LIGHTPATH TECHNOLOGIES INC
Form 10-Q
November 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ____________

Commission file number 000-27548

LIGHTPATH TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	86-0708398
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

http://www.lightpath.com

2603 Challenger Tech Ct. Suite 100
Orlando, Florida 32826

(Address of principal executive offices)
(ZIP Code)

(407) 382-4003

Registrant’s telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the proceeding 12 months (or such shorter period that the registrant was required to submit and post such files. YES ¨ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

8,102,361 shares of common stock, Class A, $.01 par value, outstanding as of November 2, 2009.

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Form 10-Q

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Balance Sheets

Assets	Unaudited September 30, 2009	June 30, 2009
Current assets:		
Cash and cash equivalents	$1,244,427	$579,949
Trade accounts receivable, net of allowance of $43,787 and $26,131	966,318	973,634
Inventories, net	1,055,012	983,278
Other receivables	-	183,413
Prepaid interest expense	316,690	366,219
Prepaid expenses and other assets	262,691	206,625
Total current assets	3,845,138	3,293,118
Property and equipment - net	1,877,344	1,991,828
Intangible assets - net	158,652	166,869
Debt costs, net	262,854	299,080
Other assets	55,473	78,701
Total assets	$6,199,461	$5,829,596
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$855,970	$1,376,599
Accrued liabilities	264,315	181,318
Accrued payroll and benefits	292,019	332,609
Note payable, current portion	69,301	152,758
Capital lease obligation, current portion	-	5,050
Total current liabilities	1,481,605	2,048,334
Deferred rent	648,035	644,056
8% convertible debentures to related parties, net of debt discount	184,887	175,255
8% convertible debentures, net of debt discount	1,314,521	1,270,725
Total liabilities	3,629,048	4,138,370
Stockholders' equity:		
Preferred stock: Series D, $.01 par value, voting;		
5,000,000 shares authorized; none issued and outstanding	—	—
Common stock: Class A, $.01 par value, voting;		
40,000,000 shares authorized; 8,099,361 and 6,696,992		
shares issued and outstanding, respectively	80,994	66,970
Additional paid-in capital	204,684,593	203,151,364
Common stock payable	50,000	-
Foreign currency translation adjustment	46,540	58,233

Accumulated deficit	(202,291,714)	(201,585,341)
Total stockholders’ equity	2,570,413	1,691,226
Total liabilities and stockholders’ equity	$6,199,461	$5,829,596

The accompanying notes are an integral part of these consolidated statements.

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LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statements of Operations
(Unaudited)

	Three months ended September 30,	
	2009	2008
Product sales, net	$1,556,979	$2,337,762
Cost of sales	888,343	1,706,758
Gross margin	668,636	631,004
Operating expenses:		
Selling, general and administrative	961,762	1,229,519
New product development	225,910	274,693
Amortization of intangibles	8,217	8,217
Gain on sale of property and equipment	-	(6,507)
Total costs and expenses	1,195,889	1,505,922
Operating loss	(527,253)	(874,918)
Other income (expense):		
Interest expense	(52,433)	(62,399)
Interest expense - debt discount	(90,928)	(68,883)
Interest expense - debt costs	(36,225)	(27,440)
Investment and other income	466	9,831
Total other expense, net	(179,120)	(148,891)
Net loss	$(706,373)	$(1,023,809)
Loss per common share (basic and diluted)	$(0.09)	$(0.19)
Number of shares used in per share calculation (basic and diluted)	7,603,580	5,412,059

The accompanying notes are an integral part of these consolidated statements.

