LIGHTPATH TECHNOLOGIES INC
Form 10-Q
May 03, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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:

9,711,213 shares of common stock, Class A, $.01 par value, outstanding as of May 2, 2011.

LIGHTPATH TECHNOLOGIES, INC.
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Balance Sheets

Assets	(unaudited) March 31, 2011	June 30, 2010
Current assets:		
Cash and cash equivalents	$954,546	$1,464,351
Trade accounts receivable, net of allowance of $8,575 and $22,930	1,605,111	1,804,063
Inventories, net	1,679,116	1,137,678
Prepaid interest expense	29,380	167,635
Prepaid expenses and other assets	219,220	223,908
Total current assets	4,487,373	4,797,635
Property and equipment, net	2,408,809	2,344,692
Intangible assets, net	109,350	134,001
Debt costs, net	7,964	151,530
Other assets	27,737	27,737
Total assets	$7,041,233	$7,455,595
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$933,316	$511,523
Accrued liabilities	208,066	179,370
Accrued payroll and benefits	383,173	396,863
8% convertible debentures, net of debt discount	14,147	—
Total current liabilities	1,538,702	1,087,756
Deferred rent	492,065	569,286
8% convertible debentures to related parties, net of debt discount	1,016,250	816,397
8% convertible debentures, net of debt discount	71,250	737,468
Total liabilities	3,118,267	3,210,907
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; 9,711,213 and 8,971,638		
shares issued and outstanding, respectively	97,112	89,716
Additional paid-in capital	207,549,990	206,277,806
Foreign currency translation adjustment	24,556	23,466
Accumulated deficit	(203,748,692)	(202,146,300)
Total stockholders' equity	3,922,966	4,244,688
Total liabilities and stockholders' equity	$7,041,233	$7,455,595

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

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

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Product sales, net	$2,434,056	$2,660,415	$7,216,052	$6,443,848
Cost of sales	1,456,758	1,409,356	4,412,173	3,566,230
Gross margin	977,298	1,251,059	2,803,879	2,877,618
Operating expenses:				
Selling, general and administrative	861,051	816,957	2,929,578	2,322,422
New product development	265,746	222,607	736,838	650,281
Amortization of intangibles	8,217	8,217	24,651	24,651
Gain on sale of property and equipment	(7,211)	—	(7,751)	—
Total costs and expenses	1,127,803	1,047,781	3,683,316	2,997,354
Operating income (loss)	(150,505)	203,278	(879,437)	(119,736)
Other income (expense):				
Interest expense	(32,115)	(54,272)	(148,414)	(152,083)
Interest expense - debt discount	(46,746)	(98,107)	(316,590)	(273,436)
Interest expense - debt costs	(10,699)	(39,082)	(118,193)	(108,930)
Loss on extinguishment of debt	(131,784)	—	(131,784)	—
Other income (expense), net	(3,879)	235	(7,974)	1,540
Total other expense, net	(225,223)	(191,226)	(722,955)	(532,909)
Net income (loss)	$(375,728)	$12,052	$(1,602,392)	$(652,645)
Income (Loss) per common share (basic)	$(0.04)	$0.00	$(0.17)	$(0.08)
Number of shares used in per share calculation (basic)	9,715,266	8,232,496	9,474,204	7,901,156
Income (Loss) per common share (diluted)	$(0.04)	$0.00	$(0.17)	$(0.08)
Number of shares used in per share calculation (diluted)	9,715,266	9,339,878	9,474,204	7,901,156

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

LIGHTPATH TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Nine months ended March 31, 2011
(unaudited)

	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Foreign Currency Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2010	8,971,638	$89,716	$206,277,806	$23,466	$(202,146,300)	$4,244,688
Issuance of common stock for:						
Employee Stock Purchase Plan	7,854	78	12,059	—	—	12,137
Exercise of employee stock options	5,384	54	5,599	—	—	5,653
Conversion of debentures, net of costs	540,592	5,406	820,346	—	—	825,752
Cashless exercise of warrants	56,695	567	(567)	—	—	-
Exercise of warrants	129,050	1,291	230,368	—	—	231,659
Stock based compensation on stock options and restricted stock units	—	—	161,660	—	—	161,660
Premium from debt exchange	—	—	42,719	—	—	42,719
Net loss	—	—	—	—	(1,602,392)	(1,602,392)
Foreign currency translation adjustment	—	—	—	1,090	—	1,090
Comprehensive loss						(1,601,302)
Balance at March 31, 2011	9,711,213	$97,112	$207,549,990	$24,556	$(203,748,692)	$3,922,966

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

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

	Nine months ended March 31, 2011	Nine months ended March 31, 2010
Cash flows from operating activities		
Net loss	$(1,602,392)	$(652,645)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	655,131	497,226
Interest from amortization of debt discount	316,590	273,436
Interest from amortization of debt costs	118,193	108,930
Common stock issued for legal settlement	—	50,000
Gain on sale of property and equipment	(7,751)	—
Stock based compensation	161,660	110,508
Change in provision for doubtful accounts receivable	(14,355)	(1,708)
Deferred rent	(77,221)	(49,346)
Loss on extinguishment of debt	131,784	—
Common stock issued for payment of consulting services	—	150,000
Changes in operating assets and liabilities:		
Trade accounts receivables	213,307	(999,871)
Other receivables	—	183,413
Inventories	(541,438)	(107,047)
Prepaid expenses and other assets	142,943	973
Accounts payable and accrued liabilities	436,799	(75,842)
Net cash used in operating activities	(66,750)	(511,973)
Cash flows from investing activities		
Purchase of property and equipment	(694,597)	(787,758)
Proceeds from sale of equipment	7,751	—
Net cash used in investing activities	(686,846)	(787,758)
Cash flows from financing activities		
Proceeds from exercise of stock options	5,653	8,393
Proceeds from sale of common stock, net of costs	—	1,417,090
Proceeds from sale of common stock from employee stock purchase plan	12,137	6,857
Costs associated with conversion of debentures	(6,748)	—
Exercise of warrants	231,659	—
Payments on capital lease obligation	—	(5,050)
Payments on note payable	—	(152,758)
Net cash provided by financing activities	242,701	1,274,532
Effect of exchange rate on cash and cash equivalents	1,090	(11,859)
Decrease in cash and cash equivalents	(509,805)	(37,058)
Cash and cash equivalents, beginning of period	1,464,351	579,949
Cash and cash equivalents, end of period	$954,546	$542,891
Supplemental disclosure of cash flow information:		
Interest paid in cash	$-	$3,477
Income taxes paid	4,079	5,100
Supplemental disclosure of non-cash investing & financing activities:		
Convertible debentures converted into common stock	$832,500	$137,500

Premium from debt exchange	42,719	-

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

1. Basis of Presentation

References in this document to "the Company", "LightPath", "we", "us", or "our" are intended to mean LightPath Technologi Inc., individually, or as the context requires, collectively with its subsidiaries on a consolidated basis.

The accompanying unaudited 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 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, 2010 filed with the Securities and Exchange Commission (the "SEC"). 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.

These 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.

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 the Asia/Pacific region.

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.

Going Concern and Managements Plans

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and as of March 31, 2011 the Company has an accumulated deficit of approximately $203.7 million. Cash used by operations was $67,000 for the nine months ended March 31, 2011. Cash used in operations was approximately $500,000 and $1.47 million during fiscal years ended 2010 and 2009, respectively. The Company continued to implement the cost reduction initiatives it started in fiscal 2010, including 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 nine months of fiscal 2011, 18% of our precision molded lenses sales in units were of more expensive glass types, compared to 21% of the same period in the prior fiscal year. This decrease was due to an increase of these precision molded lenses being converted to lower cost glass. Management is committed to continuing efforts to transition more precision molded lenses to less expensive glass, which will contribute towards achieving profitability assuming we meet our sales targets and goals for producing and selling more low cost lenses at higher volumes.

The fiscal 2011 operating plan and related financial projections were developed anticipating sales growth primarily in the infrared products and the low cost, high volume products, such as industrial laser tools for the imaging markets in Asia, markets we have been targeting since 2009. Unit volumes in these targeted markets have increased 123% from last year. We expect to hold our previous margin improvements based on production efficiencies and reductions in product costs as a result of the shifting of our manufacturing operations to the Shanghai facility, offset by marginal increases in selling, administrative and new product development expenditures.

