

LIGHTPATH TECHNOLOGIES INC  
Form 10-Q  
February 04, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-27548

LIGHTPATH TECHNOLOGIES, INC.

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(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

86-0708398  
(I.R.S. Employer  
Identification No.)

<http://www.lightpath.com>

2603 Challenger Tech Ct. Suite 100  
Orlando, Florida 32826

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(Address of principal executive offices)  
(ZIP Code)

(407) 382-4003

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(Registrant's telephone number, including area code)

N/A

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

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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  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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

8,205,261 shares of common stock, Class A, \$.01 par value, outstanding as of February 1, 2010.

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LIGHTPATH TECHNOLOGIES, INC.

Form 10-Q

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## Item 1. Financial Statements

LIGHTPATH TECHNOLOGIES, INC.  
Consolidated Balance Sheets

|   | Unaudited<br>December 31,<br>2009 | June 30,<br>2009 |
|---|-----------------------------------|------------------|
| <b>Assets</b>   |                                   |                  |
| Current assets:   |                                   |                  |
| Cash and cash equivalents   | \$906,140                         | \$579,949        |
| Trade accounts receivable, net of allowance of \$27,024 and \$26,131  | 1,467,357                         | 973,634          |
| Inventories, net  | 1,052,962                         | 983,278          |
| Other receivables   | —                                 | 183,413          |
| Prepaid interest expense  | 316,690                           | 366,219          |
| Prepaid expenses and other assets   | 203,653                           | 173,882          |
| Total current assets  | 3,946,802                         | 3,260,375        |
| Property and equipment - net  | 2,210,432                         | 2,024,571        |
| Intangible assets - net   | 150,435                           | 166,869          |
| Debt costs, net   | 229,232                           | 299,080          |
| Other assets  | 27,737                            | 78,701           |
| Total assets  | \$6,564,638                       | \$5,829,596      |
| <b>Liabilities and Stockholders' Equity</b>   |                                   |                  |
| Current liabilities:  |                                   |                  |
| Accounts payable  | \$1,258,334                       | \$1,376,599      |
| Accrued liabilities   | 76,112                            | 181,318          |
| Accrued payroll and benefits  | 258,988                           | 332,609          |
| Note payable, current portion   | 27,640                            | 152,758          |
| Capital lease obligation, current portion   | —                                 | 5,050            |
| Total current liabilities   | 1,621,074                         | 2,048,334        |
| Deferred rent   | 622,289                           | 644,056          |
| 8% convertible debentures to related parties, net of debt discount  | 195,294                           | 175,255          |
| 8% convertible debentures, net of debt discount   | 1,388,515                         | 1,270,725        |
| Total liabilities   | 3,827,172                         | 4,138,370        |
| Stockholders' equity:   |                                   |                  |
| Preferred stock: Series D, \$.01 par value, voting; 5,000,000 shares authorized; none issued and outstanding                                      | —                                 | —                |
| Common stock: Class A, \$.01 par value, voting; 40,000,000 shares authorized; 8,205,261 and 6,696,992 shares issued and outstanding, respectively | 82,053                            | 66,970           |
| Additional paid-in capital  | 204,858,863                       | 203,151,364      |
| Foreign currency translation adjustment   | 46,588                            | 58,233           |
| Accumulated deficit   | (202,250,038)                     | (201,585,341)    |
| Total stockholders' equity  | 2,737,466                         | 1,691,226        |
| Total liabilities and stockholders' equity  | \$6,564,638                       | \$5,829,596      |

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



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

|  | Three months ended<br>December 31, |               | Six months ended<br>December 31, |               |
|--|------------------------------------|---------------|----------------------------------|---------------|
|  | 2009                               | 2008          | 2009                             | 2008          |
| Product sales, net                                       | \$2,226,454                        | \$1,905,202   | \$3,783,433                      | \$4,242,964   |
| Cost of sales  | 1,268,531                          | 1,438,234     | 2,156,874                        | 3,144,992     |
| Gross margin   | 957,923                            | 466,968       | 1,626,559                        | 1,097,972     |
| Operating expenses:                                      |                                    |               |                                  |               |
| Selling, general and administrative                      | 543,703                            | 1,108,931     | 1,505,465                        | 2,338,450     |
| New product development                                  | 201,764                            | 227,775       | 427,674                          | 502,468       |
| Amortization of intangibles                              | 8,217                              | 8,217         | 16,434                           | 16,434        |
| Gain on sale of property and equipment                   | —                                  | (1,200 )      | —                                | (7,707 )      |
| Total costs and expenses                                 | 753,684                            | 1,343,723     | 1,949,573                        | 2,849,645     |
| Operating income (loss)                                  | 204,239                            | (876,755 )    | (323,014 )                       | (1,751,673)   |
| Other income (expense):                                  |                                    |               |                                  |               |
| Interest expense   | (45,378 )                          | (280,983 )    | (97,811 )                        | (343,382 )    |
| Interest expense - debt discount                         | (84,401 )                          | (409,438 )    | (175,329 )                       | (478,320 )    |
| Interest expense - debt costs                            | (33,623 )                          | (163,105 )    | (69,848 )                        | (190,546 )    |
| Investment and other income                              | 839                                | 4,773         | 1,305                            | 14,604        |
| Total other expense, net                                 | (162,563 )                         | (848,753 )    | (341,683 )                       | (997,644 )    |
| Net income (loss)  | \$41,676                           | \$(1,725,508) | \$(664,697 )                     | \$(2,749,317) |
| Income (Loss) per common share (basic)                   | \$0.01                             | \$(0.29 )     | \$(0.09 )                        | \$(0.49 )     |
| Number of shares used in per share calculation (basic)   | 8,163,675                          | 5,892,829     | 7,739,087                        | 5,652,444     |
| Income (Loss) per common share (diluted)                 | \$0.00                             | \$(0.29 )     | \$(0.09 )                        | \$(0.49 )     |
| Number of shares used in per share calculation (diluted) | 8,595,396                          | 5,892,829     | 7,739,087                        | 5,652,444     |

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

LIGHTPATH TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
Six months ended December 31, 2009  
(Unaudited)

|  | Class A<br>Common Stock<br>Shares | Amount    | Additional<br>Paid-in<br>Capital | Foreign<br>Currency<br>Translation<br>Adjustment | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|--|-----------------------------------|-----------|----------------------------------|--|------------------------|----------------------------------|
| Balance at June 30, 2009   | 6,696,992                         | \$ 66,970 | \$ 203,151,364                   | \$ 58,233  | \$ (201,585,341)       | \$ 1,691,226                     |
| Issuance of common stock for:  |                                   |           |                                  |  |                        |                                  |
| Employee Stock Purchase Plan   | 5,569                             | 56        | 3,026                            | —  | —                      | 3,082                            |
| Vested restricted stock units  | 20,000                            | 200       | (200 )                           | —  | —                      | —                                |
| Conversion of debentures   | 24,351                            | 244       | 37,256                           | —  | —                      | 37,500                           |
| Cashless exercise of warrants  | 63,622                            | 636       | (636 )                           | —  | —                      | —                                |
| Settlement of litigation   | 26,455                            | 265       | 49,735                           | —  | —                      | 50,000                           |
| Consulting services  | 69,445                            | 694       | 149,306                          | —  | —                      | 150,000                          |
| Stock based compensation on stock options and restricted stock units | —                                 | —         | 64,910                           | —  | —                      | 64,910                           |
| Sale of common stock and warrants, net                               | 1,298,827                         | 12,988    | 1,404,102                        | —  | —                      | 1,417,090                        |
| Foreign currency translation adjustment                              | —                                 | —         | —                                | (11,645 )  | —                      | (11,645 )                        |
| Net loss   | —                                 | —         | —                                | —  | (664,697 )             | (664,697 )                       |
| Comprehensive loss   |                                   |           |                                  |  |                        | (676,342 )                       |
| Balance at December 31, 2009   | 8,205,261                         | \$ 82,053 | \$ 204,858,863                   | \$ 46,588  | \$ (202,250,038)       | \$ 2,737,466                     |

