LIGHTPATH TECHNOLOGIES INC
Form 10-K
September 28, 2006
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2006 or

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

Commission file number 000-27548

LIGHTPATH TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

http://www.lightpath.com

2603 Challenger Tech Court, Suite 100	
Orlando, Florida 32826	**(407) 382-4003**
(Address of principal executive offices, including zip code)	**(Registrant s telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Act:

None	**None**
(Title of each class)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, $.01 par value

Series D Participating Preferred Stock Purchase Rights

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

Indicate by check mark whether the registrant is a shell company. See definition of accelerated filer and large accelerated filer **in Rule 12b-2 of the Exchange Act.** YES ¨ NO x.

The aggregate market value of the registrant s voting stock held by non-affiliates (based on the closing sale price of the registrant s Common Stock on the NASDAQ Capital Market, and for the purpose of this computation only, on the assumption that all of the registrant s directors and officers are affiliates as well as two parties filing on Form SC 13-G) was approximately $3,319,200 as of September 15, 2006.

As of September 15, 2006, the number of shares of the registrant s Class A Common Stock outstanding was 4,471,088.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

LightPath Technologies, Inc.

Form 10-K

Table of Contents

Table of Contents

PART I

Item 1. Business.

General

LightPath Technologies, Inc. (LightPath or Company) manufactures optical components and higher level assemblies including precision molded glass aspheric optics, precision molded infrared molder optics, isolators, proprietary fiber-optic collimators, GRADIUM glass lenses and other optical materials used to produce products that manipulate light. We design, develop, manufacture and distribute optical components and assemblies utilizing advanced optical manufacturing processes. Our products are incorporated into a variety of applications by our customers in many industries, including defense products, medical devices, barcode scanners, optical data storage, hybrid fiber coax datacom, telecom, machine vision and sensors, among others. All the products that we produce enable lasers and imaging devices to do their jobs:

- *Molded glass aspheres* are in various high performance optical applications in lasers and infrared imaging;
- *Isolators* prevent the back-reflection of optical signals that can degrade optical transmitter and amplifier performance whenever light must enter or exit a fiberoptic cable (fiber);
- *Collimators* are assemblies that are used to straighten and make parallel diverging light as it exits a fiber, laser delivery applications like fiber lasers; and
- G*RADIUM* extends the performance of a spherically polished glass lens technology improving optical performance, approaching aspheric performance at a fraction of the price.

LightPath was incorporated under Delaware law as a corporation in June 1992 as the successor to LightPath Technologies LP, a New Mexico limited partnership formed in 1989, and its predecessor, Integrated Solar Technologies Corporation, a New Mexico corporation, organized in 1985. We completed an initial public offering of our common stock in 1996. From our inception in 1985 until June 1996, we were classified as a development stage enterprise that primarily engaged in basic research and development with an initial objective to improve solar energy technology. Over time, we expanded our attention to other optics applications using GRADIUM glass lenses.

During fiscal 1998, we reorganized our sales and marketing efforts with the purpose of expanding our attention to include markets such as optoelectronics and photonics due to the number of potential customer inquiries into the ability of GRADIUM glass to solve optoelectronic problems, specifically in the areas of fiber telecommunications. Simultaneously, we developed a strategy to enter the telecom optical components market using a concept of automated production of telecom components using laser fusion and fiber attachment techniques we developed. Our now patented laser fusion and fiber attachment techniques are substantially automated and we believe these techniques provided improved quality and production flexibility. Our automation theme was expanded with our fiscal 2000 acquisition of Horizon Photonics, Inc. (Horizon), a California corporation originally founded in July 1997, where we acquired the use of robotic systems in manufacturing isolators.

Horizon utilized automated production platforms to manufacture passive optical components for the telecommunications and data communications markets. We acquired all of the outstanding shares of Horizon for approximately 175,000 shares of our Class A common stock and $1 million in cash (an aggregate purchase price of approximately $40.2 million, based on the then-market price of our common stock). Horizon manufactured isolator products in California prior to May 2003 when the site was consolidated with the facilities in Orlando, Florida. The Horizon legal entity was dissolved during fiscal 2004.