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LIGHTPATH TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Three months ended September 30, 2009
(Unaudited)

	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Common Stock Payable	Foreign Currency Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2009	6,696,992	$66,970	$203,151,364	$-	$58,233	$(201,585,341)	$ 1,691,226
Issuance of common stock for:							
Vested restricted stock units	-	-	-		-	-	-
Employee Stock Purchase Plan	5,569	56	3,026	-	-	-	3,082
Vested restricted stock units	10,000	100	(100)	-	-	-	-
Conversion of debentures	24,351	244	37,256	-	-	-	37,500
Cashless exercise of warrants	63,622	636	(636)	-	-	-	-
Stock based compensation on stock options and restricted stock units	-	-	33,271	-	-	-	33,271
Sale of common stock and warrants, net	1,298,827	12,988	1,460,412	-	-	-	1,473,400
Common stock to be issued	-	-	-	50,000	-	-	50,000
Foreign currency translation adjustment	-	-	-	-	(11,693)	-	(11,693)
Net loss	-	-	-	-	-	(706,373)	(706,373)
Comprehensive loss							(718,066)
Balance at September 30, 2009	8,099,361	$80,994	$204,684,593	$50,000	$46,540	$(202,291,714)	$ 2,570,413

The accompanying notes are an integral part of these consolidated statements.

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LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended September 30, 2009	2008
Cash flows from operating activities		
Net loss	$(706,373)	$(1,023,809)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	145,164	176,653
Interest from amortization of debt discount	90,928	68,883
Interest from amortization of debt costs	36,226	27,440
Issuance of common stock for interest on convertible debentures	-	39,053
Common stock payable	50,000	-
Gain on sale of property and equipment	-	(6,507)
Stock based compensation	33,271	18,498
Provision for doubtful accounts receivable	17,656	19,851
Deferred rent	3,979	209
Changes in operating assets and liabilities:		
Trade accounts receivables	(10,340)	(251,020)
Other receivables	183,413	-
Inventories	(71,734)	146,724
Prepaid expenses and other assets	1,680	(3,420)
Accounts payable and accrued liabilities	(478,222)	(827,501)
Net cash used in operating activities	(704,352)	(1,614,946)
Cash flows from investing activities		
Purchase of property and equipment	(7,452)	(14,421)
Proceeds from sale of equipment	-	36,591
Net cash provided by (used in) investing activities	(7,452)	22,170
Cash flows from financing activities		
Proceeds from sale of common stock, net of costs	1,473,400	-
Proceeds from sale of common stock from employee stock purchase plan	3,082	11,191
Borrowings on 8% convertible debenture, net of issuance costs	-	2,672,430
Payments on secured note payable	-	(260,828)
Payments on capital lease obligation	(5,050)	(4,421)
Payments on note payable	(83,457)	(41,662)
Net cash provided by financing activities	1,387,975	2,376,710
Effect of exchange rate on cash and cash equivalents	(11,693)	11,792
Increase in cash and cash equivalents	664,478	795,726
Cash and cash equivalents, beginning of period	579,949	358,457
Cash and cash equivalents, end of period	$1,244,427	$1,154,183
Supplemental disclosure of cash flow information:		
Interest paid in cash	$4,767	$22,277
Supplemental disclosure of non-cash investing & financing activities:		
Convertible debentures converted into common stock	37,500	-
Interest paid in Common stock	-	39,053
Fair value of warrants issued to broker of debt financing	-	194,057

Fair value of warrants and incentive shares issued to debenture holders	-	790,830
Intrinsic value of beneficial conversion feature underlying convertible debentures	-	600,634

The accompanying notes are an integral part of these consolidated statements.

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LightPath Technologies, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2009

1. Basis of Presentation

References in this document to “the Company”, “LightPath”, “we”, “us”, “our” are intended to mean LightPath Technologi Inc.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Article 8 of Regulation S-X promulgated under the Securities and Exchange Act of 1934 and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and related notes, included in its Form 10-K for the fiscal year ended June 30, 2009 filed with the Securities and Exchange Commission (the “SEC”).

These condensed consolidated financial statements are unaudited but include all adjustments, which include normal recurring adjustments, which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results that may be expected for the year as a whole.

