ESCALON MEDICAL CORP
Form 10-Q
February 11, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

Mark One

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2010

or

o **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: 0-20127

Escalon Medical Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania	**33-0272839**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
435 Devon Park Drive, Building 100 Wayne, PA 19087	**19087**
(Address of principal executive offices)	**(Zip code)**

(610) 688-6830
(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 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 7,526,430 shares of common stock, $0.001 par value, outstanding as of February 10, 2011.

Escalon Medical Corp.
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Part I. Financial Statements

Item 1. Condensed Consolidated Financial Statements

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2010	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,253,624	$ 3,342,422
Accounts receivable, net	4,921,874	4,481,249
Inventory, net	7,869,392	6,978,714
Other current assets	317,302	521,341
Assets of discontinued operations	18,009	1,424,183
Total current assets	**15,380,201**	**16,747,909**
Furniture and equipment, net	694,567	672,490
Goodwill	1,124,018	1,124,018
Trademarks and trade names	694,006	694,006
Patents, net	1,212,157	1,284,109
Covenant not to compete and customer list, net	1,328,310	1,480,264
Other assets	10,932	4,140
Total assets	$ 20,444,191	**$ 22,006,936**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,650,600	$ 1,254,492
Accounts payable	2,564,823	1,537,860
Accrued expenses	2,119,992	2,499,878
Liabilities of discontinued operations		705,635
Total current liabilities	**7,335,415**	**5,997,865**
Long-term debt, net of current portion	1,822,288	2,916,246
Accrued post-retirement benefits	1,027,821	1,027,821
Total long-term liabilities	2,850,109	3,944,067
Total liabilities	**10,185,524**	**9,941,932**
Shareholders equity:		
Preferred stock, $0.001 par value; 2,000,000 shares authorized; no shares issued	7,526	7,526

Common stock, $0.001 par value; 35,000,000 shares authorized; 7,526,430 issued and outstanding at December 31, 2010 and June 30, 2010		
Common stock warrants	1,733,460	1,733,460
Additional paid-in capital	67,647,162	67,583,905
Accumulated deficit	(58,344,129)	(56,646,366)
Accumulated other comprehensive loss	(785,352)	(613,521)
Total shareholders equity	**10,258,667**	**12,065,004**
Total liabilities and shareholders equity	**$ 20,444,191**	**$ 22,006,936**

See notes to condensed consolidated financial statements

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ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Net revenues:				
Product revenue	$ 7,601,104	$ 7,958,634	$ 15,073,687	$ 15,462,240
Other revenue		27,697	6,933	46,995
Revenues, net	**7,601,104**	**7,986,331**	**15,080,620**	**15,509,235**
Costs and expenses:				
Cost of goods sold	4,245,554	4,348,646	8,607,769	8,598,889
Marketing, general and administrative	3,773,552	4,144,894	7,344,774	7,617,390
Research and development	406,389	458,576	802,617	949,924
Total costs and expenses	**8,425,495**	**8,952,116**	**16,755,161**	**17,166,203**
Loss from operations	**(824,391)**	**(965,785)**	**(1,674,541)**	**(1,656,968)**
Other (expense) and income:				
Equity in Ocular Telehealth Management, LLC	(11,507)	(23,433)	(34,145)	(39,433)
Interest income	45	43	111	197
Interest expense	(78,231)	(151,562)	(159,878)	(255,452)
Total other (expense) income	**(89,693)**	**(174,952)**	**(193,912)**	**(294,688)**
Net loss from continuing operations before taxes	**(914,083)**	**(1,140,737)**	**(1,868,453)**	**(1,951,656)**
Provision for income taxes				
Net loss from continuing operations	**(914,083)**	**(1,140,737)**	**(1,868,453)**	**(1,951,656)**
Net income (loss) from discontinued operations	**(134,516)**	**88,190**	**170,690**	**241,609**
Net loss	**$ (1,048,599)**	**$ (1,052,547)**	**$ (1,697,763)**	**$ (1,710,047)**
Net income(loss) per share				
Basic:				
Continuing operations	**$ (0.12)**	**$ (0.15)**	**$ (0.25)**	**$ (0.26)**
Discontinued operations	**(0.02)**	**0.01**	**0.02**	**0.03**

		$ (0.14)		**$ (0.14)**		**$ (0.23)**		**$ (0.23)**
Diluted:							
Continuing operations		**$ (0.12)**		**$ (0.15)**		**$ (0.25)**		**$ (0.26)**
Discontinued operations		**(0.02)**		**0.01**		**0.02**		**0.03**
		$ (0.14)		**$ (0.14)**		**$ (0.23)**		**$ (0.23)**
Weighted average shares	**basic**	**7,526,430**		**7,526,430**		**7,526,430**		**7,526,430**
Weighted average shares	**diluted**	**7,526,430**		**7,526,430**		**7,526,430**		**7,526,430**

See notes to condensed consolidated financial statements

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ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Six Months Ended December 31,	**2010**	**2009**
Cash Flows from Operating Activities:		
Net (loss) from continuing operations	$ (1,868,453)	$ (1,951,656)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	431,829	406,301
Compensation expense related to stock options	63,257	70,441
Loss of Ocular Telehealth Management, LLC	34,145	39,433
Change in operating assets and liabilities:		
Accounts receivable, net	(440,625)	(1,279,499)
Inventory, net	(890,678)	899,579
Other current and long-term assets	197,249	89,851
Accounts payable, accrued expenses and other liabilities	647,077	814,095
Net cash (used in) operating activities from continuing operations	(1,826,199)	(911,455)
Net cash provided by operating activities from discontinued operations	861,341	268,790
Net cash (used in) operating activities	**(964,858)**	**(642,665)**
Cash Flows from Investing Activities:		
Investment in Ocular Telehealth Management, LLC	(45,000)	(25,200)
Purchase of fixed assets	(102,500)	(38,249)
Net cash (used in) investing activities from continuing operations	(147,500)	(63,449)
Net cash (used in) investing activities from discontinued operations		(52,854)
Net cash (used in) investing activities	**(147,500)**	**(116,303)**
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(50,538)	(116,110)
Net cash (used in) financing activities	**(50,538)**	**(116,110)**
Effect of exchange rate changes on cash & cash equivalents	**74,099**	**(16,181)**
Net decrease in cash and cash equivalents	**(1,088,798)**	**(891,259)**
Cash and cash equivalents, beginning of period	**3,342,422**	**1,810,045**
Cash and cash equivalents, end of period	**$ 2,253,624**	**$ 918,786**

Supplemental Schedule of Cash Flow Information:		
Interest paid	**$ 163,599**	**$ 3,237**
Income taxes paid	**$ 45,000**	$

See notes to condensed consolidated financial statements

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ESCALON MEDICAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2010
(Unaudited)

	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Total Shareholders Equity
BALANCE AT JUNE 30, 2010	**7,526,430**	**$ 7,526**	**$ 1,733,460**	**$ 67,583,905**	**$ (56,646,366)**	**$ (613,521)**	**$ 12,065,004**
Comprehensive (Loss):							
Net loss					(1,697,763)		**(1,697,763)**
Foreign currency translation						(171,831)	**(171,831)**
Total comprehensive loss					(1,697,763)	(171,831)	**(1,869,594)**
Compensation expense				63,257			**63,257**
BALANCE AT DECEMBER 31, 2010	**7,526,430**	**$ 7,526**	**$ 1,733,460**	**$ 67,647,162**	**$ (58,344,129)**	**$ (785,352)**	**$ 10,258,667**

See notes to condensed consolidated financial statements

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ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Net (loss)	$ (1,048,599)	$ (1,052,547)	$ (1,697,763)	$ (1,710,047)
Foreign currency translation	(138,686)	(109,579)	(171,831)	8,248
Comprehensive (loss)	**$ (1,187,285)**	**$ (1,162,126)**	**$ (1,869,594)**	**$ (1,701,799)**