Our revenues were lower than expected for our precision molded lenses because even though sales of precision molded lens units increased, the average selling price per unit decreased. The shortfall in forecasted margin dollars did not allow us to cover our selling, general and administrative expenses. However, based on the current quote and booking activity on all of our product lines and particularly the precision molded lenses, we expect increased revenue results in the fourth quarter of fiscal 2011 as compared to the previous three quarters.

The Company had a cash balance of approximately $1.0 million at March 31, 2011. In the first nine months of fiscal 2011, we reduced the Company's debt obligations by $832,500 through the conversion of convertible debentures into shares of common stock and we received approximately $232,000 in proceeds from the exercise of warrants. In March 2011, we extended the maturity date of our convertible debentures from August 2011 to August 2013. To fund future operations, we may seek external debt or equity financing if it can be obtained in an amount and on terms that are acceptable; however, we may be required to seek external financing regardless of whether the terms would otherwise be acceptable if our cash flow financial resources are not sufficient to sustain our operations or to pursue our business plan. There is no assurance we will be able to achieve the necessary cash flow from 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.

Management has developed an operating plan for fiscal year 2011 and 2012 and believes the Company has adequate financial resources to achieve that plan and to sustain its current operations through May 2012. 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.

Liquidity

Cash flow and cash management continue to be primary concerns of the Company. In fiscal 2009 and 2010, cash used in operations was approximately $1.47 million and $500,000, respectively. During the nine months ended March 31, 2011, the Company used approximately $67,000 of net cash for operating activities.

For the nine months ended March 31, 2011, the cash used for operating activities decreased by $510,000 compared to a decrease of $37,000 in the same period of the prior fiscal year. This decrease in fiscal 2011 was primarily due to capital spending to expand our press capacity at our Shanghai facility, offset by cash received from the exercise of warrants. The decrease in cash in fiscal 2010 was primarily related to cash used in operations of $512,000 and capital spending of $788,000 offset by net proceeds of $1.4 million received by the Company through a $1.6 million 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.

On April 8, 2010 the Company executed a Securities Purchase Agreement with seven institutional and private investors, with respect to a private placement of an aggregate of 507,730 shares of the Company's Class A Common Stock, $0.01 par value (the "Common Stock") at $2.20 per share for all non-insider purchasers, and warrants to purchase 50,776 shares of Common Stock (the "Warrants"). The Warrants are priced at $2.48 per share and are exercisable for a period of five years beginning on October 8, 2010. The Company received aggregate gross cash proceeds from the issuance of the Common Stock (exclusive of proceeds from any future exercise of the Warrants) in the amount $1.1 million. We have used the funds to purchase equipment which will enable us to manufacture an additional 3 million units per year, thereby expanding our pressing capacity, and provide for working capital for our operations. Among the investors were J. James Gaynor and Louis Leeburg, both of whom were directors or officers of LightPath as of April 8, 2010, who paid $2.2325 per share of common stock.

The Company paid a commission to the exclusive placement agent for the offering, Garden State Securities, Inc., ("Garden State") in an amount equal to $89,000 plus costs and expenses. The Company also issued to Garden State and its designees warrants to purchase an aggregate of 50,773 shares of Common Stock at an exercise price equal to $2.48 per share. The Warrants have a five-year term and are exercisable by Garden State and its designees after October 8, 2010.

Management believes the Company currently has sufficient cash to fund its operations through May 2012 assuming 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. Management believes that taking the current booking rate combined with recent quote activity and 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

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 the due date and 10% of the total of invoices that are over 60 days past due from the 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. Acquisition of goods from our vendors has a 9% purchase burden added to cover customs, shipping and handling costs. Fixed costs related to excess manufacturing capacity have been expensed. We look at the following criteria for parts to consider for the inventory reserve: 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. These items as identified are reserved at 100%, as well as reserving 50% for other items deemed to be slow moving within the last twelve months and reserving 25% for items deemed to have low material usage within the last six months. The parts identified are adjusted for recent order and quote activity to determine the final inventory reserve.

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 one 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, tooling 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.

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.

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.

The Company has not recognized a liability for uncertain tax positions. A reconciliation of the beginning and ending amount of unrecognized tax benefits or penalties has not been provided since there is no unrecognized benefit or penalty since the date of adoption. If there were an unrecognized tax benefit or penalty, 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 and are completed in accordance with the terms of the agreements and upon shipment of products, reports or designs to the customer. Invoice amounts for sales or VAT taxes are posted to the balance sheet and not included in revenue.

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. The Company accounts for financial instruments in accordance with FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), which provides 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.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2011. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which include cash equivalents of $547,000 at March 31, 2011. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments which include cash, trade 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.

On August 1, 2008, the Company executed a Securities Purchase Agreement with respect to the private placement of 8% senior convertible debentures (the "Debentures") as described in Note 10 to the accompanying consolidated financial statements. The Debentures issued were valued using observable inputs other than quoted prices (Level 2). The fair value of the Debentures as of March 31, 2011 was calculated to be approximately $1.1 million.

The Company does not have other financial or non-financial assets or liabilities that would be characterized as Level 2 or Level 3 instruments.

Derivative Financial Instruments. The Company accounts for derivative instruments in accordance with FASB ASC 815, Derivatives and Hedging (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 recorded a beneficial conversion feature ("BCF") related to the issuance of convertible debt instruments that had conversion features at fixed rates that were in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments was 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 were recognized as non-cash interest expense debt discount 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 9 to the accompanying consolidated financial statements.

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.

Recent accounting pronouncements issued by FASB (including EITF), the AICPA and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

3. Inventories

The components of inventories include the following at:

	March 31, 2011 (unaudited)	June 30, 2010
Raw materials	$782,716	$500,515
Work in process	691,775	423,104
Finished goods	348,062	291,098
Reserve for obsolescence	(143,437)	(77,039)
	$1,679,116	$1,137,678

4. Property and Equipment

Property and equipment are summarized as follows:

	Estimated Life (Years)	March 31, 2011 (unaudited)	June 30, 2010
Manufacturing equipment	5 - 10	$2,749,758	$3,988,169
Computer equipment and software	3 - 5	257,010	308,252
Furniture and fixtures	5	85,822	170,045
Leasehold improvements	5 - 7	782,050	793,138
Construction in progress		634,462	355,109

Tooling	1 - 5	938,691	733,037
Total Property and Equipment		5,447,793	6,347,750
Less accumulated depreciation and amortization		3,038,984	4,003,058
Total property and equipment, net		$2,408,809	$2,344,692

In the second quarter of fiscal 2011, fully depreciated property and equipment with an original cost of $1.50 million were written off since they are no longer in use.

5. Intangible Assets

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

	March 31, 2011 (unaudited)	June 30, 2010
Gross carrying amount	$621,302	$621,303
Accumulated amortization	(511,952)	(487,302)
Net carrying amount	$109,350	$134,001

Amortization expense related to intangible assets totaled approximately $25,000 during both nine-month periods ended March 31, 2011 and 2010. The net carrying amount will be amortized over the following schedule:

2011	2012	2013	2014	2015	Total
8,217	32,868	32,868	32,868	2,529	109,350

6. Accounts Payable

The accounts payable balance includes $43,000 of related party transactions for board of director's fees as of March 31, 2011 and June 30, 2010.

7. Compensatory Equity Incentive Plan and Other Equity Incentives

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

These plans are summarized below:

Equity Compensation Arrangement	Award Shares Authorized	Award Shares Outstanding at March 31, 2011	Available for Issuance at March 31, 2011
Amended and Restated Omnibus Incentive Plan	1,715,625	936,819	335,299
Employee Stock Purchase Plan	200,000	-	133,193
	1,915,625	936,819	468,492

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 discount on market value is included in selling, general and administrative expense in the accompanying statements of operations and was $1,224 and $764 for the nine months ended March 31, 2011 and 2010, 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.

For stock options and restricted stock units granted in the nine month period ended March 31, 2011 and 2010, the Company estimated the fair value of each stock option as of the date of grant using the following assumptions:

	Nine months ended March 31, 2011	Nine Months ended March 31, 2010
Expected volatility	117 %	134 %
Weighted average expected volatility	117 %	134 %
Dividend yields	0 %	0 %
Risk-free interest rate	1.18 %	1.34 %
Expected term, in years	3 - 7	3-7

Most options granted under the 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 49% and 0%, respectively, for the nine months ended March 31, 2011 and 43% and 7%, respectively, for the nine months ended March 31, 2010. The volatility rate and expected term are based on seven-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.