These Consolidated Financial Statements and accompanying notes should be read in conjunction with the Company's annual Consolidated Financial Statements and the notes thereto for the fiscal year ended June 30, 2009, included in its Annual Report on Form 10-K. Unless otherwise stated, references to particular years or quarters refer to the Company's fiscal years ended in June and the associated quarters of those fiscal years.

History and Liquidity

History: LightPath was incorporated in Delaware in 1992 to pursue a strategy of supplying hardware to the telecommunications industry. In April 2000, the Company acquired Horizon Photonics, Inc. (“Horizon”), and in September 2000 the Company acquired Geltech, Inc. (“Geltech”). During fiscal 2003, in response to sales declines in the telecommunications industry, the operations of Horizon in California and LightPath in New Mexico were consolidated into the former Geltech facility in Orlando, Florida. In November 2005, the Company announced the formation of LightPath Optical Instrumentation (Shanghai) Co., Ltd, (“LPOI”) a wholly owned manufacturing subsidiary located in Jiading, People’s Republic of China (“PRC”). The manufacturing operations are housed in a 16,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant has increased overall production capacity and enabled LightPath to compete for larger production volumes of optical components and assemblies, and strengthened partnerships within the Asia/Pacific region. It also provides a launching point to drive the Company’s sales expansion in Asia/Pacific. Over 95% of precision molded lenses were manufactured in LPOI’s Shanghai facility during the three months ended September 30, 2009 compared to over 90% during the three months ended September 30, 2008.

The Company is engaged in the production of precision molded aspherical lenses, GRADIUM® glass lenses, collimators and isolator optics used in various markets, including industrial, medical, defense, test & measurement and telecommunications. As used herein, the terms “LightPath,” “Company,” “we,” “us,” or “our,” refer to LightPath individually as the context requires, collectively with its subsidiaries on a consolidated basis.

Going Concern and Managements Plans

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and as of September 30, 2009 the Company has an accumulated deficit of approximately $202 million, Cash used in operations was $704,000 for the three months ended September 30, 2009. Cash used in operations was $1.5 million, $3.4 million and $1.9 million during fiscal 2009, 2008 and 2007, respectively. Cost reduction initiatives in the first fiscal quarter of 2010 include the transition of more precision molded lenses to less expensive glass, increasing tooling life, increasing operator yields and efficiencies, qualifying coating vendors in China and improving yields on our infrared product line. In the first fiscal quarter of 2010 15% of our precision molded optics sales in units were of more expensive glass types, compared to 61% in the prior fiscal year. Management believes these factors will contribute towards achieving profitability assuming we meet out sales targets.

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Management has developed an operating plan for fiscal 2010 and believes the Company has adequate financial resources for achievement of that plan and to sustain its current operations in the coming year. Nevertheless, management will be monitoring the plan closely during the year and should the plan objectives not be met during the year, remedial actions will be initiated. The Company had a cash balance of approximately $1,244,000 at September 30, 2009. In August 2009 we raised net proceeds of $1,473,400 from the sale of common stock. The Company may still seek external debt or equity financing if it can be obtained in an amount and on terms that are acceptable; however, the Company may be required to seek external financing regardless of whether the terms would otherwise be acceptable if the Company's financial resources are not sufficient to sustain its operations or to pursue its business plan.

The fiscal 2010 operating plan and related financial projections we have developed anticipate sales growth primarily in the infrared products and the low cost high volume products for the imaging markets in Asia, which are new markets for us. We expect margin improvements based on production efficiencies and reductions in product costs as a result of the shifting of our manufacturing operations to Shanghai, offset by marginal increases in selling, administrative and new product development expenditures. However, there is no assurance we will be able to achieve the necessary sales growth and gross margin improvements to sustain operations. Factors which could adversely affect cash balances in future quarters include, but are not limited to, a decline in revenue or a lack of anticipated sales growth, increased material costs, increased labor costs, planned production efficiency improvements not being realized, increases in property, casualty, benefit and liability insurance premiums and increases in other discretionary spending, particularly sales and marketing related. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Liquidity: Cash continues to be a concern of the Company. In fiscal 2007, 2008 and 2009, cash used in operations was approximately $1.9 million, $3.4 million and $1.5 million, respectively. During the three months ended September 30, 2009, the Company used approximately $704,000 of cash for operating activities.

