

LIGHTPATH TECHNOLOGIES INC  
Form 10-Q  
May 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

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

Commission file number 000-27548

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). YES    NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: LIGHTPATH TECHNOLOGIES INC - Form 10-Q

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer      Accelerated filer      Non-accelerated filer      Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

15,235,073 shares of common stock, Class A, \$.01 par value, outstanding as of May 4, 2015.

**LIGHTPATH TECHNOLOGIES, INC.**

**Form 10-Q**

**Index**

<b>Item</b>	<b>Page</b>
<b>Part I Financial Information</b>	
Item 1 Financial Statements	
<u>Consolidated Balance Sheets</u>	4
<u>Unaudited Consolidated Statements of Operations and Comprehensive Income</u>	5
<u>Unaudited Consolidated Statement of Stockholders' Equity</u>	6
<u>Unaudited Consolidated Statements of Cash Flows</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations Overview</u>	21
<u>Results of Operations</u>	26
<u>Liquidity and Capital Resources</u>	28
<u>Sources and Uses of Cash</u>	29
<u>Off Balance Sheet Arrangements</u>	30
<u>Critical Accounting Policies and Estimates</u>	30
Item 4 <u>Controls and Procedures</u>	30
<b>Part II Other Information</b>	
Item 1 <u>Legal Proceedings</u>	31
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3 <u>Defaults Upon Senior Securities</u>	31
Item 4 <u>Mine Safety Disclosures</u>	31
Item 5 <u>Other information</u>	31
Item 6 <u>Exhibits</u>	31
<b><u>Signatures</u></b>	<b>33</b>

LIGHTPATH TECHNOLOGIES, INC.  
Consolidated Balance Sheets

	<b>(Unaudited)</b>	
	March 31,	<b>June 30,</b>
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,060,111	\$ 1,197,080
Trade accounts receivable, net of allowance of \$4,309 and \$5,801	2,431,474	2,472,876
Inventories, net	3,416,068	3,322,983
Other receivables	234,438	199,976
Prepaid expenses and other assets	325,910	298,203
Total current assets	7,468,001	7,491,118
Property and equipment, net	3,825,992	3,173,905
Other assets	66,964	27,737
Total assets	\$ 11,360,957	\$ 10,692,760
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,462,534	\$ 1,809,532
Accrued liabilities	91,955	124,582
Accrued payroll and benefits	580,908	477,623
Loan payable, current portion	—	54,982
Capital lease obligation, current portion	167,055	6,196
Total current liabilities	2,302,452	2,472,915
Capital lease obligation, less current portion	352,505	6,270
Deferred rent	57,128	76,490
Warrant liability	356,123	731,431
Loan payable, less current portion	—	109,963
Total liabilities	3,068,208	3,397,069
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; 15,235,073 and 14,293,305 shares issued and outstanding, respectively	152,351	142,933
Additional paid-in capital	213,149,515	211,812,134
Accumulated other comprehensive income	49,986	51,681
Accumulated deficit	(205,059,103)	(204,711,057)
Total stockholders' equity	8,292,749	7,295,691
Total liabilities and stockholders' equity	\$ 11,360,957	\$ 10,692,760

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

## LIGHTPATH TECHNOLOGIES, INC.

Consolidated Statements of Operations and Comprehensive Income  
(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	2015	2014	2015	2014
Product sales, net	\$3,198,754	\$3,005,592	\$9,155,021	\$8,723,173
Cost of sales	1,597,725	1,539,278	5,306,169	4,697,785
Gross margin	1,601,029	1,466,314	3,848,852	4,025,388
Operating expenses:				
Selling, general and administrative	1,145,623	1,098,997	3,614,916	3,330,006
New product development	249,086	319,499	942,945	878,172
Amortization of intangibles	—	5,518	—	21,952
Loss on disposal of property and equipment	—	(587 )	218	511
Total costs and expenses	1,394,709	1,423,427	4,558,079	4,230,641
Operating income (loss)	206,320	42,887	(709,227 )	(205,253 )
Other income (expense):				
Interest expense	(2,931 )	(350 )	(13,062 )	(770 )
Interest expense - debt costs	—	(12,645 )	(13,270 )	(22,692 )
Change in fair value of warrant liability	(105,518 )	(130,698 )	375,308	(184,663 )
Other income (expense), net	(8,080 )	(32,516 )	12,205	(2,322 )
Total other income (expense), net	(116,529 )	(176,209 )	361,181	(210,447 )
Net income (loss)	\$89,791	\$(133,322 )	\$(348,046 )	\$(415,700 )
Income (loss) per common share (basic)	\$0.01	\$(0.01 )	\$(0.02 )	\$(0.03 )
Number of shares used in per share calculation (basic)	15,028,231	14,292,976	14,537,727	13,905,376
Income (loss) per common share (diluted)	\$0.01	\$(0.01 )	\$(0.02 )	\$(0.03 )
Number of shares used in per share calculation (diluted)	15,713,892	14,292,976	14,537,727	13,905,376
Foreign currency translation adjustment	(882 )	(4,534 )	(1,695 )	9,261
Comprehensive income (loss)	\$88,909	\$(137,856 )	\$(349,741 )	\$(406,439 )

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

LIGHTPATH TECHNOLOGIES, INC.  
 Consolidated Statement of Stockholders' Equity  
 Nine months ended March 31, 2015  
 (Unaudited)

	Class A Common Stock Shares	Amount	Additional Paid-in Capital	Foreign Currency Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity
Balances at June 30, 2014	14,293,305	\$ 142,933	\$ 211,812,134	\$ 51,681	\$(204,711,057)	7,295,691
Issuance of common stock for:						
Employee Stock Purchase Plan	10,978	110	13,119	—	—	13,229
Private placement of common stock	930,790	9,308	1,112,746	—	—	1,122,054
Stock based compensation on stock options & RSU	—	—	211,516	—	—	211,516
Foreign currency translation adjustment	—	—	—	(1,695 )	—	(1,695 )
Net loss	—	—	—	—	(348,046 )	(348,046 )
Balances at March 31, 2015	15,235,073	\$ 152,351	\$ 213,149,515	\$ 49,986	\$(205,059,103)	\$ 8,292,749

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

**LIGHTPATH TECHNOLOGIES, INC.**

## Consolidated Statements of Cash Flows

(Unaudited)

	<b>Nine months ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities		
Net loss	\$(348,046 )	\$(415,700 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	392,088	544,067
Interest from amortization of debt costs	13,270	10,047
Loss on disposal of property and equipment	218	511
Stock based compensation	211,516	293,538
Provision for doubtful accounts receivable	(13,784 )	(5,765 )
Change in fair value of warrant liability	(375,308 )	184,663
Deferred rent	(19,362 )	(122,360 )
Changes in operating assets and liabilities:		
Trade accounts receivables	55,186	(320,390 )
Other receivables	(34,462 )	220,000
Inventories	(93,085 )	(730,899 )
Prepaid expenses and other assets	(80,204 )	(163,503 )
Accounts payable and accrued liabilities	(276,340 )	380,165
Deferred revenue	—	(1,966 )
Net cash used in operating activities	(568,313 )	(127,592 )
Cash flows from investing activities		
Purchase of property and equipment	(520,733 )	(1,362,374)
Cash flows from financing activities		
Proceeds from sale of common stock, net of costs	1,122,054	—
Proceeds from sale of common stock from employee stock purchase plan	13,229	7,413
Borrowings on loan payable	512,409	—
Proceeds from exercise of warrants, net of costs	—	1,538,808
Payments on loan payable	(677,354 )	—
Payments on capital lease obligations	(16,566 )	(6,161 )
Net cash provided by financing activities	953,772	1,540,060
Effect of exchange rate on cash and cash equivalents	(1,695 )	9,261
Change in cash and cash equivalents	(136,969 )	59,355
Cash and cash equivalents, beginning of period	1,197,080	1,565,215
Cash and cash equivalents, end of period	\$ 1,060,111	\$ 1,624,570
Supplemental disclosure of cash flow information:		
Interest paid in cash	\$ 13,062	\$ 769
Income taxes paid	1,836	2,541
Vesting of restricted stock units	—	1,912
Supplemental disclosure of non-cash investing & financing activities:		
Purchase of equipment through capital lease arrangements	523,660	12,972
Reclassification of tooling costs to inventory	—	425,626
Reclassification of warrant liability upon exercise	—	277,070