In September 2000, we acquired Geltech, Inc. (Geltech), a Delaware corporation originally founded in May 1985. Geltech is a manufacturer of precision molded glass aspheric optics, which have broad applicability to numerous application markets. Precision molded glass aspheric optics are also used in the active telecom components market to provide a highly efficient means to couple laser diodes to fibers or waveguides. We acquired all of the outstanding shares of Geltech for approximately 103,000 shares of our Class A common stock and approximately $1 million in acquisition costs (an aggregate purchase price of approximately $28.5 million, based on the then-market price of our common stock). We manufacture precision molded glass aspheric optics at our facility in Orlando, Florida. During fiscal 2002, we expanded the Orlando manufacturing facility, and in fiscal 2003, in order to reduce costs, we relocated our corporate headquarters to Orlando and reorganized our manufacturing facility there to accommodate all of the production previously performed in New Mexico for GRADIUM glass lenses and collimators as well as the isolator product line from California.

From 1998 until 2002, our intense pursuit of optoelectronics and photonics applications led us to become heavily reliant on the telecommunications capital equipment market, which went through a rapid and substantial increase and a similarly rapid and substantial decline in these five years. This drove our product development and acquisition strategies during this time and led to an increase in reported revenues from under $1 million to over $26 million and then to a decline to under $7 million in fiscal 2003. As a result of activities during this five-year period, we found it necessary to reduce costs significantly by consolidating all production and our corporate headquarters in Florida. Once we consolidated all Company operations to one site under one management group and with one sales force, we determined that our former operating segments of Optical Lenses and Laser Components were no longer reportable operating segments and, as such, we operate a single business with the aforementioned optical component product lines.

Table of Contents

In November 2005, the Company announced the formation of LightPath Optical Instrumentation (Shanghai) Co., Ltd, a wholly owned manufacturing subsidiary, located in Jiading, People s Republic of China (PRC). The manufacturing operations are housed in a 17,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant is expected to increase overall production capacity and enable LightPath to compete for larger production volumes of optical components and assemblies, and strengthen partnerships within the Asia/Pacific region. It also provides a launching point to drive the Company s sales expansion in Asia/Pacific.

Business Strategy

Our strategy is to diversify away from strictly telecom markets toward our traditional optics customer base, which represents over 1,000 companies worldwide engaged in a wide variety of markets. We had not emphasized applications with these customers during the telecommunications boom and we are working diligently to service and participate in the development of their next generation of applications and products. We continue to serve a number of telecom customers; most of them are in a broader market of communications, including datacom, hybrid-fiber coax and telecommunications. We have leveraged our patents and know-how to develop new products for applications in Blue Lasers, Infrared Imaging and Fiber Laser Delivery Systems.

Because complex customer application systems can contain many optical components and our products can be utilized to reduce the number or type of lens elements in such systems, we believe that our products can simplify the design and improve the performance of such complex optical systems. However, design and production of an optical product is a lengthy process, and it may take years for producers to redesign complex optical systems using our products, reconfigure the product housing, re-engineer the assembly process and initiate commercial quantity orders for our products. Accordingly, we intend to focus our long-term marketing efforts on emerging industries, such as medical devices, barcode scanners, optical data storage, machine vision, sensors and performance-driven industries that are seeking to optimize performance of new and existing optical products.

Molded Aspheres

We have rights under a royalty-free perpetual license to the Precision Molded Optics process originally developed by Corning, Inc., whose business in this field we acquired in 1994. Products manufactured using this technology include glass aspheric lenses, sub-millimeter lenses and lens arrays. These products include wafer-scale molded glass aspheric lenses, anamorphic lenses and hybrid optical components like diffractives and our Infrared molded optics introduced during 2005.

Our molded glass aspheres are used in a wide variety of laser and imaging applications in optical data storage, high precision printing, barcode scanning, environmental monitoring, machine vision, sensors, laser-to-fiber coupling, and medical equipment. We continue to aggressively pursue new sales opportunities in, for example, the application areas of medical devices, anamorphic corrections and infrared imaging.

We continue to sell aspheric lenses for various communications applications. Glass aspheric lenses and lens arrays are used to perform two major tasks. One is the collimation of light as it emerges from the fiber. The second major task is coupling and focusing light at the output of a laser diode to a fiber or waveguide. Glass provides high performance and wavelength stability over fluctuating temperature.