For the three months ended September 30, 2009, cash increased by $664,000 compared to an increase of $796,000 in the same period of the prior fiscal year. The increase in cash in fiscal 2009 was primarily related to net proceeds of $2,672,430 received by the Company through a 8% senior convertible debenture offering in August 2008 offset by spending for net losses, working capital, fixed asset purchases and notes payable. The increase in cash for fiscal 2010 was due to net proceeds of $1,473,400 received by the Company through a $1,636,500 private placement of common stock and warrants in August 2009, offset by spending on labor and benefits, rent and utilities, period expenses, working capital, fixed assets purchases and notes payable.

We have taken certain actions to conserve our cash including extending time for payment to certain of our vendors. We have negotiated payment plans with some key vendors and are making payments on these payment plans.

Management believes the Company currently has sufficient cash to fund its operations through October 2010 assuming our revenue stays at current levels and no additional sources of capital are used. The extent to which the Company can sustain its operations beyond this date will depend on the Company's ability to generate cash from operations on increased revenues from low cost and infrared lenses or sale of non-strategic assets or from future equity or debt financing. Recent quarterly booking trends have risen over the last fiscal year. Management believes that taking the current booking rate combined with the existing order backlog the Company will be able to generate increased revenues. If we determine that future revenues are below current projections then we will attempt to implement additional cost savings measures including seeking lower cost suppliers and attempting to negotiate price reductions from current suppliers. We are continuously evaluating our supplier situation to ensure we meet our booked orders.

2. Significant Accounting Policies

FASB Codification. In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC", or the "Codification") as the source of authoritative generally accepted accounting principles ("GAAP") recognized by the FASB for non-governmental entities. The Codification is effective for financial statements issued for reporting periods that end after September 15, 2009. The Codification superseded all then-existing non-SEC accounting and reporting standards. The Codification did not change rules and interpretations of the SEC which are also sources of authoritative GAAP for SEC registrants. Because the Codification did not change GAAP, the Codification had no impact on the Company's consolidated financial statements or footnote disclosures.

LightPath Technologies, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2009

Consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents consist of cash in the bank and temporary investments with maturities of 90 days or less when purchased.

Allowance for accounts receivable, is calculated by taking 100% of the total of invoices that are over 90 days past due from due date and 10% of the total of invoices that are over 60 days past due from due date. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Recovery of bad debt amounts previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company's actual collection experience changes, revisions to its allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventories, which consist principally of raw materials, work-in-process and finished lenses, isolators, collimators and assemblies are stated at the lower of cost or market, on a first-in, first-out basis. Inventory costs include materials, labor and manufacturing overhead. Fixed costs related to excess manufacturing capacity have been expensed. Also unusual or abnormal costs, primarily relating to the start up of the Shanghai facility have been expensed. The inventory obsolescence reserve is calculated by reserving 100% for items that have not been sold in two years or that have not been purchased in two years or of which we have more than a two year supply, as well as reserving 50% for other items deemed to be slow moving within the last 12 months and reserving 25% for items deemed to have low material usage within the last six months.

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets ranging from three to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets using the straight-line method.

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. We are currently considering the sale of our collimator product line which is insignificant to the financial statements.

Intangible assets, consisting of patents and trademarks, are recorded at cost. Upon issuance of the patent or trademark, the assets are amortized on the straight-line basis over the estimated useful life of the related assets ranging from two to seventeen years.

Debt costs consist of third party fees incurred and other costs associated with the issuance of long-term debt. Debt costs are capitalized and amortized to interest expense over the term of the debt using the effective interest method.