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

7

## Notes to Financial Statements

### 1. Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements of Article 8 of Regulation S-X promulgated under the Securities 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, 2014, 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 June 30 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 Technologies, Inc. (“LightPath”, the “Company”, “we”, “us” or “our”) was incorporated in Delaware in 1992. It was the successor to LightPath Technologies Limited Partnership formed in 1989, and its predecessor, Integrated Solar Technologies Corporation formed in 1985. On April 14, 2000, the Company acquired Horizon Photonics, Inc. On September 20, 2000, the Company acquired Geltech, Inc. (“Geltech”). The Company completed its initial public offering during fiscal 1996. 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. In December 2013, we formed LightPath Optical Instrumentation (Zhenjiang) Co., Ltd (“LPOIZ”), a wholly-owned manufacturing subsidiary, located in Zhenjiang, Jiangsu Province, People’s Republic of China.

LightPath is a manufacturer and integrator of families of precision molded aspheric optics, infrared lenses, high-performance fiber-optic collimator, GRADIUM glass lenses and other optical materials used to produce products that manipulate light. The Company designs, develops, manufactures and distributes optical components and assemblies utilizing the latest optical processes and advanced manufacturing technologies. The Company also performs research and development for optical solutions for the traditional optics markets and communications markets. As used herein, the terms LightPath, the Company, we, us or our, refer to LightPath individually or, as the context requires, collectively with its subsidiaries on a consolidated basis.

### 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 for U.S. based accounts and 100% of invoices that are over 120 days past due for China based accounts where there is no agreed upon payment plan. 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, tooling, work-in-process, finished lenses, 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 three to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets using the straight-line method.

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

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

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

The Company has not recognized a liability for uncertain tax positions. A reconciliation of the beginning and ending amount of unrecognized tax benefits or penalties has not been provided since there 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's open tax years subject to examination by the Internal Revenue Service and the Florida Department of Revenue generally remain open for three years from the date of filing.

**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 value-added taxes (VAT) related to sales 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 restricted stock unit or stock option as of the date of grant using the Black-Scholes-Merton pricing model. Most awards granted under our Amended and Restated Omnibus Incentive Plan (the "Plan") vest ratably over two to four years and generally have four to 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 awards. 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 estimates.** 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 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, 2015.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments which include cash, receivables, accounts payable and accrued liabilities. Fair values were assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. The fair value of the Company's loan payable and capital lease obligations approximates their carrying value based upon current rates available to the Company.

The Company values its warrant liabilities based on open-form option pricing models which, based on the relevant inputs, render the fair value measurement at Level 3. The Company bases its estimates of fair value for warrant liabilities on the amount it would pay a third-party market participant to transfer the liability and incorporates inputs such as equity prices, historical and implied volatilities, dividend rates and prices of convertible securities issued by comparable companies maximizing the use of observable inputs when available. See further discussion at Note 8, Derivative Financial Instruments (Warrant Liability).

The Company does not have any 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 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.

**Comprehensive income (loss)** of the Company is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Comprehensive income (loss) has two components, net income (loss) and other comprehensive income (loss), and is included on the statement of operations and comprehensive income. Our other comprehensive income (loss) consists of foreign currency translation adjustments made for financial reporting purposes.

**Recent accounting pronouncements.** There are several new accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”) which are not yet effective. Management does not believe any of these accounting pronouncements will have a material impact on the Company’s financial position or operating results.

In July 2013, the FASB issued Accounting Standards Update 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,” which amends ASC 740, “Income Taxes.” This new guidance requires that a liability related to an unrecognized tax benefit be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if certain criteria are met. The provisions of this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company adopted this guidance for fiscal 2015 and does not expect the adoption to have a material effect on our financial position, results of operations or cash flows.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In April 2015, the FASB issued for comment an exposure draft, “Revenue Recognition – Deferral



of the Effective Date of ASU 2014-09,” which will delay implementation for one year. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard.

### 3. Inventories

The components of inventories include the following:

	March 31, 2015	June 30, 2014
Raw materials	\$1,668,878	\$1,659,893
Work in process	1,130,548	865,041
Finished goods	952,228	1,063,126
Reserve for obsolescence	(335,586 )	(265,077 )
	\$3,416,068	\$3,322,983

#### 4. Property and Equipment

Property and equipment are summarized as follows:

	Estimated Life (Years)	March 31, 2015	June 30, 2014
Manufacturing equipment	5 - 10	\$5,616,516	\$5,255,571
Computer equipment and software	3 - 5	326,093	299,314
Furniture and fixtures	5	105,218	101,953
Leasehold improvements	5 - 7	1,201,593	864,378
Construction in progress		980,934	665,977
Total property and equipment		8,230,354	7,187,193
Less accumulated depreciation and amortization		4,404,362	4,013,288
Total property and equipment, net		\$3,825,992	\$3,173,905

#### 5. Accounts Payable

The accounts payable balance as of March 31, 2015 and June 30, 2014 includes approximately \$64,000 and \$55,000, respectively, which represents earned but unpaid board of directors' fees.

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

**Share-Based Compensation Arrangements**—The Plan includes 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”) permitted employees to purchase shares of Class A common stock through payroll deductions, which could 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 could any participant purchase more than \$25,000 worth of shares of Class A common stock in any calendar year and an employee could 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 ESPP expired on December 6, 2014, and was replaced by the 2014 Employee Stock Purchase Plan, which was adopted by the Company’s Board of Directors on October 30, 2014 and approved by the Company’s stockholders on January 29, 2015. The discount on market value is included in selling, general and administrative expense in the accompanying consolidated statements of operations and comprehensive income and was \$1,356 and \$755 for the nine months ended March 31, 2015 and 2014, respectively.

These two plans are summarized below:

Edgar Filing: LIGHTPATH TECHNOLOGIES INC - Form 10-Q

	Award Shares	Award Shares	Available for Issuance
	Authorized	Outstanding at March 31, 2015	at March 31, 2015
Equity Compensation Arrangement Amended and Restated Omnibus Incentive Plan	3,915,625	1,801,695	1,474,866
Employee Stock Purchase Plan	400,000	—	400,000
	4,315,625	1,801,695	1,874,866

**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 was the amount of the discounted market value the employee obtained at the date of the purchase transaction.

