LIGHTPATH TECHNOLOGIES INC
Form 10-Q
November 14, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 000-27548

LIGHTPATH TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**86-0708398**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

http://www.lightpath.com

2603 Challenger Tech Ct. Suite 100

Orlando, Florida 32826

(Address of principal executive offices)

(ZIP Code)

(407) 382-4003

(Registrant s telephone number, including area code)

N/A

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

4,471,088 shares of common stock, Class A, $.01 par value, outstanding as of November 10, 2006.

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Item 1. Financial Statements

LIGHTPATH TECHNOLOGIES, INC.

Unaudited Condensed Consolidated Balance Sheets

	September 30, 2006	June 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 3,140,166	$ 3,763,013
Trade accounts receivable, net of allowance of $99,320 at September 30, 2006 and $85,800 at June 30, 2006	2,022,285	1,891,024
Inventories	1,685,432	1,876,793
Prepaid expenses and other assets	109,464	145,349
Total current assets	6,957,347	7,676,179
Property and equipment - net	1,385,818	1,172,651
Intangible assets - net	257,256	265,473
Other assets	57,306	59,731
Total assets	$ 8,657,727	$ 9,174,034
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,489,224	$ 1,668,683
Accrued liabilities	365,680	236,501
Accrued payroll and benefits	430,177	514,424
Notes Payable	272,810	270,710
Capital lease obligations, current portion	14,738	14,255
Total current liabilities	2,572,629	2,704,573
Capital lease obligation, excluding current portion	36,067	39,937
Stockholders equity:		
Common stock: Class A, $.01 par value, voting; 34,500,000 shares authorized; 4,480,684 and 4,468,588 shares issued and outstanding at September 30, 2006 and June 30, 2006, respectively	44,807	44,686
Additional paid-in capital	196,138,976	196,064,721
Accumulated deficit	(190,134,752)	(189,679,883)
Total stockholders equity	6,049,031	6,429,524
Total liabilities and stockholders equity	$ 8,657,727	$ 9,174,034

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

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LIGHTPATH TECHNOLOGIES, INC.

Unaudited Condensed Consolidated Statements of Operations

	Three months ended September 30, 2006	2005
Product sales, net	$ 4,386,323	$ 2,702,036
Cost of sales	3,313,198	2,150,320
Gross margin	1,073,125	551,716
Operating expenses:		
Selling, general and administrative	1,274,776	1,082,563
New product development	265,247	255,173
Amortization of intangibles	8,217	34,692
Gain on sales of assets		(5,654)
Total costs and expenses	1,548,240	1,366,774
Operating loss	(475,115)	(815,058)
Other income		
Investment and other income, net	20,246	7,426
Net loss	$ (454,869)	$ (807,632)
Loss per share (basic and diluted)	$ (0.10)	$ (0.22)
Number of shares used in per share calculation	4,479,117	3,695,644

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

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LIGHTPATH TECHNOLOGIES, INC.

Unaudited Consolidated Statements of Cash Flows

	Three Months Ended September 30, 2006	2005
Cash flows due to operating activities		
Net loss	$ (454,869)	$ (807,632)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	119,622	259,982
Gain on sale of equipment		(5,654)
Stock based compensation	56,994	58,280
Provision for doubtful accounts receivable	13,520	
Changes in operating assets and liabilities:		
Trade receivables	(144,781)	(387,946)
Inventories	191,361	(306,312)
Prepaid expenses and other assets	38,310	17,853
Accounts payable and accrued expenses	(117,266)	509,502
Net cash used in operating activities	(297,109)	(661,927)
Cash flows due to investing activities		
Property and equipment additions	(324,572)	(70,962)
Proceeds from sale of assets		6,435
Net cash used in investing activities	(324,572)	(64,527)
Cash flows due to financing activities		
Proceeds from exercise of stock options	121	
Borrowings on line of credit	2,100	
Payments on capital lease obligation	(3,387)	(2,966)
Net cash used in financing activities	(1,166)	(2,966)
Decrease in cash and cash equivalents	(622,847)	(729,420)
Cash and cash equivalents, beginning of period	3,763,013	2,462,540
Cash and cash equivalents, end of period	$ 3,140,166	$ 1,733,120
Supplemental disclosure of cash flow information:		
Interest paid	$ 11,491	$
Supplemental disclosure of non-cash financing activities:		
Stock issued under employee stock purchase plan	$ 17,261	$