Information Regarding Current Share-Based Compensation Awards—A summary of the activity for share-based compensation awards in the nine months ended March 31, 2011 is presented below:

	Stock Options			Restricted Stock Units ("RSU")	
	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contract Life (YRS)	Shares	Weighted Average Remaining Contract Life (YRS)
June 30, 2010	437,641	$ 6.33	7.3	359,700	1.0
Granted	77,500	2.87	9.6	75,000	2.4
Exercised	(5,384)	1.05	7.8	-	-
Cancelled	(7,638)	192.20	-	-	-
March 31, 2011	502,119	$ 3.00	7.1	434,700	1.5
	-				
Awards exercisable/ vested as of March 31, 2011	319,619	$ 3.17	6.2	234,700	-
Awards unexercisable/ unvested as of					

March 31, 2011	182,500	$ 2.52	8.4	200,000	2.3
	502,119			434,700	

	Stock Options	RSU	All Awards
Weighted average fair value of share awards granted for the nine months ended			
March 31, 2011	$ 2.47	$ 2.69	$ 2.58

The total intrinsic value of options outstanding and exercisable at March 31, 2011 and 2010 was $68,678 and $77,332, respectively.

The total intrinsic value of RSUs exercised during the nine months ended March 31, 2011 and 2010 was $0 and $41,700, respectively. The total intrinsic value of options exercised during the nine months ended March 31, 2011 and 2010 was $4,497 and $0, respectively.

The total intrinsic value of RSUs outstanding and exercisable at March 31, 2011 and 2010 was $492,870 and $402,646, respectively.

The total fair value of RSUs vested during the nine months ended March 31, 2011 and 2010 was $65,000 and $83,930, respectively.

The total fair value of option shares vested during the nine months ended March 31, 2011 and 2010 was $223,706, and $174,829, respectively. As of March 31, 2011, there was $529,871 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share options and restricted stock units) granted under the Incentive Plan.

The compensation cost is expected to be recognized as follows:

	Stock Options	Restricted Stock Units	Total
Three months ended June 30, 2011	$ 42,544	$ 41,944	$ 84,488
Year ended June 30, 2012	74,293	132,672	206,965
Year ended June 30, 2013	63,324	96,284	159,608
Year ended June 30, 2014	48,522	22,434	70,956
Year ended June 30, 2015	7,854	-	7,854
	$ 236,537	$ 293,334	$ 529,871

The table above does not include shares under the ESPP, which has purchase settlement dates in the second and fourth fiscal quarters of each year. The ESPP is not administered with a look-back option provision and, as a result, there is not a population of outstanding option grants during the employee contribution period.

Restricted stock unit awards vest immediately or from two to four years from the date of grant.

The following table is a summary of the number and weighted average grant date fair values regarding the Company's unexercisable/unvested awards as of March 31, 2011 and changes during the nine months then ended:

Unexercisable/unvested awards	Stock Options Shares	RSU Shares	Total Shares	Weighted-Average Grant Date Fair Values (per share)
June 30, 2010	180,000	175,000	355,000	$ 2.24
Granted	77,500	75,000	152,500	2.58
Vested	(75,000)	(50,000)	(125,000)	2.31
Cancelled/Issued/Forfeited	-	-	-	-
March 31, 2011	182,500	200,000	382,500	$ 2.52

Financial Statement Effects and Presentation—The following table shows total stock-based compensation expense for the nine months ended March 31, 2011 and 2010 included in the consolidated statements of operations:

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	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Stock options	$58,221	$65,426
RSU	103,439	45,082
Total	$161,660	$110,508
The amounts above were included in:		
General & administrative	$144,174	$86,197
Cost of sales	7,380	13,638
New Product Development	10,107	10,673
	$161,660	$110,508

During the nine months ended March 31, 2010 the Company reversed approximately $7,000 in stock compensation expense related to the forfeiture of unvested options.

8. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the weighted-average number of shares of Class A common stock outstanding, during each period presented. Diluted earnings per share is computed similarly to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. The computations for basic and diluted earning (loss) per share as follows:

	(unaudited) Three months ended March 31,		(unaudited) Nine months ended March 31,	
	2011	2010	2011	2010
Net income (loss)	$(375,728)	$12,052	$(1,602,392)	$(652,645)
Weighted average common shares outstanding:				
Basic	9,715,266	8,232,496	9,474,204	7,901,156
Effect of dilutive securities:				
Options to purchase common stock	-	42,945	-	-
Restricted stock units	-	359,700	-	-
Common stock warrants	-	704,737	-	-
Diluted	9,715,266	9,339,878	9,474,204	7,901,156
Earnings (Loss) per common share:				
Basic	$(0.04)	$0.00	$(0.17)	$(0.08)
Diluted	$(0.04)	$0.00	$(0.17)	$(0.08)

The number of weight-average shares used in the computation excludes the following shares as their effect would be anti-dilutive:

Excluded from computation:				
Options to purchase common stock	502,119	402,752	502,119	445,697
Restricted stock units	434,700	-	434,700	359,700
Common stock warrants	2,656,492	2,196,209	2,656,492	2,900,946
Convertible debentures	715,422	1,337,175	715,422	1,337,175
	4,308,733	3,936,136	4,308,733	5,043,518

9. Foreign Operations

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the balance sheet date, and revenues and expenses are translated at average rates of exchange for the three-month and nine-month periods. Gains or losses on the translation of the financial statements of a non-U.S. operation, where the functional currency is other than the U.S. dollar, the Renminbi ("RMB"), are reflected as a separate component of stockholders' equity. The foreign exchange translation adjustment balance reflects net gains of approximately $23,000 at June 30, 2010 and a gain of approximately $25,000 at March 31, 2011. The Company, as of March 31, 2011, had approximately $3.36 million in assets and $2.64 million in net assets located at the Shanghai facility. The Company has purchased and transferred equipment to the Shanghai facility and other equipment owned by the Company was transferred from the Orlando facility to the Shanghai facility during each fiscal year since 2006 through 2010.

10. Convertible Debentures

On August 1, 2008, we executed a Securities Purchase Agreement with twenty-four institutional and private investors with respect to the private placement of 8% senior convertible debentures (the "Debentures"). The Debentures are secured by substantially all of our previously unencumbered assets pursuant to a Security Agreement and are guaranteed by our wholly-owned subsidiaries, Geltech and LPOI pursuant to a Subsidiary Guarantee. The sale of the Debentures generated gross proceeds of approximately $2.9 million and net proceeds of $2.7 million. We used the funds to provide working capital for our operations. Among the investors were Steven Brueck, J. James Gaynor, Louis Leeburg, Robert Ripp, Gary Silverman and James Magos, all of whom were directors or officers of LightPath as of August 1, 2008. Mr. Magos resigned effective September 2, 2008.

The original maturity date of the Debentures was August 1, 2011, on which date the outstanding principal amount of the Debentures would have been due. Interest of $39,053 was due on October 1, 2008 and was prepaid by the Company on August 1, 2008 by issuing 27,893 shares of common stock in payment of such interest based upon the closing price of $1.40 per share (the "October Interest Shares"). The remaining interest on the Debentures was prepaid by issuing common stock in December 2008.

Upon issuance the Debentures were immediately convertible into 1,901,948 shares of common stock, based on a conversion price of $1.54 per share, which was 110% of the closing bid price of our common stock on the NASDAQ Capital Market on July 31, 2008. Investors also received warrants to purchase up to 950,974 shares of our common stock (the "Warrants"). The Warrants are exercisable for a period of five years beginning on August 1, 2008 with 65% of the Warrants, exercisable for 618,133 shares, priced at $1.68 per share and the remaining 35% of the Warrants, exercisable for 332,841 shares, priced at $1.89 per share.

Investors who participated in our July 2007 offering were offered an incentive to invest in the debenture offering. Four investors from the July 2007 offering participated in the debenture offering and as a result we reduced the exercise price of the warrants they received in the July 2007 offering from $5.50 per share to $2.61 per share. The reduced exercise price lowered potential proceeds on the exercise of the warrants from the July 2007 offering by $119,212 to $107,663. Additionally, such investors were issued an aggregate of 73,228 shares of common stock (the "Incentive Shares"), valued at $75,131.