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

## LIGHTPATH TECHNOLOGIES, INC.

## Consolidated Statements of Cash Flows

(Unaudited)

|   | Six months ended<br>December 31, |               |
|---|----------------------------------|---------------|
|   | 2009                             | 2008          |
| <b>Cash flows from operating activities</b>                                 |                                  |               |
| Net loss  | \$(664,697 )                     | \$(2,749,317) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                  |               |
| Depreciation and amortization   | 303,431                          | 320,918       |
| Interest from amortization of debt discount                                 | 175,329                          | 478,320       |
| Fair value of warrants issued to induce debenture conversion                | —                                | 215,975       |
| Interest from amortization of debt costs                                    | 69,848                           | 190,546       |
| Issuance of common stock for interest on convertible debentures             | —                                | 97,633        |
| Common stock issued for legal settlement                                    | 50,000                           | —             |
| Gain on sale of property and equipment                                      | —                                | (7,707 )      |
| Stock based compensation  | 64,910                           | 52,452        |
| Provision for doubtful accounts receivable                                  | 893                              | 12,952        |
| Deferred rent   | (21,767 )                        | (427 )        |
| Common stock issued for payment of consulting services                      | 150,000                          | 49,800        |
| Changes in operating assets and liabilities:                                |                                  |               |
| Trade accounts receivables  | (494,616 )                       | 14,691        |
| Other receivables   | 183,413                          | —             |
| Inventories   | (69,684 )                        | 169,155       |
| Prepaid expenses and other assets   | 70,722                           | 17,301        |
| Accounts payable and accrued liabilities                                    | (297,092 )                       | (949,878 )    |
| Net cash used in operating activities                                       | (479,310 )                       | (2,087,586)   |
| <b>Cash flows from investing activities</b>                                 |                                  |               |
| Purchase of property and equipment  | (472,858 )                       | (116,013 )    |
| Proceeds from sale of equipment   | —                                | 37,791        |
| Net cash used in investing activities                                       | (472,858 )                       | (78,222 )     |
| <b>Cash flows from financing activities</b>                                 |                                  |               |
| Proceeds from sale of common stock, net of costs                            | 1,417,090                        | —             |
| Proceeds from sale of common stock from employee stock purchase plan        | 3,082                            | 11,191        |
| Borrowings on 8% convertible debenture, net of issuance costs               | —                                | 2,672,430     |
| Payments on secured note payable  | —                                | (260,828 )    |
| Payments on capital lease obligation  | (5,050 )                         | (8,992 )      |
| Payments on note payable  | (125,118 )                       | (83,323 )     |
| Net cash provided by financing activities                                   | 1,290,004                        | 2,330,478     |
| Effect of exchange rate on cash and cash equivalents                        | (11,645 )                        | 382           |
| Increase in cash and cash equivalents                                       | 326,191                          | 165,052       |
| Cash and cash equivalents, beginning of period                              | 579,949                          | 358,457       |
| Cash and cash equivalents, end of period                                    | \$906,140                        | \$523,509     |
| Supplemental disclosure of cash flow information:                           |                                  |               |
| Interest paid in cash   | \$3,057                          | \$27,639      |



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|  |        |         |
|--|--------|---------|
| Income taxes paid  | 2,110  | 2,625   |
| Supplemental disclosure of non-cash investing & financing activities:              |        |         |
| Convertible debentures converted into common stock                                 | 37,500 | 732,250 |
| Fair value of warrants issued to broker of debt financing                          | —      | 194,057 |
| Fair value of warrants and incentive shares issued to debenture holders            | —      | 790,830 |
| Intrinsic value of beneficial conversion feature underlying convertible debentures | —      | 600,635 |

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 Technologies 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, 2009 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.

Certain numbers have been adjusted in prior periods to correspond to current presentation.

### History and Liquidity

History: LightPath was incorporated in Delaware in 1992 to pursue a strategy of supplying hardware to the telecommunications industry. In April 2000, the Company acquired Horizon Photonics, Inc. (“Horizon”), and in September 2000 the Company acquired Geltech, Inc. (“Geltech”). During fiscal 2003, in response to sales declines in the telecommunications industry, the operations of Horizon in California and LightPath in New Mexico were consolidated into the former Geltech facility in Orlando, Florida. In November 2005, the Company announced the formation of LightPath Optical Instrumentation (Shanghai) Co., Ltd. (“LPOI”) a wholly owned manufacturing subsidiary located in Jiading, People’s Republic of China (“PRC”). The manufacturing operations are housed in a 16,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant has increased overall production capacity and enabled LightPath to compete for larger production volumes of optical components and assemblies, and strengthened partnerships within the Asia/Pacific region. It also provides a launching point to drive the Company’s sales expansion in the Asia/Pacific region. Over 95% of precision molded lenses were manufactured in the Shanghai facility during the six months ended December 31, 2009 compared to over 90% during the six months ended December 31, 2008.

The Company is engaged in the production of precision molded aspherical lenses, GRADIUM® glass lenses, collimators and isolator optics used in various markets, including industrial, medical, defense, test & measurement and telecommunications.

### Going Concern and Managements Plans

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and as of December 31, 2009 the Company has an accumulated deficit of approximately \$202 million. Cash used in operations was \$846,000 for the six months ended December 31, 2009. Cash used in operations was \$1.5 million, \$3.4 million and \$1.9 million during fiscal years ended 2009, 2008 and 2007, respectively. Cost reduction initiatives in the first half of fiscal 2010 include the transition of more precision molded lenses to less expensive glass, increasing tooling life, increasing operator yields and efficiencies, qualifying coating vendors in China and improving yields on our infrared product line. In the first half of fiscal 2010 17% of our precision molded optics sales in units were of

more expensive glass types, compared to 57% in the prior fiscal year. Management believes these factors will contribute towards achieving profitability assuming we meet out sales targets.

Management has developed an operating plan for fiscal year 2010 and believes the Company has adequate financial resources to achieve that plan and to sustain its current operations through January 2011. Nevertheless, management will be monitoring the plan closely during the year and should the plan objectives not be met during the year, remedial actions will

be initiated. The Company had a cash balance of approximately \$906,000 at December 31, 2009. In August 2009 we raised net proceeds of \$1,417,090 from the sale of common stock. We may still 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 financial resources are not sufficient to sustain our operations or to pursue our business plan.

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

Our results for the six months ended December 31, 2009 were comparable to our six month operating plan for the six months ended December 31, 2009. Our revenues were lower than expected in the precision molded optics product line but we met our budgeted gross margin percentage. The shortfall in forecasted margin dollars was offset by lower selling, general & administrative expenses and an unexpected payment from the sale of the balance of our insurance claim against our D&O insurance carrier for legal expenses previously incurred.

Liquidity: Cash continues to be a concern of the Company. In fiscal 2007, 2008 and 2009, cash used in operations was approximately \$1.9 million, \$3.4 million and \$1.5 million, respectively. During the six months ended December 31, 2009, the Company used approximately \$846,000 of cash for operating activities.