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

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LIGHTPATH TECHNOLOGIES, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2006

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of LightPath Technologies, Inc. (LightPath or the Company) have been prepared in accordance with the requirements of Article 10 of Regulation S-X promulgated under the Securities and Exchange Act of 1934 and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and related notes, included in its Form 10-K for the fiscal year ended June 30, 2006 filed with the Securities and Exchange Commission (the SEC).

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

History and Liquidity

History: LightPath was incorporated in Delaware in 1992. In order 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 17,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant is expected to increase overall production capacity and enable LightPath to compete for larger production volumes of optical components and assemblies, and strengthen partnerships within the Asia/Pacific region. It also provides a launching point to drive the Company s sales expansion in Asia/Pacific.

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

Liquidity: During fiscal years 2005 and 2006, cash usage had been a concern. In fiscal 2005, cash used in operations was approximately $1.1 million. In fiscal 2006, cash used in operations was $2.0 million. During the quarter ending September 30, 2006, the Company used $314,000 of cash for operating activities. Although there can be no assurance that the full year plan can be achieved, we are optimistic that we will achieve our planned results of positive cash flows from operations. The Company has no firm commitments for any material future financing at this time. At September 30, 2006, the Company has a cash and cash equivalent balance of approximately $3.1 million.

For the quarter ended September 30, 2006, cash decreased by $623,000 million compared to a decrease of $729,000 in the same period of the prior fiscal year. The decrease in cash was primarily related to the net loss for the period, capital expenditures and payments to vendors.

On January 11, 2006, the Company and Regenmacher Holdings, Ltd. (Regenmacher) executed a four-year secured loan agreement. The secured loan facility, which carries an interest rate of 1% above the prime rate, provides for borrowings of up to a maximum borrowing base of $500,000 to be secured by the financed assets and other mutually agreed upon assets. LightPath may draw up to $500,000 during the first twelve months following the execution of the loan agreement. Upon the commencement of the thirteenth month, the Regenmacher loan will convert into a term loan and be amortized over a thirty six (36) month period. Payments will be made in thirty-six (36) equal monthly installments.

As heretofore stated, significant risk and uncertainty remains in achieving the goal of generating positive cash flow from operations on an ongoing basis. 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 (yield) improvements not being realized, and increases in other discretionary spending required to effectively compete in our markets.

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LIGHTPATH TECHNOLOGIES, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2006

As a result of the Company s cash flow position, should the Company find it desirable or necessary to issue additional equity securities or debt that may be convertible into or exercisable for equity securities, the action would have the effect of increasing our fully diluted shares outstanding and ultimately diluting our operating results (net earnings or net loss) per share, and the action would dilute the voting power of current stockholders who do not acquire sufficient additional shares to maintain their percentage of share ownership. Management believes the Company has sufficient cash to fund operations for the next twelve months.

2. Significant Accounting Policies

Condensed 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.

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.

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 seven 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 are recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets.* SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of, changed the criteria for classifying an asset as held for sale, and broadened the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changed the timing of recognizing losses on such operations.

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimate 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 customer list and supply contracts, licenses, patents, trademarks, and others, are recorded at cost. Upon issuance of the license, patent or trademark, these assets are being amortized on the straight-line basis over the estimated useful life of the related assets ranging from ten to seventeen years.

The Company accounts for intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS 142 eliminates the amortization of goodwill and other intangible assets that have indefinite useful lives. Amortization will continue to be recorded for intangible assets with definite useful lives. SFAS 142 also requires at least an annual impairment review of goodwill and other intangible assets. The Company evaluates its intangible assets for impairment in accordance with SFAS 144.