We paid a commission to the exclusive placement agent for the offering, First Montauk Securities Corp. ("First Montauk"), in an amount equal to $216,570 plus costs and expenses. We also issued to First Montauk and its designees warrants to purchase an aggregate of 190,195 shares of our common stock at an exercise price equal to $1.68 per share, which was 120% of the closing bid price of the our common stock on the NASDAQ Capital Market on July 31, 2008. The warrants were valued at $194,057 using the Black-Scholes-Merton pricing model and were recorded as debt costs. The warrants are exercisable for a period of five years beginning on August 1, 2008. In addition, the exercise price of 50% of the warrants previously issued to First Montauk and its designees at the closing of the July 2007 offering was reduced from $5.50 to $2.61 per share. This reduced warrant exercise price lowered potential proceeds on the exercise of the warrants issued to First Montauk from the July 2007 offering by $115,600 to $104,400.

The private placement was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) of the Act (in that we sold the Debentures, Warrants and shares of common stock in a transaction not involving any public offering) and pursuant to Rule 506 of Regulation D promulgated thereunder. The shares into which the Debentures are convertible, the shares issuable upon exercise of the Warrants, the October Interest Shares and the Incentive Shares have been registered for resale under the Act. The registration was declared effective on October 16, 2008.

The Warrants and the Incentive Shares issued to the debenture holders were valued at issuance at $790,830 and recorded as a discount on the debt. The Incentive Shares were valued using the fair market value of the Company’s stock on the date of issuance. The Warrants were valued using the Black-Scholes-Merton valuation model using assumptions similar to those used to value the Company’s stock options and RSUs. In addition a beneficial conversion feature associated with the Debentures was valued at the date of issuance at $600,635 and was recorded as a discount on the debt. The total debt discount of $1,391,465 was amortized using the effective interest method over the 36-month term of the Debentures and subsequently adjusted for the extension of the maturity date of the Debentures.

We also incurred debt issuance costs associated with the issuance of the Debentures of $554,308 which were amortized over the 36-month term using the effective interest method, adjusted for accelerated conversions of the Debentures and the extension of the maturity date of the Debentures. The costs were for broker commissions, legal and accounting fees, filing fees and $194,057 representing the fair value of the 190,195 warrants shares issued to First Montauk. We used the Black-Scholes-Merton model to determine fair value of the warrants issued to First Montauk. The warrants carry a five year term, expiring on August 1, 2013, and are immediately exercisable at a per share price of $1.68 for one-third of the warrants and $1.89 for two-thirds of the warrants. For the nine months ended March 31, 2011 and 2010, $118,193 and $108,930, respectively of the debt issuance costs were amortized through interest expense on the consolidated statement of operations and the remaining unamortized balance was $41 as of March 31, 2011, which was expensed in April 2011.

On December 31, 2008 the Debentures were amended to allow debenture holders to convert 25% of their Debentures into shares of common stock. As a result, $732,250 of the Debentures were converted into 475,496 shares of common stock. As an inducement to partially convert the Debentures, we issued additional warrants (valued at $215,975 using the Black-Scholes-Merton method and recorded as interest expense) and prepaid the interest of $453,995 on the unconverted portion of the Debentures through the maturity date of August 1, 2011, which resulted in the issuance of 589,614 shares of common stock. Interest payment of $58,580 for the quarter ended December 31, 2008 resulted in the issuance of 76,078 shares of common stock. As a result of the Debenture conversion, $304,382 of debt discount was written off to interest expense. On May 29, 2009 we filed a registration statement to register those additional interest shares and shares underlying the warrants which were issued in December 2008. The registration statement was declared effective on June 16, 2009.

On March 30, 2011 debenture holders holding approximately 98.71% of the outstanding principal amount of the Debentures consented to an amendment to extend the maturity date from August 2011 to August 2013. The one debenture holder electing not to participate in the extension was paid all amounts due under the Debenture held by such holder, or $14,250, in April 2011. Pursuant to the terms of the amendment, interest will be prepaid in common stock annually each August. The extension of the maturity date of the Debentures was determined to be substantial and therefore triggered “debt extinguishment” accounting under ASC 470-50-40, which requires the Debentures to be adjusted to fair value. The Debentures are hybrid financial instruments that blend characteristics of both debt and equity securities. The Debentures embody settlement alternatives to the holder providing for either redemption of principal and interest in cash (forward component) or conversion into the Company’s common stock (embedded conversion feature). As a result of the debt extinguishment accounting, $63,693 of debt discount and $25,378 of debt issuance costs were written off to loss on extinguishment of debt. The calculated fair value of the amended Debentures as of March 31, 2011 was $1,706,919, and included $924,844 for the forward component and $782,075 for the embedded conversion feature. The forward component was valued using the present value of discounted cash flows arising from the contractual principal and interest payment terms and the embedded conversion feature was valued using Monte Carlo simulations. The difference between the fair value and the carrying value of the Debentures at the amendment date was a premium of $619,419. 93% of the Debentures are held by related parties and as such $576,700 of the premium was considered a capital contribution and was not included in the loss on extinguishment and therefore had no impact on additional paid in capital. The remaining $42,719 was expensed to loss on extinguishment of debt and increased additional paid in capital.

For the nine months ended March 31, 2011 and 2010, $316,590 and $273,436, respectively, of the amortized debt discount was amortized through interest expense on the consolidated statement of operations. The remaining unamortized debt discount was $103 at March 31, 2011, and will be expensed in April 2011.

During the nine months ended March 31, 2011, the Company’s debt obligations were reduced by $832,500 through the conversions of certain debentures into shares of common stock. Costs associated with the conversion of these debentures were $6,748, which reduced the proceeds recognized. These transactions increased interest expense by

$101,300 for the nine months ending March 31, 2011, reflecting debt issue costs, prepaid interest and discount on the debt that were written off as a result of the debt conversions of certain Debentures into shares of common stock. During the fiscal year ended June 30, 2010, the Company's debt obligations were reduced by $262,500 through conversion of certain Debentures into shares of common stock.

Total principal outstanding on the Debentures and the amount outstanding for directors', officers' and stockholders' purchases under the Debentures was $1,101,750 and $1,012,500, respectively at March 31, 2011, less unamortized debt discount of $103 and $0, respectively.

We can force the debenture holders to convert the Debentures into shares of our common stock if our stock price exceeds $5.00 per share. A forced conversion of the Debentures would include a 10% premium on the face amount. No payment of dividends may be made while the Debentures are outstanding.

11. April 2010 Private Placement

On April 8, 2010 the Company executed a Securities Purchase Agreement with seven institutional and private investors, with respect to a private placement of an aggregate of 507,730 shares of the Company's Class A Common Stock, $0.01 par value (the "Common Stock") at $2.20 per share for all non-insider purchasers, and warrants to purchase 50,776 shares of Common Stock (the "Warrants"). The Warrants have an exercise price of $2.48 per share, are exercisable after October 8, 2010, and have a five-year term. The Company received aggregate gross cash proceeds from the issuance of the Common Stock (exclusive of proceeds from any future exercise of the Warrants) in the amount $1,117,000. The Company used the funds to purchase equipment which will enable us to manufacture an additional 3 million units per year, thereby expanding our pressing capacity, and provide working capital for our operations. Among the investors were J. James Gaynor and Louis Leeburg, both of whom were directors or officers of LightPath as of April 8, 2010, who paid $2.2325 per share for their shares.

The Company paid a commission to the exclusive placement agent for the offering, Garden State Securities, Inc., ("Garden State") in an amount equal to $89,000 plus costs and expenses. The Company also issued to Garden State and its designees warrants to purchase of an aggregate of 50,773 shares of Common Stock at an exercise price equal to $2.48 per share. The Warrants have a five-year term and are exercisable by Garden State and its designees after October 8, 2010.

