LIGHTPATH TECHNOLOGIES INC
Form 10-Q
May 10, 2012

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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 March 31, 2012

OR

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

For the transition period from ___________ to ____________

Commission file number 000-27548

LIGHTPATH TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE<br>(State or other jurisdiction of incorporation or organization) | 86-0708398<br>(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 o

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 x NO o

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

9,768,100 shares of common stock, Class A, $.01 par value, outstanding as of May 7, 2012.

LIGHTPATH TECHNOLOGIES, INC.
Form 10-Q

Index

Item 1. Financial Statements

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Balance Sheets

| Assets | (unaudited) March 31, 2012 | June 30, 2011 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $490,055 | $928,900 |
| Trade accounts receivable, net of allowance of $15,191 and $7,245 | 2,396,639 | 1,833,044 |
| Inventories, net | 1,563,441 | 1,622,637 |
| Other receivables | 20,654 | 30,943 |
| Prepaid interest expense | 29,000 | 7,250 |
| Prepaid expenses and other assets | 209,858 | 189,630 |
| Total current assets | 4,709,647 | 4,612,404 |
| | | |
| Property and equipment, net | 2,120,527 | 2,373,022 |
| Intangible assets, net | 76,482 | 101,133 |
| Debt costs, net | 4,732 | 7,180 |
| Other assets | 27,737 | 27,737 |
| Total assets | $6,939,125 | $7,121,476 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $1,302,198 | $928,790 |
| Accrued liabilities | 117,336 | 123,705 |
| Accrued payroll and benefits | 468,448 | 481,318 |
| Deferred revenue | 282,000 | — |
| Total current liabilities | 2,169,982 | 1,533,813 |
| | | |
| Deferred rent | 371,509 | 464,262 |
| 8% convertible debentures to related parties | 1,012,500 | 1,012,500 |
| 8% convertible debentures | 75,000 | 75,000 |
| Total liabilities | 3,628,991 | 3,085,575 |
| | | |
| Stockholders' equity: | | |
| Preferred stock: Series D, $.01 par value, voting; 5,000,000 shares authorized; none issued and outstanding | — | — |
| Common stock: Class A, $.01 par value, voting; 40,000,000 shares authorized; 9,768,100 and 9,713,099 shares issued and outstanding, respectively | 97,681 | 97,131 |
| Additional paid-in capital | 207,939,837 | 207,636,440 |
| Accumulated other comphrehensive income | 81,610 | 50,593 |
| Accumulated deficit | (204,808,994) | (203,748,263) |
| Total stockholders' equity | 3,310,134 | 4,035,901 |
| Total liabilities and stockholders' equity | $6,939,125 | $7,121,476 |

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

3

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statements of Operations and Comphrehensive Income
(unaudited)

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Product sales, net | $2,775,486 | $2,434,056 | 8,180,749 | $7,216,052 |
| Cost of sales | 1,895,724 | 1,456,758 | 5,374,593 | 4,412,173 |
| Gross margin | 879,762 | 977,298 | 2,806,156 | 2,803,879 |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,141,366 | 861,051 | 3,020,869 | 2,929,578 |
| New product development | 236,643 | 265,746 | 795,894 | 736,838 |
| Amortization of intangibles | 8,217 | 8,217 | 24,651 | 24,651 |
| Gain on sale of property and equipment | — | (7,211) | — | (7,751) |
| Total costs and expenses | 1,386,226 | 1,127,803 | 3,841,414 | 3,683,316 |
| Operating loss | (506,464) | (150,505) | (1,035,258) | (879,437) |
| Other income (expense): | | | | |
| Interest expense | (21,750) | (32,115) | (66,920) | (148,414) |
| Interest expense - debt discount | — | (46,746) | — | (316,590) |
| Interest expense - debt costs | (832) | (10,699) | (2,448) | (118,193) |
| Loss on extinguishment of debt | — | (131,784) | — | (131,784) |
| Other income (expense), net | 10,061 | (3,879) | 43,895 | (7,974) |
| Total other expense, net | (12,521) | (225,223) | (25,473) | (722,955) |
| Net loss | $(518,985) | $(375,728) | $(1,060,731) | $(1,602,392) |
| Loss per common share (basic and diluted) | $(0.05) | $(0.04) | $(0.11) | $(0.17) |
| Number of shares used in per share calculation (basic and diluted) | 9,767,640 | 9,715,266 | 9,758,233 | 9,474,204 |
| | | | | |
| Foreign currency translation adjustment | 9,883 | 29,406 | 31,017 | 1,090 |
| Comprehensive loss | $(509,102) | $(346,322) | $(1,029,714) | $(1,601,302) |

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

4

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statement of Stockholders' Equity
Nine months ended March 31, 2012
(unaudited)

| | Class A Common Stock Shares | Class A Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comphrehensive Income | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance at June 30, 2011 | 9,713,099 | $97,131 | $207,636,440 | $ 50,593 | $(203,748,263) | $ 4,035,901 |
| Issuance of common stock for: | | | | | | |
| Employee stock purchase plan | 13,169 | 132 | 14,013 | — | — | 14,145 |
| Interest payment on convertible debentures | 41,832 | 418 | 86,582 | — | — | 87,000 |
| Stock based compensation on stock options and restricted stock units | — | — | 202,802 | — | — | 202,802 |
| Net loss | — | — | — | — | (1,060,731) | (1,060,731) |
| Foreign currency translation adjustment | — | — | — | 31,017 | - | 31,017 |
| Balance at March 31, 2012 | 9,768,100 | $97,681 | $207,939,837 | $ 81,610 | $(204,808,994) | $ 3,310,134 |

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

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

| | Nine Months ended March 31, 2012 | Nine Months ended March 31, 2011 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss | $(1,060,731) | $(1,602,392) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 857,721 | 655,131 |
| Interest from amortization of debt discount | — | 316,590 |
| Interest from amortization of debt costs | 2,448 | 118,193 |
| Gain on sale of property and equipment | — | (7,751) |
| Stock based compensation | 202,802 | 161,660 |
| Change in provision for doubtful accounts receivable | 7,946 | (14,355) |
| Deferred rent | (92,753) | (77,221) |
| Loss on extinguishment of debt | — | 131,784 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivables | (571,541) | 213,307 |
| Other receivables | 10,289 | — |
| Inventories | 59,196 | (541,438) |
| Prepaid expenses and other assets | 45,022 | 142,943 |
| Accounts payable and accrued liabilities | 354,169 | 436,799 |
| Deferred revenue | 282,000 | — |
| Net cash provided by (used in) operating activities | 96,568 | (66,750) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (580,575) | (694,597) |
| Proceeds from sale of equipment | — | 7,751 |
| Net cash used in investing activities | (580,575) | (686,846) |
| Cash flows from financing activities | | |
| Proceeds from exercise of stock options | — | 5,653 |
| Proceeds from sale of common stock from employee stock purchase plan | 14,145 | 12,137 |
| Costs associated with conversion of debentures | — | (6,748) |
| Exercise of warrants | — | 231,659 |
| Net cash provided by financing activities | 14,145 | 242,701 |
| Effect of exchange rate on cash and cash equivalents | 31,017 | 1,090 |
| Decrease in cash and cash equivalents | (438,845) | (509,805) |
| Cash and cash equivalents, beginning of period | 928,900 | 1,464,351 |
| Cash and cash equivalents, end of period | $490,055 | $954,546 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Interest paid in cash | $1,670 | $— |
| Income taxes paid | 3,694 | 4,079 |
| Supplemental disclosure of non-cash investing & financing activities: | | |
| Convertible debentures converted into common stock | $— | $832,500 |
| Prepaid interest on convertible debentures through the issuance of common stock | 87,000 | — |
| Premium from debt exchange | — | 42,719 |

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

1. Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements of Article 8 of Regulation S-X promulgated under the Securities and Exchange Act of 1934 and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes, included in its Form 10-K for the fiscal year ended June 30, 2011, 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, including normal recurring adjustments, which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results that may be expected for the year as a whole.