For the six months ended December 31, 2009, cash increased by \$326,000 compared to an increase of \$165,000 in the same period of the prior fiscal year. The increase in cash in fiscal 2009 was primarily related to net proceeds of \$2,672,430 received by the Company through a debenture offering in August 2008 offset by spending for net losses, working capital, fixed asset purchases and notes payable. The increase in cash for fiscal 2010 was due to net proceeds of \$1,417,090 received by the Company through a \$1,636,500 private placement of common stock and warrants in August 2009, offset by spending on labor and benefits, rent and utilities, period expenses, working capital, fixed assets purchases and notes payable.

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

Management believes the Company currently has sufficient cash to fund its operations through January 2011 assuming our revenue stays at current levels and no additional sources of capital are used. The extent to which the Company can sustain its operations beyond this date will depend on the Company's ability to generate cash from operations on increased revenues from low cost and infrared lenses or sale of non-strategic assets or from future equity or debt financing. Recent quarterly booking trends have risen over the last fiscal year. Management believes that taking the current booking rate combined with the existing order backlog the Company will be able to generate increased revenues. If we determine that future revenues are below current projections then we will attempt to implement additional cost savings measures including seeking lower cost suppliers and attempting to negotiate price reductions from current suppliers. We are continuously evaluating our supplier situation to ensure we meet our booked orders.



## 2. Significant Accounting Policies

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

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

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

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

Inventories, which consist principally of raw materials, work-in-process and finished lenses, isolators, collimators and assemblies are stated at the lower of cost or market, on a first-in, first-out basis. Inventory costs include materials, labor and manufacturing overhead. Acquisition of goods from our vendors has a 10% purchase burden added to cover shipping and handling costs. Fixed costs related to excess manufacturing capacity have been expensed. Also unusual or abnormal costs, primarily relating to the start up of the Shanghai facility have been expensed. The inventory obsolescence reserve is calculated by reserving 100% for items that have not been sold in two years or that have not been purchased in two years or of which we have more than a two year supply, as well as reserving 50% for other items deemed to be slow moving within the last 12 months and reserving 25% for items deemed to have low material usage within the last six months.

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

Long-lived assets, such as property, plant, and equipment, 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.

Tooling costs consist of ring, sleeve and mold purchases for our precision molded optics product line. They are included in property, plant and equipment. Tooling costs are capitalized and amortized to cost of goods sold over a life of one to five years on a straight line basis.

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

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

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

New product development costs are expensed as incurred.

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

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

Financial instruments. During the first quarter of fiscal 2009, the Company adopted FASB ASC 820, Fair Value Measurements and Disclosures (“ASC 820”) (formerly referenced as SFAS No. 157, Fair Value Measurements), which introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to



transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2009. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which include cash equivalents of \$449,148 at December 31, 2009. 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, other receivables, accounts payable and accrued liabilities. Fair values were assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. The carrying value of note payable and capital lease obligations, approximate their fair values because the interest rates associated with the instruments approximates current interest rates charged on similar current borrowings.

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 footnote 11 to the accompanying consolidated financial statements. The Debentures issued were valued using observable inputs other than quoted prices (Level 2). The fair value as of December 31, 2009 of the promissory notes was calculated to be \$1,583,809.

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

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

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

Derivative Financial Instruments. The Company accounts for derivative instruments in accordance with FASB ASC 815, Derivatives and 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 records a beneficial conversion feature (“BCF”) related to the issuance of convertible debt instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The

discounts recorded in connection with the BCF and warrant valuation are recognized as non-cash interest expense-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 14 - Foreign Operations in the annual consolidated financial statements filed with the Company's Form 10-K for the year ended June 30, 2009.

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

Subsequent Events. In May 2009, the FASB established general accounting standards and disclosure for subsequent events. The Company adopted FASB ASC 855, Subsequent Events (formerly referenced as SFAS No. 165, Subsequent Events) ("ACS 855"), during the fourth quarter of fiscal 2009. The Company has evaluated subsequent events through the date and time the financial statements were issued on February 4, 2010.

Recent Accounting Pronouncements, which have had or may have an effect on the consolidated financial statements, are as follows:

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

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

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

During June 2008, the FASB issued ASC 815, Derivatives and Hedging, ("ASC 815") (formally referenced as Emerging Issues Task Force ("EITF") Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock ("EITF 07-05")), which is effective for fiscal years beginning after December 15, 2008. ASC 815 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock. If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under ASC 815 is

indexed to an entity's own stock, it is still necessary to evaluate whether it is classified in stockholders' equity (or would be classified in

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stockholders' equity if it were a freestanding instrument). The Company has determined that ASC 815 does not materially affect, and is not reasonably likely to materially affect, its consolidated financial statements.

In August 2009, the Financial Accounting Standards Board or FASB issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures ("Topic 820") - Measuring Liabilities at Fair Value an Update 2009-05. Update 2009-05 amends subtopic 820-10, "Fair Value Measurements and Disclosures- Overall" and provides clarification for the fair value measurement of liabilities in circumstances where quoted prices for an identical liability in an active market are not available. The amendments also provide clarification for not requiring the reporting entity to include separate inputs or adjustments to other inputs relating to the existence of a restriction that prevents the transfer of a liability when estimating the fair value of a liability. Additionally, these amendments clarify that both the quoted price in an active market for an identical liability at the measurement date and the quoted price for an identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are considered Level 1 fair value measurements. These requirements are effective for financial statements issued after the release of Update 2009-05. We adopted the requirements on December 31, 2009 and it did not have a material impact on our financial position, results of operations or related disclosures.

### 3. Inventories

The components of inventories include the following at:

|                             | (unaudited)          |                  |
|-----------------------------|----------------------|------------------|
|                             | December 31,<br>2009 | June 30,<br>2009 |
| Raw material                | \$ 534,725           | \$ 393,582       |
| Work in Process             | 459,191              | 378,360          |
| Finished Goods              | 436,884              | 563,493          |
| Reserve for<br>obsolescence | (377,837 )           | (352,157)        |
|                             | \$ 1,052,963         | \$ 983,278       |

### 4. Property and Equipment

Property and equipment are summarized as follows:

|  | Estimated<br>Life (Years) | December 31,<br>2009<br>(Unaudited) | June 30,<br>2009 |
|--|---------------------------|-------------------------------------|------------------|
| Manufacturing equipment                        | 5 - 10                    | \$ 4,243,211                        | \$ 6,982,244     |
| Computer equipment and software                | 3 - 5                     | 245,943                             | 529,259          |
| Furniture and fixtures                         | 5                         | 169,854                             | 217,669          |
| Leasehold improvements                         | 6 - 7                     | 1,225,751                           | 1,244,434        |
| Tooling  | 1 - 5                     | 408,668                             | 68,071           |
| Total Property and Equipment                   |                           | 6,396,527                           | 9,041,677        |
| Less accumulated depreciation and amortization |                           | 4,082,996                           | 7,017,106        |
| Total property and equipment, net              |                           | \$ 2,210,432                        | \$ 2,024,571     |



During the second quarter of fiscal year 2010 manufacturing equipment and computer equipment in the amount of \$3,195,082 was written off as abandoned assets. These assets were fully depreciated.

## 5. Intangible Assets

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

|                          | (Unaudited)<br>December 31,<br>2009 | June 30, 2009 |
|--------------------------|-------------------------------------|---------------|
| Gross carrying amount    | \$ 621,303                          | \$ 621,303    |
| Accumulated amortization | (470,868 )                          | (454,434 )    |
| Net carrying amount      | \$ 150,435                          | \$ 166,869    |

Amortization expense related to intangible assets totaled approximately \$16,434 during both six-month periods ended December 31, 2009 and 2008. The net carrying amount will be amortized over the following schedule:

| 2010   | 2011   | 2012   | 2013   | 2014   | Thereafter | Total   |
|--------|--------|--------|--------|--------|------------|---------|
| 16,434 | 32,868 | 32,868 | 32,868 | 32,868 | 2,529      | 150,435 |

## 6. Accounts Payable

The accounts payable balance includes \$33,600 and \$86,931 of related party transactions for board of director's fees as of December 31, 2009 and June 30, 2009, respectively.