For stock options granted in the nine month periods ended March 31, 2015 and 2014, 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, 2015	Nine Months Ended March 31, 2014
Expected volatility	118 %	105 %
Weighted average expected volatility	118 %	105 %
Dividend yields	0 %	0 %
Risk-free interest rate	1.76 %	1.60 %
Expected term, in years	7.50	7.49

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% for each of the nine months ended March 31, 2015 and 2014. 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, 2015 is presented below:

	<b>Stock Options</b>			<b>Restricted Stock Units (RSUs)</b>	
	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contract Life (YRS)	Shares	Weighted Average Remaining Contract Life (YRS)
June 30, 2014	654,158	\$ 2.25	5.5	856,300	0.9
Granted	103,000	\$ 1.35	9.6	219,000	2.6
Exercised	—	—	—	—	—
Cancelled/Forfeited	(30,763 )	\$ 3.32	3.0	—	—
March 31, 2015	726,395	\$ 2.08	5.5	1,075,300	1.0
Awards exercisable/vested as of <b>March 31, 2015</b>	501,895	\$2.43	4.1	671,430	—
Awards unexercisable/unvested as of <b>March 31, 2015</b>	224,500	\$1.29	8.8	403,870	1.0
	726,395			1,075,300	

The total intrinsic value of options outstanding and exercisable at March 31, 2015 and 2014 was \$1,198 and \$39,243, respectively.

The total intrinsic value of RSUs exercised during the nine months ended March 31, 2015 and 2014 was \$0 and \$288,652, respectively.

The total intrinsic value of RSUs outstanding and exercisable at March 31, 2015 and 2014 was \$658,673 and \$778,095, respectively.

The total fair value of RSUs vested during the nine months ended March 31, 2015 and 2014 was \$199,825 and \$333,571, respectively.

The total fair value of option shares vested during the nine months ended March 31, 2015 and 2014 was \$8,908 and \$121,884, respectively.

As of March 31, 2015, there was \$535,983 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share options and restricted stock units) granted under the Plan. We expect to recognize the compensation cost as follows:

	Stock Options	Restricted Stock Share/ Units	Total
Three months ended June 30, 2015	\$13,241	\$60,194	\$73,435
Year ended June 30, 2016	44,425	211,931	256,356
Year ended June 30, 2017	34,682	120,513	155,195
Year ended June 30, 2018	20,915	24,906	45,821
Year ended June 30, 2019	5,176	—	5,176
	\$118,439	\$417,544	\$535,983

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, 2015 and changes during the nine months then ended:

Unexercisable/unvested awards	Stock Options		Total	Weighted-Average Grant Date Fair Values
	Shares	RSU Shares	Shares	(per share)
June 30, 2014	193,000	354,303	547,303	\$ 1.18
Granted	103,000	219,000	322,000	\$ 1.36
Vested	(71,500 )	(169,433 )	(240,933 )	\$ 1.32
Cancelled/Forfeited	—	—	—	—
March 31, 2015	224,500	403,870	628,370	\$ 1.23

**Financial Statement Effects and Presentation**—The following table shows total stock-based compensation expense for the nine months ended March 31, 2015 and 2014 included in the consolidated statements of operations and comprehensive income:

(Unaudited)	(Unaudited)
Nine	Nine
months	months

Edgar Filing: LIGHTPATH TECHNOLOGIES INC - Form 10-Q

	ended March 31, 2015	ended March 31, 2014
Stock options	\$ 40,344	\$ 54,793
RSU	171,172	238,745
Total	\$ 211,516	\$ 293,538

The amounts above were included in:

General & administrative	\$ 203,215	\$ 285,237
Cost of sales	79	—
New product development	8,222	8,301
	\$ 211,516	\$ 293,538



## 7. 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 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 a net loss of approximately \$1,700 for the nine months ended March 31, 2015 and a gain of approximately \$9,300 for the nine months ended March 31, 2014. As of March 31, 2015, we had approximately \$8.20 million in assets and \$6.72 million in net assets located in China at LPOI’s Shanghai and LPOIZ’s Zhenjiang facilities. As of June 30, 2014, we had approximately \$7.58 million in assets and \$6.28 million in net assets located in China at LPOI’s Shanghai and LPOIZ’s Zhenjiang facilities.

## 8. Derivative Financial Instruments (Warrant Liability)

On June 11, 2012, we executed a Securities Purchase Agreement with respect to a private placement of an aggregate of 1,943,852 shares of our Class A common stock at \$1.02 per share and warrants to purchase 1,457,892 shares of our common stock at an initial exercise price of \$1.32 per share, which was subsequently reduced to \$1.26 (“June 2012 Warrants”). The June 2012 Warrants are exercisable for a period of five years beginning on December 11, 2012. The Company accounted for the June 2012 Warrants issued to investors in accordance with ASC 815-10. ASC 815-10 provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity’s own stock. This applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under ASC 815-10, including any freestanding financial instrument that is potentially settled in an entity’s own stock.

Due to certain adjustments that may be made to the exercise price of the June 2012 Warrants if the Company issues or sell shares of its Class A common stock at a price which is less than the then-current warrant exercise price, the June 2012 Warrants have been classified as a liability, as opposed to equity, in accordance with ASC 815-10 as it was determined that the June 2012 Warrants were not indexed to the Company’s Class A common stock.

The fair value of the outstanding June 2012 Warrants was re-measured on March 31, 2015 to reflect their fair market value at the end of the current reporting period. The June 2012 Warrants will be re-measured at each subsequent financial reporting period until warrant exercise or expiration. The change in fair value of the June 2012 Warrants is recorded in the statement of operations and comprehensive income and is estimated using the Lattice option-pricing model using the following assumptions:

Inputs into Lattice model for warrants:	3/31/2015	
Equivalent volatility	60.06	%
Equivalent interest rate	0.63	%
Floor	\$1.1500	
Greater of estimated stock price or floor	\$1.1500	
Probability price < strike price	74.20	%
Fair value of call	\$0.2970	
Probability of fundamental transaction occurring	5	%

All warrants issued by the Company other than the above noted June 2012 Warrants are classified as equity.

The warrant liabilities are considered a recurring Level 3 fair value measurement, with a fair value of \$356,123 and \$731,431 at March 31, 2015 and June 30, 2014, respectively.

The following table summarizes the activity of Level 3 inputs measured on a recurring basis for the nine months ended March 31, 2015:

	Warrant
	Liability
Fair value, June 30, 2014	\$731,431
Exercise of common stock warrants	—
Change in fair value of warrant liability	(375,308)
Fair value, March 31, 2015	\$356,123

## 9. Earnings Per Share

Basic earnings 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 computations for basic and diluted earnings per share are described in the following table:

	<b>(Unaudited)</b> Three months ended March 31, 2015		<b>(Unaudited)</b> <b>Nine months ended</b> March 31, 2015	
	2014		2014	
Net income (loss)	\$89,791	\$(133,322 )	\$(348,046 )	\$(415,700 )
Weighted average common shares outstanding:				
Basic	15,028,231	14,292,976	14,537,727	13,905,376
Effect of dilutive securities:				
Options to purchase common stock	1,429	—	—	—
Restricted stock units	679,755	—	—	—
Common stock warrants	4,477	—	—	—
Diluted	15,713,892	14,292,976	14,537,727	13,905,376
Earnings (Loss) per common share:				
Basic	\$0.01	\$(0.01)	\$(0.02)	\$(0.03)
Diluted	\$0.01	\$(0.01)	\$(0.02)	\$(0.03)
Excluded from computation:				
Options to purchase common stock	736,411	654,158	697,376	654,158
Restricted stock units	395,545	856,300	978,586	856,300
Common stock warrants	1,857,516	2,127,230	2,040,109	2,127,230
	2,989,472	3,637,688	3,716,071	3,637,688

## 10. Capital Lease Commitments

During fiscal 2013 and 2014, the Company entered into three-year and five-year capital lease agreements for computer equipment which is included as part of Property and Equipment. During fiscal 2015, the Company entered into a five-year and a three and one-half year capital lease agreements for manufacturing equipment and is included as part of Property and Equipment. Assets under capital lease are included in manufacturing equipment for \$546,663, with accumulated amortization as of March 31, 2015 of \$15,248. Amortization related to capital leases will be included in depreciation expense.