The private placement is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) of the Act (in that the shares of Common Stock and Warrants were sold by the Company in a transaction not involving any public offering) and pursuant to Rule 506 of Regulation D promulgated thereunder. The shares of Common Stock and the shares of Common Stock underlying the Warrants were registered for resale under the Act. The registration statement was declared effective on May 20, 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the LightPath Technologies, Inc. ("LightPath", the "Company" or "we"). All statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 (the "Quarterly Report"), other than statements of historical facts, which address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as future capital expenditures, growth, product development, sales, business strategy and other similar matters are forward-looking statements. These forward-looking statements are based largely on our current expectations and assumptions and are subject to a number of risks and uncertainties, many of which are beyond our control. Actual results could differ materially from the forward-looking statements set forth herein as a result of a number of factors, including, but not limited to, limited cash resources and the need for additional financing, our dependence on a few key customers, our ability to transition our business into new markets, our ability to increase sales and manage and control costs and other risks described in our reports on file with the Securities and Exchange Commission ("SEC"). In light of these risks and uncertainties, all of the forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized. We undertake no obligation to update or revise any of the forward-looking statements contained herein.

The discussions of our results as presented in this Quarterly Report include use of the terms "EBITDA" and "gross margin." Gross margin is determined by deducting the cost of sales from operating revenue. Cost of sales includes manufacturing direct and indirect labor, materials, services, fixed costs for rent, utilities and depreciation, and variable overhead. Gross margin should not be considered an alternative to operating income or net income, which is determined in accordance with GAAP. We believe that gross margin, although a non-GAAP financial measure is useful and meaningful to investors as a basis for making investment decisions. It provides investors with information that demonstrates our cost structure and provides funds for our total costs and expenses. We use gross margin in measuring the performance of our business and have historically analyzed and reported gross margin information publicly. Other companies may calculate gross margin in a different manner.

EBITDA is a non-GAAP financial measure used by management, lenders and certain investors as a supplemental measure in the evaluation of some aspects of a corporation's financial position and core operating performance. Investors sometimes use EBITDA as it allows for some level of comparability of profitability trends between those businesses differing as to capital structure and capital intensity by removing the impacts of depreciation, amortization and interest expense. EBITDA also does not include changes in major working capital items such as receivables, inventory and payables, which can also indicate a significant need for, or source of, cash. Since decisions regarding capital investment and financing and changes in working capital components can have a significant impact on cash flow, EBITDA is not a good indicator of a business's cash flows. We use EBITDA for evaluating the relative underlying performance of the Company's core operations and for planning purposes. We calculate EBITDA by adjusting net loss to exclude net interest expense, income tax expense or benefit, depreciation and amortization, thus the term "Earnings Before Interest, Taxes, Depreciation and Amortization" and the acronym "EBITDA."

Overview

Historical: We are in the business of supplying users with glass lenses and other specialty optical products that have applications in a number of different industries. Due to the emergence of optical technologies in communications, networking and data storage products in the late 1990’s, there was a significant surge in demand for our products, particularly in the period represented by our fiscal years 1999-2001. During this period, our annual revenues increased from less than $2 million in sales to approximately $25 million due to both acquisitions (to add glass lens production capacity and market presence, and isolators to our existing line of collimators and proprietary glass lenses) and organic product line growth.

During fiscal 2002, optical component markets experienced a severe downturn that resulted in a significant decline in the demand for our products. By fiscal 2003, our sales had contracted to just under $7 million. The business infrastructure was too large and diverse to support a business of this reduced size and a decision was made in late fiscal 2002 and implemented during fiscal 2003 to close our isolator production facility in California and our headquarters and collimator and lens production facility in New Mexico. Our manufacturing and production equipment from these locations was consolidated in our headquarters and manufacturing facility in Orlando, Florida and until November 2005 all of the aforementioned products were manufactured there. The consolidation was completed by June 30, 2003, resulting in a significant reduction in net cash used by the business.

In November 2005, we formed 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 us to compete for larger production volumes of optical components and assemblies, and strengthened our partnerships within the Asia/Pacific region.

Since 2006, we have focused on leveraging our facility in Shanghai to address high volume, lower cost applications. These applications include laser tools, laser gun sights and certain imaging applications. We have enhanced our sales channels by adding distribution coverage in North America and Asia, and adding a master distributor in Europe.

We execute all foreign sales from our Orlando facility and intercompany transactions in U.S. dollars, mitigating the impact of foreign currency fluctuations. Assets and liabilities denominated in non-U.S. currencies, primarily the Chinese Renminbi, are translated at rates of exchange prevailing on the balance sheet date, and revenues and expenses are translated at average rates of exchange for the three-month and nine-month periods. During the nine months ended March 31, 2011 and 2010 we incurred a $1,090 gain and an $11,859 loss in on foreign currency translation, respectively.

How we operate: We have continuing sales of two basic types: occasional sales via ad-hoc purchase orders of mostly standard product configurations (our "turns" business); and the more challenging and potentially more rewarding business of custom product development. In this latter type of business, we work with customers in the industrial, medical, defense and communications markets to help them determine optical specifications and even create certain optical designs for them, including complex multi-component designs that we call "engineered assemblies." That is followed by "sampling" small numbers of the product for their test and evaluation. Thereafter, should the customer conclude that our specification or design is the best solution to their product need, we negotiate and "win" a contract (sometimes called a "design win") – whether of a "blanket purchase order" type or a supply agreement. The strategy is to create an annuity revenue stream that makes the best use of our production capacity as compared to the turns business, which is unpredictable and uneven. A key business objective is to convert as much of our business to the design win and annuity model as possible. We have several challenges in doing so:

Maintaining an optical design and new product sampling capability, including a high-quality and responsive optical design engineering staff.

Customers that incorporate products such as ours into higher volume commercial applications, continuously work to reduce their expenses, which often leads them to larger or overseas lower-cost suppliers even if sacrificing quality.

Because of our limited cash resources and cash flow, we may not be able to support the supply requirements needed to service the demands in the market for high volume, low cost lenses.

Despite these challenges to obtaining more design win business, we nevertheless have been, and believe we can continue to be, successful in procuring this business because of our unique capabilities in optical design engineering. Additionally, we believe that we offer value to some customers as a secondary or backup source of supply in the United States should they be unwilling to commit all of their source of supply of a critical component to a foreign merchant production source. We also continue to have the proprietary GRADIUM lens glass technology to offer to certain laser markets.

Our key indicators:

Usually on a weekly basis, management reviews a number of performance indicators. Some of these indicators are qualitative and others are quantitative. These indicators change from time to time as the opportunities and challenges in the business change. They are mostly non-financial indicators such as units of shippable output by major product line, production yield rates by major product line and the output and yield data from significant intermediary manufacturing processes that support the production of the finished shippable product. These indicators can be used to calculate such other related indicators as fully yielded unit production per-shift, which varies by the particular product and our state of automation in production of that product at any given time. Higher unit production per shift means lower unit cost and therefore improved margins or improved ability to compete where desirable for price sensitive customer applications. The data from these reports is used to determine tactical operating actions and changes. We believe that our non-financial production indicators, such as those noted, are proprietary information.

Financial indicators that are usually reviewed at the same time include the major elements of the micro-level business cycle:

- sales backlog;
- EBITDA;
- inventory levels; and
- accounts receivable levels and quality.

These indicators are similarly used to determine tactical operating actions and changes and are discussed in more detail below.

Sales Backlog – We believe that sales growth is our best indicator of success. Our best view into the efficacy of our sales efforts is in our "order book." Our order book equates to sales "backlog." It has a quantitative and a qualitative aspect: quantitatively, our backlog's prospective dollar value and qualitatively, what percent of the backlog is scheduled by the customer for date-certain delivery. We define our "disclosure backlog" as customer orders for delivery within one year which is reasonably likely to be fulfilled, including customer purchase orders and products to be provided under supply contracts if they meet the aforementioned criteria. At June 30, 2010 our disclosure backlog was approximately $2.95 million.

At March 31, 2011, our disclosure backlog has increased approximately $663,000 to $3.63 million during these slow economic times. We believe this growth to be partially the result of our efforts to enter low cost, high volume commercial markets, like the industrial laser tool market and other imaging related product markets. We have seen increased quote activity for our Black Diamond product line and our new blue lenses. Bookings and quote activity have increased for our industrial low cost lenses in Asia. With the continuing diversification of our backlog we expect to show modest increases in revenue for the remaining quarter of 2011.

