of that roughly come from China. The third was coming from Russia and right now it doesn't. The US has some reserves of germanium. The Defense Logistics Agency has spent a lot of money on building the pile of germanium as a reserve, but if such event happens and the US for example, decides not to import from China because of that, our Black Diamond glass is really in the prime spot to replace germanium. This is something I cannot emphasize enough, I've been to multiple meetings in DC over the last few months and flying there again next week for different activities related to that. But this is…these materials of the ones we were making for many years at BD6, and the materials we have received the exclusive license from the US Navy Research Labs. Those materials are also alternative to Germanium. And potentially, while I never wish anyone to invade anyone potentially that can work in our favor from that point of view.

Gene Inger
Agreed, Sam, if you don't mind on the military and defense and maybe even satellite side of matters. Could you give us a little more color of whether you're developing modules, whether it's for the Navy or for Naval contractors or for SpaceX or for Globalstar? And are you doing

modules or simply lenses in these operations, because I suspect the profit margins are considerably better with modules than just going…?

Sam Rubin
Yes, I'd say that most of our new defense activity, most of it but not all of it, is modules more than it is components. And the PMO business into, which is pure component, into the defense has probably not growing much. I don't have the numbers in front of me, but I don't think that has changed drastically. It is the infrared and within the infrared, it is assemblies. And it is a uniqueness that we bring to the table of both materials. It is our low cost ITAR approved manufacturing facility in Latvia, and it's our complete vertical integration from making materials all the way to coating, assembly and test single complete subsystems. So it is significantly more of that, and I believe that if someone would follow our product releases in coming months and so on, one would see more and more announcements related to that.

Gene Inger
Could you clarify possibly if the FCC, the Federal Communications Commission has approved the communications linkages for example, that applies to others, but for example, with SpaceX, they ask for stat, and you cannot really fire up satellite to ground systems that connect through the birds on the grid around the planet without the FCC approval? Is that approved? And are you involved with even if you don't want to identify which of the three or four competing firms are providing such services?

Sam Rubin
Yes, I mean, we definitely…we have some involvement QuantLR or Quantum Encryption Free Space System that we announced is ultimately even if not in the first version is ultimately designed for that. And out of the technology we're developing and that's…what I like in these funded projects as we really get money to develop a technology that we can use elsewhere. In that case, we're developing a technology that uses to point the beam or the camera alternatively, dynamically at a satellite or whatever device you want to track. And so, while that funding is specific for the QuantLR, Quantum Communication project, the outcome of that is going to be a technology that we can use in infrared imaging also to point cameras in different directions and track elements there. So we like that area for sure, but we are definitely not at the point where we are involved in any FCC discussions or regulations.

Gene Inger
No, the FCC simply had to approve it, but I'm glad you're involved in that area. Can you reflect on the new laser weapons that have just been installed instead of on a command ship on an FFG on a destroyer and triggered by the Navy. Are those your component parts in the system and/or Lockheed's new missile systems that are being mounted on F-18?

Sam Rubin
I obviously cannot comment on specific activities. I can say that the high-power energy lasers is a extremely interesting area. And I'm extremely happy to see that technology finally advance into deployment. With the focus of infrared imaging, our both components and subsystems would tend to be more on the smaller devices, whether it's missiles or whether it's payloads such as pods and so on and would not be so much used in the extremely high-power laser that requires very, very unique optics that typically are not the same optics as used in imaging.

Gene Inger
Great. I appreciate the comment. Gentlemen, I think what you're dealing with is turning around the company where previously people had often on good expectations, and it sort of rotates

between exasperation and optimism. And I believe, and that's why the stock went down even this afternoon after the close, even though you already told us that what the backlog would be and that there would be slightly negative earnings. I don't see why people don't understand it because you preannounced it. But in any event, it seems to me this should not be a $38 million or $40 million market cap company shouldn't it be priced at four or five times, or two or three times sales.

Sam Rubin
I would tend to agree with you, and hopefully, everyone else on this call and then the market.

Gene Inger
Thank you.

Company Representative
Thank you, Gene.

Operator
And this will conclude our question and answer session. I'd like to turn the conference back over to management for any closing remarks.

CONCLUSION

Sam Rubin
Thank you. We appreciate the time you took to listen to us and follow the company. We look forward to meeting any investors at the upcoming H.C. Wainwright Conference next week, all the MicroCap Rodeo and MicroCap conferences later next month. As always, management is available for any direct discussion with investors and can be contacted either through our investor relations or directly through our website. Thank you and goodbye.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.