History:
LightPath was incorporated in Delaware in 1992 to pursue a strategy of supplying hardware to the telecommunications industry. In April 2000, the Company acquired Horizon Photonics, Inc. ("Horizon"), and in September 2000 the Company acquired Geltech, Inc. ("Geltech"). During fiscal 2003, in response to sales declines in the telecommunications industry, the operations of Horizon in California and LightPath in New Mexico were consolidated into the former Geltech facility in Orlando, Florida. In November 2005, the Company formed LightPath Optical Instrumentation (Shanghai) Co., Ltd. ("LPOI"), a wholly-owned manufacturing subsidiary located in Jiading, People's Republic of China. LPOI's manufacturing operations are housed in a 16,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant has increased LightPath's overall production capacity and enabled it to compete for larger production volumes of optical components and assemblies. It also provided a launching point to drive our sales expansion in the Asia/Pacific region.

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

Liquidity:
Cash flow and cash management continue to be primary concerns of the Company. Cash provided by (used in) operations was approximately $95,000 and ($471,000) during fiscal years ended 2011 and 2010, respectively. During the nine months ended March 31, 2012, cash provided by operating activities was approximately $97,000.

At March 31, 2012, we had a book cash balance of approximately $490,000. For the nine months ended March 31, 2012, our cash balance decreased by $439,000 compared to a decrease of $510,000 in the same period of the prior fiscal year. This decrease in our cash balance for the first nine months of fiscal 2012 was primarily due to capital spending to expand our tooling capabilities and purchase equipment for the infrared product line.

Management believes that cash flow from operations will improve during the rest of fiscal 2012 based upon the current booking rate combined with recent quote activity and the existing 12-month backlog. We are also continuing to seek opportunities to reduce costs and manage cash usage. We believe we can continue to achieve additional cost reductions by continuing the transition of precision molded optics lenses to less expensive glass, increasing tooling life and increasing operator yields and production efficiencies.

2. Significant Accounting Policies

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

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

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

Inventories, which consist principally of raw materials, work-in-process and finished lenses, isolators, collimators and assemblies are stated at the lower of cost or market, on a first-in, first-out basis. Inventory costs include materials, labor and manufacturing overhead. Acquisition of goods from our vendors has a purchase burden added to cover customs, shipping and handling costs. Fixed costs related to excess manufacturing capacity have been expensed. We look at the following criteria for parts to consider for the inventory reserve: items that have not been sold in two years or that have not been purchased in two years or of which we have more than a two-year supply. These items as identified are reserved at 100%, as well as reserving 50% for other items deemed to be slow moving within the last twelve months and reserving 25% for items deemed to have low material usage within the last six months. The parts identified are adjusted for recent order and quote activity to determine the final inventory reserve.

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

Long-lived assets, such as property, plant, and equipment, tooling and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Intangible assets, consisting of patents and trademarks, are recorded at cost. Upon issuance of the patent or trademark, the assets are amortized on the straight-line basis over the estimated useful life of the related assets ranging from two to seventeen years.

Debt costs consist of third-party fees incurred and other costs associated with the issuance of long-term debt. Debt costs are capitalized and amortized to interest expense over the term of the debt using the effective interest method.

Deferred rent relates to certain of the Company's operating leases containing predetermined fixed increases of the base rental rate during the lease term being recognized as rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying consolidated balance sheets.

Deferred revenue relates to a $1.1 million purchase order with Raytheon Vision Systems for which revenue is recognized on a percentage of completion basis. The Company is using the "cost-to-cost method" to allow it to measure progress toward completion based on the ratio of costs incurred to date to total estimated costs. The Company has recorded in deferred revenue in the accompanying consolidated balance sheet the difference between the amounts invoiced on the project and the amount recognized into revenue. As of March 31, 2012, the Company invoiced

$425,000 and recognized $143,000 as revenue. The balance of $282,000 is recorded as deferred revenue. At March 31, 2012, we had $425,000 in accounts receivable with respect to this purchase order, as affected in the accompanying consolidated balance sheet. The project is expected to be completed by July 2013.

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

The Company has not recognized a liability for uncertain tax positions. A reconciliation of the beginning and ending amount of unrecognized tax benefits or penalties has not been provided since there has been no unrecognized benefit or penalty. If there were an unrecognized tax benefit or penalty, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Company files U.S. Federal income tax returns, 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 2004.

Revenue is recognized from product sales when products are shipped to the customer, provided that the Company has received a valid purchase order, the price is fixed, title has transferred, collection of the associated receivable is reasonably assured, and there are no remaining significant obligations. Revenues from product development agreements are recognized as milestones and are completed in accordance with the terms of the agreements and upon shipment of products, reports or designs to the customer. Invoiced amounts for sales or value-added taxes (VAT) are posted to the balance sheet and not included in revenue.

New product development costs are expensed as incurred.

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

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

Financial instruments. The Company accounts for financial instruments in accordance with FASB ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), which provides a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2012. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which include cash equivalents of $126,000 at March 31, 2012. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments which include cash, trade receivables, accounts payable and accrued liabilities. Fair values were assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

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

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

Derivative financial instruments. The Company accounts for derivative instruments in accordance with FASB ASC 815, Derivatives and Hedging ("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 discount recorded in connection with the BCF and warrant valuation is recognized as non-cash interest expense debt discount over the term of the convertible debt, using the effective interest method.

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

Recent accounting pronouncements issued by Financial Accounting Standards Board ("FASB") (including Emerging Issues Task Force ("EITF")), the American Institute Certified Public Accountants ("AICPA") and the SEC are:

In June 2011, the FASB issued Acounting Standards Update ("ASU") 2011-05, Presentation of Comprehensive Income, which eliminates the option of presenting the components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The ASU instead permits an entity to present the total of comprehensive income, the components of net income, and the components of OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. With either format, the entity is required to present each component of net income along with total net income, each component of OCI along with the total for OCI, and a total amount for comprehensive income. Also, the ASU requires entities to present, for either format, reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. This ASU is to be applied retrospectively. For public entities, the ASU is effective for interim and annual periods beginning after December 15, 2011, however early adoption is permitted. The Company has adopted the provision of this ASU for its quarter ended December 31, 2011. The adoption of this ASU did not have a material impact on the consolidated financial statements.