The approximate future minimum lease payments under capital leases at March 31, 2015 were as follows:

Fiscal year ending June 30,	Capital Leases
2015	\$43,231
2016	172,624
2017	169,322
2018	167,335
2019	39,001
2020 and beyond	6,825
Total Minimum Payments	598,338
Less Imputed Interest	(78,778 )
Present value of minimum lease payments included in capital lease obligations	519,560
Less short term portion	167,055
Long term portion	\$352,505

#### **11. \$1,000,000 Credit Facility**

On September 30, 2013, the Company entered into a Loan and Security Agreement (the “LSA”) with Avidbank Corporate Finance, a division of Avidbank (“Avidbank”). Pursuant to the LSA, Avidbank would lend to the Company under a revolving credit facility an aggregate outstanding principal amount not to exceed the lesser of (i) One Million Dollars (\$1,000,000) (the “Revolving Line”) or (ii) an amount equal to eighty percent (80%) of eligible accounts, as determined by Avidbank in accordance with the LSA. Amounts borrowed under the Revolving Line could have been repaid and re-borrowed at any time prior to December 30, 2014, at which time all amounts were immediately due and payable. The advances under the Revolving Line bore interest, on the outstanding daily balance, at a per annum rate equal to one percent (1%) above the Prime Rate. Interest payments were due and payable on the last business day of each month.

Pursuant to the LSA, Avidbank also could make equipment advances to the Company, each in a minimum amount of \$100,000, and in an aggregate principal amount not to exceed One Million Dollars (\$1,000,000). Equipment advances during any particular three month draw period were due and repayable in thirty-six (36) equal monthly payments. All amounts due under outstanding equipment advances made during any particular draw period were due on the tenth (10th) day following the end of such draw period, and in any event, no later than September 30, 2017. The equipment advances bore interest, on the outstanding daily balance, at a per annum rate equal to one and half percent (1.5%) above the Prime Rate. Interest payments were due and payable on the tenth day of each month so long as any equipment advance is outstanding.

As of December 23, 2014, approximately \$142,000 was outstanding under the LSA as equipment advances and \$280,000 was outstanding under the Revolving Line, for a total of \$422,000. The Company’s obligations under the LSA were secured by a first priority security interest (subject to permitted liens) in substantially all of the assets of the

Company. In addition, the Company's wholly-owned subsidiary, Geltech guaranteed the Company's obligations under the LSA.

On December 23, 2014, the Company entered into an Amended and Restated Loan and Security Agreement (the "Amended LSA") with Avidbank for an invoice-based working capital revolving line of credit (the "Invoiced Based Line"). The Amended LSA amends and restates that certain LSA between the Company and Avidbank dated September 30, 2013. Pursuant to the Amended LSA, Avidbank will, in its discretion, make loan advances to the Company up to a maximum aggregate principal amount outstanding not to exceed the lesser of (i) One Million Dollars (\$1,000,000) or (ii) eighty percent (80%) (the "Maximum Advance Rate") of the aggregate balance of the Company's eligible accounts receivable, as determined by Avidbank in accordance with the Amended LSA. Avidbank may, in its discretion, elect to not make a requested advance, determine that certain accounts are not eligible accounts, change the Maximum Advance Rate or apply a lower advance rate to particular accounts and terminate the Amended LSA. The outstanding balance due to Avidbank as of December 23, 2014, in the amount of \$422,000, was transferred from the LSA to the Invoiced Based Line of the Amended LSA. As of March 31, 2015, the Invoiced Based Line balance was \$0.

Amounts borrowed under the Invoiced Based Line may be repaid and re-borrowed at any time prior to December 23, 2015, at which time all amounts shall be immediately due and payable. The advances under the Invoiced Based Line bear interest, on the outstanding daily balance, at a per annum rate equal to three percent (3%) above the Prime Rate (6.25% at March 31, 2015). Interest payments are due and payable on the last business day of each month. Payments received with respect to accounts upon which advances are made will be applied to the amounts outstanding under the Amended LSA.

The Company's obligations under the Amended LSA are secured by a first priority security interest (subject to permitted liens) in cash, U.S. inventory and accounts receivable. In addition, the Company's wholly-owned subsidiary, Geltech, has guaranteed the Company's obligations under the Amended LSA.

The Amended LSA contains customary covenants, including, but not limited to: (i) limitations on the disposition of property; (ii) limitations on changing the Company's business or permitting a change in control; (iii) limitations on additional indebtedness or encumbrances; (iv) restrictions on distributions; and (v) limitations on certain investments.

Late payments are subject to a late fee equal to the lesser of five percent (5%) of the unpaid amount or the maximum amount permitted to be charged under applicable law. Amounts outstanding during an event of default accrue interest at a rate of five percent (5%) above the interest rate applicable immediately prior to the occurrence of the event of default. The Amended LSA contains other customary provisions with respect to events of default, expense reimbursement, and confidentiality.

## **12. Pudong Private Placement**

On January 20, 2015, the Company closed a sale of its securities in accordance with that certain Securities Purchase Agreement with Pudong Science & Technology (Cayman) Co., Ltd. ("Pudong"), as previously disclosed in the Company's Current Report on Form 8-K filed on April 16, 2014. Prior to the closing, the Securities Purchase Agreement was amended (as amended, the "SPA") and assigned by Pudong to an affiliate, Pudong Science & Technology Investment (Cayman) Co. Ltd. ("Pudong Investment"), on September 25, 2014.

In connection with the closing, the Company sold to Pudong Investment 930,790 shares of Class A common stock at a price of \$1.40 per share, which was adjusted from the initial per share purchase price of \$1.62 pursuant to the terms of the SPA. The Company received gross cash proceeds from the issuance of the Class A common stock in the amount of approximately \$1,303,000. The Company used the sale proceeds to provide working capital in support of its continued growth, particularly new product development, sales and marketing of its infrared product line, and capital expenditures related to the acquisition of new equipment.

Immediately following the issuance of the shares of Class A common stock pursuant to the SPA, Pudong Investment beneficially owned 14.9% of the Company's outstanding shares of Class A common Stock.

The shares of Class A common stock issued were exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act"). The shares of Class A common stock are restricted securities that have not been registered under the Act and may not be offered or sold absent registration or applicable exemption from the registration requirements.