We are beginning to sell precision molded infrared aspheric optics for imaging applications in firefighting, predictive maintenance, homeland security, surveillance, automotive and defense. LightPath is a leader in molding precision optics and we intend to continue to lead in the infrared area. We anticipate the growth of infrared optics and the requirements in systems for our molded technologies over traditional ground and polished lenses.

Isolators

We have developed a family of products that utilize a proprietary micro-fixture design and robotic platform processes. This automated process allows for micro-optics to be mounted in small transferable fixtures that are processed in arrays and converted into a variety of optical components and component subsystems. This flexible platform is capable of producing a variety of finished products including isolators. We are manufacturing a qualified family of free-space, laminate and custom isolators. We sell isolator assemblies for applications in all communications markets. This line is based on a manufacturing platform that can address a wide range of customer specifications, while supporting lower cost applications. Sales of isolators improved in fiscal 2006 and we continue to serve the communications market while working towards sales into other market applications.

Collimators

During 1998, we began the development of products for the then-emerging optoelectronics markets, specifically in the areas of fiber telecommunications. Our standard collimator products provide higher performance in back reflection and insertion loss and can withstand in excess of ten watts of optical power. Customers have passively tested our collimators to over 100 watts in the forward direction. The process to manufacture these collimators uses patented laser fusion technologies and robotics. These products may incorporate aspheric molded optics and GRADIUM lenses. During 1999 and 2000, we expanded this product line, demonstrating to the telecommunication optical components industry that we can provide low-cost products and solutions to meet their telecom-related collimator needs. Beginning in 2001, the telecom equipment market slowed dramatically, reducing the demand for the optical components segment of the market. During fiscal 2004 we introduced seven new ruggedized collimators for use in high-power ND:YAG beam delivery units including fiber lasers. Due to the decline of this initial market segment, we pursued investigating other opportunities incorporating our unique patented laser fusion technology and began selling new high power collimators during fiscal 2005.

GRADIUM Lenses

GRADIUM glass was developed by us beginning in 1985 and is an optical quality glass material with axially varying refractive index, capable of reducing optical aberrations inherent in conventional lenses and performing with a single lens tasks traditionally performed by multi-element, conventional lens systems. Typical applications include surgical lasers, high power YAG lasers for welding, cutting and marking, defense-market uses, and test and measurement. Because GRADIUM glass can concentrate light transmission into a much smaller focal spot than conventional spherical lenses, we believe that GRADIUM glass has the ability to improve the current standards of laser performance in some applications.

Our growth strategy continues to be to increase our emphasis on key laser market niches in the United States, Europe and Asia to establish the necessary products and partnership alliances to sell into these markets. In the fourth quarter of fiscal 2002 we sold some of our GRADIUM production equipment to an Asia/Pacific company as part of a licensing agreement whereby they will manufacture GRADIUM glass for LightPath and distribute lenses to their own customers in Asia/Pacific. This agreement was renegotiated in fiscal 2003, whereby we obtain a royalty for their GRADIUM sales and we will maintain U.S. GRADIUM distribution rights. Distribution agreements are in place with specialty distributors to further assist in obtaining penetration into the high-power YAG laser and high performance lens end-markets.

Optical Assemblies

We are currently producing optical assemblies based on our proprietary technologies. We are working to design, build and sell optical assemblies into the markets for test and measurement, medical devices, military, industrial and communications. Our efforts, particularly in the medical devices, military and industrial markets, have resulted in revenue increases of over 14% compared to fiscal 2005.

Sales and Marketing

Extensive product diversity and varying levels of product maturity characterize the optics industry. Product markets range from consumer (e.g., cameras, copiers) to industrial (e.g., lasers, data storage, infrared imaging), from products where the lenses are the central feature (e.g., telescopes, microscopes, lens systems) to products incorporating lens components (e.g., robotics, semiconductor production equipment) and communications (various optics are required for bandwidth expansion and improved data transfer for the optical network). As a result, the markets for our products are highly segmented and no single marketing approach will allow us to access all available market segments.