	(Unaudited) Three months ended March 31,		(Unaudited) Nine months ended March 31,	
	2011	2010	2011	2010
Net Income (Loss)	$(375,728)	$12,052	$(1,602,392)	$(652,645)
Depreciation and amortization	227,861	193,795	655,131	497,226
Loss on extinguishment of debt	131,784	-	131,784	-
Interest expense	89,560	191,461	583,197	534,449
EBITDA	$73,477	$397,308	$(232,280)	$379,030

EBITDA- Our EBITDA for the nine months ended March 31, 2011 declined to a loss of $232,000, compared to a gain of $379,000 for the nine months ended March 31, 2010. The decline in EBITDA was principally caused by higher net losses. In fiscal 2010 our net loss was offset by a $556,000 reimbursement received from our D&O insurance carrier for legal expenses incurred in connection with litigation. For comparison purposes, net loss was approximately $1,602,000 or $0.14 per basic and diluted common share during the first nine months of fiscal 2011, compared with the first nine months of fiscal 2010, in which we reported a net loss of approximately $653,000 or $0.08 basic and diluted per common share.

Inventory Levels – We manage our inventory levels to minimize investment in working capital but still have the flexibility to meet customer demand to a reasonable degree. While the mix of inventory is an important factor, including adequate safety stocks of long lead-time materials, an important aggregate measure of inventory in all phases of production is the quarter's ending inventory expressed as a number of days worth of the quarter's cost of sales, also known as "days cost of sales in inventory," or "DCSI." It is calculated by dividing the quarter's ending inventory by the quarter's cost of goods sold, multiplied by 365 and divided by 4. Generally, a lower DCSI measure equates to a lesser investment in inventory and therefore more efficient use of capital. During the nine months ended March 31, 2011 and 2010, our DCSI was 105 and 71, respectively compared to 86 for the year ended June 30, 2010. This increase in DCSI for the nine months ended March 31, 2011 is due to higher inventory balances as our plants were producing units based on our forecast.

Accounts Receivable Levels and Quality – Similarly, we manage our accounts receivable to minimize investment in working capital. We measure the quality of receivables by the proportions of the total that are at various increments past due from our normally extended terms, which are generally 30 days. The most important aggregate measure of accounts receivable is the quarter's ending balance of net accounts receivable expressed as a number of day's worth of the quarter's net revenues, also known as "days sales outstanding," or "DSO." It is calculated by dividing the quarter's ending net accounts receivable by the quarter's net revenues, multiplied by 365 and divided by 4. Generally, a lower DSO measure equates to a lesser investment in accounts receivable, and therefore, more efficient use of capital. During the nine months ended March 31, 2011 and 2010, our DSO was 60 and 68, respectively. During the year ended June 30, 2010 our DSO was 71. Our DSO is higher than our target DSO of 50 due to 47% of the quarterly revenue earned was from products shipped in March, and therefore, the majority of our total current receivables have not been collected as of March 31, 2011.

Other Key Indicators – Other key indicators include various operating metrics, some of which are qualitative and others are quantitative. These indicators change from time to time as the opportunities and challenges in the business change. They are mostly non-financial indicators such as on time delivery trends, units of shippable output by major product line, production yield rates by major product line and the output and yield data from significant intermediary manufacturing processes that support the production of the finished shippable product. These indicators can be used to calculate such other related indicators as fully-yielded unit production per-shift, which varies by the particular product and our state of automation in production of that product at any given time. Higher unit production per shift means lower unit cost and therefore improved margins or improved ability to compete where desirable for price sensitive customer applications. The data from these reports is used to determine tactical operating actions and changes.

Liquidity and Capital Resources

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and as of March 31, 2011 the Company has an accumulated deficit of approximately $204 million. Cash flow and cash management continue to be primary concerns of the Company. Cash used in operations was $67,000 for the nine months ended March 31, 2011. Cash used in operations was $500,000 and $1.47 million during fiscal years 2010 and 2009, respectively. During fiscal 2010, management instituted cost reduction initiatives which included reductions in labor, material costs and discretionary expense spending. In addition, we redesigned certain product lines – collimators and precision molded lenses, increased sales prices on GRADIUM products, obtained more favorable material costs by sourcing some purchased components in China, and instituted more efficient management techniques which improved our product yields.

At March 31, 2011 we had a book cash balance of approximately $1.0 million. For the nine months ended March 31, 2011, cash decreased from June 30, 2010 by approximately $741,000, excluding the proceeds we received from the exercise of common stock warrants, compared to a decrease of approximately $809,000, excluding the private placement offering proceeds we received in the same period of the prior fiscal year. The use of cash in both periods was primarily for capital expenditures for equipment and tooling to support our growth initiatives. On May 2, 2011, the Company had a book cash balance of approximately $943,000.

Through the first nine months of fiscal 2011 we continued to engage in efforts to keep costs under control as we seek renewed sales growth. We continued to implement cost reduction initiatives, including increasing tooling life and increasing operator yields and efficiencies, lowering coating costs by qualifying coating vendors in China, improving yields on our infrared product line, reducing glass cost by moving more production to less expensive cost glasses and improving production yields and efficiencies. In the first nine months of fiscal 2011, 18% of our precision molded lenses sales in units were of more expensive glass types, compared to 21% in the prior fiscal year due to this product mix change.

We also expect sales increases and margin improvements during the rest of fiscal year 2011. The increased sales will allow us to spread our overhead cost over a larger base thereby increasing gross margins. Focused efforts are underway to penetrate non-laser markets such as closed circuit T.V. lenses, micro-projector lenses and industrial test equipment. In support of these efforts, the Company is engaged in new product development and customer prospecting for these markets. We believe that cash flow from operations will improve in the future based upon anticipated increases in sales and further cost reductions. We believe these factors will contribute toward achieving profitability assuming we meet our sales targets.

If our efforts at reaching positive cash flow and profitability are not successful, we will need to raise additional capital. Should capital not be available to us at reasonable terms, other actions may become necessary in addition to cost control measures and continued efforts to increase sales. These actions may include exploring strategic options for the sale of the Company, the sale of certain product lines, the creation of joint ventures or strategic alliances under which we will pursue business opportunities, the creation of licensing arrangements with respect to our technology, or other alternatives.

We continue to face financial challenges arising from current worldwide economic conditions which have affected our customers, suppliers, and others with whom we do business. Management believes the Company currently has sufficient cash to fund its operations through May 2012 assuming our revenue stays at current levels and no additional sources of capital are used. The extent to which the Company can sustain 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 rates 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 saving measures including seeking lower cost suppliers and attempting to negotiate price reductions from current suppliers. We are continually evaluating our supplier situation to ensure we meet our booked orders. This also includes seeking new suppliers and looking for price reductions.

Factors which could adversely affect cash balances in future quarters include, but are not limited to, a decline in revenue, poor cash collections from our accounts receivables, increased material costs, increased labor costs, planned production efficiency improvements not being realized, the current recession and economic times and increases in other discretionary spending, particularly sales and marketing costs.

Sources and Uses of Cash

Operating Activities

Our sources of operating cash consist of our limited cash reserves and the cash generated from the collection of receivables after invoicing customers for product shipments. Our uses of operating cash primarily consist of payments to vendors for materials and services purchased, payments to employees for wages and compensation, payments to providers of employee benefits, rent and utilities. Our plan is to minimize our investment in inventory but still support our sales and forecasted anticipated growth. We manage our accounts payable very carefully. We have taken certain actions to conserve our cash including extending payment terms with certain of our suppliers. We have negotiated payment plans with some key vendors and sometimes work with other vendors to develop payment plans.

Investing Activities

Periodically we make expenditures for capital goods. In both the first nine months of fiscal 2011 and 2010, we added press capacity and tooling for precision molded lenses. Tooling costs for precision molded lenses are capitalized. Recent capital spending projects have been focused on expanding capacity at our Shanghai facility to meet forecasted demand.

Financing Activities

We do not currently have any availability for borrowing under equipment leases or other loan facilities and we do not currently have any commitment from any party to provide any other financing to the Company. Since 2001, we have experienced negative cash flow or net use of cash from operations. This net use of cash has recently been met by drawing down on our cash and cash equivalent balances and raising additional funds through the sale of shares of common stock or debt convertible into shares of our common stock, such as our private placement offerings over the last five fiscal years. Our cash forecast also includes the repayment of $1,087,500 due in August 2013 on our convertible debentures, assuming the debenture holders have not previously converted the debt to common stock.