## 7. Compensatory Equity Incentive Plan and Other Equity Incentives

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

These two plans are summarized below:

|   | Award Shares<br>Authorized | Award Shares<br>Outstanding<br>at December 31,<br>2009 | Available for<br>Issuance<br>at December 31,<br>2009 |
|---|----------------------------|--|--|
| Equity Compensation Arrangement             |                            |  |  |
| Amended and Restated Omnibus Incentive Plan | 1,715,625                  | 638,390  | 657,105  |
| Employee Stock Purchase Plan                | 200,000                    | —  | 144,388  |
|   | 1,915,625                  | 638,390  | 801,493  |

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



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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 \$397 and \$1,158 for the six months ended December 31, 2009 and 2008, respectively.

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

There were no stock options or restricted stock units granted in the six month period ended December 31, 2009. There were no stock options and 75,000 restricted stock units granted in the six months ended December 31, 2008.

Most options granted under the Company's Amended and Restated Omnibus Incentive Plan vest ratably over two to four years and are generally exercisable for ten years. The assumed forfeiture rates used in calculating the fair value of options and restricted stock unit grants with both performance and service conditions were 49% and 5%, respectively, for the six months ended December 31, 2009 and 46% and 5%, respectively, for the six months ended December 31, 2008. The volatility rate and expected term are based on five-year historical trends in common stock closing prices and actual forfeitures. The interest rate used is the U.S. Treasury interest rate for constant maturities.

**Information Regarding Current Share-Based Compensation Awards**—A summary of the activity for share-based compensation awards in the six months ended December 31, 2009 is presented below:

|                                     | Shares    | Stock Options                               |  | Restricted Stock Units ("RSU") |  |
|-------------------------------------|-----------|---|--|--------------------------------|--|
|                                     |           | Weighted Average Exercise Price (per share) | Weighted Average Remaining Contract Life (YRS) | Shares                         | Weighted Average Remaining Contract Life (YRS) |
| June 30, 2009                       | 369,940   | \$ 8.10                                     | 7.6  | 304,700                        | 0.9  |
| Granted                             | —         | —   | —  | —                              | —  |
| Exercised                           | —         | —   | —  | (20,000 )                      | —  |
| Cancelled                           | (16,250 ) | 20.91                                       | 7.9  | —                              | —  |
| December 31, 2009                   | 353,690   | \$ 7.51                                     | 7.1  | 284,700                        | 0.8  |
| Awards exercisable/vested as of     |           |   |  |                                |  |
| December 31, 2009                   | 175,286   | \$ 13.45                                    | 6.0  | 184,700                        | —  |
| Awards unexercisable/unvested as of |           |   |  |                                |  |
| December 31, 2009                   | 178,404   | \$ 2.31                                     | 8.2  | 100,000                        | 0.8  |
|                                     | 353,690   |   |  | 284,700                        |  |

The total intrinsic value of options outstanding and exercisable at December 31, 2009 and 2008 was \$45,207 and \$0 respectively.



The total intrinsic value of RSUs exercised during the six months ended December 31, 2009 and 2008 was \$33,800 and \$7,700, respectively.

The total intrinsic value of RSUs outstanding and exercisable at December 31, 2009 and 2008 was \$312,143 and \$109,086, respectively.

The total fair value of RSUs vested during the six months ended December 31, 2009 and 2008 was \$83,930 and \$116,151, respectively.

The total fair value of option shares vested during the six months ended December 31, 2009 and 2008 was \$35,335, and \$203,176, respectively. As of December 31, 2009, there was \$151,332 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share options and restricted stock units) granted under the Plan.

The compensation cost is expected to be recognized as follows:

|                                | Stock<br>Options | Restricted<br>Stock<br>Share/<br>Units | Total      |
|--------------------------------|------------------|--|------------|
| Six Months ended June 30, 2010 | \$ 27,148        | \$ 24,126                              | \$ 51,274  |
| Year ended June 30, 2011       | 34,616           | 48,252                                 | 82,868     |
| Year ended June 30, 2012       | 9,638            | 7,552                                  | 17,190     |
|                                | \$ 71,402        | \$ 79,930                              | \$ 151,332 |

The table above does not include shares under the Company's ESPP, which has purchase settlement dates in the second and fourth fiscal quarters of each year. The Company's 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 Company issues new shares of common stock upon the exercise of stock options. 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 December 31, 2009 and changes during the six months then ended:

|                               | Stock<br>Options<br>Shares | RSU<br>Shares | Total<br>Shares | Weighted-Average<br>Grant Date Fair Values<br>(per share) |
|-------------------------------|----------------------------|---------------|-----------------|---|
| Unexercisable/unvested awards |                            |               |                 |   |
| June 30, 2009                 | 201,094                    | 141,670       | 342,764         | \$ 2.24   |
| Granted                       | —                          | —             | —               | —   |
| Vested                        | (11,750 )                  | (41,670 )     | (53,420 )       | 3.01  |
| Cancelled/Issued/Forfeited    | (10,940 )                  | —             | (10,940 )       | 1.25  |
| December 31, 2009             | 178,404                    | 100,000       | 278,404         | \$ 1.77   |



Financial Statement Effects and Presentation—The following table shows total stock-based compensation expense for the six months ended December 31, 2009 and 2008 included in the consolidated statements of operations:

|                                     | Six<br>Months<br>December<br>31,<br>2009 | Six<br>Months<br>December<br>31,<br>2008 |
|-------------------------------------|--|--|
| Stock options                       | \$ 40,135                                | \$ 4,949                                 |
| RSU                                 | 24,775                                   | 47,503                                   |
| Total                               | \$ 64,910                                | \$ 52,452                                |
| The amounts above were included in: |  |  |
| General & administrative            | \$ 47,632                                | \$ 74,206                                |
| Cost of sales                       | 10,295                                   | (26,882)                                 |
| New Product Development             | 6,983                                    | 5,128                                    |
|                                     | \$ 64,910                                | \$ 52,452                                |

During the six months ended December 31, 2009 and 2008 the Company reversed approximately \$4,000 and \$74,000, respectively, in stock compensation expense related to the forfeiture of unvested options and RSUs.

#### 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 computation for basic and diluted earning (loss) per share are as follows:

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|   | Three months ended<br>December 31, |               | Six months ended<br>December 31, |               |
|---|------------------------------------|---------------|----------------------------------|---------------|
|   | 2009                               | 2008          | 2009                             | 2008          |
| Net income (loss)                           | \$41,676                           | \$(1,725,508) | \$(664,697 )                     | \$(2,749,317) |
| Weighted average common shares outstanding: |                                    |               |                                  |               |
| Basic                                       | 8,163,675                          | 5,892,829     | 7,739,087                        | 5,652,444     |
| Effect of dilutive securities:              |                                    |               |                                  |               |
| Options to purchase common stock            | 31,802                             | —             | —                                | —             |
| Restricted stock units                      | 43,089                             | —             | —                                | —             |
| Common stock warrants                       | 356,830                            | —             | —                                | —             |
| Convertible debentures                      | —                                  | —             | —                                | —             |
| Diluted                                     | 8,595,396                          | 5,892,829     | 7,739,087                        | 5,652,444     |
| Earnings (Loss) per common share:           |                                    |               |                                  |               |
| Basic                                       | \$0.01                             | \$(0.29 )     | \$(0.09 )                        | \$(0.49 )     |
| Diluted                                     | \$0.00                             | \$(0.29 )     | \$(0.09 )                        | \$(0.49 )     |
| Excluded from computation: (1)              |                                    |               |                                  |               |
| Options to purchase common stock            | 281,924                            | 307,379       | 353,690                          | 307,379       |
| Restricted stock units                      | 209,700                            | 330,600       | 284,700                          | 330,600       |
| Common stock warrants                       | 712,000                            | 2,295,324     | 2,900,944                        | 2,295,324     |
| Convertible debentures                      | 1,402,110                          | 1,426,461     | 1,402,110                        | 1,426,461     |
|   | 2,605,734                          | 4,359,764     | 4,941,444                        | 4,359,764     |

(1) For the quarter ended December 31, 2009, stock options, restricted stock units and warrants were excluded as their exercise price was higher than the Company's average stock price for the quarter.