### **13. Subsequent Event - Technology Transfer and License Agreement**

On April 28, 2015, the Company entered into a Technology Transfer and License Agreement ("License Agreement") with one of our specialty product customers (the "Customer") regarding the granting of an irrevocable license of certain technology, to be used by the Customer to manufacture specific fiber collimator assemblies used by the Customer. The Company has agreed to provide process work instructions, training, inventory and access to intellectual property specifically related to the manufacturing process of that Customer's specific fiber collimator assemblies. Pursuant to the License Agreement, the Customer will pay to the Company an aggregate of \$200,000 in fees in consideration of the Company's disclosure of the technology and the grant of a license to the Customer to use technology to manufacture such fiber collimator assemblies. The first installment of \$100,000 is due in May 2015 and the second installment of \$100,000 is due following the 90 day training period, estimated to be in the Company's first quarter of fiscal 2016. Pursuant to the License Agreement, the Customer also agreed to order and purchase from the Company a certain number of fiber collimator assemblies. The costs associated with the License Agreement are estimated to be approximately \$60,000.

## 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. 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, 2015 (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 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 manufacturing optical components and higher level assemblies including precision molded glass aspheric optics, proprietary high performance fiber optic collimators, GRADIUM glass lenses and other optical materials used to produce products that manipulate light. All the products we produce enable lasers and imaging devices to function more effectively.

In November 2005, we formed LPOI, a wholly-owned manufacturing subsidiary, located in Jiading, People's Republic of China. Prior to December 2014, when we substantially completed the process of transitioning production from this facility to the LPOIZ facility, the manufacturing operations were housed in a 16,000 square foot facility located in the



Jiading Industrial Zone near Shanghai. The LPOI facility will now be primarily used for sales and engineering functions.

In December 2013, we formed LPOIZ, a wholly-owned subsidiary that is housed in a 26,000 square foot leased manufacturing facility located in the New City district, in the Jiangsu province, of the People's Republic of China. Production commenced at LPOIZ's new manufacturing facility in April 2014. We expect this new facility to provide a lower cost structure for production of larger volumes of optical components and assemblies. We have substantially completed the process of transitioning production from the LPOI facility to the LPOIZ facility.

### **Product Groups and Markets:**

During fiscal 2015, we started evaluating our business based on five product groups: low volume precision molded optics ("LVPMO"), high volume precision molded optics ("HVPMO"), specialty products, infrared products, and non-recurring engineering ("NRE"). Our LVPMO product group consists of precision molded optics with a sales price greater than \$10 per lens that are usually sold in smaller lot quantities. Our HVPMO product group consists of precision molded optics with a sales price of less than \$10 per lens that are usually sold in larger lot quantities. Our infrared product group is comprised of both molded lenses and assemblies. Our specialty product group is comprised of collimators, GRADIUM lenses, and isolators. Our NRE product group consists of those products we develop pursuant to product development agreements entered into with customers. Typically, customers approach us and request that we develop certain applications of our products to fit their particular needs or specifications. The timing and extent of any such product development is outside of our control.

The major markets we currently serve include: distribution and catalog, laser, industrial, instrumentation, telecommunications, and defense. Within our product groups, we have various applications that serve these major markets. For example, our HVPMO lenses are typically used in industrial tools, especially in China. Both our revenue and bookings for our HVPMO lenses during the third quarter of fiscal 2015 have been negatively impacted by a declining Chinese economy. Our HVPMO and LVPMO lenses are also used in applications for the telecommunications Market, such as cloud computing, video distribution via digital technology, wireless broadband, and machine to machine connection, and, laser market, such as laser tools, scientific and bench top lasers, and bar code scanners. Our infrared products can also be used in various applications within our major markets. Currently, sales of our infrared products are primarily for customers in the industrial market that use our product in thermal imaging cameras. Our infrared products can also be used for gas sensing devices, spectrometers, night vision systems, automotive driver systems, thermal weapon gun sights, and infrared counter measure systems, to name just some of the applications possible.

### **Recent Initiatives:**

In February 2015, we announced the implementation of strategic growth initiatives and an organizational optimization plan. Under these plans, we expect to be better positioned to accelerate our revenue growth and profitability, principally by the transition to a technical sales process that leverages the success of our existing demand-creation model. To align the organization for specific goals and accountability, an executive structure has been created with three direct reporting lines: Operations, China, and Finance. Technical and engineering staff will be more fully integrated with our sales force, and two new sales positions were created: Executive Sales Manager, combining the

responsibility for all sales and marketing and, Marketing Manager. Organizations supporting aspheric visible lens products and our new line of infrared products were combined. Sales, marketing, engineering and quality will report to the newly created position of Executive Vice President-Operations.

Over the past five years we recorded a compounded annual revenue growth rate of approximately 10% for our core aspheric optical lens business, which excludes our new infrared product line and a large non-recurring order in support of the DARPA program. During this period, we invested to expand our high speed manufacturing capacity, enhanced our manufacturing, coating and finishing processes, and implemented a demand-creation model that leverages our low cost, high volume, superior quality production capabilities to not only take market share but, more importantly, to create new market opportunities.

These growth initiatives and organizational modifications are intended to further enhance our incremental organic growth position for our core aspheric lens business, prime our operations for the anticipated high growth of our new infrared products, and allow for the integration of strategic acquisitions. An ancillary benefit of these plans is an estimated annual reduction of operating expenses of 5% to 10% or savings of approximately \$200,000 to \$375,000 per year upon complete implementation. We are benefiting from a substantial increase in revenue generating opportunities and broader market applications as a result of our investments in technologies that decreased our lens production costs and expanded our production capacity. We believe we can further improve upon our track record of growth – and to do so far more profitably.

On April 28, 2015, we entered into the License Agreement with the Customer regarding the granting of an irrevocable license of certain technology to be used by the Customer to manufacture fiber collimator assemblies. We will provide process work instructions, training and inventory. Pursuant to the License Agreement, we will receive \$200,000 in fees in consideration of our disclosure of the technology and the grant or a license to the Customer to use the technology to manufacture specific fiber collimator assemblies used by the Customer. The fees are due in two installments, the first installment of \$100,000 is due in May 2015 and the second installment of \$100,000 is due following the 90 day training period, which we estimate to be in our first quarter of fiscal 2016. The transaction will be accounted for under the guidance of ASC 605-10, Revenue Recognition and will be recognized over the training period of ninety days which is expected to be completed in August 2015. Pursuant to the License Agreement, the Customer also agreed to order and purchase from us a certain number of fiber collimator assemblies. The costs associated with this License Agreement are estimated to be approximately \$60,000.

#### **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 customer product development. In this latter type of business we work with customers to help them determine optical specifications and even create certain optical designs for them, including complex multi-component designs that we call “engineered assemblies.” This is followed by “sampling” small numbers of the product for the customers’ test and evaluation. Thereafter, should a 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. This annuity revenue stream can also generate low-cost, high-volume type orders. A key business objective is to convert as much of our business to the design win and annuity model as is possible. We face several challenges in doing so:

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

The fact that as our customers take products of this nature into higher volume, commercial production (for example, in the case of molded optics, this may be volumes over one million pieces per year) they begin to work seriously to reduce costs – which often leads them to turn to larger or overseas producers, even if sacrificing quality; and

Our small business mass means that we can only offer a moderate amount of total productive capacity before we reach financial constraints imposed by the need to make additional capital expenditures – in other words, because of our limited cash resources and cash flow, we may not be able to service every opportunity that presents itself in our markets without arranging for such additional capital expenditures.