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

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LIGHTPATH TECHNOLOGIES, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2006

Revenue is generally recognized from product sales when products are shipped to the customer, provided that LightPath 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. Provisions for estimated losses are made in the period in which such losses are determined.

New product development costs are expensed as incurred.

Stock-based compensation is recognized following the guidelines of SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123R). Prior to July 1, 2005, the Company applied the disclosure-only provisions of SFAS 123, *Accounting for Stock-Based Compensation* (SFAS 123). In accordance with the provisions of SFAS 123, the Company applied APB 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for its plans and, accordingly, did not recognize compensation expense for these plans because the Company issued options at exercise prices equal to the market value at date of grant.

Effective July 1, 2005, the Company adopted SFAS 123R, which revises SFAS 123 and supersedes APB 25. SFAS 123R requires all share-based payments to employees to be recognized in the financial statements based on their fair values using an option-pricing model, such as the Black-Scholes model, at the date of grant. SFAS 123R allows the use of either the modified prospective method or the retrospective recognition method. The Company elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options and restricted shares beginning in the first quarter of adoption. For all unvested options outstanding as of July 1, 2005, and subsequently granted options, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, will be recognized on a straight-line basis in the Consolidated Statements of Operations over the remaining vesting period. SFAS 123R requires that the Company estimate forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also impact the amount of unamortized compensation expense to be recognized in future periods. See Note 6 Stock and share based payments

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.

Fair values of financial instruments of the Company are disclosed as required by Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Values of Financial Instruments.* The carrying amounts of cash and cash equivalents, trade accounts receivable, accounts payable and accrued liabilities approximate fair value.

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LIGHTPATH TECHNOLOGIES, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2006

3. Inventories

The components of inventories include the following at:

	September 30, 2006	June 30, 2006
Raw material	$ 745,201	$ 805,419
Work in Process	632,738	908,700
Finished Goods	307,493	162,674
	$ 1,685,432	$ 1,876,793

4. Property and Equipment

Property and equipment are summarized as follows:

	Estimated Life (Years)	September 30, 2006	June 30, 2006
Manufacturing equipment	5	$ 6,047,995	$ 5,728,094
Computer equipment and software	5	597,347	591,159
Furniture and fixtures	5	179,984	180,035
Platinum molds	5	44,100	44,100
Leasehold improvements	7	714,833	714,833
Total Property and Equipment		7,584,258	7,258,221
Less accumulated depreciation and amortization		6,198,440	6,085,570
Total property and equipment, net		$ 1,385,818	$ 1,172,651

5. Intangible Assets

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

	September 30, 2006		
	Gross Carrying amount	Accumulated amortization	Net carrying amount
Intangible assets:			
Patents and trademarks granted	$ 621,303	$ 364,046	$ 257,256
Total	$ 621,303	$ 364,046	$ 257,256

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LIGHTPATH TECHNOLOGIES, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

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6. Stock and share based payments

Overview Effective July 1, 2005 (fiscal 2006), the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R). SFAS 123R establishes generally accepted accounting principles for stock-based awards exchanged for employee services. Under SFAS 123R, stock-based compensation cost 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. The Company previously applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations and provided the required pro forma disclosures of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). Under SFAS 123R, the Company elected to adopt the modified prospective application method as its transition method. The Company elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options and restricted shares beginning in the first quarter of adoption. For all unvested options outstanding as of July 1, 2005, and subsequently granted options, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, will be recognized on a straight-line basis in the Consolidated Statements of Operations over the remaining vesting period. In accordance with this method of adoption, the Company s results of operations and financial position for prior periods have not been restated.

Share-based Payment Arrangements At July 1, 2005, the Company s Amended and Restated Omnibus Incentive Plan (the Plan) includes several available forms of stock compensation of which only non-qualified stock options and restricted stock awards have been granted to date. The Company has also issued stock options under a separate non-qualified plan. In 2003, a substantial number of those options were cancelled and replaced with restricted stock award grants under the Plan. At June 30, 2006, there were options remaining for 5,000 shares still outstanding that were not issued in a qualified plan.

These three plans are summarized below:

	Options Authorized