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Escalon Medical Corp. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

Escalon Medical Corp. (Escalon or the Company) is a Pennsylvania corporation initially incorporated in California in 1987 and reincorporated in Pennsylvania in November 2001. Within this document, the Company collectively shall mean Escalon and its wholly owned subsidiaries: Sonomed, Inc. (Sonomed), Escalon Vascular Access, Inc. (Vascular), Escalon Medical Europe GmbH (EME), Escalon Digital Vision, Inc. (EMI), Escalon Pharmaceutical, Inc. (Pharmaceutical), Escalon Holdings, Inc. (EHI), Escalon IP Holdings, Inc., Escalon Vascular IP Holdings, Inc., Sonomed IP Holdings, Inc., Drew Scientific Holdings, Inc. and Drew Scientific Group, Plc (Drew) its subsidiaries and the assets acquired from Biocode Hycell (Biocode). All inter-company accounts and transactions have been eliminated. The Company sold certain assets of the Vascular business for $5,750,000 on April 30, 2010 to Vascular Solutions, Inc. (see footnote 10 to the Notes to Condensed Consolidated Financial Statements for additional information).

The Company operates in the healthcare market specializing in the development, manufacture, marketing and distribution of medical devices and pharmaceuticals in the areas of ophthalmology, diabetes, hematology and vascular access. The Company and its products are subject to regulation and inspection by the United States Food and Drug Administration (the FDA). The FDA and other governmental authorities require extensive testing of new products prior to sale and have jurisdiction over the safety, efficacy and manufacture of products, as well as product labeling and marketing. The Company s Internet address is www.escalonmed.com.

2. Stock-Based Compensation

Valuations are based upon highly subjective assumptions about the future, including stock price volatility and exercise patterns. The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model. Expected volatilities are based on the historical volatility of the Company s stock. The Company uses historical data to estimate option exercise and employee terminations. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The Company has historically granted options under the Company s option plans with an option exercise price equal to the closing market value of the stock on the date of the grant and with vesting, primarily for Company employees, either in equal annual amounts over a two to five year period or immediately, and, primarily for non-employee directors, immediately.

As of December 31, 2010 and 2009 total unrecognized compensation cost related to non-vested share-based compensation arrangements granted to employees under the 2004 Equity Incentive Plan was $234,221and $292,803, respectively. The remaining cost is expected to be recognized over a weighted average period of 2.58 years. For the three-month periods ended December 31, 2010 and 2009, $23,898 and $30,468 was recorded as compensation expense, respectively. For the six-month periods ended December 31, 2010 and 2009, $63,258 and $70,441 was recorded as compensation expense, respectively.

The Company did not receive any cash from share option exercises under stock-based payment plans for the three months and six months periods ended December 31, 2010 and 2009. The Company did not realize any tax effect, which would be a reduction in its tax rate, on options due to the full valuation allowances established on its deferred tax assets.

The Company measures compensation expense for non-employee stock-based compensation based on the fair value of the options issued, as this is more reliable than the fair value of the services received. Fair value is measured as the value of the Company s common stock on the date that the

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commitment for performance by the counterparty has been reached or the counterparty s performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital. There was no non-employee compensation expense for the three-month and six-month periods ended December 31, 2010 and 2009.

3. (Loss) Earnings per Share

The following table sets forth the computation of basic and diluted net loss per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Numerator:				
Numerator for basic and diluted earnings per share				
Loss from continuing operations	($914,083)	($1,140,737)	($1,868,453)	($1,951,656)
(Loss) income from discontiuned operations	(134,516)	88,190	170,690	241,609
Net loss	**$ (1,048,599)**	**$ (1,052,547)**	**$ (1,697,763)**	**$ (1,710,047)**
Denominator:				
Denominator for basic earnings per share weighted average shares	7,526,430	7,526,430	7,526,430	7,526,430
Effect of dilutive securities:				
Stock options and warrants				
Shares reserved for future exchange				
Denominator for diluted earnings per share weighted average and assumed conversion	**7,526,430**	**7,526,430**	**7,526,430**	**7,526,430**
Net (loss) income per share				
Basic:				
Continuing operations	**$ (0.12)**	**$ (0.15)**	**$ (0.25)**	**$ (0.26)**
Discontinued operations	**$ (0.02)**	**$ 0.01**	**$ 0.02**	**$ 0.03**
	$ (0.14)	**$ (0.14)**	**$ (0.23)**	**$ (0.23)**
Diluted:				
Continuing operations	**$ (0.12)**	**$ (0.15)**	**$ (0.25)**	**$ (0.26)**
Discontinued operations	**$ (0.02)**	**$ 0.01**	**$ 0.02**	**$ 0.03**
	$ (0.14)	**$ (0.14)**	**$ (0.23)**	**$ (0.23)**

The impact of dilutive securities was omitted from the earnings per share calculation in all periods presented as they would reduce the loss per share and thus were anti-dilutive.

4. Legal Proceedings

The Company, from time to time is involved in various legal proceedings and disputes that arise in the normal course of business. These matters have previously and could pertain to intellectual property disputes, commercial

contract disputes, employment disputes, and other matters. The Company does not believe that the resolution of any of these matters has had or is likely to have a material adverse impact on the Company s business, financial condition or results of operations.

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5. Segmental Information

During the three-month and six-month periods ended December 31, 2010 and 2009, the Company s continuing operations were classified into four principal reportable business segments that provide different products or services, not including the Company s Vascular business, which the company sold in April 30, 2010.

Separate management of each segment is required because each business segment is subject to different marketing, production and technology strategies.

Segment Statements of Operations (in thousands) Three months ended December 31,

	Drew		Sonomed		EMI		Medical/Trek		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Revenues, net:										
Product revenue	$ 4,427	$ 5,096	$ 2,463	$ 2,060	$ 410	$ 509	$ 301	$ 293	**$ 7,601**	**$ 7,958**
Other revenue		28								**28**
Total revenue, net	**4,427**	**5,124**	**2,463**	**2,060**	**410**	**509**	**301**	**293**	**7,601**	**7,986**
Costs and expenses:										
Cost of goods sold	2,523	2,727	1,360	1,103	169	290	193	228	**4,247**	**4,348**
Research & Development	183	246	129	122	95	94		(4)	**407**	**458**
Marketing, General & Admin	2,731	2,692	714	614	211	252	118	590	**3,774**	**4,148**
Total costs and expenses	5,437	5,665	**2,203**	**1,839**	**475**	**636**	**311**	**814**	**8,428**	**8,954**
(Loss) income from operations	**(1,010)**	**(541)**	**260**	**221**	**(65)**	**(127)**	**(10)**	**(521)**	**(827)**	**(968)**
Other (expense) and income:										
Equity in OTM							(11)	(23)	**(11)**	**(23)**
Interest income							1	1	**1**	**1**
Interest expense	(77)	(151)							**(77)**	**(151)**
Total other (expense) and income	**(77)**	**(151)**					**(10)**	**(22)**	**(87)**	**(173)**
(Loss) and income before taxes	**(1,087)**	**(692)**	**260**	**221**	**(65)**	**(127)**	**(20)**	**(543)**	**(914)**	**(1,141)**
Income taxes										
Net (loss) income	**$ (1,087)**	**$ (692)**	**$ 260**	**$ 221**	**$ (65)**	**$ (127)**	**$ (20)**	**$ (543)**	**$ (914)**	**$ (1,141)**

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Segment Statements of Operations (in thousands) Six months ended December 31,