In the future, we may be required to replenish cash and cash equivalent balances through the sale of equity securities or by debt financing. The debentures issued by the Company to certain investors in August 2008 contain certain limitations on our ability to issue additional equity securities without the approval of the current debenture holders, or offering to such holders the ability to participate in the equity offerings. Ultimately, this may affect our ability to obtain additional equity financing. There can be no assurances that such financing will be available to us, or, if available, that the terms of such financing will be acceptable to us. As a result, there is significant risk to us in terms of having limited cash resources with which to continue our operations as currently conducted or to pursue new business opportunities. Either of these outcomes would materially and adversely affect our results of operations, financial performance and stock price.

Off Balance Sheet Arrangements

We do not engage in any activities involving variable interest entities or off-balance sheet arrangements.

Results of Operations

Fiscal Third Quarter: Three months ended March 31, 2011 compared to the three months ended March 31, 2010

Revenues:
For the quarter ended March 31, 2011, we reported total revenues of $2.43 million compared to $2.66 million for the third quarter of fiscal 2010, a decrease of 9%. The decrease in revenue, as compared to the same period of the prior fiscal year was primarily attributable to lower sales prices of precision molded optics despite increased unit volumes, and lower sales volume of GRADIUM lenses and isolators offset by higher sales for infrared lenses and collimators. Growth in sales going forward is expected to be derived primarily from the precision molded optics product line, where we have experienced an increase in bookings during this quarter.

Cost of Sales:
Our gross margin percentage in the third quarter of fiscal 2011 compared to third quarter of fiscal 2010 decreased to 40% from 47%. Total manufacturing cost of $1.46 million was approximately $47,000 higher in the third quarter of fiscal 2011 compared to the same period of the prior fiscal year. Our manufacturing costs were lower in the third quarter of fiscal 2010 due to the favorable impact of a one time accrual reversal in the amount of $69,000 for royalty payments due to the University of Florida. Unit shipment volume in precision molded lenses is up 61% in the third quarter of fiscal 2011 compared to the same period last year. Direct costs, which include material, labor and services, decreased to 24% of revenue in the third quarter of fiscal 2011, as compared to 26% of revenue in the third quarter of fiscal 2010 primarily due to increases in the number of units produced. Gross margins were also lower due to a 41% decrease in the average selling price per unit, but were offset by a 34% decrease in average cost per unit. Average cost per unit decreased due to the higher unit volume improving overhead absorption offset by slightly higher labor costs and increased freight costs.

The most significant factor creating potential downward pressure on our gross margins is the level of revenue from the sales of precision molded lenses, collimator and isolator products. Lower revenues generated from sales of these products may affect our ability to cover certain fixed costs related to such products. Our plants were at 63% of combined capacity for the nine months ended March 31, 2011. As our revenues increase we expect improvements in gross margins as our fixed overhead costs are amortized over a higher base.

Selling, General and Administrative:
During the third quarter of fiscal 2011, selling, general and administrative (“SG&A”) costs were approximately $861,000, compared to $817,000 in the third quarter of fiscal 2010, an increase of approximately $44,000. This increase was due to a $76,000 credit in the prior year for the reversal of an accrual for legal expenses offset by a $37,000 increase in investor relations expenses. We intend to maintain SG&A costs generally at current levels, while continuing to seek additional cost reduction opportunities.

New Product Development:
New product development costs increased to $266,000 in the third quarter of fiscal 2011 from approximately $222,000 in the third quarter of fiscal 2010. This increase was due to higher materials costs associated with our development projects. We anticipate these expenses to increase for the remainder of fiscal year 2011 as we invest in the continued development of our infrared product line.

Amortization of Intangibles:
Amortization expense from intangibles remained the same at approximately $8,000 per quarter in both the fiscal quarters ended March 31, 2011 and 2010.

Other Income (Expense):
Net interest expense was $93,000 in the third quarter of fiscal 2011 as compared to $191,000 in the third quarter of fiscal 2010, and represents interest on our convertible debentures, at 8% per annum and amortization of debt discount and debt costs. Loss on extinguishment of debt of $132,000 during the third quarter of fiscal 2011 resulted from the two year extension of the maturity date of our convertible debentures and included the write-off of approximately $89,000 of debt issuance costs and debt discount and premium of $43,000 from debt exchange for a non-related debt holder.

Net Income (Loss):
Net loss for the third quarter of fiscal 2011 was $376,000 or $0.04 per basic and diluted common share, compared with a net income of $12,000 or $0.00 per basic and diluted common share for the same period in fiscal 2010. The $388,000 increase in net loss resulted primarily from the loss on extinguishment of debt of $132,000 and a $76,000 reversal of a legal accrual in the prior year and lower revenue. Weighted-average basic shares outstanding increased to

9,715,266 in the third quarter of fiscal 2011 compared to 8,232,496 in the third quarter of fiscal 2010 which is primarily due to the issuance of shares of common stock related to a private placement in the fourth quarter of fiscal 2010 and convertible debentures that were converted to shares of common stock in the first and second quarters of fiscal 2011.

Fiscal First Nine Months: Nine months ended March 31, 2011 compared to the nine months ended March 31, 2010

Revenues:
For the nine months ended March 31, 2011, we reported total revenues of $7.22 million compared to $6.44 million for nine months ended March 31, 2010, an increase of 12%. This increase from the first nine months of fiscal 2010 was primarily attributable to higher sales volumes in all of our product lines. The number of units of precision molded optics increased 34% due to our increased production capability and our pursuit of low cost, high volume lens business. Growth in sales going forward is expected to be derived primarily from our precision molded optics product line, particularly our low cost lenses sold in Asia.

Cost of Sales:
Our gross margin percentage in the first nine months of fiscal 2011 compared to first nine months of fiscal 2010 decreased to 39% from 45%. Total manufacturing cost of $4.41 million was approximately $846,000 higher in the first nine months of fiscal 2011 compared to the same period of the prior fiscal year. This increase in manufacturing costs resulted from an increase in costs necessary to support higher production and sales volumes and a product mix change to products with a higher material cost, such as isolators and collimators. Direct costs, which include material, labor and services increased to 26% of revenue in the first nine months of fiscal 2011, as compared to 23% of revenue in the first nine months of fiscal 2010. Our average cost per unit decreased by 8% due to higher unit volume reducing overhead costs per unit offset by slightly higher labor costs and higher freight costs. This improvement in the average cost per unit was offset by a 17% decrease in the average selling price which negatively impacted our gross margin.

The most significant factor creating potential downward pressure on our gross margins is the level of revenue from the sales of precision molded optics, collimator and isolator products. Lower revenues generated from sales of these products may affect our ability to cover certain fixed costs related to such products. Our plants were at 63% capacity for the nine months ended March 31, 2011 and 39% of combined capacity for the nine months ended March 31, 2010. As our revenues increase we expect improvements in gross margins as our overhead costs are amortized over a higher base.

Selling, General and Administrative:
During the first nine months of fiscal 2011, SG&A costs were approximately $2.93 million, compared to $2.32 million in the first nine months of fiscal 2010, an increase of approximately $607,000. This increase was due to a $129,000 increase in wages, an $89,000 increase in sales tax, $38,000 in recruiting fees, $46,000 in outside services for information technology and a $58,000 increase in stock compensation expense due to stock options granted in the third quarter of fiscal 2010. In addition, costs were reduced in the first nine months of 2010 by a one time benefit resulting from an increase in legal expenses incurred which were offset by receipt of a reimbursement from our D&O insurance carrier in the net amount of $278,000 for legal expenses incurred in connection with litigation. We intend to maintain SG&A costs generally at current levels, while continuing to seek additional cost reduction opportunities.

New Product Development:
New product development costs increased by $43,000 to approximately $737,000 in the first nine months of fiscal 2011 compared to $650,000 in the first nine months of fiscal 2010. This increase was due to an increase in wages and materials costs associated with engineering projects. We anticipate these expenses to increase for the remainder of fiscal 2011 as we invest in the continued development of our infrared product line.

Amortization of Intangibles:
Amortization expense from intangibles remained the same at approximately $25,000 in each of the nine-month periods ended March 31, 2011 and 2010.