## 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 six-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 equity. The foreign exchange translation adjustment balance reflects net gains of \$58,233 at June 30, 2009 and \$46,588 at December 31, 2009. The Company, as of December 31, 2009, had approximately \$1,696,000 in assets and \$1,317,000 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.

## 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 Inc. and LPOI pursuant to a Subsidiary Guarantee. The sale of the Debentures generated gross proceeds of approximately \$2,929,000 and net proceeds of \$2,672,430. 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 maturity date of the Debentures is August 1, 2011, on which date the outstanding principal amount of the Debentures will be 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. If all of the Warrants are exercised at that time, we would receive additional proceeds in the amount of \$1,645,184.

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 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 the 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 will be amortized using the effective interest method over the 36-month term of the Debentures.

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. For the six months ended December 31, 2009, \$175,329 of the amortized debt discount was amortized through interest expense on the consolidated statement of operations, and the remaining unamortized debt discount was \$575,441 at December 31, 2009. On May 29, 2009 we filed a registration statement to register those additional interest shares and warrants which were issued in December 2008. The registration statement was declared effective on June 16, 2009.

We also incurred debt issuance costs associated with the issuance of the Debentures of \$554,308 which will be amortized over the 36-month term using the effective interest method. 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 six months ended December 31, 2009 and 2008, \$69,848 and \$190,546, respectively of the debt issuance costs were amortized through interest expense on the consolidated statement of operations and the remaining unamortized balance was \$229,232 as of December 31, 2009.

Total principal outstanding on the Debentures and the amount outstanding for directors' and officers' purchases under the Debentures was \$2,159,250 and \$266,250, respectively at December 31, 2009, less unamortized debt discount of \$575,441 and \$70,956, 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. August 2009 Private Placement

On August 19, 2009, we executed a Securities Purchase Agreement with thirty-three institutional and private investors with respect to a private placement of an aggregate of 1,298,827 shares of our common stock at \$1.26 per share and warrants to purchase 649,423 shares of our common stock at an exercise price of \$1.73 per share (the "August 2009 Warrants"). The August 2009 Warrants are exercisable for a period of five years beginning on February 19, 2010. We received aggregate gross cash proceeds from the issuance of the shares of common stock (exclusive of proceeds from any future exercise of the August 2009 Warrants) in the amount \$1,636,500. We are using the funds to provide working capital for our operations.

The Company paid a commission to the exclusive placement agent for the offering, Garden State Securities, Inc. ("Garden State"), in an amount equal to \$148,100 plus costs for legal fees and bank charges. The Company also issued to Garden State and its designees warrants to purchase an aggregate of 155,860 shares of our common stock at exercise price equal to \$1.73 per share, for a five-year term beginning February 19, 2010. Legal and other expenses to register the shares of \$71,310 were netted against the proceeds.

The private placement is exempt from the registration requirements of the Act, pursuant to Section 4(2) of the Act (in that the shares of common stock and the August 2009 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 August 2009 Warrants have been registered for resale under the Act. The registration was declared effective on October 21, 2009.

The Securities Purchase Agreement provides the investors with a right to participate in future financing at the then current terms until August 19, 2010.

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## 12. Contingencies

On September 24, 2007, the Company received a letter from one of the investors that purchased \$500,000 of common stock issued in the July 2007 offering demanding rescission of its investment and reimbursement to the investor for its expenses incurred in connection with the transaction. The demand was based on the investor's allegations that we failed to disclose facts material to the investor in making its investment decision. The alleged material omissions include facts relating to the prospective termination of the employment of Kenneth J. Brizel, our then Chief Executive Officer and our financial condition, and alleged breaches of certain representations and warranties set forth in the Securities Purchase Agreement executed with respect to the transaction. We believed there was no merit to the investor's claims and rejected the demand.

On October 24, 2007, we were served with a complaint filed by the investor against the Company, Mr. Brizel, and Mr. Ripp, our Chairman, in the United States District Court for the Southern District of New York (the "Federal Action"). In the complaint, the investor sought, among other things, rescission of its purchase and the return of its \$500,000 investment, as well as reimbursement of its expenses incurred in connection with its investment. On January 31, 2008, after we filed a motion to dismiss the original complaint, the investor filed an amended complaint making substantially the same allegations and seeking the same relief. On January 30, 2009 the district court dismissed the case.

On March 9, 2009 we were served with a complaint filed by the same investor who filed the Federal Action against the Company in the New York State Supreme Court of New York County. In the complaint, the investor sought damages for the loss of value of its investment as well as reimbursement of its expenses incurred in connection with its investment.

We entered into a settlement agreement with the investor in November 2009 and the case is now closed. Settlement costs were recorded in general, selling and administrative expenses on the consolidated statement of operations for the three months ended September 30, 2009.

The Company from time to time may be involved in various legal actions arising in the normal course of business. We are not currently a party to any pending legal proceedings.

## 13. D&O Payment

In 2000, a group of holders of Class E Common Stock commenced an action in a state court in Texas (the "Texas Action"). Plaintiffs in the Texas Action made various allegations regarding the circumstances surrounding the issuance of the Class E Common Stock and sought damages based upon those allegations. On May 26, 2006, the Texas Supreme Court denied the plaintiffs' motion for rehearing of the denial of the petition for review. No further review was sought by the plaintiffs. The summary judgment in favor of the Company as to all claims asserted by the plaintiffs is now final and the case is closed.

In May 2008, we submitted a claim against our D&O carrier, Reliance Insurance Company ("Reliance"), for reimbursement of our legal fees incurred in connection with the Texas Action. Reliance had previously filed for bankruptcy. In April 2009 we received notice of a proposed determination as to our claim arising from the Reliance D&O Policy, stating that our full \$1 million limit claimed would be allowed as a Class B claimant. We received an initial payment on September 9, 2009 in the amount of \$276,376, which was recorded against legal expenses. A Notice of Determination reflecting the balance of our claim is to proceed under the court approved liquidation process for Reliance. The actual amount of the subsequent distribution to us will be determined according to the court approved percentage participation for Class B claimants. In December 2009 we sold the balance of our claim against Reliance, and the rights to collect such future distributions, if any, to a third party in exchange for immediate cash

proceeds of \$280,000. Total proceeds of \$556,376 were recorded as an offset to legal expenses in the consolidated statements of operations during the six months ended December 31, 2009. These funds are not subject to repayment if the claim is not ultimately paid.

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, 2009 (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 are 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. Over 95% of the Company's precision molded lenses produced in the six months ended December 31, 2009 were manufactured at the Shanghai facility. We have increased the capacity of the Shanghai facility by purchasing additional equipment. Due to improved operating efficiencies and lower revenues we reduced our Shanghai workforce by approximately 20 employees in December 2008.

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 six-month periods. During the six months ended December 31, 2009 and 2008 we incurred an \$11,645 loss and a \$382 gain 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 at the cost of lower 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:

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, 2009 our disclosure backlog was approximately \$2.3 million.