From fiscal 1998 to fiscal 2002, our sales and marketing strategy was designed to capitalize on the growing demand for optical components for telecom. Since that period, there have been substantial changes in our organization, structure and sales strategies. Because we rely on multiple markets and market segments to diversify our sales base, we have made necessary changes in our sales force and sales strategies to strengthen our sales presence in markets where we deliver value.

Sales Organization

Our sales staff is trained to promote and sell all of our product lines to our customers. In order to be more accessible to potential customers we have divided our sales staff into the following territories:

U.S. East Coast & Eastern Canada	Asia
U.S. West Coast & Western Canada	Europe
U.S. Central	

Table of Contents

In addition, we have formalized relationships with twelve industrial, laser, optoelectronics and medical component distributors located in foreign countries and in the United States to assist in distribution of our products geographically outside the United States and in highly specific target markets. Because the optics industry is highly fragmented, we utilize these distributors, certain catalog distributors, our own catalog and our Internet site (www.lightpath.com) as vehicles for broader promotion of our products. We make limited use of print media advertisements in various trade magazines and participate in appropriate domestic and foreign trade shows.

Trade Shows

We have displayed our product line additions and enhancements at one or more trade shows each year. For example we participated in *Photonics West* in January 2006 and SPIE East in April 2006. We also attended CLEO and shows in Europe and Asia. Such a strategy also underscores LightPath s strategic directive of broadening our base of innovative optical components and assemblies. These shows provide an opportunity to meet with potential customers, to distribute information and samples of our products and to discuss test results from samples previously sent.

New Products

During fiscal 2006 we continued to offer more lens designs utilizing our proprietary lead free glass ECO550, used for precision molded aspheric lenses. The European Parliament has established a specification, RoHS (Restriction of Hazardous Substances) and the Japanese have established Green requirements in 2003, for the elimination of certain hazardous substances used in electronic equipment. RoHS takes effect July 2006 and Green is in effect now. ECO550 glass is both RoHS and Green compliant and contains virtually no lead or other restricted materials.

We continue to develop new designs for collimating lenses designed for 405 nm blue laser diodes. The new glass molded aspheric lens is designed for use with the new Nichia® blue diode laser, and is designed and manufactured to extremely stringent optical standards. The effort from both engineering and manufacturing required improved beam quality, which is particularly difficult for shorter wavelength lasers. These lenses are also applicable to other blue laser manufactures applications.

We continue to develop our molded infrared aspheric optics product line with new short (SWIR), mid (MWIR) and LWIR materials; this new product line is called the Black Diamond precision molded glass aspheric optics. Traditionally our aspheric lenses have been limited to visible and near-infrared wavelengths. Recent advances in optical materials now provide a common technology path to produce molded infrared aspheric optics over the wavelength range of 1 to 14 microns. LightPath s Black Diamond technology enables high performance, cost-effective molded infrared aspheric lenses. Traditionally, infrared optics rely on individually diamond turned, polished or other lengthy manufacturing methods. Utilizing precision molded aspheric optics significantly reduces the number of lenses required for typical thermal imaging systems. Precision molded infrared aspheric optics find imaging applications in firefighting, predictive maintenance, homeland security, surveillance, automotive and defense

Our efforts in new product development are intended to broaden our capabilities to service market areas in addition to the communications markets, where our customers ask for more demanding optical performance. In addition to the products mentioned above, we are skilled at designing and producing of optical assemblies that combine two or more of our current components, such as molded aspheres and an isolator, into a subassembly. We believe these optical assemblies, which solve multiple optical problems in one package, have the future potential to produce higher gross profit margins for us than individual components.

Competition

The market for optical components generally is highly competitive and highly fragmented. We compete with manufacturers of conventional spherical lens products and optical components, providers of aspheric lenses and optical components and producers of optical quality glass. To a lesser extent, we compete with developers of radial gradient lenses and optical components. Most of these competitors have greater financial, manufacturing, marketing and other resources than we do.

We believe we can be successful in procuring business because of our unique capabilities in optical design engineering that we make available on the merchant market. Additionally, we believe that we offer value to some customers as a second or backup source of supply in the United States should they be unwilling to commit all of their source of supply of a critical component to a foreign production source. We also continue to have the proprietary GRADIUM lens glass technology and the ability to make unique, elemental-impregnated porous-silica optical media that can be used in various test and measurement and sensing applications.