3. Inventories

The components of inventories include the following:

| | (unaudited) March 31, 2012 | June 30, 2011 |
|---|---|---|
| Raw materials | $ 609,331 | $ 806,024 |
| Work in process | 685,706 | 604,788 |
| Finished goods | 338,799 | 318,076 |
| Reserve for obsolescence | (70,395 ) | (106,251 ) |
| | $ 1,563,441 | $ 1,622,637 |

4. Property and Equipment

Property and equipment are summarized as follows:

| | Estimated Life (Years) | (unaudited) March 31, 2012 | June 30, 2011 |
|---|---|---|---|
| Manufacturing equipment | 5 - 10 | $3,368,994 | $3,226,898 |
| Computer equipment and software | 3 - 5 | 241,900 | 257,451 |
| Furniture and fixtures | 5 | 86,239 | 86,299 |
| Leasehold improvements | 5 - 7 | 799,381 | 787,685 |
| Construction in progress | | 242,918 | 227,654 |
| Tooling | 1 - 5 | 1,204,435 | 1,135,738 |
| Total property and equipment | | 5,943,867 | 5,721,725 |
| | | | |
| Less accumulated depreciation and amortization | | 3,823,340 | 3,348,703 |
| Total property and equipment, net | | $2,120,527 | $2,373,022 |

5. Intangible Assets

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

| | (unaudited) March 31, 2012 | June 30, 2011 |
|---|---|---|
| Gross carrying amount | $ 621,302 | $ 621,302 |
| Accumulated amortization | (544,820 ) | (520,169 ) |
| Net carrying amount | $ 76,482 | $ 101,133 |

Amortization expense related to intangible assets totaled approximately $25,000 during both nine-month periods ended March 31, 2012 and 2011. The net carrying amount will be amortized over the following schedule for the remainder of fiscal 2012 and each fiscal year thereafter:

| 2012 | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|
| 8,217 | 32,868 | 32,868 | 2,529 | 76,482 |

6. Accounts Payable

The accounts payable balance includes approximately $54,000, and $43,000 of related party transactions for board of directors' fees as of March 31, 2012 and June 30, 2011, 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.

The 2004 Employee Stock Purchase Plan ("ESPP") permits employees to purchase shares of Class A common stock through payroll deductions, which may not exceed 15% of an employee's compensation, at a price not less than 85% of the market value of the stock on specified dates (June 30 and December 31). In no event may any participant purchase more than $25,000 worth of shares of Class A common stock in any calendar year and an employee may purchase no more than 4,000 shares on any purchase date within an offering period of 12 months and 2,000 shares on any purchase date within an offering period of six months. The discount on market value is included in selling, general and administrative expense in the accompanying statements of operations and was $1,433 and $1,224 for the nine months ended March 31, 2012 and 2011, respectively.

These two plans are summarized below:

| Equity Compensation Arrangement | Award Shares Authorized | Award Shares Outstanding at March 31, 2012 | Available for Issuance at March 31, 2012 |
|---|---|---|---|
| Amended and Restated Omnibus Incentive Plan | 1,715,625 | 1,177,809 | 92,423 |
| Employee Stock Purchase Plan | 200,000 | — | 120,024 |
| | | | |
| | 1,915,625 | 1,177,809 | 212,447 |

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

For stock options granted in the nine month period ended March 31, 2012 and 2011, the Company estimated the fair value of each stock option as of the date of grant using the following assumptions:

| | Nine Months Ended March 31, 2012 | Nine Months Ended March 31, 2011 |
|---|---|---|
| Expected volatility | 121% - 122% | 117% |
| Weighted average expected volatility | 121% - 122% | 117% |
| Dividend yields | 0% | 0% |

| | | |
|---|---|---|
| Risk-free interest rate | 1.59% - 2.01% | 1.18% |
| Expected term, in years | 3 - 7 | 3 - 7 |

Most options granted under the 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 20% and 0%, respectively, for the nine months ended March 31, 2012 and 49% and 0%, respectively, for the nine months ended March 31, 2011. The volatility rate and expected term are based on seven-year historical trends in Class A common stock closing prices and actual forfeitures. The interest rate used is the U.S. Treasury interest rate for constant maturities.

Information Regarding Current Share-Based Compensation Awards—A summary of the activity for share-based compensation awards in the nine months ended March 31, 2012 is presented below:

| | Stock Options | | | Restricted Stock Units (RSUs) | |
|---|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price (per share) | Weighted Average Remaining Contract Life (YRS) | Shares | Weighted Average Remaining Contract Life (YRS) |
| June 30, 2011 | 500,233 | $ 3.01 | 6.9 | 434,700 | 0.9 |
| Granted | 90,000 | 1.39 | 9.6 | 160,000 | 1.1 |
| Exercised | — | — | — | — | — |
| Cancelled | (7,124 ) | — | — | — | — |
| March 31, 2012 | 583,109 | $ 2.61 | 6.7 | 594,700 | 1.1 |
| Awards exercisable/ vested as of March 31, 2012 | 384,984 | $ 2.85 | 5.6 | 359,700 | — |
| Awards unexercisable/ unvested as of March 31, 2012 | 198,125 | $ 2.15 | 8.9 | 235,000 | 1.1 |
| | 583,109 | | | 594,700 | |

The weighted average fair value of shares awarded for the nine months ended March 31, 2012 was:

| | Stock Options | RSU | All Awards |
|---|---|---|---|
| Weighted average fair value of share awards granted for nine months ended March 31, 2012 | $ 1.21 | $ 1.35 | $ 1.30 |

The total intrinsic value of options outstanding and exercisable at March 31, 2012 and 2011 was $19,103 and $68,678, respectively.

The total intrinsic value of RSUs exercised during the nine months ended March 31, 2012 and 2011 was $0 and $0, respectively.

The total intrinsic value of RSUs outstanding and exercisable at March 31, 2012 and 2011 was $608,580 and $492,870, respectively.

The total fair value of RSUs vested during the nine months ended March 31, 2012 and 2011 was $181,250 and $65,000, respectively.

The total fair value of option shares vested during the nine months ended March 31, 2012 and 2011 was $177,279, and $223,706, respectively.

As of March 31, 2012, there was $522,617 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 Options | Restricted Stock Share/ Units | Total |
|---|---|---|---|
| Three months ended June 30, 2012 | $ 16,641 | $ 52,601 | $ 69,242 |
| Year ended June 30, 2013 | 79,057 | 168,420 | 247,477 |
| Year ended June 30, 2014 | 64,254 | 94,570 | 158,824 |
| Year ended June 30, 2015 | 23,587 | 18,852 | 42,439 |
| Year ended June 30, 2016 | 4,635 | - | 4,635 |
| | $ 188,174 | $ 334,443 | $ 522,617 |

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 Class A 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 March 31, 2012 and changes during the nine months then ended:

| Unexercisable/unvested awards | Stock Options Shares | RSU Shares | Total Shares | Weighted-Average Grant Date Fair Values (per share) |
|---|---|---|---|---|
| June 30, 2011 | 182,500 | 200,000 | 382,500 | $ 2.53 |
| Granted | 90,000 | 160,000 | 250,000 | 1.30 |
| Vested | (74,375 ) | (125,000 ) | (199,375 ) | 2.27 |

| | | | | | |
|---|---|---|---|---|---|
| Cancelled/Issued/Forfeited | — | — | — | | — |
| March 31, 2012 | 198,125 | 235,000 | 433,125 | $ | 2.42 |

Financial Statement Effects and Presentation—The following table shows total stock-based compensation expense for the nine months ended March 31, 2012 and 2011 included in the consolidated statements of operations:

| | Nine Months Ended March 31, 2012 | Nine Months Ended March 31, 2011 |
|---|---|---|
| Stock options | $69,455 | $58,221 |
| RSU | 133,347 | 103,439 |
| Total | $202,802 | $161,660 |
| The amounts above were included in: | | |
| General & administrative | $188,221 | $144,174 |
| Cost of sales | 6,661 | 7,380 |
| New product development | 7,920 | 10,106 |
| | $202,802 | $161,660 |