At December 31, 2009, our disclosure backlog has grown approximately \$1.7 million to \$4.0 million during these slow economic times. We believe this growth to be partially the result of our efforts to enter high volume lower cost 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. With the continuing diversification of our backlog we expect to show modest increases in revenue the fiscal third and fourth quarters of 2010. Bookings have increased for our industrial low cost lenses in Asia. We have begun production on these large orders and project continued production subject to customer qualifications of our samples lenses.

|                               | Three months ended   |                      | Six months ended     |                      |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|
|                               | December 31,<br>2009 | December 31,<br>2008 | December 31,<br>2009 | December 31,<br>2008 |
| Net Income (loss)             | \$41,676             | \$(1,725,508)        | \$(664,697)          | \$(2,749,317)        |
| Depreciation and amortization | 158,267              | 144,265              | 303,431              | 320,918              |
| Interest expense              | 163,402              | 853,526              | 342,988              | 1,012,248            |
| EBITDA                        | \$363,345            | \$(727,717 )         | \$(18,278 )          | \$(1,416,151)        |

EBITDA- Our EBITDA for the six months ended December 31, 2009 and 2008, was a loss of \$18,278, compared to a loss of \$1,461,151 for the six months ended December 31, 2008. The increase in EBITDA was principally caused by lower selling, general and administrative expenses and higher revenues. For comparison purposes, net loss was approximately \$665,000 or \$0.08 per basic and diluted common share during the first half of fiscal 2010, compared with the first half of fiscal 2009, in which we reported a net loss of \$2,749,000 or \$0.49 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 six months ended December 31, 2009 and 2008, our DCSI was 76 and 73, respectively compared to 77 for the year ended June 30, 2009.

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 six months ended December 31, 2009 and 2008, our DSO was 60 and 63, respectively. During the year ended June 30, 2009 our DSO was 62.

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

#### Going Concern and Management’s Plans

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. Because of the current operating loss of \$323,000 for the six months ended December 31, 2009 as well as recurring operating losses during fiscal years 2009 and 2008 of \$2.5 million and \$5.5 million, respectively, and cash used in operations for the six months ended December 31, 2009 of \$479,000 as well as cash used in operations during fiscal years 2009 and

2008 of \$1.5 million and \$3.4 million, respectively, there is substantial doubt about our ability to continue as a going concern. Our continuation as a going concern is dependent on attaining profitable operations through achieving revenue growth targets. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

At December 31, 2009 we had a book cash balance of approximately \$906,000. For the six months ended December 31, 2009, cash decreased from June 30, 2009 by approximately \$1,091,000, excluding the proceeds we received from the private common stock offering in August 2009, compared to a decrease of approximately \$2,507,000, excluding the debenture offering proceeds we received in August 2008 in the same period of the prior fiscal year. The use of cash in both periods was primarily for the operating expenses, capital expenditures and financing expenses of the periods. Additionally, the use of cash for the six month period ending December 31, 2009 included payments to vendors of which \$483,000 were for invoices over 60 days beyond vendor terms. On February 1, 2010, the Company had a book cash balance of approximately \$547,000.

Through the first half of fiscal 2010 we continued to engage in efforts to keep costs under control as we seek renewed sales growth. Cost reduction initiatives in the first half of fiscal 2010 include the transition of more precision molded lenses to less expensive glass, increasing tooling life, increasing operator yields and efficiencies, qualifying coating vendors in China and improving yields on our infrared product line. In the first half of fiscal 2010 17% of our precision molded optics sales in units were of more expensive glass types, compared to 57% in the prior fiscal year. In March 2009 the Orlando staff was reduced to a four day work week. This reduction in headcount and work week saved \$472,000 in the fiscal first quarter in wages and benefits costs compared to the first quarter of fiscal 2009. In November 2009 we returned to a five day work week in Orlando, as we experienced an increase in quote activity and engineering work associated with the introduction of new lenses to support the growing revenues. Our cost reduction programs include: a reduction in glass cost by moving more production to less expensive cost glasses, lower labor cost by moving production to our Shanghao facility, lower coating costs due to larger volumes of lenses to be coated, and improving production yields and efficiencies.

We also expect sales increases and to some extent, margin improvements during the rest of fiscal year 2010. 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. 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 January 2011 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

Currently, our sources of cash consist of our limited cash reserves and the cash generated from the collection of receivables after invoicing customers for product shipments. We do not currently have any availability for borrowing under our equipment lease or other loan facilities and we do not currently have any commitment from any party to provide any other financing to the Company.

Our uses of 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, utilities and payments on our debt obligations. Periodically, however, we do make expenditures for capital goods. 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 in each of the current and last five fiscal years.

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 such holders 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. Unless we are able to expand our cash resources over the next quarter, we will be unable to sustain our business transition and growth plan and may be unable to maintain our current level of business. Either of these outcomes would materially and adversely affect our results of operations, financial performance and stock price.

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 are working with other vendors to develop payment plans.

## Off Balance Sheet Arrangements

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

## Results of Operations

Fiscal Second Quarter: Three months ended December 31, 2009 compared to the three months ended December 31, 2008

### Revenues:

For the quarter ended December 31, 2009, we reported total revenues of \$2.2 million compared to \$1.9 million for the second quarter of last fiscal year, an increase of 16%. The increase from the second quarter of the prior fiscal year was primarily attributable to higher sales volumes of molded optics offset by lower isolator revenues. Our molded optics sales units were significantly higher but our average selling price was lower. This is the result of our pursuit of the high volume low cost lenses. Our current cost structure has allowed us to sell product at lower prices while improving gross margins. Growth in sales going forward is expected to be derived primarily from the precision molded optics product line, particularly our low cost lenses being sold in Asia.

Cost of Sales:

Our gross margin percentage in the second quarter of fiscal 2010 compared to second quarter of fiscal 2009 increased to 43% from 25%. Total manufacturing cost of \$1,269,000 was approximately \$170,000 lower in the second quarter of fiscal 2010 compared to the same period of the prior fiscal year. This was due to lower production costs. Unit shipment volume in precision molded optics is up 158% in the second quarter of fiscal 2010 compared to the same period last year. This resulted in better absorption of overhead costs which resulted in improved fixed cost utilization which lowers our unit cost. Direct costs, which include material, labor and services, increased to 26% of revenue in the second quarter of fiscal 2010, as compared to 22% of revenue in the second quarter of fiscal 2009. During the second quarter of fiscal 2010 we wrote off an accrued royalty to the University of Florida ("UF") of \$68,000. UF had made no effort to collect the royalty since 2004. Our cost reduction programs include: a reduction in glass cost by moving more production to less expensive cost glasses, lower coating costs due to larger volumes of lenses to be coated and lower labor cost by moving production to China. Gross



margins improved as a result of the cost reduction programs we have implemented and the improved production yields and efficiencies we have achieved. During the second quarter of fiscal year 2010, over 95% of our precision molded optics were produced at our Shanghai facility as compared to over 90% in the same period in the prior fiscal year.