	Drew		Sonomed		EMI		Medical/Trek/EHI		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Revenues, net:										
Product revenue	$ 9,425	$ 9,729	$ 4,343	$ 4,097	$ 696	$ 1,023	$ 610	$ 613	**$ 15,074**	**$ 15,462**
Other revenue	7	47							**7**	**47**
Total revenue, net	**9,432**	**9,776**	**4,343**	**4,097**	**696**	**1,023**	**610**	**613**	**15,081**	**15,509**
Costs and expenses:										
Cost of goods sold	5,514	5,482	2,392	2,229	271	453	430	434	**8,607**	**8,598**
Research & Development	372	469	238	327	193	158		(4)	**803**	**950**
Marketing, General & Admin	5,418	4,878	1,304	1,267	365	394	258	1,078	**7,345**	**7,617**
Total costs and expenses	**11,304**	10,829	**3,934**	**3,823**	**829**	**1,005**	**688**	**1,508**	**16,755**	**17,165**
(Loss) income from operations	**(1,872)**	**(1,053)**	**409**	**274**	**(133)**	**18**	**(78)**	**(896)**	**(1,674)**	**(1,656)**
Other (expense) and income:										
Equity in OTM							(34)	(39)	**(34)**	**(39)**
Interest income							(1)	(1)	**(1)**	**(1)**
Interest expense	(159)	(255)							**(159)**	**(255)**
Total other (expense) and income	**(159)**	**(255)**					**(35)**	**(40)**	**(194)**	**(295)**
(Loss) and income before taxes	**(2,031)**	**(1,308)**	**409**	**274**	**(133)**	**18**	**(113)**	**(936)**	**(1,868)**	**(1,951)**
Income taxes										
Net (loss) income	**$ (2,031)**	**$ (1,308)**	**$ 409**	**$ 274**	**$ (133)**	**$ 18**	**$ (113)**	**$ (936)**	**$ (1,868)**	**$ (1,951)**

The Company operates in the healthcare market, specializing in the development, manufacture and marketing of (1) ophthalmic medical devices and pharmaceuticals; (2) in-vitro diagnostic (IVD) instrumentation and consumables

for use in human and veterinary hematology. On April 30, 2010, the Company sold its Vascular business. The business segments reported above are the segments for which separate financial information is available and for which operating results are evaluated regularly by management in deciding how to allocate resources and assessing performance. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies. For the purposes of this illustration, corporate expenses, which consist primarily of executive management and administrative support functions, are allocated across the business segments based upon a methodology that has been established by the Company, which includes a number of factors and estimates and that has been consistently applied across the business segments. These expenses are otherwise included in the Medical/Trek business unit.

6. Related-Party Transactions

The Company and a member of the Company s Board of Directors are founding and equal members of Ocular Telehealth Management, LLC (OTM). OTM is a diagnostic telemedicine company providing remote examination, diagnosis and management of disorders affecting the human eye. OTM s initial focus is on the diagnosis of diabetic retinopathy by creating access and providing annual dilated retinal examinations for the diabetic population. Through December 31, 2010, the Company has invested $444,000 in OTM, including $45,000 invested during the six-month period ended December 31, 2010. As of December 31, 2010, the Company owned 45% of OTM. The Company provides administrative support functions to OTM. For the three month periods ended December 31, 2010 and 2009 the Company recorded losses of $11,507 and $23,433, respectively. For the six-month periods ended December 31, 2010 and 2009 the Company recorded losses of $34,145 and $39,433, respectively.

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7. Recently Issued Accounting Standards

In October 2009, the FASB issued an amendment to the accounting for multiple-deliverable revenue arrangements. This amendment provides guidance on determining whether multiple deliverables exist, how the arrangements should be separated and how the consideration paid should be allocated. As a result of this amendment, entities may be able to separate multiple-deliverable arrangements in more circumstances than under existing accounting guidance. This guidance amends the requirement to establish the fair value of undelivered products and services based on objective evidence and instead provides for separate revenue recognition based upon management s best estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. The existing guidance previously required that the fair value of the undelivered item reflect the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. If the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This amendment will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted this standard and the standard did not have material effect on the Company s consolidated financial statements.

In December 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity s involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company adopted this standard and the standard did not have material effect on the Company s consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company adopted this standard and the standard did not have material effect on the Company s consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 regarding accounting and reporting for decreases in ownership of a subsidiary. Under this guidance, an entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. This ASU clarifies the scope of the decrease in ownership provisions, and expands the disclosures about the deconsolidation of a subsidiary or de-recognition of a group of assets. This ASU is effective beginning in

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the first interim or annual reporting period ending on or after December 31, 2009. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure to include transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. Further, this update clarifies existing disclosures on level of disaggregation and disclosures about inputs and valuation techniques. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities and should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements, or ASU 2010-09. ASU 2010-09 primarily rescinds the requirement that, for listed companies, financial statements clearly disclose the date through which subsequent events have been evaluated. Subsequent events must still be evaluated through the date of financial statements issuance; however, the disclosure requirement has been removed to avoid conflicts with other SEC guidelines. ASU 2010-09 was effective immediately upon issuance and was adopted in February 2010.

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, or ASU 2010-13. ASU 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of ASU 2010-13 to have a significant impact on its consolidated financial statements.

In March 2010, the FASB reached a consensus to issue an amendment to the accounting for revenue arrangements under which a vendor satisfies its performance obligations to a customer over a period of time, when the deliverable or unit of accounting is not within the scope of other authoritative literature and when the arrangement consideration is contingent upon the achievement of a milestone. The amendment defines a milestone and clarifies whether an entity may recognize consideration earned from the achievement of a milestone in the period in which the milestone is achieved. This amendment is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. The amendment may be applied retrospectively to all arrangements or prospectively for milestones achieved after the effective date. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements

In July 2010, the FASB issued FASB ASC Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This standard amends existing guidance by requiring

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more robust and disaggregated disclosures by an entity about the credit quality of its financing receivables and its allowance for credit losses. These disclosures will provide financial statement users with additional information about the nature of credit risks inherent in our financing receivables, how we analyze and assess credit risk in determining our allowance for credit losses, and the reasons for any changes we may make in our allowance for credit losses. This update is generally effective for interim and annual reporting periods ending on or after December 15, 2010, which for us is the 2011 second quarter; however, certain aspects of the update pertaining to activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010, which for us is the 2011 third quarter. The Company adopted this standard and the standard did not have a material effect on the Company s consolidated financial statements. The Company believes that full adoption of this update will not have any further impact on the consolidated financial statements.

8. Fair Value Measurements

On July 1, 2008, the Company adopted the FASB-issued authoritative guidance for the fair value of financial assets and liabilities. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. The FASB issued authoritative guidance defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy established prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized into the following levels:

Level 1 Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 Directly or indirectly observable inputs for quoted and other than quoted prices for identical or similar assets and liabilities in active or non-active markets.

Level 3 Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best available information available in the circumstances, including the entity s own data.

Certain financial instruments are carried at cost on the condensed consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other liabilities.

The Company determined that the fair value of the outstanding debt approximates the outstanding balances based on the remaining short-term maturity of the note for the Biocode debt and other Level 3 measurements. The Company determined the estimated fair value amounts by using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data as well as the risk of nonperformance related to the debt to develop estimates of fair value. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

9. Continuing Operations

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred recurring operating losses and negative cash flows from operating activities and the debt payments related to the Biocode acquisition commenced on June 30, 2010. These conditions raise substantial doubt about the Company s ability to continue as a going concern. If the Company is unsuccessful in its efforts to raise additional capital in the near term, the Company may be required to significantly reduce its research, development, and administrative activities, including further reduction of its employee base. The financial statements do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be

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necessary should we be unable to continue as a going concern. Our continuance as a going concern is dependent on our future profitability and on the on-going support of our shareholders, affiliates and creditors. In order to mitigate the going concern issues, we are actively pursuing business partnerships, managing our continuing operations, and seeking capital funding on an ongoing basis via the issuance of securities and private placements although we may not succeed in these mitigation efforts.