Other Income (Expense):
Net interest expense was approximately $583,000 in the first nine months of fiscal 2011 as compared to approximately $534,000 in the first nine months of fiscal 2010. This increase was due to the write-off of unamortized debt discount and debt costs related to the conversion of debentures totaling $832,500 into shares of common stock in the first nine months of fiscal 2011. Our interest expense included interest on our convertible debentures, at 8% per annum, the amortization of the related debt issuance costs and debt discount, and write off of debt issue costs, prepaid interest and debt discount for convertible debentures that were converted into shares of common stock during the first nine months of fiscal 2011. Loss on extinguishment of debt of $132,000 during the nine months ended March 31, 2011 resulted from the extension of the maturity date of our convertible debentures from August 2011 to August 2013 and included the write-off of approximately $89,000 of debt costs and debt discount and $43,000 premium from debt exchange for a non-related debenture holder.

Net Loss:
Net loss for the first nine months of fiscal 2011 was approximately $1.60 million or $0.17 per basic and diluted common share, compared with a net loss of approximately $653,000 or $0.08 per basic and diluted common share for the same period in fiscal 2010. The $950,000 increase in net loss was primarily from the loss on extinguishment of debt of $132,000, the reimbursement of $278,000 from our D&O insurance carrier for legal expenses, which was received last year and an increase of $457,000 in wages associated with the increased unit volume, sales and engineering development and an increase of $51,000 for stock compensation expense. Weighted-average basic shares outstanding increased to 9,474,204 in the first nine months of fiscal 2011 compared to 7,901,156 in the first nine months of fiscal 2010 which is primarily due to the issuance of shares of common stock related to a private placement in the fourth quarter of fiscal 2010 and convertible debentures converted into shares of common stock in the first half of fiscal 2011.

Critical Accounting Policies and Estimates:

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 which were 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 attempts to collect a receivable have failed, the receivable is written off against the allowance.

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 and 25% for products 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.

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.

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.

Beneficial Conversion and Warrant Valuation. The Company recorded 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 was recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value using the Black-Scholes-Merton pricing model, 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 were recognized as non-cash interest expense over the term of the convertible debt, using the effective interest method.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of March 31, 2011, the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011 in reporting on a timely basis information required to be disclosed by us in the reports we file or submit under the Exchange Act.

During the fiscal nine months ended March 31, 2011, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 6. Exhibits

The following exhibits are filed herewith as a part of this report.

Exhibit Number	Description	Notes
3.1.1	Certificate of Incorporation of Registrant, filed June 15, 1992 with the Secretary of State of Delaware	1
3.1.2	Certificate of Amendment to Certificate of Incorporation of Registrant, filed October 2, 1995 with the Secretary of State of Delaware	1
3.1.3	Certificate of Designations of Class A common stock and Class E-1 common stock, Class E-2 common stock, and Class E-3 common stock of Registrant, filed November 9, 1995 with the Secretary of State of Delaware	1

3.1.4	Certificate of Designation of Series A Preferred Stock of Registrant, filed July 9, 1997 with the Secretary of State of Delaware	2
3.1.5	Certificate of Designation of Series B Stock of Registrant, filed October 2, 1997 with the Secretary of State of Delaware	3
3.1.6	Certificate of Amendment of Certificate of Incorporation of Registrant, filed November 12, 1997 with the Secretary of State of Delaware	3
3.1.7	Certificate of Designation of Series C Preferred Stock of Registrant, filed February 6, 1998 with the Secretary of State of Delaware	4
3.1.8	Certificate of Designation, Preferences and Rights of Series D Participating Preferred Stock of Registrant filed April 29, 1998 with the Secretary of State of Delaware	5
3.1.9	Certificate of Designation of Series F Preferred Stock of Registrant, filed November 2, 1999 with the Secretary of State of Delaware	6
3.1.10	Certificate of Amendment of Certificate of Incorporation of Registrant, filed February 28, 2003 with the Secretary of State of Delaware	7
3.2	Bylaws of Registrant	1
4.1	Rights Agreement dated May 1, 1998, between Registrant and Continental Stock Transfer & Trust Company	5
4.2	First Amendment to Rights Agreement dated as of February 28, 2008, between LightPath Technologies, Inc. and Continental Stock Transfer & Trust Company	12
10.1	Directors Compensation Agreement dated November 11, 1999 between Robert Ripp and LightPath Technologies, Inc. and First Amendment thereto	8
10.2	Amended and Restated Omnibus Incentive Plan dated October 15, 2002	9
10.3	Employee Letter Agreement dated June 12, 2008, between LightPath Technologies, Inc., and J. James Gaynor, its Chief Executive Officer & President	10
10.4	Form of Common Stock Purchase Warrant dated as of August 1, 2008, issued by LightPath Technologies, Inc., to certain investors	11
10.5	Securities Purchase Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc., and certain investors	11
10.6	Registration Rights Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc., and certain investors	11
10.7	Security Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc. and certain investors	11

10.8	Form of Subsidiary Guarantee dated as of August 1, 2008, by Geltech Inc., and LightPath Optical Instrumentation (Shanghai), Ltd., in favor of certain investors	11
10.9	Form of 8% Senior Secured Convertible Debenture dated as of August 1, 2008, issued by LightPath Technologies, Inc., to certain investors	11
10.10	First Amendment to the 8% Senior Secured Convertible Debenture, dated as of December 31, 2008	13
10.11	Amendment No. 2 to the Amended and Restated LightPath Technologies, Inc. Omnibus Incentive Plan, dated as of December 30, 2008	14
10.12	Form of Common Stock Purchase Warrant dated as of August 19, 2009, issued by LightPath Technologies, Inc., to certain investors	15

10.13	Securities Purchase Agreement dated as of August 19, 2009, by and among LightPath Technologies, Inc. and certain investors	15
10.14	Registration Rights Agreement dated as of August 19, 2009, by and among LightPath Technologies, Inc., and certain investors	15
10.15	Form of Common Stock Purchase Warrant dated as of April 8, 2010, issued by LightPath Technologies, Inc. to certain investors	16
10.16	Securities Purchase Agreement dated as of April 8, 2010, by and among LightPath Technologies, Inc. and certain investors	16
10.17	Registration Rights Agreement dated as of April 8, 2010, by and among LightPath Technologies, Inc., and certain investors	16
10.18	Second Amendment to the 8% Senior Secured Convertible Debenture, dated as of March 30, 2011	17
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code	*

Notes:

1. This exhibit was filed as an exhibit to our Registration Statement on Form SB-2 (File No: 33-80119) filed with the Securities and Exchange Commission on December 7, 1995 and is incorporated herein by reference thereto.

2. This exhibit was filed as an exhibit to our annual report on Form 10-KSB40 filed with the Securities and Exchange Commission on September 11, 1997 and is incorporated herein by reference thereto.

3. This exhibit was filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 1997 and is incorporated herein by reference thereto.

4. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No. 333-47905) filed with the Securities and Exchange Commission on March 13, 1998 and is incorporated herein by reference thereto.

5. This exhibit was filed as an exhibit to our Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 28, 1998 and is incorporated herein by reference thereto.

6. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No: 333-94303) filed with the Securities and Exchange Commission on January 10, 2000 and is incorporated herein by reference thereto.

7. This exhibit was filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on January 24, 2003 and is incorporated herein by reference thereto.

8. This exhibit was filed as an exhibit to our annual report on Form 10-KSB filed with the Securities and Exchange Commission on August 31, 2000 and is incorporated herein by reference thereto.

9. This exhibit was filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on September 12, 2002 and is incorporated herein by reference.

10. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2008, and is incorporated herein by reference thereto.

11. This exhibit was filed as an exhibit to our Current Report on Form 8-K/A filed with the Securities and Exchange Commission on August 6, 2008, and is incorporated herein by reference thereto.

12. This exhibit was filed as amendment number 1 to form 8A filed with the Securities and Exchange Commission on February 28, 2008, and is incorporated herein by reference thereto.

13. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2009, and is incorporated herein by reference thereto.

14. This exhibit was filed as an exhibit to our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 12, 2009, and is incorporated herein by reference thereto.

15. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 20, 2009, and is incorporated herein by reference thereto.

16. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 9, 2010, and is incorporated herein by reference thereto.

17. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2011, and is incorporated herein by reference thereto.

* Filed herewith.

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.

		LIGHTPATH TECHNOLOGIES, INC.	
Date:	May 3, 2011	By:	/s/ J. James Gaynor President and Chief Executive Officer
Date:	May 3, 2011	By:	/s/ Dorothy M. Cipolla Chief Financial Officer