The most significant factor creating potential downward pressure on our gross margins is the level of revenue from the sales of 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 39% of combined capacity for the six months ended December 31, 2009 as compared to 29% for the six months ended December 31, 2008. 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 second quarter of fiscal 2010, selling, general and administrative (“SG&A”) costs were approximately \$544,000, which was a decrease of approximately \$565,000 compared to the second quarter of fiscal 2009. This decrease in SG&A expenses included a reduction in salaries and benefits of \$124,000 for the second quarter of fiscal 2010 compared to the same period in fiscal 2009 resulting from salary reductions due to a four day work week in Orlando in March 2009 and a return to the five day work week for November and December 2009. We also had a \$88,000 decrease in consulting fees, a \$27,000 decrease in rent expense, a \$33,000 decrease in board of directors fees and a \$11,000 decrease in accounting fees. Also, in the second quarter of fiscal 2010, we received a one-time payment in the amount of \$280,000 from the sale of the balance of our D&O insurance claim against our insurance carrier as noted in our footnotes to our consolidated financial statements. In the second quarter of fiscal 2010 we adjusted our investor relations expense by a credit of \$142,000 to reflect the new longer term of the investor relations media contract entered into in September 2009. We intend to maintain SG&A costs generally at current levels, but we are considering adding to our sales force in China while continuing to seek additional cost reductions opportunities.

#### New Product Development:

New product development costs decreased by approximately \$26,000 to approximately \$202,000 in the second quarter of fiscal 2010 versus \$228,000 in the second quarter of fiscal 2009 due to decreased salaries offset by an increase in material costs. We anticipate a minor decrease in fiscal year 2010 in product development costs due to lower spending for materials.

#### Amortization of Intangibles:

Amortization expense from intangibles remained the same at approximately \$8,000 per quarter in both the fiscal quarters ended December 31, 2009 and 2008.

#### Other Income (Expense):

Interest expense was approximately \$163,000 in the second quarter of fiscal 2010 as compared to \$854,000 in the second quarter of fiscal 2009. Approximately \$2,000 of the interest expense for the second quarter of fiscal 2010 is attributable to our equipment term loan and our capital equipment lease. The debentures issued in August 1, 2008 accounted for approximately \$161,000 of interest during the quarter ended December 31, 2009 representing periodic interest at 8%, amortization and write-off of the related debt issuance costs and debt discount, and value of shares of common stock and warrants issued as incentive to participate in the debenture offering and to induce the partial conversion of the debentures to shares of common stock. The debentures issued in August 2008 accounted for approximately \$847,000 of interest during the quarter ended December 31, 2008, representing periodic interest at 8%, amortization and write-off of the related debt issuance costs, and debt discount, and value of shares of common stock

and warrants issued as incentive to participate in the debenture offering and to induce the partial conversion of the debentures to shares of common stock. On December 31, 2008, 25% of the debentures were converted into shares of common stock and \$304,382 of debt discount and \$121,255 of debt issue costs were written-off to interest expense in the second quarter of fiscal 2009. Future interest expense on the debentures is expected to be approximately \$43,000 per quarter. In future quarters combined amortization of both the debt issuance costs and debt discount is expected to average approximately \$124,000 per quarter. Investment and other income was approximately \$800 in the second quarter of fiscal 2010 and \$5,000 in the second quarter of fiscal 2009.

Net Income:

Net income was approximately \$42,000 or \$0.01 basic and \$0.00 diluted per share during the second quarter of fiscal 2010, compared with the second quarter of fiscal 2009, in which we reported a net loss of \$665,000 or \$0.08 basic and diluted per share. This represents an \$1,767,000 decrease in net loss. Weighted-average shares outstanding increased to 8,163,675 in the

second quarter of fiscal 2010 compared to 7,898,345 in the second quarter in fiscal 2009 primarily due to the issuance of shares in a private placement in the first quarter of 2010.

Fiscal First Half: Six months ended December 31, 2009 compared to the six months ended December 31, 2008

#### Revenues:

For the six months ended December 31, 2009, we reported total revenues of \$3.8 million compared to \$4.2 million for the first half of last fiscal year, a decrease of 11%. The decrease from the first half of the prior fiscal year was primarily attributable to lower sales volumes across all product lines except molded optics. Our molded optics sales units were significantly higher but our average selling price was lower. This is the result of our pursuit of the high volume low cost lenses. Our current cost structure has allowed us to sell product at lower prices while improving gross margins. Growth in sales going forward is expected to be derived primarily from the precision molded optics product line, particularly our low cost lenses being sold in Asia.

#### Cost of Sales:

Our gross margin percentage in the first half of fiscal 2010 compared to first half of fiscal 2009 increased to 43% from 26%. Total manufacturing cost of \$2.2 million was approximately \$1.0 million lower in the first half of fiscal 2010 compared to the same period of the prior fiscal year. This was due to lower production costs. Unit shipment volume in precision molded optics is up 177% in the first half of fiscal 2010 compared to the same period last year. This resulted in better absorption of overhead costs which resulted in improved fixed cost utilization which lowers our unit cost. During the second quarter of fiscal 2010 we wrote off an accrued royalty to the University of Florida ("UF") of \$68,000. UF had made no effort to collect the royalty since 2004. Direct costs, which include material, labor and services, were reduced to 22% of revenue in the first half of fiscal 2010, as compared to 23% of revenue in the first half of fiscal 2009. Our cost reduction programs include: a reduction in glass cost by moving more production to less expensive cost glasses, lower coating costs due to larger volumes of lenses to be coated and lower labor cost by moving production to China. Gross margins improved as a result of the cost reduction programs we have implemented and the improved production yields and efficiencies we have achieved. During the first half of fiscal 2010, over 95% of our precision molded optics were produced at our Shanghai facility as compared to over 90% in the same period in the prior fiscal year.

The most significant factor creating potential downward pressure on our gross margins is the level of revenue from the sales of 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 39% of combined capacity for the six months ended December 31, 2009 as compared to 29% for the six months ended December 31, 2008. 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 half of fiscal 2010, SG&A costs were approximately \$1,505,000, which was a decrease of approximately \$833,000 compared to the first half of fiscal 2009. This decrease in SG&A expenses included a reduction in salaries and benefits of \$300,000 for the first half of fiscal 2010 compared to the same period in fiscal 2009 resulting from reduced headcount and salary reductions. The first four months of fiscal 2010 were at a four day work week. We returned to a five day work week starting in November 2009. We also had a \$82,000 decrease in rental costs, a \$43,000 decrease in accounting fees, a \$38,000 decrease for insurance and a \$38,000 decrease in travel expenses. Also, in the first half of fiscal 2010, we received two one-time payments totaling \$556,000. The first payment of \$276,000 was from our prior D&O insurance carrier, Reliance, as a reimbursement of legal expenses we

previously incurred. The second receipt of \$280,000 was from the sale of the balance of our insurance claim against Reliance as noted in our footnotes to our consolidated statement of operations. This was partially offset by higher investor relations expenses of \$158,000 and higher legal expenses for payments in connection with our recent litigation, as described in Legal Proceedings, below and in footnote 11 to the accompanying consolidated financial statements. We intend to maintain SG&A costs generally at current levels, but we are considering adding to our sales force in China while continuing to seek additional cost reductions opportunities.

**New Product Development:**

New product development costs decreased by approximately \$74,000 to approximately \$428,000 in the first half of fiscal 2010 versus \$502,000 in the first half of fiscal 2009 due to decreased salaries offset by an increase in material costs. We anticipate a minor decrease in fiscal year 2010 in product development costs due to lower spending for materials.

Amortization of Intangibles:

Amortization expense from intangibles remained the same at approximately \$16,000 per half year of both the six month periods ended December 31, 2009 and 2008.