8. Loss Per Share

Basic 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 shares of Class A common stock were exercised or converted into shares of Class A common stock. The computation for basic and diluted loss per share are the same as the diluted calculation excludes certain shares as their effect would be anti-dilutive, as described in the following table:

| | (unaudited) Three months ended March 31, 2012 | (unaudited) Three months ended March 31, 2011 | (unaudited) Nine Months ended March 31, 2012 | (unaudited) Nine Months ended March 31, 2011 |
|---|---|---|---|---|
| Net loss | $ (518,985) | $ (375,728) | $ (1,060,731) | $ (1,602,392) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 9,767,640 | 9,715,266 | 9,758,233 | 9,474,204 |
| Loss per common share: | | | | |
| Basic and diluted | $ (0.05) | $ (0.04) | $ (0.11) | $ (0.17) |
| Excluded from computation: | | | | |
| Options to purchase common stock | 583,109 | 502,119 | 583,109 | 502,119 |
| Restricted stock units | 594,700 | 434,700 | 594,700 | 434,700 |
| Common stock warrants | 2,364,492 | 2,656,492 | 2,364,492 | 2,656,492 |
| Convertible debentures | 706,169 | 715,422 | 706,169 | 715,422 |
| | 4,248,470 | 4,308,733 | 4,248,470 | 4,308,733 |

9. Foreign Operations

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the balance sheet date, and revenues and expenses are translated at average rates of exchange for the three and nine month periods. Gains or losses on the translation of the financial statements of a non-U.S. operation, where the functional currency is other than the U.S. dollar, the Renminbi ("RMB"), are reflected as a separate component of equity. The foreign exchange translation adjustment reflects net gains of approximately $31,000 for the nine months ended March 31, 2012 and a gain of approximately $1,000 for the nine months ended March 31, 2011. The Company, as of March 31, 2012, had approximately $4.2 million in assets and $3.3 million in net assets located at LPOI's Shanghai facility. The Company transferred equipment from the Orlando facility to LPOI's Shanghai facility, and purchased and transferred equipment to LPOI's Shanghai facility, during each fiscal year since 2006 through 2011.

10. Convertible Debentures

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

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

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

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

We paid a commission to the exclusive placement agent for the offering, First Montauk Securities Corp. ("First Montauk"), in an amount equal to $216,570 plus costs and expenses. We also issued to First Montauk and its designees warrants to purchase an aggregate of 190,195 shares of our Class A 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 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 Class A 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 Class A common stock on the date of issuance. The Warrants were valued using the Black-Scholes-Merton valuation model using assumptions similar to those used to value the Company's stock options and RSUs. In addition, a beneficial conversion feature associated with the Debentures was valued at the date of issuance at $600,635 and was recorded as a discount on the debt. The total debt discount of $1,391,465 was amortized using the effective interest method over the original 36-month term of the Debentures and was subsequently adjusted for the extension of the maturity date of the Debentures as discussed below.

We also incurred debt issuance costs associated with the issuance of the Debentures of $554,308 which were amortized over the original 36-month term using the effective interest method, adjusted for accelerated conversions of the Debentures and the extension of the maturity date of the Debentures as discussed below. 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 were immediately exercisable at a per share price of $1.68 for one-third of the warrants and $1.89 for two-thirds of the warrants. For the nine-months ended March 31, 2012 and 2011, $2,448 and $118,193, respectively of the debt issuance costs were amortized through interest expense on the consolidated statement of operations and comprehensive income.

On December 31, 2008, the Debentures were amended to allow debenture holders to convert 25% of their Debentures into shares of Class A common stock. As a result, $732,250 of the Debentures were converted into 475,496 shares of Class A 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 original maturity date of August 1, 2011, which resulted in the issuance of 589,614 shares of Class A common stock. The interest payment of $58,580 for the quarter ended December 31, 2008 resulted in the issuance of 76,078 shares of Class A common stock. As a result of the Debenture conversion, $304,382 of debt discount was written off to interest expense. On May 29, 2009 we filed a registration statement to register the additional interest shares and the shares underlying the warrants, both of which were issued in December 2008. The registration statement was declared effective on June 16, 2009.

During the year ended June 30, 2011, the Company's debt obligations were reduced by $832,500 through the conversions of certain of the Debentures into shares of Class A common stock. Costs associated with the conversion of these Debentures were $6,749, which reduced the proceeds recognized. These transactions increased interest expense by $101,300 for the year ending June 30, 2011, reflecting debt issue costs, prepaid interest and discount on the debt that were written off as a result of the debt conversions of certain of the Debentures into shares of Class A common stock. During the fiscal year ended June 30, 2010, the Company's debt obligations were reduced by $262,500 through conversion of certain of the Debentures into shares of Class A common stock.

On March 30, 2011, debenture holders holding approximately 98.71% of the outstanding principal amount of the Debentures consented to an amendment to extend the maturity date of the Debentures from August 1, 2011 to August 1, 2013, at which time the Debentures that have not been converted into shares of Class A common stock will be due and payable in full. The one debenture holder electing not to participate in the extension was paid all amounts due under the Debenture held by such holder, or $14,250, in April 2011. Pursuant to the terms of the amendment, interest will be prepaid in Class A common stock annually each August. The extension of the maturity date of the Debentures was determined to be substantial and therefore triggered "debt extinguishment" accounting under ASC 470-50-40. The Debentures are hybrid financial instruments that blend characteristics of both debt and equity securities. The Debentures embody settlement alternatives to the holder providing for either redemption of principal and interest in cash (forward component) or conversion into Class A common stock (embedded conversion feature). As a result of the debt extinguishment accounting, $63,692 of the unamortized debt discount and $25,372 of unamortized debt issuance costs were written off to loss on extinguishment of debt. The calculated fair value of the amended Debentures as of March 30, 2011 was $1,706,919, and included $924,844 for the forward component and $782,075 for the embedded conversion feature. The forward component was valued using the present value of discounted cash flows arising from the contractual principal and interest payment terms and the embedded conversion feature was valued using a Monte Carlo simulations method. The fair value of the amended Debentures exceeded the carrying value of the Debentures just prior to the amendment date by $619,419 which represents a premium. Approximately 93% of the Debentures are held by related parties and as such $576,700 of the premium was considered a capital contribution and was not included in the loss on extinguishment and therefore had no impact on additional paid in capital. The remaining $42,719 of the premium was associated with Debentures to non-related parties and thus was recorded to loss on extinguishment of debt and additional paid in capital.

For the nine months ended March 31, 2012 and 2011, $0 and $316,590, respectively, of the amortized debt discount was amortized through interest expense on the consolidated statement of operations and comprehensive income. The unamortized debt discount was $0 and $103 as of March 31, 2012 and 2011, respectively.

Total principal outstanding on the Debentures and the principal amount outstanding specifically to directors, officers and stockholders owning at least 10% of the Company's securities under the Debentures was $1,087,500 and $1,012,500, respectively at March 31, 2012 and $1,101,750 and $1,012,500, respectively, at March 31, 2011.

We can force the debenture holders to convert the Debentures into shares of our Class A 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.  Financing Plans

On September 29, 2011, the Company filed a Registration Statement on Form S-1, as subsequently amended (Registration No. 333-177079) (the "Registration Statement") with the SEC announcing its intention to raise funds through the sale of Class A common stock in a fully-underwritten public offering. The Company intended to sell up to 4.5 million units, with each unit consisting of one share of our Class A common stock, one Warrant A to purchase 0.25 shares of our Class A common stock and one Warrant B to purchase 0.25 shares of our Class A common stock. On January 27, 2012, the Company filed a request for withdrawal of the Registration Statement with the SEC. The Company has determined that it was not in the best interests of the Company to proceed with the offering due to business, economic and market conditions. Prepaid offering costs of approximately $227,000 were written off in the fiscal quarter ended March 31, 2012 and are included in selling, general and administrative costs on the accompanying consolidated statement of operations and comprehensive income.