The Company has implemented an austerity plan to stem the recurring losses at Drew and has made progress in reducing certain administrative and development expenditures. If the Company is unable to achieve continued improvement in this area in the near term, it is not likely that our existing cash and cash flow from operations will be sufficient to fund activities throughout the next 6 to 8 months without curtailing certain business activities. The Company s forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in Risk Factors of the Company s Form 10-K for the year ended June 30, 2010.

If the Company seeks to raise funds in the future, the Company may be required to raise those funds through public or private financings, strategic relationships or other arrangements at prices and other terms that may not be as favorable as they would without such qualification. The sale of additional equity and debt securities may result in additional dilution to the Company s shareholders. Additional financing may not be available in amounts or on terms acceptable to the Company or at all.

10. Discontinued Operations

In an effort to enhance stockholder value, improve working capital and enable the Company to focus on its core in-vitro diagnostics and ophthalmology manufacturing businesses, on April 30, 2010 the Company divested certain Vascular Access assets held by its Vascular Access subsidiaries to Vascular Solutions, Inc. The total sales price was $5,750,000, consisting of cash of $5,000,000 at closing and $750,000 payable in cash upon the successful completion of the transfer of the manufacturing to Vascular Solutions, Inc. plus a one-time earn-out payment in an amount equal to 25% of the net sales of the VascuView TAP products sold by Vascular Solutions, Inc. between July 1, 2010 and June 30, 2011. The manufacturing transfer was completed on August 31, 2010. During this four-month transition, the Company continued to manufacture product in its Wisconsin facility under a supply agreement concurrently entered into with Vascular Solutions, Inc. The supply agreement ended on August 30, 2010 and the Company has no significant continuing involvement in the operations of Vascular. Vascular Access generated approximately $565,000 in gross profit from May 1, 2010 through August 31, 2010 related to the supply agreement.

The following table summarizes the results of discontinued operations for the three-month and six-month periods ended December 31, 2010 and 2009 (in thousands):

	For the Three Months Ended December 31,	
	2010	**2009**
Total revenue, net	$ 4	$ 898
Costs and expenses:		
Cost of goods sold	0	373
Research & Development	11	50
Marketing, General & Admin	128	387
Total costs and expenses	139	810
Loss (Income) from discontinued operations	**$ (135)**	**$ 88**

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	For the Six Months Ended December 31,	
	2010	2009
Total revenue, net	$ 638	$ 1,829
Costs and expenses:		
Cost of goods sold	283	713
Research & Development	29	164
Marketing, General & Admin	155	711
Total costs and expenses	467	1,588
Income from discontinued operations	**$ 171**	**$ 241**

Assets and liabilities of discontinued operations included in the consolidated balance sheets are summarized as follows at December 31, 2010 and June 30, 2010 (in thousands):

	December 31, 2010	June 30, 2010
Assets		
Accounts receivable, trade	$ 18	$ 325
Inventory		342
Other assets		7
Receivable from sale of Vascular Assets		750
Total Assets	**18**	**1,424**
Liabilities		
Payable related to sale of Vascular Assets		500
Accrued expenses and other liabilities		206
Total Liabilities		**706**
Net Assets of Discontinued Operations	**$ 18**	**$ 718**

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements

Certain statements contained in, or incorporated by reference in, this report are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which provide current expectations or forecasts of future events. Such statements can be identified by the use of terminology such as anticipate, believe, could, estimate, expect, forecast, intend, may, plan, possible, project, sho words or expressions. The Company s forward-looking statements include certain information relating to general business strategy, growth strategies, financial results, liquidity, product development, the introduction of new products, the potential markets and uses for the Company s products, the Company s regulatory filings with the FDA,

acquisitions, the development of joint venture opportunities, intellectual property and patent protection and infringement, the loss of revenue due to the expiration on termination of certain agreements, the effect of competition on the structure of the markets in which the Company competes, increased legal, accounting and Sarbanes-Oxley compliance costs, defending the Company in litigation matters and the Company s cost saving initiatives. The reader must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by

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assumptions that fail to materialize as anticipated. Consequently, no forward-looking statement can be guaranteed, and actual results may vary materially. It is not possible to foresee or identify all factors affecting the Company s forward-looking statements, and the reader therefore should not consider the list of such factors contained in its periodic report on Form 10-K for the year ended June 30, 2010 to be an exhaustive statement of all risks, uncertainties or potentially inaccurate assumptions. The Management s Discussion and Analysis should be read in conjunction with the December 31, 2010 financial statements and the audited financial statements included in the June 30, 2010 Form 10-K.

Executive Overview Six-Month Period Ended December 31, 2010

The following highlights are discussed in further detail within this report. The reader is encouraged to read this report in its entirety to gain a more complete understanding of factors impacting Company performance and financial condition.

Product revenue from continuing operations decreased approximately $388,000 or 2.5% during the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease was related to decreased sales in the Drew and EMI business segments. Product revenue at Drew and EMI decreased 3.1% and 32.0%, respectively during the six-month period ended December 31, 2010 when compared to the same period last fiscal year. These decreases were offset by increased sales approximately 6.0% increase in the Company s Sonomed business segment during the six-month period ended December 31, 2010 compared to the same period last fiscal year.

Other revenue decreased approximately $40,000 or 85.1% during the six-month period ended December 31, 2010 as compared to the same period last fiscal year. This was attributable to decreased Bio-Rad royalties received in the Drew business segment.

Cost of goods sold as a percentage of product revenue increased to approximate 57.1% during the six-month period ended December 31, 2010, as compared to approximately 55.6% for the same period last fiscal year. This increase was primarily attributed to increase in the cost of goods sold as a percentage of revenue in Drew and Sonomed business segments.

Operating expenses decreased approximately $419,000 or 4.9% during the six-month period ended December 31, 2010 as compared to the same period in the prior fiscal year. The decrease was due to decreased general and administrative expense in the Drew business segment and also reduced research and development efforts in Drew and Sonomed segments.

Company Overview

The following discussion should be read in conjunction with interim condensed consolidated financial statements and the notes thereto, which are set forth in Item 1 this report.

The Company operates in the healthcare market specializing in the development, manufacture, marketing and distribution of medical devices and pharmaceuticals in the areas of ophthalmology, diabetes, and hematology. The Company and its products are subject to regulation and inspection by the FDA. The FDA requires extensive testing of new products prior to sale and has jurisdiction over the safety, efficacy and manufacture of products, as well as product labeling and marketing. The Company s Internet address is www.escalonmed.com.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that impact amounts reported therein. The most significant of those involve the application of FASB-issued authoritative guidance concerning Revenue Recognition, Goodwill and Other Intangible Assets, discussed further in the notes to consolidated financial statements included in the Form 10-K for the year ended

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June 30, 2010. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, and, as such, include amounts based on informed estimates and judgments of management. For example, estimates are used in determining valuation allowances for deferred income taxes, uncollectible receivables, obsolete inventory, sales returns and rebates, warranty liabilities and purchased intangible assets. Actual results achieved in the future could differ from current estimates. The Company used what it believes are reasonable assumptions and, where applicable, established valuation techniques in making its estimates.

Revenue Recognition

The Company recognizes revenue from the sale of its products at the time of shipment, when title and risk of loss transfer. The Company provides products to its distributors at agreed wholesale prices and to the balance of its customers at set retail prices. Distributors can receive discounts for accepting high volume shipments. The discounts are reflected immediately in the net invoice price, which is the basis for revenue recognition. No further material discounts are given.