Deferred rent relates to certain of the Company's operating leases containing predetermined fixed increases of the base rental rate during the lease term being recognized as rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying consolidated balance sheets.

Shipping and handling costs related to the acquisition of goods from its vendors are accounted for as cost of sales.

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are computed on the basis of differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based upon enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances have been established to reduce deferred tax assets to the amount expected to be realized.

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The Company adopted the provisions of FASB Accounting ASC 740, Income Taxes ("ASC 740") (formerly referenced as FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109), on July 1, 2007. The Company has not recognized a liability as a result of the implementation of ASC 740. A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there is no unrecognized benefit since the date of adoption. The Company has not recognized interest expense or penalties as a result of the implementation of ASC 740. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal, state or local, or non-U.S. income tax examinations by tax authorities for years before 2003.

Revenue is recognized from product sales when products are shipped to the customer, provided that the Company has received a valid purchase order, the price is fixed, title has transferred, collection of the associated receivable is reasonably assured, and there are no remaining significant obligations. Revenues from product development agreements are recognized as milestones are completed in accordance with the terms of the agreements and upon shipment of products, reports or designs to the customer.

New product development costs are expensed as incurred.

Stock based compensation is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. We estimate the fair value of each stock option as of the date of grant using the Black-Scholes-Merton pricing model. Most options granted under our Amended and Restated Omnibus Incentive Plan vest ratably over two to four years and generally have ten-year contract lives. The volatility rate is based on four-year historical trends in common stock closing prices and the expected term was determined based primarily on historical experience of previously outstanding options. The interest rate used is the U.S. Treasury interest rate for constant maturities. The likelihood of meeting targets for option grants that are performance based are evaluated each quarter. If it is determined that meeting the targets is probable then the compensation expense will be amortized over the remaining vesting period.

Management makes estimates and assumptions during the preparation of the Company's consolidated financial statements that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes available, which in turn could impact the amounts reported and disclosed herein.

Financial instruments. During the first quarter of fiscal 2009, the Company adopted FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820") (formerly referenced as SFAS No. 157, Fair Value Measurements), which introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;

Level 3 - Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

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LightPath Technologies, Inc.
Notes to Condensed Consolidated Financial Statements
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Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of September 30, 2009. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which include cash equivalents of $1,036,985 at September 30, 2009. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The Company does not have other financial assets or liabilities that would be characterized as Level 2 or Level 3 assets.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments which include cash, trade receivables, other receivables, accounts payable and accrued liabilities. Fair values were assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. The carrying value of note payable, capital lease obligations and convertible debentures approximate their fair values because the interest rates associated with the instruments approximates current interest rates charged on similar current borrowings.

The adoption of ASC 820 did not have an impact on the Company's consolidated results of operations, cash flows or financial condition. The Company adopted ASC 820 for non-financial assets that are recognized or disclosed on a non-recurring basis on July 1, 2009.

During the first quarter of fiscal 2009, the Company adopted FASB ASC 825, Financial Instruments (formerly referenced as SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities – Including an Amendment of FASB Statement No. 115) ("ASC 825"), which allows companies to choose to measure eligible financial instruments and certain other items at fair value that are not required to be measured at fair value. The Company has not elected the fair value option for any eligible financial instruments.

Derivative Financial Instruments. The Company accounts for derivative instruments in accordance with FASB ASC 815, Derivatives and Hedgin (formerly referenced as SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133) ("ASC 815"), which requires additional disclosures about the Company's objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements.

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Freestanding warrants issued by the Company in connection with the issuance or sale of debt and equity instruments are considered to be derivative instruments. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

Beneficial Conversion and Warrant Valuation. The Company records a beneficial conversion feature ("BCF") related to the issuance of convertible debt instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation are recognized as non-cash interest expense over the term of the convertible debt, using the effective interest method.