12. Deferred Revenue

In January 2012, the Company received a purchase order for $1.1 million from Raytheon Vision Systems.  The purchase order is for development of low cost manufacturing processes for infrared optics and is in support of Raytheon Vision Systems' $13.4 million Defense Advanced Research Projects Agency's (DARPA) Low Cost Thermal Imaging Manufacturing (LCTI-M) program. The goal of LCTI-M is to develop a wafer scale manufacturing process that will result in a camera on a chip, making thermal imagers affordable, accessible, and ubiquitous to every warfighter.

The Company is using the "cost-to-cost method" to allow it to measure progress toward completion based on the ratio of costs incurred to date to total estimated costs. The Company has recorded in deferred revenue on the accompanying consolidated balance sheet the difference between the amounts invoiced on the project and the amount recognized into revenue.

As of March 31, 2012, the Company invoiced $425,000 and recognized $143,000 as revenue. The balance of $282,000 is recorded as deferred revenue. The project is expected to be completed by July 2013. At March 31, 2012, we had $425,000 in accounts receivable with respect to this purchase order, as reflected in the accompanying consolidated balance sheet.

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 March 31, 2012 (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.” EBITDA is discussed below. 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.

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.

From 1998 through 2002, we relied heavily on the telecommunications capital equipment market, which went through a rapid increase and a subsequent rapid decrease during this period. During fiscal 2003 following the contraction of this market, we consolidated our corporate headquarters and all production, including production for GRADIUM glass lenses and collimators previously performed in New Mexico and production of isolators previously performed in California, in Orlando, Florida to reduce costs and adapt to the market changes.

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. 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.

In 2006, the Company began a program to reduce its operating costs, including restructuring its manufacturing operations. By 2008, the major elements of this program were implemented resulting in a significant reduction of costs. The elements of the program were: 1) moving the majority of our manufacturing to LPOI's Shanghai facility, 2) converting our tooling to a less expensive ceramic system and 3) introducing lower cost glass materials. In exploiting our new cost structure, we have focused on leveraging LPOI's facility in Shanghai to address high volume, low cost applications. These applications include laser tools, laser gun sights and certain imaging applications. We have established relationships with some of the larger OEM customers in these areas and expanded our sales channels by adding distribution coverage in North America and Asia, and a master distributor in Europe. Finally, we are designing lenses specifically for our existing and new target markets. Our new designs and new marketing approach have brought additional requests for product information from new customers. We believe we are well positioned to take advantage of new opportunities in these areas.

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 nine-month period. During the nine months ended March 31, 2012 and 2011, we incurred a $31,017 gain and a $1,090 gain in on foreign currency translation, respectively.

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

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

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

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

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

Our key indicators:

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

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

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

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

Sales Backlog – We believe that sales growth is our best indicator of success. Our best view into the efficacy of our sales efforts is in our "order book." Our order book equates to sales "backlog." Our backlog has a quantitative and a qualitative aspect: quantitatively, our backlog's prospective dollar value and qualitatively, the percent of the backlog is scheduled by the customer for date-certain delivery. We define our "12-month 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, 2011, our 12-month backlog was approximately $3.87 million. At March 31, 2012, our 12-month backlog increased by approximately $758,000 to $4.39 million as compared to the same period last year. Our 12-month backlog increased by approximately $518,000 since June 30, 2011. We believe this growth to be the result of the booking of the $1.1 million infrared purchase order with Raytheon Vision Systems ("Raytheon") as well as increases across our other product lines. We have seen increased quote activity for our Black Diamond product line and our new blue lenses during the nine months ended March 31, 2012 compared to the same period last year. Bookings and quote activity have also increased for our industrial low-cost lenses in Asia. With the continuing diversification of our 12-month backlog we expect to show modest increases in revenue for the remaining quarter of 2012.

EBITDA- 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."

The following table sets forth EBITDA for the three months and nine months ended March 31, 2012 and 2011:

| | (Unaudited) Three months ended March 31, | | (Unaudited) Nine months ended March 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net loss | $(518,985) | $(375,728) | $(1,060,731) | $(1,602,392) |
| Depreciation and amortization | 286,014 | 227,861 | 857,721 | 655,131 |

| | | | | |
|---|---|---|---|---|
| Loss on extinguishment of debt | — | 131,784 | — | 131,784 |
| Interest expense | 22,582 | 89,560 | 69,368 | 583,197 |
| EBITDA | $(210,389 ) | $73,477 | $(133,642 ) | $(232,280 ) |

Our EBITDA for the nine months ended March 31, 2012 increased to a loss of approximately $134,000, compared to a loss of approximately $232,000 for the nine months ended March 31, 2011. The improvement in EBITDA was principally caused by lower net operating losses and lower interest expense. For comparison purposes, net loss was approximately $1.06 million or $0.11 per basic and diluted common share during the first nine months of fiscal 2012, compared with the first nine months of fiscal 2011, in which we reported a net loss of approximately $1.60 million or $0.17 basic and diluted per common share.

Inventory Levels – We manage our inventory levels to minimize investment in working capital but still have the flexibility to meet customer demand to a reasonable degree. While the mix of inventory is an important factor, including adequate safety stocks of long lead-time materials, an important aggregate measure of inventory in all phases of production is the quarter's ending inventory expressed as a number of days worth of the quarter's cost of sales, also known as "days cost of sales in inventory," or "DCSI." It is calculated by dividing the quarter's ending inventory by the quarter's cost of goods sold, multiplied by 365 and divided by 4. Generally, a lower DCSI measure equates to a lesser investment in inventory and therefore more efficient use of capital. During the nine months ended March 31, 2012 and 2011, our DCSI was 75 and 105, respectively, compared to 90 for the year ended June 30, 2011.

This decrease in DCSI for the nine months ended March 31, 2012, as compared to the nine months ended March 31, 2011, and June 30, 2011 was due to higher cost of goods sold. Our cost of goods sold increased due to an increase of $242,000 in direct costs, which includes material, labor and outside services, an increase of $35,000 in lens coating costs and an increase of $85,000 in labor costs for our infrared and collimator products as we ramp up the development of these products.

Accounts Receivable Levels and Quality – Similarly, we manage our accounts receivable to minimize investment in working capital. We measure the quality of receivables by the proportions of the total that are at various increments past due from our normally extended terms, which are generally 30 days. The most important aggregate measure of accounts receivable is the quarter's ending balance of net accounts receivable expressed as a number of day's worth of the quarter's net revenues, also known as "days sales outstanding," or "DSO." It is calculated by dividing the quarter's ending net accounts receivable by the quarter's net revenues, multiplied by 365 and divided by 4. Generally, a lower DSO measure equates to a lesser investment in accounts receivable, and therefore, more efficient use of capital. During the nine months ended March 31, 2012 and 2011, our DSO was 79 and 60, respectively. During the year ended June 30, 2011 our DSO was 63. Our DSO is higher than our last five quarter average DSO of 68 due to 53% of the quarterly revenue earned was from products shipped in March, and therefore, the majority of our total current receivables have not been collected as of March 31, 2012.