The Company s considerations for recognizing revenue upon shipment of product to a distributor are based on the following:

Persuasive evidence that an arrangement (purchase order and sales invoice) exists between a willing buyer (distributor) and the Company that outlines the terms of the sale (company information, quantity of goods, purchase price and payment terms). The buyer (distributor) does not have a right of return.

Shipping terms are ex-factory shipping point. At this point the buyer (distributor) takes title to the goods and is responsible for all risks and rewards of ownership, including insuring the goods as necessary.

The Company s price to the buyer (distributor) is fixed and determinable as specifically outlined on the sales invoice. The sales arrangement does not have customer cancellation or termination clauses.

The buyer (distributor) places a purchase order with the Company; the terms of the sale are cash, COD or credit. Customer credit is determined based on the Company s policies and procedures related to the buyer s (distributor s) creditworthiness. Based on this determination, the Company believes that collectability is reasonably assured.

The Company assesses collectability based on creditworthiness of the customer and past transaction history. The Company performs ongoing credit evaluations of its customers and does not require collateral from its customers. For many of the Company s international customers, the Company requires an irrevocable letter of credit to be issued by the customer before the purchase order is accepted.

Valuation of Intangible Assets

The Company regularly evaluates for impairment its intangible assets and goodwill in accordance with SFAS 142, Goodwill and Other Intangible Assets, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable, see footnote 4 to consolidated financial statements included in the Form 10-K for the year ended June 30, 2010 for details on the 2009 and 2008 goodwill impairment charge related to the carrying amount of Sonomed and Drew s goodwill. These intangible assets include goodwill, trademarks and trade names. Factors the Company considers important that could trigger an impairment review include significant under-performance relative to historical or projected future operating results or significant negative industry or economic trends. If these criteria indicate that the value of the intangible asset may be impaired, an evaluation of the recoverability of the net carrying value of the asset is made. If this evaluation indicates that the intangible asset is not recoverable, the net carrying value of the related intangible asset will be reduced to fair value. Any such impairment charge could be

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significant and could have a material adverse impact on the Company s financial statements if and when an impairment charge is recorded.

Income/Loss Per Share

The Company computes net income/(loss) per share under the provisions of FASB issued authoritative guidance.

Under the provisions of FASB issued authoritative guidance, basic and diluted net income/(loss) per share is computed by dividing the net income/(loss) for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net income/(loss) per share excludes potential common shares if the impact is anti-dilutive. Basic earnings per share are computed by dividing net income/(loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are determined in the same manner as basic earnings per share, except that the number of shares is increased by assuming exercise of dilutive stock options and warrants using the treasury stock method.

Income Taxes

Estimates of taxable income of the various legal entities and jurisdictions are used in the tax rate calculation. Management uses judgment in estimating what the Company s income will be for the year. Since judgment is involved, there is a risk that the tax rate may significantly increase or decrease in any period.

In determining income/(loss) for financial statement purposes, management must make certain estimates and judgments. These estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expense. FASB issued authoritative guidance concerning accounting for income taxes also requires that the deferred tax assets be reduced by a valuation allowance, if based on the available evidence, it is more likely that not that all or some portion of the recorded deferred tax assets will not be realized in future periods.

In evaluating the Company s ability to recover the Company s deferred tax assets, management considers all available positive and negative evidence including the Company s past operating results, the existence of cumulative losses and near-term forecasts of future taxable income that is consistent with the plans and estimates management is using to manage the underlying businesses.

Through December 31, 2010, the Company has recorded a valuation allowance against the Company s net operating losses for substantially all of the deferred tax asset due to uncertainty of their realization as a result of the Company s earnings history, the number of years the Company s net operating losses and tax credits can be carried forward, the existence of taxable temporary differences and near-term earnings expectations. The amount of the valuation allowance could decrease if facts and circumstances change that materially increase taxable income prior to the expiration of the loss carryforwards. Any reduction would reduce (increase) the income tax expense (benefit) in the period such determination is made by the Company.

The Company has adopted FASB issued guidance related to accounting for uncertainty in income taxes, which provides a comprehensive model for the recognition, measurement, and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return. Under the FASB guidance a company can recognize the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with

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jurisdictional tax laws. The Company has elected to recognize interest expense and penalties related to uncertain tax positions as a component of its provision for income taxes.

Stock-Based Compensation

Stock-based compensation expense for all stock-based compensation awards granted after July 1, 2006 is based on the grant-date fair value estimate in accordance with the provisions of the FASB issued guidance. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award.

Valuations are based on highly subjective assumptions about the future, including stock price volatility and exercise patterns. The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model. Expected volatilities are based on the historical volatility of the Company s stock. The Company uses historical data to estimate option exercise and employee terminations. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

Three- and Six-Month Periods Ended December 31, 2010 and 2009

The following table shows consolidated product revenue from continuing operations by business segment as well as identifying trends in business segment product revenues for the three- and six-month periods ended December 31, 2010 and 2009. Table amounts are in thousands:

	For the Three Months Ended December 31,			For the Six Months Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Product Revenue:						
Drew	$ 4,427	$ 5,096	-13.1%	$ 9,425	$ 9,729	-3.1%
Sonomed	2,463	2,060	19.6%	4,343	4,097	6.0%
EMI	410	509	-19.5%	696	1,023	-32.0%
Medical/Trek	301	294	2.4%	610	613	-0.5%
Total	**$ 7,601**	**$ 7,959**	**-4.5%**	**$ 15,074**	**$ 15,462**	**-2.5%**

Product revenue decreased approximately $358,000, or 4.5%, to $7,601,000 for the three-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease was related to decreases in the Drew and EMI segments.

In the Drew business segment, product revenue decreased $669,000 or 13.1% as compared to the same period last fiscal year. The decrease is related to a decrease in revenue at the Biocode facility of approximately $190,000 along with a decrease in the US Dollar to Euro exchange rate of approximately 7.5% during the period ended December 31, 2010 as compared to the same period last year. In addition, there was a decrease in PDQ instrument sales during the current period as Drew discontinued its manufacturing agreement for this aging instrument and a decrease in Drew 3 and DS5 instruments during the three-month period ended December 31, 2010 as compared to the same period last year.

Product revenue increased $403,000, or 19.6%, at the Sonomed business segment for the three- month period ended December 31, 2010 as compared to the same period last fiscal year. The increase in product revenue was primarily caused by increased demand for Sonomed s VuMax and PacScan products and a reduction in the sales backlog caused by procurement sourcing delays from certain Sonomed vendors.

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Product revenue decreased $99,000, or 19.5%, in the EMI business segment for the three-month period ended December 31, 2010 when compared to the same period last year. The decrease in sales is related to the continued weakness of the capital equipment market related to the global economic recession. In addition, Digital has experienced competition from recently introduced low cost imaging system by a competitor and from the market acceptance of new OCT technologies currently available in the marketplace.

In the Medical/Trek business segment, product revenue increased $7,000, or 2.4%, to $301,000 during the three-month period ended December 31, 2010 as compared to the same period last fiscal year.

Product revenue decreased approximately $388,000, or 2.5%, to $15,074,000 during the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease was related to decreases in the Drew and EMI segments.

In the Drew business segment, product revenue decreased $304,000, or 3.1%, for the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease is related to a a decrease in the US Dollar to Euro exchange rate of approximately 7.5% during the period ended December 31, 2010 as compared to the same period last year. In addition, there was a decrease in PDQ instrument sales during the current period as Drew discontinued its manufacturing agreement for this aging instrument during the six-month period ended December 31, 2010 as compared to the same period last year.

In the Sonomed business segment, product revenue increased $246,000, or 6.0%, for the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The increase in product revenue was primarily caused by increased demand for Sonomed s VuMax and PacScan products and a reduction in the sales backlog caused by procurement sourcing delays from Sonomed s vendors.