Comprehensive Income (Loss) of the Company is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) has two components, net income (loss) and other comprehensive income (loss), and is included on the statement of stockholders' equity. Our other comprehensive income (loss) consists of the foreign currency translation adjustment. For more information see Note 14 - Foreign Operations in the annual consolidated financial statements filed with the Company's Form 10-K for the year ended June 30, 2009.

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LightPath Technologies, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2009

Business segments are required to be reported by the Company. As the Company only operates in principally one business segment, no additional reporting is required.

Subsequent Events. In May 2009, the FASB established general accounting standards and disclosure for subsequent events. The Company adopted FASB ASC 855, Subsequent Events (formerly referenced as SFAS No. 165, Subsequent Events) ("ACS 855"), during the fourth quarter of fiscal 2009. The Company has evaluated subsequent events through the date and time the financial statements were issued on November 5, 2009.
Recent Accounting Pronouncements, which have had or may have an effect on the consolidated financial statements, are as follows:

In December 2007, the FASB issued ASC 805, Business Combinations ("ASC 805") (formerly referenced as Statement No. 141 (revised), Business Combinations). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. ASC 805 became effective for the Company on July 1, 2009. The adoption of ASC 805 did not have an effect on the Company's consolidated financial statements, results of operations and cash flows for the periods presented herein.

On July 1, 2009, the Company adopted ASC 470, Debt with Conversion and Other Options – Cash Conversion ("ASC 470") (formerly referenced as FASB Staff Position APB No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)), which requires issuers of convertible debt that may be settled wholly or partly in cash when converted to account for the debt and equity components separately. Where applicable, ASC 470 must be applied retrospectively to all periods presented. The adoption of ASC 470 did not have an impact on the Company's consolidated financial statements.

In April 2009, the FASB issued ASC 825-10-65, Interim Disclosures about Fair Value of Financial Instruments (formerly referenced as FSP FAS 107-1 and APB Opinion No. 28-1,), which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. This ASC, which became effective for the Company on July 1, 2009, did not impact the consolidated financial results of the Company as the requirements are disclosure-only in nature.

During June 2008, the FASB issued ASC 815, Derivatives and Hedging, ("ASC 815") (formally referenced as Emerging Issues Task Force ("EITF") Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock ("EITF 07-05")), which is effective for fiscal years beginning after December 15, 2008. ASC 815 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock. If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under ASC 815 is indexed to an entity's own stock, it is still necessary to evaluate whether it is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). The Company has determined that ASC 815 does not materially affect, or is reasonably likely to materially affect its financial statements.

3. Inventories

The components of inventories include the following at:

	(unaudited) September 30, 2009	June 30, 2009
Raw material	$ 462,219	$ 393,582
Work in Process	435,943	378,360
Finished Goods	473,129	563,493
Reserve for obsolescence	(316,279)	(352,157)
	$ 1,055,012	$ 983,278

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4. Property and Equipment

Property and equipment are summarized as follows:

	Estimated Life (Years)	September 30, 2009 (Unaudited)	June 30, 2009
Manufacturing equipment	5 - 10	$ 6,986,093	$6,982,244
Computer equipment and software	3 - 5	530,806	529,259
Furniture and fixtures	5	219,554	217,669
Leasehold improvements	6 - 7	1,244,676	1,244,434
Total Property and Equipment		8,981,129	8,973,606
Less accumulated depreciation and amortization		7,103,785	6,981,778
Total property and equipment, net		$ 1,877,344	$1,991,828

5. Intangible Assets

The following table discloses information regarding the carrying amounts and associated accumulated amortization for intangible assets:

	(Unaudited) September 30, 2009	June 30, 2009
Gross carrying amount	$ 621,303	$ 621,303
Accumulated amortization	(462,651)	(454,434)
Net carrying amount	$ 158,652	$ 166,869

Amortization expense related to intangible assets totaled approximately $8,217 during both fiscal quarters ended September 30, 2009 and 2008.