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

Cash flow and cash management continue to be primary concerns of the Company. The Company has a history of recurring losses from operations and as of March 31, 2012, the Company had an accumulated deficit of approximately $204.8 million. Cash provided by (used in) operations was $95,000 for fiscal year 2011 and ($471,000) for fiscal year 2010. During the nine months ended March 31, 2012, cash provided by operating activities was approximately $97,000.

At March 31, 2012, we had a book cash balance of approximately $490,000. For the nine months ended March 31, 2012, cash decreased by approximately $439,000 compared to a decrease of approximately $510,000 (excluding the proceeds we received from the exercise of common stock warrants) for the same period last year. The use of cash in both periods was primarily due to capital spending to expand our tooling capabilities and purchase equipment for the infrared product line. On May 7, 2012, the Company had a book cash balance of approximately $720,000.

We believe that cash flow from operations will improve for the remainder of fiscal 2012 based upon the current booking rate combined with recent quote activity and the existing 12-month backlog. We are also continuing to seek opportunities to reduce costs and manage cash usage. The areas in which we believe we can achieve additional cost reductions include the continuing transition of precision molded optics lenses to less expensive glass, increasing tooling life and increasing operator yields and production efficiencies. In the fourth quarter of fiscal 2012 we took action to further reduce our costs. We reduced staff in Orlando and cut all Orlando salaries by 5%. This cost reduction is expected to have an annual gross margin impact of $400,000.

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 ongoing economic conditions and increases in other discretionary spending, particularly sales and marketing costs.

To fund future operations, we may seek external debt or equity financing, if it can be obtained in an amount and on terms that are acceptable. We attempted to raise funds through a public offering in the second quarter; however, that financing was withdrawn as a result of current business, economic and market conditions. We may be required to seek external financing regardless of whether the terms would be acceptable, if our cash flow financial resources are not sufficient to sustain our operations or to pursue our business plan. There is no assurance we will be able to achieve the necessary cash flow from sales growth and gross margin improvements to sustain operations. Factors which could adversely affect cash balances in future quarters include, but are not limited to, a decline in revenue or a lack of anticipated sales growth, increased material costs, increased labor costs, planned production efficiency improvements not being realized, increases in property, casualty, benefit and liability insurance premiums and increases in other discretionary spending, particularly sales and marketing related.

Sources and Uses of Cash

Operating Activities

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

Investing Activities

Periodically we make expenditures for capital goods. In the first nine months of fiscal 2012, we had capital expenditures for tooling, computer servers and equipment to support our tooling operations, as well as purchasing equipment for the infrared product line. In the first nine months of fiscal 2011, we added press capacity and tooling for precision molded optics lenses. Tooling costs for precision molded optics lenses are capitalized.

Financing Activities

Since 2001, we have experienced negative cash flow or net use of cash. Over the past five fiscal years, our net use of cash has required that we draw down on our cash and cash equivalent balances and periodically raise additional funds through the sale of shares of common stock or, in the case of our August 2008 offering, debentures convertible into shares of our common stock.

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 do not currently have any availability for borrowing under equipment leases or other loan facilities and we do not currently have any commitment from any party to provide any other financing to the Company. We attempted to raise funds through a public offering in the second quarter of fiscal 2012; however, that offering was withdrawn as a result of current business, economic and market conditions. There can be no assurances that 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 of having limited cash resources with which to continue our operations as currently conducted or to pursue new business opportunities. Either of these outcomes would materially and adversely affect our results of operations, financial performance and stock price.

Off Balance Sheet Arrangements

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

Results of Operations

Fiscal Third Quarter: Three months ended March 31, 2012 compared to the three months ended March 31, 2011

Revenues:

For the quarter ended March 31, 2012, we reported total revenues of $2.78 million compared to $2.43 million for the third quarter of last fiscal year, an increase of 14%. The increase from the third quarter of the prior fiscal year was attributable to increases in sales across all product lines. Unit shipment volume in precision molded optics increased by 12% in the third quarter of 2012 compared to the same period of the prior fiscal year. Growth in sales going forward is expected to be derived primarily from the precision molded lenses product line, particularly our low cost lenses being sold in Asia and from our infrared and collimator products.

Cost of Sales:
Our gross margin percentage in the third quarter of fiscal 2012 was 32% compared to 40% for the third quarter of fiscal 2011. Total manufacturing costs of $1.90 million were approximately $439,000 higher in the third quarter of fiscal 2012 compared to the same period of the prior fiscal year. The increase in manufacturing costs, as compared to the same period of the prior fiscal year, is a result of an increase of $242,000 in direct costs, which includes material, labor and outside services, due to increased sales; an increase of $35,000 in lens coating costs, and an increase of $85,000 in labor costs for our infrared and collimator products as we ramp up the development of these products.

Unit sales of precision molded optics lenses increased by 12% in the third quarter of fiscal 2012 compared to the same period last year. In the third quarter of fiscal 2012, 9% of our precision molded optics lens units sold was produced with more expensive glass types, compared to 16% in the same period last year. This decrease is the result of our transition from higher-cost glass materials to lower-cost glass materials. However, the transition from higher-cost glass materials to lower-cost glass materials causes inefficiencies in our coating process. The lens coating on our higher-cost glass lenses is different from the lens coating on our lower-cost glass lenses and requires separate coating runs, thereby increasing our lens coating costs. Once the transition to lower-cost glass lenses is complete, we expect our coating efficiencies to improve and our costs to decrease.

Direct costs, which include material, labor and services, decreased to 24% of revenue in the third quarter of fiscal 2012, as compared to 27% of revenue in the third quarter of fiscal 2011. The decrease in direct costs was primarily due to improved labor productivity. We reduced our employee headcount at LPOI's Shanghai facility during the second and third quarters of fiscal 2012 to reflect the improved productivity and yield and to better match our production requirements to our current 12-month backlog.

The most significant factor creating potential downward pressure on our gross margins is the level of revenue from the sales of precision molded optics, collimator and infrared products. Lower revenues generated from sales of these products may affect our ability to cover certain fixed costs related to such products. 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 third quarter of fiscal 2012, selling, general and administrative ("SG&A") costs were approximately $1.14 million, compared to $861,000 in the third quarter of fiscal 2011, an increase of approximately $280,000. This increase was due primarily to incurring expenses of $227,000 related to our securities offering that was subsequently withdrawn in the third quarter of fiscal 2012. We intend to maintain SG&A costs generally at current levels, with some increases expected for sales and marketing.

New Product Development:
New product development costs were approximately $237,000 in the third quarter of fiscal 2012 compared to approximately $266,000 in the same period last year, an 11% decrease. This decrease was primarily due to decreases in materials purchased for current projects. We anticipate that these expenses will increase modestly for the remainder of fiscal year 2012 as we invest in the continued development of our infrared and collimator product lines.

Amortization of Intangibles:
Amortization expense from intangibles remained the same at approximately $8,000 per quarter in both the fiscal quarters ended March 31, 2012 and 2011.

Other Income (Expense):
Interest expense was approximately $23,000 in the third quarter of fiscal 2012 as compared to $90,000 in the third quarter of fiscal 2011. This higher interest expense last year resulted from interest on our convertible debentures, at 8% per annum and amortization of debt discount and debt costs. Loss on extinguishment of debt of $132,000 during

the third quarter of fiscal 2011 resulted from the two year extension of the maturity date of our convertible debentures and included the write-off of approximately $89,000 of debt issuance costs and debt discount and premium of $43,000 from debt exchange for a non-related debt holder.