Product revenue decreased $327,000, or 32.0%, during the six-month period ended December 31, 2010 in the EMI business segment when compared to the same period last year. The decrease in sales is related to the continued weakness of the capital equipment market related to the global economic recession. In addition, Digital has experienced competition from recently introduced low cost imaging system by a competitor and from the market acceptance of new OCT technologies currently available in the marketplace.

In the Medical/Trek business segment, product revenue decreased $3,000, or 0.5%, to $610,000 during the six-month period ended December 31, 2010 as compared to the same period last fiscal year.

The following table shows consolidated other revenue by business segment as well as identifying trends in business segment other revenues for the three- and six-month periods ended December 31, 2010 and 2009. Table amounts are in thousands:

	For the Three Months Ended December 31,			For the Six Months Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Other Revenue:						
Drew	$ 0	$ 28	-100.0%	$ 7	$ 47	-85.1%
Total	**$ 0**	**$ 28**	**-100.0%**	**$ 7**	**$ 47**	**-85.1%**

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There was no other revenue during the three-month period ended December 31, 2010 as compared to $28,000 of the same period last fiscal year. Other revenue decreased by approximately $40,000, or 85.1%, to $7,000 during the six-month period ended December 31, 2010 as compared to the same period last fiscal year. These decreases were attributable to decreased royalties from Bio-Rad related to an OEM agreement between Bio-Rad and Drew as a result of lower sales of Drew s products in covered areas. While this agreement terminated as of May 15, 2006, the parties have continued to operate under the terms of the expired agreement.

The following table presents consolidated cost of goods sold from continuing operations by reportable business segment and as a percentage of related segment product revenues for the three- and six-month periods ended December 31, 2010 and 2009. Table amounts are in thousands:

	For the Three Months Ended December 31,				For the Six Months Ended December 31,			
	2010	**%**	**2009**	**%**	**2010**	**%**	**2009**	**%**
Cost of Goods Sold:								
Drew	$ 2,523	57.0%	$ 2,727	53.5%	$ 5,514	58.5%	$ 5,482	56.4%
Sonomed	1,360	55.2%	1,103	53.5%	2,392	55.1%	2,229	54.4%
EMI	169	41.2%	290	57.0%	271	38.9%	453	44.3%
Medical/Trek	193	64.1%	228	77.6%	430	70.5%	434	70.8%
Total	**$ 4,245**	**55.9%**	**$ 4,348**	**54.6%**	**$ 8,607**	**57.1%**	**$ 8,598**	**55.6%**

Cost of goods sold from continuing operations totaled approximately $4,245,000, or 55.9% of product revenue, for the three-month period ended December 31, 2010, as compared to $4,348,000 or 54.6%, of product revenue for the same period last fiscal year.

Cost of goods sold in the Drew business segment totaled $2,523,000, or 57.0% of product revenue, for the three-month period ended December 31, 2010 as compared to $2,727,000, or 53.5% of product revenue, for the same period last fiscal year. Margins on Drew s instruments continue to range between 0% and 20% depending on the product. These lower margin sales are offset by the margins achieved on reagent sales which typically range from 50% to 75%. The increase in cost of goods sold as a percent of product revenue is related to the relative mix of these product groups during the three-month period ended December 31, 2010 as compared to the same period last year.

Cost of goods sold in the Sonomed business segment totaled $1,360,000, or 55.2% of product revenue, for the three-month period ended December 31, 2010 as compared to $1,103,000, or 53.5% of product revenue, for the same period last fiscal year. The increase in cost of goods sold as a percent of product revenue during the period ended December 31, 2010 as compared to the prior period is related to an increase in international sales, which typically have lower margins due to increased sales discounts to Sonomed s international distributors.

Cost of goods sold in the EMI business segment totaled $169,000, or 41.2% of product revenue, for the three-month period ended December 31, 2010 as compared to $290,000, or 57.0% of product revenue, during the same period last fiscal year. The decrease in cost of goods sold as a percentage of revenue is due to the product mix sold during the quarter with a decrease in lower margin digital equipment sales during the period ended December 31, 2010 as compared to the prior period.

Cost of goods sold in the Medical/Trek business segment totaled $193,000, or 64.1% of product revenue, for the three-month period ended December 31, 2010 as compared to $228,000, or 77.6% of product revenue, for the same period last fiscal year. The reason for the decrease in cost of

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goods sold as a percentage of revenue is reduction in the manufacturing force during the period ended December 31, 2010 as compared to the same period last year.

Cost of goods sold totaled approximately $8,607,000, or 57.1% of product revenue, for the six-month period ended December 31, 2010, as compared to $8,598,000, or 55.6% of product revenue, for the same period last fiscal year.

Cost of goods sold in the Drew business segment totaled $5,514,000, or 58.5% of product revenue, for the six-month period ended December 31, 2010 as compared to $5,482,000, or 56.4% of product revenue, for the same period last fiscal year. Margins on Drew s instruments continue to range between 0% and 20% depending on the product. These lower margin sales are offset by the margins achieved on reagent sales which typically range from 50% to 75%. The increase in cost of goods sold as a percent of product revenue is related to the relative mix of these product groups during the six-month period ended December 31, 2010 as compared to the same period last year.

Cost of goods sold in the Sonomed business segment totaled $2,392,000, or 55.1% of product revenue, for the six-month period ended December 31, 2010 as compared to $2,229,000, or 54.4% of product revenue, for the same period last fiscal year. The increase in cost of goods sold as a percent of product revenue is related to an increase in international sales which typically have lower margins due to increased sales discounts to Sonomed s international distributors.

Cost of goods sold in the EMI business segment totaled $271,000, or 38.9%, of product revenue for the six-month period ended December 31, 2010 as compared to $453,000, or 44.3% of product revenue, during the same period last fiscal year. The decrease in cost of goods sold as a percentage of revenue is due to the product mix with a decrease in lower margin digital equipment sales during the six-month period ended December 31, 2010 as compared to the prior period.

Cost of goods sold in the Medical/Trek business segment totaled $430,000, or 70.5% of product revenue, for the six-month period ended December 31, 2010 as compared to $434,000, or 70.8% of product revenue, during the same period last fiscal year. The reason for the decrease in cost of goods sold as a percentage of revenue is reduction in the manufacturing force offset by an inventory write off of $11,000 during the six-month period ended December 31, 2010 as compared to the same period last year.

The following table presents consolidated marketing, general and administrative expenses from continuing operations as well as identifying trends in business segment marketing, general and administrative expenses for the three- and six-month periods ended December 31, 2010 and 2009. Table amounts are in thousands:

	For the Three Months Ended December 31,			For the Six Months Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Marketing, General and Administrative:						
Drew	$ 2,281	$ 2,692	-15.3%	$ 4,473	$ 4,878	-8.3%
Sonomed	532	458	16.2%	978	920	6.3%
EMI	181	208	-13.0%	313	307	2.0%
Medical/Trek	780	787	-0.9%	1,581	1,512	4.6%
Total	**$ 3,774**	**$ 4,145**	**-9.0%**	**$ 7,345**	**$ 7,617**	**-3.6%**

Marketing, general and administrative expenses decreased $371,000, or 9.0%, to $3,774,000 during the three-month period ended December 31, 2010 as compared to the same period last fiscal year.

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Marketing, general and administrative expenses in the Drew business segment decreased $411,000, or 15.3%, to $2,281,000 for the three-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease is related to a reduction in force at the Dallas facility and a reduction in administrative expenses at Biocode during the three-month period ended December 31, 2010 as compared to the same period ended December 31, 2009.

Marketing, general and administrative expenses in the Sonomed business segment increased $74,000, or 16.2%, to $532,000 for the three-month period ended December 31, 2010 as compared to the same period last fiscal year. The increase is due to increased consulting expense in Europe, salary and royalty expense offset by marketing and advertising expense during the three-month period ended December 31, 2010 as compared to the same period last year.