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6. Compensatory Equity Incentive Plan and Other Equity Incentives

Share-Based Compensation Arrangements—The Company's Amended and Restated Omnibus Incentive Plan (the "Plan") included several available forms of stock compensation of which incentive stock options, non-qualified stock options and restricted stock awards have been granted to date.

These three plans are summarized below:

Equity Compensation Arrangement	Award Shares Authorized	Award Shares Outstanding at September 30, 2009	Available for Issuance at September 30, 2009
Amended and Restated Omnibus Incentive Plan	1,715,625	656,582	638,913
ESPP	200,000	-	144,388
	1,915,625	656,582	783,301

The 2004 Employee Stock Purchase Plan ("ESPP") permits employees to purchase common stock through payroll deductions, which may not exceed 15% of an employee's compensation, at a price not less than 85% of the market value of the stock on specified dates (June 30 and December 31). In no event may any participant purchase more than $25,000 worth of shares in any calendar year and an employee may purchase no more than 4,000 shares on any purchase date within an offering period of 12 months and 2,000 shares on any purchase date within an offering period of six months. The first distribution under this plan was issued in January 2006. The discount on market value is included in selling, general and administrative expense in the accompanying statements of operations and was $397 and $1,158 for the three months ended September 30, 2009 and 2008, respectively.

Grant Date Fair Values and Underlying Assumptions; Contractual Terms—The Company estimates the fair value of each stock option as of the date of grant using the Black-Scholes-Merton pricing model. The ESPP fair value is the amount of the discounted market value the employee obtains at the date of the purchase transaction.

There were no stock options or restricted stock units granted in the three month periods ended September 30, 2009 and 2008.

Most options granted under the Company's Amended and Restated Omnibus Incentive Plan vest ratably over two to four years and are generally exercisable for ten years. The assumed forfeiture rates used in calculating the fair value of options and restricted stock unit grants with both performance and service conditions were 48% and 5%, respectively, for the three months ended September 30, 2009 and 31% and 6%, respectively, for the three months ended September 30, 2008. The volatility rate and expected term are based on five-year historical trends in common stock closing prices and actual forfeitures. The interest rate used is the U.S. Treasury interest rate for constant maturities.

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Information Regarding Current Share-Based Compensation Awards—A summary of the activity for share-based compensation awards in the three months ended September 30, 2009 is presented below:

	Stock Options			Restricted Stock Units ("RSU")	
	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contract Lifes (YRS)	Shares	Weighted Average Remaining Contract Lifes (YRS)
June 30, 2009	369,940	$8.10	7.6	304,700	0.9
Granted	-	-	-	-	-
Exercised	-	-	-	(10,000)	-
Cancelled	(8,058)	20.33	7.6	-	-
September 30, 2009	361,882	$7.61	5.5	294,700	0.8
Awards exercisable/ vested as of September 30, 2009	168,597	$14.13	6.1	153,030	-
Awards unexercisable/ unvested as of September 30, 2009	193,285	$1.93	4.9	141,670	1.9
	361,882			294,700	

The total intrinsic value of options outstanding and exercisable at September 30, 2009 and 2008 was 11,078 and $860 respectively.

The total intrinsic value of RSU's exercised during the three months ended September 30, 2009 and 2008 was $24,800 and $7,450, respectively.

The total intrinsic value of RSUs outstanding and exercisable at September 30, 2009 and 2008 was $379,514 and $235,562, respectively.

The total fair value of RSU's vested during the three months ended September 30, 2009 and 2008 was $0 and $7,450, respectively.

The total fair value of option shares vested during the three months ended September 30, 2009 and 2008 was $4,579, and $100,508, respectively. As of September 30, 2009, there was $186,944 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share options and restricted stock units) granted under the Amended and Restated Omnibus Incentive Plan.

The compensation cost is expected to be recognized as follows:

Stock Options	Restricted Stock Units