Net Loss:
Net loss was approximately $519,000 or $0.05 basic and diluted per share during the third quarter of fiscal 2012, compared with the third quarter of fiscal 2011, in which we reported a net loss of approximately $376,000 or $0.04 basic and diluted per share. The approximate $143,000 increase in net loss resulted from the write-off of expenses equal to $227,000 incurred in connection with our withdrawn secutities offering in the third quarter of fiscal 2012, offset by $70,000 in lower interest expense. Weighted-average shares outstanding (basic) was 9,767,640 in the third quarter of fiscal 2012 compared to 9,715,266 in the third quarter of fiscal 2011. The increase in weighted-average shares outstanding was primarily due the issuance of shares of common stock forrelated to the payment of interest on convertible debentures, shares issued for our related to the employee stock purchase plan and shares issued upon the exercise of incentive stock options.

Fiscal First Nine Months: Nine months ended March 31, 2012 compared to the nine months ended March 31, 2011

Revenues:

For the nine months ended March 31, 2012, we reported total revenues of approximately $8.18 million compared to approximately $7.22 million for the first nine months of last fiscal year, an increase of 13%. This increase from the first nine months of fiscal 2011 was primarily attributable to higher sales volumes in all of our major product lines. The number of units of precision molded optics sold increased by 35% due to our increased production capability and our pursuit of the low cost, high volume lens business. Growth in sales going forward is expected to be derived primarily from our precision molded optics product line, particularly our low cost lenses sold in Asia, and our infrared and collimator product lines.

We anticipate sales growth, and therefore an increase in revenues, primarily from precision molded optics lenses, with the emphasis on low-cost, high-volume applications, optical assemblies including our redesigned collimator product line and infrared products. Units sold in these targeted markets increased 35% since last year. We are also targeting specific applications in each of the following areas in order to increase sales: laser tools, gun sights, biomedical instruments and telecommunication subsystems for the glass aspheres market; laser line generators, industrial tools, optical cutting/welding, scientific lasers, semiconductors, metrology systems and telecommunication subsystems for the specialty optics market; and thermal imaging, security cameras, thermography, gas sensing and defense targeting and tracking for the infrared optics market. In support of these efforts, the Company is engaging in new product development and customer prospecting for these markets. We believe these factors will contribute towards achieving profitability assuming we meet our sales targets.

Cost of Sales:
Our gross margin percentage in the first nine months of fiscal 2012 was 34% compared to 39% for first nine months of fiscal 2011. Total manufacturing costs of $5.37 million were approximately $962,000 higher in the first nine months of fiscal 2012 compared to the same period of the prior fiscal year. This increase in manufacturing costs resulted from an increase of $412,000 in direct costs, which includes materials, labor and outside services, due to increased sales, an increase of $349,000 in labor costs for our collimator and infrared products as we ramp up the development of these products, and an increase of $174,000 in lens coating costs. Direct costs, which include material, labor and services, remained unchanged at 26% of revenue in the first nine months of fiscal 2012, as compared to the first nine months of fiscal 2011, with yield and efficiency improvement offsetting higher labor rates paid to employees at LPOI’s Shanghai facility. The average cost per unit decreased by 8% due to higher unit volume reducing overhead costs per unit, partially offset by higher freight costs. This improvement in the average cost per unit was offset by a 15% decrease in the average selling price per unit due to market demands and the changing product mix of orders, negatively impacting gross margin.

In the nine months ended March 31, 2012, 11% of sales of our precision molded optics lens units were produced with more expensive glass types, compared to 18% of sales for the same period in the prior fiscal year. This decrease was due to our transition to a lower-cost glass material. Sales of industrial tool lenses increased but were under our projected forecast as construction in China remained weak impacted by the continued tight monetary policy of the Chinese government, which resulted in a slowdown of construction in China, and in turn, lowered the demand for our lenses. Management is committed to continuing efforts to transition more precision molded optics lenses to less expensive glass, which will contribute towards achieving profitability assuming we meet our sales targets and goals for producing and selling more low-cost lenses at higher volumes.

We also experienced an increase in labor costs, including one-time costs for severance incurred with respect to Orlando and Shanghai employees and a one-time charge for the return of products by a customer resulting from customer specification changes.  We experienced an increase in labor costs at LPOI's Shanghai facility due to (i) increases in the minimum wage and higher benefit costs and (ii) an increase in employee headcount during portions of fiscal 2011 and fiscal 2012.  Headcount in Shanghai was reduced during the first nine months of fiscal 2012 to reflect the improved productivity and yield and to better match our production requirements to our current 12-month backlog. Overtime expense paid to employees at our Orlando and Shanghai facilities also increased during the nine months ended March 31, 2012.  This increase in overtime expense was primarily due to certain production equipment at our Orlando facility being taken offline for repairs during a time when we were implementing a planned machine conversion.  This led to a temporary decrease in tooling capacity and required that our employees work extra shifts in order to meet the demand for our products.  Both the machine repairs to our Computerized Numerical Control ("CNC") equipment and the machine conversion are complete, which, we anticipate will reduce the likelihood of incurring significant overtime expense in the future.

The combination of these factors resulted in lower margins than budgeted, which led to a loss of approximately $1.06 million for the nine months ended March 31, 2012. The most significant factor creating potential downward pressure on our gross margins is the level of revenue from the sales of precision molded optics, collimator and infrared products. Lower revenues generated from sales of these products may affect our ability to cover certain fixed costs related to such products. As our revenues increase we expect improvements in gross margins as our overhead costs are amortized over a higher base.

Selling, General and Administrative:
During the first nine months of fiscal 2012, SG&A costs were approximately $3.02 million, compared to $2.93 million in the first nine months of fiscal 2011, an increase of approximately $91,000. This increase was due to incurring expenses of $227,000 in connection with our withdrawn securities offering offset by a decrease in investor relations expense of $130,000, a decrease in NASDAQ fees of $44,000 and a decrease of $10,000 of EDGAR filing fees with the SEC. We intend to maintain SG&A costs generally at current levels, with some increases expected for sales and marketing.

New Product Development:
New product development costs were approximately $796,000 in the first nine months of fiscal 2012 compared to $737,000 in the same period last year, an 8% increase. This increase was primarily due to an increase in the number of new lens projects which increased activity for the development of our infrared lenses and maintenance fees for our intellectual property. We anticipate these expenses will increase modestly for the remainder of fiscal year 2012 as we continue the development of our infrared product line.

Amortization of Intangibles:
Amortization expense from intangibles remained the same at approximately $25,000 in each of the nine-month periods ended March 31, 2012 and 2011.

Other Income (Expense):
Interest expense was approximately $69,000 in the first nine months of fiscal 2012 as compared to $583,000 in the first nine months of fiscal 2011. The higher interest expense last year resulted from the accelerated conversion by certain investors of their convertible debentures into common stock in the first nine months of 2011, which reduced the Company's debt obligation by $832,500. The accelerated conversions during the first nine months of 2011 resulted in approximately $256,000 of unamortized debt costs associated with the principal amount converted to be expensed in full. The convertible debentures issued in August 1, 2008 accounted for approximately all of the interest reported, which accrues at 8% per annum, during the nine months ended March 31, 2012. Future interest expense on the debentures is expected to be approximately $69,000 per each nine month period. Investment and other income

(expense) was approximately $44,000 in the first nine months of fiscal 2012 and ($8,000) in the first nine months of fiscal 2011.