Marketing, general and administrative expenses in the EMI business segment decreased $27,000, or 13.0%, to $181,000 for the three-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease is related to reduced commission expense during the three-month period ended December 31, 2010 as compared to the same period last year.

Marketing, general and administrative expenses in the Medical/Trek business segment decreased $7,000, or 0.9%, to $780,000 for the three-month period ended December 31, 2010 as compared to the same period last fiscal year.

Marketing, general and administrative expenses decreased $272,000, or 3.6%, to $7,345,000 for the six-month period ended December 31, 2010 as compared to the same period last fiscal year.

Marketing, general and administrative expenses in the Drew business segment decreased $405,000, or 8.3%, to $4,473,000 for the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease is related to a reduction in force at the Dallas facility and a decrease in administrative expenses at Biocode for the six-month period ended December 31, 2010 as compared to the same period ended December 31, 2009.

Marketing, general and administrative expenses in the Sonomed business segment increased $58,000, or 6.3%, to $978,000 for the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The increase is due to increased travel, meeting and salary expense, which were offset by decrease in commission expense, consulting expense in Europe, advertising and market research expense during the six-month period ended December 31, 2010 as compared to the same period last year.

Marketing, general and administrative expenses in the EMI business segment increased $6,000, or 2.0%, to $313,000 for the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The increase is mainly related to increase consulting expense partially offset by the decreased commission expense.

Marketing, general and administrative expenses in the Medical/Trek business segment increased $69,000, or 4.6%, to $1,581,000 for the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The increase was mainly related to increased salary expense.

The following table presents consolidated research and development expenses as well as identifying trends in business segment research and development expenses for the three- and six-month periods ended December 31, 2010 and 2009. Table amounts are in thousands:

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	For the Three Months Ended December 31,			For the Six Months Ended December 31,		
	2010	2009	% Change	2010	2009	% Change
Research and Development:						
Drew	$ 183	$ 246	-25.6%	$ 372	$ 469	-20.7%
Sonomed	129	122	5.7%	238	327	-27.2%
EMI	95	94	1.1%	193	158	22.2%
Medical/Trek	0	(4)	100.0%	0	(4)	100.0%
Total	**$ 407**	**$ 458**	**-11.1%**	**$ 803**	**$ 950**	**-15.5%**

Research and development expenses decreased $51,000, or 11.1%, to $407,000 during the three-month period ended December 31, 2010 as compared to the same period last fiscal year.

Research and development expenses in the Drew business segment decreased $63,000, or 25.6%, to $183,000 during the three-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease is due to the cost model implemented in June 2009, which significantly reduced the research and development headcount in favor of outsourcing substantially all future research and development projects on an as needed basis, which was substantially less for the three-month period ended December 31, 2010 as Drew completed the development of its new diabetes instrument the DS-360 in January 2010 and has not undertaken any substantial research and development projects on instruments and is concentrating its efforts on less costly reagent development.

Research and development expenses in the Sonomed business segment increased $7,000, or 5.7%, to $129,000 during the three-month period ended December 31, 2010 as compared to the same period last fiscal year.

Research and development expenses in the EMI business segment increased $1,000 or 1.1% to $95,000 during the three-month period ended December 31, 2010 as compared to the same period last fiscal year.

Research and development expenses in the Medical/Trek business segment were relatively unchanged during the three-month period ended December 31, 2010 as compared to the same period last fiscal year.

Research and development expenses decreased $147,000, or 15.5%, to $803,000 during the six-month period ended December 31, 2010 as compared to the same period last fiscal year.

Research and development expenses in the Drew business segment decreased $97,000, or 20.7%, to $372,000 during the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease is due to the cost model implemented in June 2009, which significantly reduced the research and development headcount in favor of outsourcing substantially all future research and development projects on an as needed basis, which was substantially less for the three-month period ended December 31, 2010 as Drew completed the development of its new diabetes instrument the DS-360 in January 2010 and has not undertaken any substantial research and development projects on instruments and is concentrating its efforts on less costly reagent development.

Research and development expenses in the Sonomed business segment decreased $89,000, or 27.2%, to $238,000 during the six-month period ended December 31, 2010 as compared to the same period last fiscal year. The decrease is related to reduced prototype expense after the

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completion of the PacScan Plus and the Master Vu A products and the decision to suspend further work on the development of the VuMax III.

Research and development expenses in the EMI business segment increased $35,000 or 22.2% during the six-month period ended December 31, 2010 as compared to the same period last fiscal year mainly due increased salaries and consulting fees.

The Company recognized a loss of $11,000 and $23,000 related to its investment in OTM during the three-month periods ended December 31, 2010 and 2009, respectively, and $34,000 and $39,000 for the six-month periods ended December 31, 2010 and 2009, respectively. Commencing July 1, 2005, the Company began recognizing all of the losses of OTM in its consolidated financial statements. OTM is an early stage, privately held company. Prior to July 1, 2005, the share of OTM s loss recognized by the Company was in direct proportion to the Company s ownership equity in OTM. OTM began operations during the three-month period ended September 30, 2004.

There was little interest income during the three-month periods and six-month periods ended December 31, 2010 and 2009, respectively.

Interest expense was $78,000 and $151,000 for the three-month periods ended December 31, 2010 and 2009, respectively, and $160,000 and $255,000 for the six-month periods ended December 31, 2010 and 2009, respectively. This was due to a decrease in outstanding debt balance as of December 31, 2010 related to the acquisition of JAS and Biocode.

Liquidity and Capital Resources

Changes in overall liquidity and capital resources from continuing operations as of December 31, 2010 and June 30, 2010 are reflected in the following table (in thousands):

	December 31, 2010	June 30, 2010
Current Ratio:		
Current assets	$ 15,380	$ 16,747
Less: Current liabilities	7,335	5,998
Working capital	**$ 8,045**	**$ 10,749**
Current ratio	**2.1 to 1**	**2.8 to 1**
Debt to Total Capital Ratio:		
Notes payable and current maturities	$ 2,651	$ 1,255
Long-term debt	1,822	2,916
Total debt	4,473	4,171
Total equity	10,259	12,065
Total capital	**$ 14,732**	**$ 16,236**
Total debt to total capital	**30.4%**	**25.7%**

The Company has implemented an austerity plan to stem the recurring losses at Drew and has made progress in reducing certain administrative and development expenditures. If the Company is unable to achieve continued improvement in this area in the near term, it is not likely that our existing cash and cash flow from operations will be sufficient to fund activities throughout the next 6 to 8 months without

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curtailing certain business activities. The Company has based this estimate on assumptions that may prove to be incorrect, and the Company may use its available capital resources sooner or more slowly than the Company currently expects. The Company s forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in Risk Factors in the June 30, 2010 Form 10-K.

Working Capital Position

Working capital decreased approximately $2,704,000 as of December 31, 2010, and the current ratio decreased to 2.1 to 1 when compared to June 30, 2010. The decrease in working capital was caused primarily by the loss from continuing operations of approximately $1,868,000 for six months ended December 31, 2010 and increase in the current portion of long term debt.