Other Income (Expense):

Interest expense was approximately \$343,000 in the first half of fiscal 2010 as compared to \$1,012,000 in the first half of fiscal 2009. Approximately \$3,000 of the interest expense for the first half of fiscal 2010 is attributable to our equipment term loan and our capital equipment lease. The debentures issued in August 2008 accounted for approximately \$338,000 of interest during the six months ended December 31, 2009 representing periodic interest at 8%, amortization and write-off of the related debt issuance costs and debt discount, and value of shares of common stock and warrants issued as incentive to participate in the debenture offering and to induce the conversion of the debentures to shares of common stock. The debentures issued in August 2008 accounted for approximately \$982,000 of interest during the six months ended December 31, 2008 representing periodic interest at 8%, amortization and write-off of the related debt issuance costs, and debt discount and value of common shares and warrants issued as incentive to participate in the debenture offering and to induce the conversion of the debentures into common stock. On December 31, 2008, 25% of the debentures were converted into shares of common stock and \$304,382 of debt discount and \$121,255 of debt issue costs were written-off to interest expense in the second quarter of fiscal 2009. Future interest expense on the debentures is expected to be approximately \$43,000 per quarter. In future quarters combined amortization of both the debt issuance costs and debt discount is expected to average approximately \$124,000 per quarter. Investment and other income was approximately \$1,000 in the first half of fiscal 2010 and \$15,000 in the first half of fiscal 2009.

Net Loss:

Net loss was approximately \$665,000 or \$0.08 basic and diluted per share during the first half of fiscal 2010, compared with the first half of fiscal 2009, in which we reported a net loss of \$2,749,000 or \$0.49 basic and diluted per share. This represents an \$2,084,000 decrease in net loss. Weighted-average shares outstanding increased to 7,898,345 in the first half of fiscal 2010 compared to 5,652,444 in the first half of fiscal 2009 primarily due to the issuance of shares related to the conversion of 25% of the debentures and prepayment of interest in shares of common stock in the first half of fiscal 2009 and to the issuance of shares of common stock in a private placement in the first quarter of 2010.

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 records a beneficial conversion feature (“BCF”) related to the issuance of convertible debt instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value using the black-scholes 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 are recognized as non-cash interest expense over the term of the convertible debt, using the effective interest method.

#### Recent Accounting Pronouncements

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

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

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

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

In August 2009, the Financial Accounting Standards Board or FASB issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (“Topic 820”) - Measuring Liabilities at Fair Value an Update 2009-05.

Update 2009-05 amends subtopic 820-10, "Fair Value Measurements and Disclosures- Overall" and provides clarification for the fair value measurement of liabilities in circumstances where quoted prices for an identical liability in an active market are not



available. The amendments also provide clarification for not requiring the reporting entity to include separate inputs or adjustments to other inputs relating to the existence of a restriction that prevents the transfer of a liability when estimating the fair value of a liability. Additionally, these amendments clarify that both the quoted price in an active market for an identical liability at the measurement date and the quoted price for an identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are considered Level 1 fair value measurements. These requirements are effective for financial statements issued after the release of Update 2009-05. We adopted the requirements on December 31, 2009 and it did not have a material impact on our financial position, results of operations or related disclosures.

#### Item 4T. 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 December 31, 2009, 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 December 31, 2009 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 quarter ended December 31, 2009, 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 1. Legal Proceedings

On September 24, 2007, the Company received a letter from one of the investors that purchased \$500,000 of common stock issued in the July 2007 offering demanding rescission of its investment and reimbursement to the investor for its expenses incurred in connection with the transaction. The demand was based on the investor’s allegations that we failed to disclose facts material to the investor in making its investment decision. The alleged material omissions include facts relating to the prospective termination of the employment of Kenneth J. Brizel, our then Chief Executive Officer and our financial condition, and alleged breaches of certain representations and warranties set forth in the Securities Purchase Agreement executed with respect to the transaction. We believed there was no merit to the investor’s claims and rejected the demand.

On October 24, 2007, we were served with a complaint filed by the investor against the Company, Mr. Brizel, and Mr. Ripp, our Chairman, in the United States District Court for the Southern District of New York (the “Federal Action”). In the complaint, the investor sought, among other things, rescission of its purchase and the return of its \$500,000 investment, as well as reimbursement of its expenses incurred in connection with its investment. On January 31, 2008, after we filed a motion to dismiss the original complaint, the investor filed an amended complaint making substantially the same allegations and seeking the same relief. On January 30, 2009 the district court dismissed the case.

On March 9, 2009 we were served with a complaint against the Company in the New York State Supreme Court of New York County filed by the same investor that filed the Federal Action. In the complaint, the investor sought damages for the loss of value of its investment as well as reimbursement of its expenses incurred in connection with its investment.

The Company entered into a settlement agreement with the investor in November 2009, resulting in the case being dismissed. In connection with the settlement, we booked a charge to selling, general and administrative expenses.

The Company from time to time may be involved in various legal actions arising in the normal course of business. We are not currently a party to any pending legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In connection with an agreement dated as of November 25, 2009, we issued 26,455 shares of our Class A common stock, par value \$0.01 per share, at \$1.89 per share to Harborview Master Fund LP in connection with the settlement of certain litigation described under Item 1, Legal Proceedings. We did not receive any cash proceeds from the issuance of the shares

of common stock. This issuance 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 the shares of common stock were sold by the Company in a transaction not involving any public offering). The shares of common stock have been registered for resale under the Act. The registration statement was declared effective on December 14, 2009.

On October 28 2009, we issued 69,455 shares of our Class A common stock, par value \$0.01 per share, at \$2.16 per share to MJD Media LLC for services rendered as a consultant. We did not receive any cash proceeds from the issuance of the shares of common stock. This issuance 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 the shares of common stock were sold by the Company in a transaction not involving any public offering). The shares of common stock have not been registered for sale under the Act.

#### 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          |  | 6     |

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|        |  |    |
|--------|--|----|
|        | Certificate of Designation of Series F Preferred Stock of Registrant, filed November 2, 1999 with the Secretary of State of Delaware             |    |
| 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, First                                     | 5  |
| 4.2    | Amendment to Rights Agreement dated as of February 28, 2008, between LightPath Technologies, Inc. and Continental Stock Transfer & Trust Company | 13 |
| 10.1   | Directors Compensation Agreement with Amendment for Robert Ripp  | 8  |
| 10.2   | Amended and Restated Omnibus Incentive Plan dated October 15, 2002   | 9  |

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| Exhibit Number | Description   | Notes |
|----------------|---|-------|
| 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.  | 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          | Termination of Joint Venture Contract, dated as of September 28, 2008 between CDGM Glass Company, Ltd. and LightPath Technologies, Inc.                         | 12    |
| 10.11          | First Amendment to the 8% Senior Secured Convertible Debenture, dated as of December 31, 2008   | 14    |
| 10.12          | Amendment No. 2 to the Amended and Restated LightPath Technologies, Inc. Omnibus Incentive Plan, dated as of December 30, 2008                                  | 15    |
| 10.13          | Form of Common Stock Purchase Warrant dated as of August 1, 2008, issued by LightPath Technologies, Inc., to certain investors                                  | 16    |
| 10.14          | Securities Purchase Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc., and certain investors                                      | 16    |
| 10.15          | Registration Rights Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc., and certain investors                                      | 16    |
| 10.16          | Form of Common Stock Purchase Warrant dated as of August 19, 2009, issued by LightPath Technologies, Inc. to certain investors                                  | 17    |
| 10.17          | Securities Purchase Agreement dated as of August 19, 2009, by and among LightPath Technologies, Inc. and certain investors                                      | 17    |
| 10.18          | Registration Rights Agreement dated as of August 19, 2009, by and among LightPath Technologies, Inc., and certain investors                                     | 17    |



| Exhibit Number | Description   | Notes |
|----------------|---|-------|
| 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 an exhibit to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 29, 2008, and is incorporated herein by reference thereto.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

\* 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: February 4, 2010

By: /s/ J. James Gaynor  
President and Chief Executive Officer

Date: February 4, 2010

By: /s/ Dorothy M. Cipolla  
Chief Financial Officer