Net Loss:

Net loss for the first nine months of fiscal 2012 was approximately $1.06 million or $0.11 per basic and diluted common share, compared to approximately $1.60 million or $0.17 per basic and diluted per common share for the same period in fiscal 2011. Weighted-average basic shares outstanding was 9,758,233 in the first nine months of fiscal 2012 compared to 9,474,204 in the first nine months in fiscal 2011 primarily due to the issuance of shares of common stock for our employee stock purchase plan and issuance of common stock as payment of interest due on our debentures.

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 the due date. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Recovery of bad debt amounts which were previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company's actual collection experience changes, revisions to its allowance may be required. After attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventory obsolescence reserve is calculated by reserving 100% for items that have not been sold in two years or that have not been purchased in two years and 25% for products which we have more than a two year supply, as well as reserving 50% for other items deemed to be slow moving within the last 12 months and reserving 25% for items deemed to have low material usage within the last six months.

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

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

Beneficial Conversion and Warrant Valuation. The Company recorded a beneficial conversion feature ("BCF") related to the issuance of convertible debt instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments was recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value using the Black-Scholes-Merton pricing model, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation were recognized as non-cash interest expense over the term of the convertible debt, using the effective interest method.

Deferred revenue relates to a $1.1 million purchase order from Raytheon that is being recognized into revenue on a percentage of completion basis. The Company is using the "cost-to-cost method" to allow it to measure progress toward completion based on the ratio of costs incurred to date to total estimated costs. The Company recorded in deferred revenue in the accompanying consolidated balance sheet the difference between the amounts invoiced on the project and the amount recognized into revenue. As of March 31, 2012, the Company invoiced $425,000 and recognized $143,000 as revenue. The balance of $282,000 was recorded as deferred revenue. At March 31, 2012, we had $425,000 in accounts receivable with respect to this purchase order, as reflected in the accompanying consolidated balance sheet. The project is expected to be completed by July 2013.

## Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of March 31, 2012, the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2012 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 March 31, 2012, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 6. Exhibits

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

| Exhibit Number | Description | Notes |
|---|---|---|
| 3.1.1 | Certificate of Incorporation of Registrant, filed June 15, 1992 with the Secretary of State of Delaware | 1 |
| 3.1.2 | Certificate of Amendment to Certificate of Incorporation of Registrant, filed October 2, 1995 with the Secretary of State of Delaware | 1 |
| 3.1.3 | Certificate of Designations of Class A common stock and Class E-1 common stock, Class E-2 common stock, and Class E-3 common stock of Registrant, filed November 9, 1995 with the Secretary of State of Delaware | 1 |
| 3.1.4 | Certificate of Designation of Series A Preferred Stock of Registrant, filed July 9, 1997 with the Secretary of State of Delaware | 2 |
| 3.1.5 | Certificate of Designation of Series B Stock of Registrant, filed October 2, 1997 with the Secretary of State of Delaware | 3 |
| 3.1.6 | Certificate of Amendment of Certificate of Incorporation of Registrant, filed November 12, 1997 with the Secretary of State of Delaware | 3 |
| 3.1.7 | Certificate of Designation of Series C Preferred Stock of Registrant, filed February 6, 1998 with the Secretary of State of Delaware | 4 |
| 3.1.8 | Certificate of Designation, Preferences and Rights of Series D Participating Preferred Stock of Registrant filed April 29, 1998 with the Secretary of State of Delaware | 5 |
| 3.1.9 | Certificate of Designation of Series F Preferred Stock of Registrant, filed November 2, 1999 with the Secretary of State of Delaware | 6 |
| 3.1.10 | Certificate of Amendment of Certificate of Incorporation of Registrant, filed February 28, 2003 with the Secretary of State of Delaware | 7 |
| 3.2 | Bylaws of Registrant | 1 |
| 4.1 | Rights Agreement dated May 1, 1998, between Registrant and Continental Stock Transfer & Trust Company | 5 |
| 4.2 | First Amendment to Rights Agreement dated as of February 28, 2008, between LightPath Technologies, Inc. and Continental Stock Transfer & Trust Company | 12 |

| | | |
|---|---|---|
| 10.1 | Directors Compensation Agreement dated November 11, 1999 between Robert Ripp and LightPath Technologies, Inc. and First Amendment thereto | 8 |
| 10.2 | Amended and Restated Omnibus Incentive Plan dated October 15, 2002 | 9 |
| 10.3 | Employee Letter Agreement dated June 12, 2008, between LightPath Technologies, Inc., and J. James Gaynor, its Chief Executive Officer & President | 10 |
| 10.4 | Form of Common Stock Purchase Warrant dated as of August 1, 2008, issued by LightPath Technologies, Inc., to certain investors | 11 |
| 10.5 | Securities Purchase Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc., and certain investors | 11 |
| 10.6 | Registration Rights Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc., and certain investors | 11 |
| 10.7 | Security Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc. and certain investors | 11 |
| 10.8 | Form of Subsidiary Guarantee dated as of August 1, 2008, by Geltech Inc., and LightPath Optical Instrumentation (Shanghai), Ltd., in favor of certain investors | 11 |
| 10.9 | Form of 8% Senior Secured Convertible Debenture dated as of August 1, 2008, issued by LightPath Technologies, Inc., to certain investors | 11 |
| 10.10 | First Amendment to the 8% Senior Secured Convertible Debenture, dated as of December 31, 2008 | 13 |
| 10.11 | Amendment No. 2 to the Amended and Restated LightPath Technologies, Inc. Omnibus Incentive Plan, dated as of December 30, 2008 | 14 |
| 10.12 | Form of Common Stock Purchase Warrant dated as of August 19, 2009, issued by LightPath Technologies, Inc., to certain investors | 15 |
| 10.13 | Securities Purchase Agreement dated as of August 19, 2009, by and among LightPath Technologies, Inc. and certain investors | 15 |
| 10.14 | Registration Rights Agreement dated as of August 19, 2009, by and among LightPath Technologies, Inc., and certain investors | 15 |
| 10.15 | Form of Common Stock Purchase Warrant dated as of April 8, 2010, issued by LightPath Technologies, Inc. to certain investors | 16 |
| 10.16 | Securities Purchase Agreement dated as of April 8, 2010, by and among LightPath Technologies, Inc. and certain investors | 16 |
| 10.17 | Registration Rights Agreement dated as of April 8, 2010, by and among LightPath Technologies, Inc., and certain investors | 16 |

| | | |
|---|---|---|
| 10.18 | Second Amendment to the 8% Senior Secured Convertible Debenture, dated as of March 30, 2011 | 17 |
| 10.19 | 2004 Employee Stock Purchase Plan dated December 6, 2004 | 18 |

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| | | |
|---|---|---|
| 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 | * |
| 101.INS | XBRL Instance Document | ** |
| 101.SCH | XBRL Taxonomy Extension Schema Document | ** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | ** |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | ** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | ** |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | ** |

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. This exhibit was filed as an exhibit to our Registration Statement on Form S-8 (File No, 333-121385) filed with the Securities and Exchange Commission on December 17, 2004, and is incorporated herein by reference thereto.

* Filed herewith.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934. In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 of this Quarterly Report on Form 10-Q shall not be subject to the liability of Section 18 of the Securities and Exchange Act of 1934 and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

## 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.

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| Date: May 10, 2012 | By: /s/ J. James Gaynor<br>President and Chief Executive Officer |
| Date: May 10, 2012 | By: /s/ Dorothy M. Cipolla<br>Chief Financial Officer |