Despite these challenges to winning more “annuity” business, we nevertheless believe we can be successful in procuring this business because of our unique capabilities in optical design engineering that we make available on the merchant market, a market that we believe is underserved in this area of service offering. Additionally, we believe that we offer value to some customers as a source of supply in the United States should they be unwilling to commit their entire source of supply of a critical component to foreign merchant production sources. 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 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;
- revenue dollars and units by product groups;
- 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:**

Sales growth has been and continues to be our best indicator of success. Our best view into the efficacy of our sales efforts is in our “order book.” Our order book equates to sales “backlog.” It has a quantitative and a qualitative aspect: quantitatively, our backlog’s prospective dollar value and qualitatively, what percent of the backlog is scheduled by the customer for date-certain delivery. We define our “12-month backlog” as that which is requested by the customer for delivery within one year and which is reasonably likely to remain in the backlog and be converted into revenues. This

includes customer purchase orders and may include amounts under supply contracts if they meet the aforementioned criteria. Generally, a higher 12-month backlog is better for us.

Momentum in bookings from the first half of fiscal 2015 has accelerated in the third quarter, which we believe bodes well for revenue growth in future periods. Our 12-month backlog at March 31, 2015 was approximately \$6.15 million compared to \$4.27 million as of June 30, 2014. Backlog growth rates for fiscal 2015 are:

Quarter	Backlog (\$ millions)	Growth From Prior Year End	Growth From Prior Quarter End
Q4 2014	\$ 4.27		
<b>Q1 2015</b>	\$ 5.34	25 %	25 %
<b>Q2 2015</b>	\$ 5.59	31 %	5 %
<b>Q3 2015</b>	\$ 6.15	44 %	10 %

Our order intake remained strong in the third quarter of fiscal 2015 with solid bookings across all of the major markets we serve with the exception of the industrial tool business we have in China. During the third quarter of fiscal 2015, bookings for our specialty products, which included the order of fiber collimator assemblies from the Customer, approached \$1 million, increasing by 302% compared to the third quarter of fiscal 2014. We also had continued improvement in our infrared product group, with a 13% increase in infrared product bookings during the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014. This diversified market strength more than offset the weakness of the China industrial tool market, which with its continual declining economic growth that is now in its sixth year is impacting our HVP MO business. Bookings for HVP MO lenses during the third quarter of fiscal 2015 decreased by 47% compared to the third quarter of fiscal 2014.

We continue to diversify our business by entering into additional markets such as digital imaging, laser tools, telecommunications, digital projectors, industrial equipment, weapon sights and green lasers. We expect to show increases in revenue of our LVPMO, HVPMO and infrared products for the remainder of fiscal 2015 as a result of this diversification.

### Revenue dollars and units by Product Group:

The following table sets forth revenue dollars and units by our five product groups for the three and nine month periods ended March 31, 2015 and 2014:

		(unaudited) Three months ended March 31,		(unaudited) Nine months ended March 31,	
		2015	2014	2015	2014
<b>Revenue</b>	LVPMO	1,687,343	1,964,723	5,258,337	4,755,149
	HVPMO	700,555	642,992	2,037,627	2,579,079
	Infrared Products	303,010	103,471	775,861	286,907
	Speciality Products	481,847	243,246	958,949	912,400
	NRE	26,000	51,160	124,247	189,638
		3,198,755	3,005,591	9,155,021	8,723,173
<b>Units</b>	LVPMO	64,905	62,396	209,556	157,845
	HVPMO	277,860	482,440	1,028,343	1,538,439
	Infrared Products	5,628	648	13,535	1,696
	Specialty Products	1,444	895	3,455	11,294
	NRE	2	4	66	21
		349,839	546,383	1,254,955	1,709,295

Revenue from our HVPMO product group is typically for the industrial tool market in China, which has experienced six years of declining growth. This regional trend has been more than offset by our other product groups and we expect this to recover in fiscal 2016, as the effects of the stimulus by the Chinese government to promote construction takes effect. The decrease in HVPMO lenses was offset by a 33% increase in the unit shipment volume of LVPMO lenses in the first nine months of fiscal 2015 compared to the same period of the prior fiscal year.

Our global diversification strategies have resulted in revenue increasing 6% in the third quarter of fiscal 2015 as compared to the prior year period, and 5% in the first nine months of fiscal 2015 as compared to the prior year period with growth in shipments of our LVPMO, infrared products and speciality products groups.

We are pleased with the progress we are seeing in the growth of the infrared product group. Our infrared product revenue has increased 193% in the third quarter of fiscal 2015 as compared to the prior year period, and 170% in the first nine months of fiscal 2015 as compared to the prior year period, albeit from a small initial base. The increase in revenue is primarily derived from sales to customers in the industrial market.

**EBITDA:**

EBITDA and Adjusted EBITDA are non-GAAP financial measures 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 and amortization. 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 income (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."

We also calculated an Adjusted EBITDA, which excludes the effect of the non-cash expense associated with the mark-to-market adjustments, related to our June 2012 Warrants. We believe this Adjusted EBITDA is helpful for investors to better understand the financial results of our business operations.

The following table sets forth EBITDA and Adjusted EBITDA for the three and nine month periods ended March 31, 2015 and 2014:



	<b>(Unaudited)</b> <b>Three months ended</b>		<b>(Unaudited)</b> <b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income (loss)	\$89,791	\$(133,322)	\$(348,046)	\$(415,700)
Depreciation and amortization	116,866	119,577	392,088	544,067
Interest expense	2,931	12,995	26,332	23,462
EBITDA	\$209,588	\$(750 )	\$70,374	\$151,829
Change in fair value of warrant liability	105,518	130,698	(375,308)	184,663
Adjusted EBITDA	\$315,106	\$129,948	\$(304,934)	\$336,492

Our Adjusted EBITDA for the three months ended March 31, 2015 was approximately \$315,000, compared to approximately \$130,000 for the three months ended March 31, 2014. The difference in Adjusted EBITDA between periods was principally caused by a higher net income recognized in the three months ended March 31, 2015, offset by lower expense related to the change in the fair value of our warrant liability with respect to the June 2012 Warrants during the three months ended March 31, 2015.

Our Adjusted EBITDA for the nine months ended March 31, 2015 was approximately (\$305,000), compared to approximately \$336,000 for the nine months ended March 31, 2014. The difference in Adjusted EBITDA between periods was principally caused by a lower net loss recognized in the nine months ended March 31, 2015, as well as lower depreciation, offset by higher expense related to the change in the fair value of our warrant liability with respect to the June 2012 Warrants during the nine months ended March 31, 2015.

### **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 quarters ended March 31, 2015 and 2014, our DCSI was 195 and 175 respectively, compared to an average DCSI of 188 for the year ended June 30, 2014. The increase in DCSI from the prior fiscal year is due to higher inventory levels to support as a result of higher revenues.

### **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. For the quarters ended March 31, 2015 and 2014, our DSO was 67 and 74, respectively. During the year ended June 30, 2014, our average DSO was 76. The increased revenue lowered the DSO days for the third quarter of fiscal 2015. 48% of the revenue generated in the third quarter of fiscal 2015 was shipped in the third month of the quarter. For the past two years over 44% of our quarterly sales are shipped in the third month of each quarter.

**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.

## Results of Operations

### *Fiscal Third Quarter: Three months ended March 31, 2015 compared to the three months ended March 31, 2014*

#### **Revenues:**

For the quarter ended March 31, 2015, our total revenues increased 6% to \$3.20 million compared to \$3.00 million for the third quarter of fiscal 2014. This increase was attributable to increases in sales of our specialty products and infrared products. Due to recent bookings and quoting trends, we expect orders for infrared products to continue to grow.

