LIGHTPATH TECHNOLOGIES INC
Form 10-Q
May 15, 2007

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 March 31, 2007

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:

4,511,980 shares of common stock, Class A, $.01 par value, outstanding as of May 11, 2007.

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Item 1. Financial Statements

LIGHTPATH TECHNOLOGIES, INC.

Condensed Consolidated Balance Sheets

	(unaudited) March 31, 2007	June 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 1,882,030	$ 3,763,013
Trade accounts receivable, net of allowance of $48,240 at March 31, 2007 and $85,800 at June 30, 2006	1,868,386	1,891,024
Inventories	1,712,932	1,876,793
Prepaid expenses and other assets	283,879	145,349
Total current assets	5,747,227	7,676,179
Property and equipment net	1,535,490	1,172,651
Intangible assets net	240,822	265,473
Other assets	62,109	59,731
Total assets	$ 7,585,648	$ 9,174,034
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,056,753	$ 1,668,683
Accrued liabilities	280,472	236,501
Accrued payroll and benefits	335,934	514,424
Notes Payable, current portion	166,645	270,710
Capital lease obligations, current portion	15,752	14,255
Total current liabilities	1,855,556	2,704,573
Capital lease obligation, excluding current portion	27,929	39,937
Notes payable, excluding current portion	319,402	
Total liabilities	2,202,887	2,744,510
Stockholders equity:		
Common stock: Class A, $.01 par value, voting; 34,500,000 shares authorized; 4,511,980 and 4,468,588 shares issued and outstanding at March 31, 2007 and June 30, 2006, respectively	45,120	44,686
Additional paid-in capital	196,336,324	196,064,721
Accumulated deficit	(190,998,683)	(189,679,883)
Total stockholders equity	5,382,761	6,429,524
Total liabilities and stockholders equity	$ 7,585,648	$ 9,174,034

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

LIGHTPATH TECHNOLOGIES, INC.

Unaudited Condensed Consolidated Statements of Operations

	Three months ended March 31, 2007	Three months ended March 31, 2006	Nine months ended March 31, 2007	Nine months ended March 31, 2006
Product sales, net	$ 2,899,602	$ 3,106,674	$ 11,075,237	$ 8,762,956
Cost of sales	2,177,375	2,798,070	8,079,957	7,158,826
Gross margin	722,227	308,604	2,995,280	1,604,130
Operating expenses:				
Selling, general and administrative	945,021	1,183,390	3,504,196	3,386,073
New product development	289,254	261,858	830,733	761,681
Amortization of intangibles	8,217	8,216	24,651	51,318
Gain on sales of assets				(9,134)
Total costs and expenses	1,242,492	1,453,464	4,359,580	4,189,938
Operating loss	(520,265)	(1,144,860)	(1,364,300)	(2,585,808)
Other income				
Interest expense	(11,041)	(6,555)	(33,957)	(12,739)
Other	11,708	33,670	79,457	55,036
Net loss	$ (519,598)	$ (1,117,745)	$ (1,318,800)	$ (2,543,511)
Loss per share (basic and diluted)	$ (0.12)	$ (0.29)	$ (0.29)	$ (0.68)
Number of shares used in per share calculation	4,506,230	3,826,560	4,497,081	3,739,283

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

LIGHTPATH TECHNOLOGIES, INC.

Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended March 31, 2007	2006
Cash flows due to operating activities		
Net loss	$ (1,318,800)	$ (2,543,511)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	363,060	637,853
Gain on sale of equipment		(9,134)
Stock based compensation	217,356	200,684
Provision for doubtful accounts receivable	37,560	90,200
Changes in operating assets and liabilities:		
Trade receivables	(14,922)	(875,899)
Inventories	163,861	174,708
Prepaid expenses and other assets	(140,908)	118,717
Accounts payable and accrued expenses	(746,449)	145,466
Net cash used in operating activities	(1,439,242)	(2,060,916)
Cash flows due to investing activities		
Property and equipment additions	(701,248)	(505,491)
Proceeds from sale of assets		9,915
Net cash used in investing activities	(701,248)	(495,576)
Cash flows due to financing activities		
Proceeds from exercise of stock options/ESPP	54,681	815
Proceeds from sale of common stock, net of expenses		3,582,550
Borrowings on line of credit	229,224	257,410
Payments on capital lease obligation	(10,511)	(9,202)
Payments on note payable	(13,887)	
Net cash provided by financing activities	259,507	3,831,573
(Decrease)/Increase in cash and cash equivalents	(1,880,983)	1,275,081
Cash and cash equivalents, beginning of period	3,763,013	2,462,540
Cash and cash equivalents, end of period	$ 1,882,030	$ 3,737,621
Supplemental disclosure of cash flow information:		
Interest paid	$ 33,957	$ 12,739

LIGHTPATH TECHNOLOGIES, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2007

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 has increased overall production capacity and enabled LightPath to compete for larger production volumes of optical components and assemblies, and strengthened partnerships within the Asia/Pacific region. It also provides a launching point to drive the Company s sales expansion in Asia/Pacific. 70% of the third quarter s precision molded lenses were manufactured in the new China facility.

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 for the year was approximatty $2.1 million. During the nine months ending March 31, 2007, the Company used approximately $1,439,000 of cash for operating activities. Although there can be no assurance, we are optimistic that we will achieve our planned results of improving cash flows from operations, although we still expect them to be negative in the near term. The Company has no firm commitments for any material future financing at this time. At March 31, 2007, the Company has a cash and cash equivalent balance of approximately $1.9 million.

For the quarter ended March 31, 2007, cash decreased by $552,000 compared to an increase of $2,112,000 in the same period of the prior fiscal year. The increase in cash in the prior year was primarily related to a $3.6 million private placement in March 2006 reduced by the net loss for the period, capital expenditures and payments to vendors. The decrease in cash for the nine months ended March 31, 2007 was $1,881,000. This was primarily due to payments to vendors and capital equipment expenditures.

On January 11, 2006, the Company and Regenmacher Holdings, Ltd. (Regenmacher) executed a four-year secured loan agreement. The secured loan facility, carried an interest rate of 1% above the prime rate and provided 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 did drawn $500,000 during the first twelve months following the execution of the loan agreement. Effective February 1, 2007, the Regenmacher loan converted into a term loan with a balance of $500,000 and will 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

LIGHTPATH TECHNOLOGIES, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2007

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.

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) on a per share basis, 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 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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Notes to Unaudited Condensed Consolidated Financial Statements

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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, accrued liabilities, notes payable and capital leases approximate fair value.

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Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2007

3. Inventories

The components of inventories include the following at:

	March 31, 2007	June 30, 2006
Raw material	$ 684,585	$ 805,419
Work in Process	919,149	908,700
Finished Goods	109,198	162,674
	$ 1,712,932	$ 1,876,793

4. Property and Equipment

Property and equipment are summarized as follows:

	Estimated Life (Years)	March 31, 2007	June 30, 2006
Manufacturing equipment	5	$ 6,408,782	