Cash Used in Operating Activities

During the six-month periods ended December 31, 2010 and 2009, the Company generated cash outflows from operating activities of $965,000 and $643,000, respectively. The net increase in cash used in operating activities of approximately $322,000 for the six-month period ended December 31, 2010, as compared to the same period in the prior fiscal year is due primarily to the following factors:

For the six-month period ended December 31, 2010, the Company had a net loss from continuing operations of $1,868,000 and experienced net cash in flows from an increase in accounts payable, accrued expenses and other liabilities of $647,000, cash from discontinued operation of $861,000, non-cash expenditures on depreciation and amortization and compensation expense related to stock options of approximately $432,000 and $63,000, respectively. These cash in-flows were partially offset by increases in accounts receivable and inventory, which increased by $441,000 and $891,000, respectively. In the prior fiscal period the cash used in operating activities of $643,000 was related to net loss from continuing operations in the prior year of $1,952,000, decreases in inventory and other current and long-term assets of $900,000 and $90,000, respectively, increases in accounts payable, accrued expenses and other liabilities of $814,000 and non-cash expenditures on depreciation and amortization and compensation expense related to stock options of approximately $406,000 and $70,000, respectively. These cash inflows were partially offset by increases in accounts receivable $1,279,000.

Cash Flows (Used in) Investing and Financing Activities

Cash flows used in investing activities of $148,000 is related to fixed asset purchases and investment in OTM of $103,000 and $45,000, respectively, during the six-month period ended December 31, 2010. The net increase in cash flows used in investing activities as compared to the prior fiscal period was $31,000.

Cash flows used in financing activities were approximately $50,000 during the six-month period ended December 31, 2010. Cash flows used in financing activities for the same period last year were approximately $116,000 related to the scheduled long-term debit repayments.

Debt History

On December 31, 2008, Drew acquired certain assets of Biocode for $5,900,000 (4,200,000 Euros) plus acquisition costs of approximately $300,000. The sales price was payable in cash of approximately $324,000 (approximately 231,000 Euros) and $5,865,000 in debt from Drew. The seller-provided financing is collateralized by certain assets of Biocode. Biocode assets were vertically integrated into the Company s clinical diagnostics business that includes Drew and JAS. The seller-provided financing, which is guaranteed by the Company, requires payment over four years as follows:

the first interest-only payment was due in December 2009 at an annual interest rate of 7%; this

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payment was paid on June 30, 2010 pursuant to an agreement reached with the seller;

thereafter, every nine months after June 30, 2010, an interest payment is due at an annual interest rate of 7%;

June 30, 2010 the principal payment of Euro 800,000 was made;

June 30, 2011 a principal payment of Euro 1,000,000 is due;

December 31, 2011 a principal payment of Euro 1,000,000 is due; and

December 31, 2012 a principal payment of Euro 1,375,000 is due.

The payment amount in United States Dollars will be determined on the payment due date, based upon the then current exchange rate between the United States Dollar and the Euro.

On May 29, 2008, Drew issued a note payable in the amount of $752,623 related to the purchase of JAS. The note is collateralized by JAS s common stock. Principal was payable in six quarterly installments of $124,437 plus interest at the prime rate as published by the Bank of America. On August 30, 2009, one of the notes related to the JAS acquisition was renegotiated. The amount outstanding on August 30, 2009 was $178,370; this amount was repaid in 12 equal monthly installments of $14,864 plus interest at 7%. The debt was paid in full in August 2010.

Continuing Operations

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred recurring operating losses and negative cash flows from operating activities and the debt payments related to the Biocode acquisition commenced June 30, 2010. These conditions raise substantial doubt about the Company s ability to continue as a going concern. If the Company is unsuccessful in its efforts to raise additional capital in the near term, the Company may be required to significantly reduce its research, development, and administrative activities, including further reduction of its employee base. The financial statements do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company s continuance as a going concern is dependent on its future profitability and on the on-going support of the Company s shareholders, affiliates and creditors. In order to mitigate the going concern issues, we are actively pursuing business partnerships, managing our continuing operations, and seeking capital funding on an ongoing basis via the issuance of securities and private placements.

The Company has implemented an austerity plan to stem the recurring losses at Drew and has made progress in reducing certain administrative and development expenditures. If the Company is unable to achieve continued improvement in this area in the near term, it is not likely that our existing cash and cash flow from operations will be sufficient to fund activities throughout the next 6 to 8 months without curtailing certain business activities. The Company s forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in Risk Factors of the Company s Form 10-K for the year ended June 30, 2010.

If the Company seeks to raise funds in the future, the Company may be required to raise those funds through public or private financings, strategic relationships or other arrangements at prices and other terms that may not be as favorable as they would without such qualification. The sale of additional equity and debt securities may result in additional dilution to the Company s shareholders. Additional financing may not be available in amounts or on terms acceptable to the Company or at all.

Off-Balance Sheet Arrangements and Contractual Obligations

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The Company was not a party to any off-balance sheet arrangements during the three and six-month periods ended December 31, 2010 and 2009.

The following table presents the Company s contractual obligations as of December 31, 2010 (interest is not included in the table as it is immaterial):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	**$ 4,472,888**	$ 2,650,600	$ 1,822,288	$	$
Operating lease agreements	**3,607,612**	842,134	1,598,682	962,088	204,709
Total	**$ 8,080,500**	**$ 3,492,734**	**$ 3,420,969**	**$ 962,088**	**$ 204,709**

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The table below provides information about the Company s financial instruments consisting of fixed interest rate debt obligations. For debt obligations, the table represents principal cash flows and related interest rates by expected maturity dates.

	Interest Rate	Due during the year ending June 30, 2011	2012	2013	Total
Notes Payable Bio Code	7%	$ 1,325,300	$ 1,325,300	$ 1,822,288	$ 4,472,888

Exchange Rate Risk

A portion of Drew s product revenue is denominated in United Kingdom Pounds and Euros. During the three-month periods ended December 31, 2010 and 2009, Drew recorded approximately $1,853,000 and $2,046,000, respectively, of revenue denominated in United Kingdom Pounds and Euros, respectively. During the six-month periods ended December 31, 2010 and 2009, Drew recorded approximately $3,814,000 and $3,420,000, respectively, of revenue denominated in United Kingdom Pounds and Euros, respectively.

Drew incurs a portion of its expenses denominated in United Kingdom Pounds and Euros. During the three-month periods ended December 31, 2010 and 2009, Drew incurred approximately $2,064,000 and $2,413,000, respectively, of expense denominated in United Kingdom Pounds and Euros. During the six-month periods ended December 31, 2010 and 2009, Drew recorded approximately $4,009,000 and $4,307,000, respectively, of expense denominated in United Kingdom Pounds and Euros, respectively.

The Company s Sonomed business unit incurs an immaterial portion of its marketing expenses in the European market, the majority of which are transacted in Euros.

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The Company experiences fluctuations, beneficial or adverse, in the valuation of currencies in which the Company transacts its business, namely the United States Dollar, the United Kingdom Pound and the Euro.

Item 4. Controls and Procedures

(A) Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Company s Chief Executive Officer and Principal Financial and Accounting Officer, have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company s financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation of the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2010, the Chief Executive Officer and Principal Financial and Accounting Officer of the Company have concluded that such disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its Chief Executive Officer and Principal Financial and Accounting Officer, to allow timely decisions regarding required disclosure.

(B) Internal Control over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act), during the second fiscal quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

See note 4 of the notes to the condensed consolidated financial statements for further information regarding the Company s legal proceedings.

Item 1A. Risk Factors

There are no material changes from the risks previously disclosed in the Company s Annual Report on Form 10-K for the year ended June 30, 2010.

Item 6. Exhibits

31.1 Certificate of Chief Executive Officer under Rule 13a-14(a).

31.2 Certificate of Principal Financial and Accounting Officer under Rule 13a-14(a).

32.1 Certificate of Chief Executive Officer under Section 1350 of Title 18 of the United States Code.

32.2 Certificate of Principal Financial and Accounting Officer under Section 1350 of Title 18 of the United States Code.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Escalon Medical Corp.
(Registrant)

Date: February 11, 2011

By: /s/ Richard J. DePiano
Richard J. DePiano
Chairman and Chief Executive Officer

Date: February 11, 2011

By: /s/ Robert O Connor
Robert O Connor
Chief Financial Officer

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