Unit shipment volume in HVPMO lenses decreased by 42% in the third quarter of fiscal 2015 compared to the same period of the prior fiscal year. The HVPMO lenses are typically for the industrial tool market in China, which has been impacted by six years of a slowing Chinese economy. This regional trend has been more than offset by our other product groups. We expect the HVPMO product group to recover in fiscal 2016 as the effects of the stimulus by the Chinese government to promote construction takes effect. The decrease in HVPMO lenses was offset by a 4% increase in the unit shipment volume of LVPMO lenses in the third quarter of fiscal 2015 compared to the same period of the prior fiscal year.

#### **Cost of Sales:**

Our gross margin percentage in the third quarter of fiscal 2015 was 50% compared to 49% for the third quarter of fiscal 2014. Total manufacturing costs of \$1.60 million increased by approximately \$58,000 in the third quarter of fiscal 2015 compared to the same period of the prior fiscal year. The increase was primarily due to the direct labor costs associated with the ramp-up in infrared lens production volume.

#### **Selling, General and Administrative:**

During the third quarter of fiscal 2015, selling, general and administrative (“SG&A”) costs were approximately \$1.15 million, compared to \$1.10 million in the third quarter of fiscal 2014, an increase of approximately \$47,000. The increase was primarily due to an increase in wages of \$134,000, of which \$67,000 was a reclassification from new product development to reflect the organizational optimization plan announced in January 2015 to transition to a technical sales process. The increase in wages was offset by a decrease of approximately \$49,000 in professional service fees compared to the prior year, and by a decrease of approximately \$33,000 for start-up expenses incurred for LPOIZ’s new facility compared to the prior year. We intend to maintain SG&A costs generally at current levels.

#### **New Product Development:**

New product development costs were approximately \$249,000 in the third quarter of fiscal 2015, a decrease of \$70,000 from the third quarter of fiscal 2014. This decrease was primarily due to a decrease of \$45,000 in wages and a decrease of \$20,000 in consulting fees paid for engineering design support. We anticipate that these expenses will

remain at current levels for the remainder of fiscal year 2015.

**Other Income (Expense):**

Interest expense was approximately \$3,000 in the third quarter of fiscal 2015 as compared to \$13,000 in the third quarter of fiscal 2014. Interest expense resulted from amortization of debt costs related to our Invoiced Based Line with Avidbank.

In the third quarter of fiscal 2015, we recognized expense of approximately \$106,000 related to the change in the fair value of warrant liability in connection with our June 2012 private placement. We recognized expense of approximately \$131,000 in the same period last year. This fair value will be re-measured each reporting period throughout the remaining contractual term of the warrants, or until exercised.

Other expense, net was approximately \$8,000 in the third quarter of fiscal 2015 compared to approximately \$33,000 in the third quarter of fiscal 2014. This was primarily from the effects of foreign currency exchange transactions.

**Net Income (Loss):**

Net income was approximately \$90,000 or \$0.01 basic and diluted earnings per share during the third quarter of fiscal 2015, compared with the third quarter of fiscal 2014, in which we reported a net loss of approximately \$133,000 or \$0.01 basic and diluted loss per share. The approximately \$223,000 increase in net income resulted from higher gross margin of approximately \$135,000, a decrease in expense in the change in the fair value of warrant liability of approximately \$25,000, and a decrease in professional services fees of approximately \$49,000.

Weighted-average shares outstanding (basic) was 15,028,231 in the third quarter of fiscal 2015 compared to 14,292,976 in the third quarter of fiscal 2014. The increase in weighted-average shares outstanding was primarily due to the issuance of shares of common stock related to shares issued under the ESPP and our private placement in January 2015 with Pudong Investment.

***Fiscal First Nine Months: Nine months ended March 31, 2015 compared to the nine months ended March 31, 2014***

**Revenues:**

For the nine months ended March 31, 2015, we reported total revenues of \$9.16 million compared to \$8.72 million for the first nine months of the prior fiscal year, an increase of 5%. The increase from the first nine months of the prior fiscal year was attributable to a 5% increase in sales of our specialty products and a 170% increase in sales of our infrared products.

**Cost of Sales:**

Our gross margin percentage for the first nine months of fiscal 2015 was 42%, a decrease from 46% from the first nine months of fiscal 2014. Total manufacturing costs of \$5.31 million were approximately \$608,000 higher the first nine months of fiscal 2015 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 higher direct labor costs associated with the ramp-up in infrared production, the overlapping manufacturing workforces during the transition of production from the Shanghai facility to the Zhenjiang facility, and severance for terminated staff at LPOI's Shanghai facility once we moved production to LPOIZ's Zhenjiang facility.

**Selling, General and Administrative:**

During the first nine months of fiscal 2015, SG&A costs were approximately \$3.61 million, compared to \$3.33 million in the first nine months of fiscal 2014, an increase of approximately \$285,000. The increase was primarily due to an increase of approximately \$132,000 in professional fees in support of strategic growth initiatives and higher wages of \$163,000. We expect SG&A costs to return to previous levels, given the temporary nature of the increase in professional fees that were associated with certain strategic growth initiatives.

**New Product Development:**

New product development costs were approximately \$943,000 in the first nine months of fiscal 2015 compared to \$878,000 in the first nine months of fiscal 2014, an increase of \$65,000. This increase was due to an increase of \$99,000 in wages for infrared product development offset by a decrease of \$40,000 for consulting services.

**Other Income (Expense):**

Interest expense was approximately \$26,000 in the first nine months of fiscal 2015 as compared to \$23,000 in the first nine months of fiscal 2014. Interest expense in the current fiscal year resulted from amortization of debt costs related to our credit facility and the Invoiced Based Line with Avidbank.

In the first nine months of fiscal 2015 we recognized income of approximately \$375,000 related to the change in the fair value of warrant liability related to warrants issued in connection with our June 2012 private placement. We recognized expense of \$185,000 in the same period last year. This fair value will be re-measured each reporting period throughout the remaining contractual term of the warrants, or until exercised.

Other income (expense), net was income of approximately \$12,000 in the first nine months of fiscal 2015 compared to expense of approximately \$2,000 in the first nine months of fiscal 2014. For the first nine months of fiscal 2015, other income was primarily comprised of the foreign currency exchange transactions.

**Net Income (Loss):**

Net loss was approximately \$348,000, or \$0.02 basic and diluted loss per share, during the first nine months of fiscal 2015, compared with the first nine months of fiscal 2014, in which we reported a net loss of approximately \$416,000 or \$0.03 basic and diluted loss per share. The approximate \$68,000 decrease in net loss resulted from the change in the fair value of our warrant liability for our June 2012 Warrants and lower gross margin due to the severance costs incurred as a result of terminating employees at LPOI's Shanghai facility offset by higher SG&A expenses due to the temporary increase in professional fees incurred as a result of certain strategic growth initiatives.

Weighted-average shares outstanding (basic) was 14,537,727 in the first nine months of fiscal 2015 compared to 13,905,376 in the first nine months of fiscal 2014. The increase in weighted-average shares outstanding was primarily due to the issuance of shares of common stock related to shares issued in our January 2015 private placement and under the ESPP.

**Liquidity and Capital Resources**

At March 31, 2015, we had working capital of \$5.2 million and total cash and cash equivalents of \$1.06 million, of which \$290,000 of the total cash was held by our foreign subsidiaries. Total cash and cash equivalents decreased during the first nine months of 2015 primarily due to capital expenditures to expand and improve our manufacturing processes. On May 4, 2015, we had a book cash balance of \$1.0 million.

We generally rely on cash from operations and equity and debt offerings, to the extent available, to satisfy our liquidity needs. From February 1996 (when our initial public offering occurred) through the end of our quarter ended March 31, 2015, inclusive, we have raised a net total of approximately \$106 million from the issuance of common and preferred stock, the sale of convertible debt and the exercise of options and warrants for our common stock.

On December 23, 2014, we entered into an Amended LSA with Avidbank for an Invoice Based Line. The Amended LSA amends and restates the LSA between the Company and Avidbank. Pursuant to the Amended LSA, Avidbank will, in its discretion, make loan advances to the Company up to a maximum aggregate principal amount outstanding not to exceed the lesser of (i) One Million Dollars (\$1,000,000) or (ii) eighty percent (80%), which is the Maximum Advance Rate, of the aggregate balance of the Company's eligible accounts receivable, as determined by Avidbank in accordance with the Amended LSA. Avidbank may, in its discretion, elect to not make a requested advance, determine that certain accounts are not eligible accounts, change the Maximum Advance Rate or apply a lower advance rate to particular accounts and terminate the Amended LSA.

Amounts borrowed under the Amended LSA may be repaid and re-borrowed at any time prior to December 23, 2015, at which time all amounts shall be immediately due and payable. The advances under the Amended LSA bear interest, on the outstanding daily balance, at a per annum rate equal to three percent (3%) above the Prime Rate (6.25% at March 31, 2015). Interest payments are due and payable on the last business day of each month. Payments received with respect to accounts upon which advances are made will be applied to the amounts outstanding under the Amended LSA.

The Company's obligations under the Amended LSA are secured by a first priority security interest (subject to permitted liens) in cash, U.S. inventory and accounts receivable. In addition, the Company's wholly-owned subsidiary, Geltech has guaranteed the Company's obligations under the LSA.

The Amended LSA contains customary covenants, including, but not limited to: (i) limitations on the disposition of property; (ii) limitations on changing the Company's business or permitting a change in control; (iii) limitations on additional indebtedness or encumbrances; (iv) restrictions on distributions; and (v) limitations on certain investments.

Late payments are subject to a late fee equal to the lesser of five percent (5%) of the unpaid amount or the maximum amount permitted to be charged under applicable law. Amounts outstanding during an event of default accrue interest at a rate of five percent (5%) above the interest rate applicable immediately prior to the occurrence of the event of default. The Amended LSA contains other customary provisions with respect to events of default, expense reimbursement, and confidentiality. The amount drawn on the Amended LSA was \$0 as of March 31, 2015.

Management has developed operating plans for fiscal 2015 and 2016 and believes we have adequate financial resources to achieve these plans and to sustain our current operations in the coming year. We have established milestones that will be tracked to ensure that as funds are expended we are achieving results before additional funds are committed. The fiscal 2015 and 2016 operating plans and related financial projections we have developed anticipate sales growth primarily from precision molded optics, with the emphasis on HVPMO applications, specialty products and infrared products. We expect further margin improvements based on production efficiencies and reductions in product costs as a result of the shifting of our manufacturing operations to Shanghai and Zhenjiang, as well as yield improvements, improved tool life and expanded coating capability. Through these actions and our continuing cost reduction programs, we are improving our competitive position in the marketplace.



Our future capital requirements will depend on many factors including 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. We will also continue efforts to keep costs under control as we seek renewed sales growth. Our efforts are directed toward reaching positive cash flow and profitability. If these efforts 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.

### **Sources and Uses of Cash**

#### *Cash Flows – Financings:*

Net cash provided by financing activities was approximately \$954,000 in the first nine months of fiscal 2015 compared to net cash provided by financing activities of approximately \$1.54 million in fiscal 2014. In the first nine months of fiscal 2015, we drew a net of approximately \$165,000 on our line of credit. The line of credit balance was zero at March 31, 2015. In the first nine months of fiscal 2014, we received approximately \$1.5 million in the exercise of warrants, net of costs. In connection with the exercise of warrants, we issued 1,136,143 shares of Class A common stock. The exercise prices ranged from \$0.87 to \$1.89 per share of Class A common stock.

In the fourth quarter of fiscal 2014, we entered into the SPA with Pudong, with respect to a private placement of our Class A common stock. The SPA was subsequently amended and assigned to Pudong Investment.

On January 20, 2015, we sold to Pudong Investment 930,790 shares of Class A common stock at a price of \$1.40 per share, which was adjusted from the initial per share purchase price of \$1.62 pursuant to the terms of the SPA. The Company received gross cash proceeds from the issuance of the Class A common stock in the amount of approximately \$1,303,000. The Company has used the proceeds of the sale to provide working capital in support of its continue growth, particularly new product development, sales and marketing of its infrared product line, and capital expenditures related to the acquisition of new equipment.

#### *Cash Flows – Operating and Investing:*

Cash flow used in operations was approximately \$568,000 for the nine months ended March 31, 2015, an increase of approximately \$441,000 from the nine months ended March 31, 2014. This increase was primarily due to the change in fair value of our June 2012 Warrants and an increase in working capital. Our fiscal 2015 operating plan and related financial projections anticipate improvement in our cash flows provided by operations in future years due to sales growth and continuing margin improvements based on production efficiencies and reductions in product costs, offset by marginal increases in selling, administrative and new product development expenditures. For example, we expect lower coating costs due to larger unit volumes and due to our ability to coat the infrared lenses in-house rather than out-sourcing this service.

During the first nine months of fiscal 2015, we expended approximately \$521,000 for capital equipment as compared to \$1.36 million during the first half of fiscal 2014. The majority of our capital expenditures during both fiscal 2015 and fiscal 2014 were related to the purchase of equipment used to enhance or expand our production capacity, tooling for our precision molded products and equipment and facility improvements for our new facility in Zhenjiang. We anticipate lower expenditures during fiscal 2016. We anticipate spending approximately \$800,000 on capital equipment during fiscal 2016; however, this will depend on opportunities and circumstances.

### **Off Balance Sheet Arrangements**

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

### **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 for U.S. based accounts and 100% on invoices that are over 120 days past due for China based accounts without an agreed upon payment plan. 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 as completed in accordance with the terms of the agreements and upon shipment of products, reports or designs to the customer. Invoiced amounts for value-added taxes (VAT) related to sales are posted to the balance sheet and not included in revenue.

**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 the 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.

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, as amended (the "Exchange Act")) as of March 31, 2015, 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, 2015 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, 2015, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

None

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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

<b>Exhibit Number</b>	<b>Description</b>	<b>Notes</b>
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

31

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	Amended and Restated Bylaws of Registrant	1
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934</u>	*
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934</u>	*
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code</u>	*
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code</u>	*
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 Current Report on Form 8-K (File No: 000-27548) filed with the Securities and Exchange Commission on February 3, 2015 and is incorporated herein by reference thereto.

2. This exhibit was filed as an exhibit to our annual report on Form 10-KSB40 (File No: 000-27548) 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-QSB (File No: 000-27548) 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 (File No: 000-27548) 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 (File No: 000-27548) filed with the Securities and Exchange Commission on January 24, 2003 and is incorporated herein by reference thereto.

\* filed herewith



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LIGHTPATH TECHNOLOGIES, INC.**

Date: May 7, 2015 By: /s/ J. James Gaynor  
*President and Chief Executive Officer*

Date: May 7, 2015 By: /s/ Dorothy M. Cipolla  
*Chief Financial Officer*