Manufacturers of conventional lenses and optical components include corporations such as Eastman Kodak Corporation, Nikon, Olympus Optical Company, Carl Zeiss and Leica AG. In addition to being substantial producers of optical components, these entities are also some of the primary customers for such components, incorporating them into finished products for sale to end-users. Consequently, these competitors have significant control over certain markets for our products. In addition, although these companies do not manufacture axial gradient lenses, and although we believe that we have substantial technological expertise in this field, these companies could rapidly pursue development of axial gradient products, in light of their substantial resources. In addition, our products compete with other products currently produced by these manufacturers.

Table of Contents

Aspheric lenses

Manufacturers of aspheric lenses provide significant competition for our molded glass aspheric lenses in providing products that improve the shortcomings of conventional lenses. Aspheric lens system manufacturers include Panasonic and Hoya Corporation. The use of aspheric surfaces provides the optical designer with a powerful tool in correcting spherical aberrations and enhancing performance in state-of-the-art optical products. Plastic molded aspheres, on the other hand, allow for high volume production, but primarily are limited to low cost consumer products that do not place a high demand on performance (such as plastic lenses in disposable or mobile phone cameras). Molded plastic aspheres appear in products that stress cost as their measure of success over performance and durability.

To a limited extent, our GRADIUM material competes with manufacturers of other gradient index lens materials. Currently, processes to produce gradient index materials include ion-exchange and chemical vapor deposition, both of which produce small radial gradient index rods with limited applications. Manufacturers using these processes include Nippon Sheet Glass, Olympus Optical Company, and Gradient Lens Corporation.

Isolators

We compete with a few specific players in the isolator segment of the components market. These include Namiki, TDK, Tokin, Kyocera and Sumitomo. Our strategy does not involve direct competition with the catalog offerings of these companies; rather, we focus our efforts on designing and manufacturing specialty and hybrid components according to particular OEM specifications.

Collimators

LightPath s collimator line focuses on high power laser in the fiber laser market. There are currently only a handful of direct competitors for our collimators. These include Optoskand and Oz Optics.

Manufacturing

Molded Aspheres and GRADIUM

Most of our manufacturing is done in a 41,000 square foot production facility in Orlando, Florida. With unused space remaining in this facility, we believe our space is adequate to accommodate foreseeable needs of the Company. The facility features areas for each step of the manufacturing process including tooling and coating work areas, pre-form manufacturing, and a clean room for pressing and integrated assembly. The production facility retains an emphasis on automation, particularly in the isolator and collimator lines moved from California and New Mexico, respectively, in fiscal 2003. The facility includes new product development labs and space that include development and metrology equipment.

The molded glass asphere manufacturing area includes lens pressing equipment, high precision mold production equipment, advanced metrology and inspection equipment and coating facilities. The plant also features a tooling and machine shop, which can support: new product development; commercial production requirements for our lens holders; and the fabrication of proprietary press workstations and mold equipment.

In Orlando, we have furnaces to produce boules and glass coring equipment for our current needs of GRADIUM for our sales in the United States. and Europe. We also obtain GRADIUM boules from Hikari Glass in Japan, from whom we have an agreement to obtain a royalty for their sales of GRADIUM in Asia/Pacific.

We are ISO 9000:2001 certified. Much of our product qualification is performed in-house. Our test and evaluation capabilities include Damp Heat, High/Low Temp Storage, and a Thermal Shock Oven, which are representative of the equipment required to meet Telcordia requirements and other customer required product specifications. Our New Product Development department has CAD tools and technical support. The continuing implementation of various statistical process controls (SPC s) is being pursued to improve product yields and allow us to reduce costly manual testing operations. Quality control in manufacturing to ensure a quality end product is critical to our ability to bring our products to market, as our customers demand rigorous testing prior to their purchase of our products.

In November 2005**,** the Company announced the formation of LightPath Optical Instrumentation (Shanghai) Co., Ltd, a wholly owned manufacturing subsidiary, located in Jiading, PRC. The manufacturing operations are housed in a 17,000 square foot facility located in the Jiading Industrial Zone near Shanghai.

The China plant is expected to increase overall production capacity and enable LightPath to compete for larger production volumes of optical components and assemblies, and strengthen partnerships within the Asia/Pacific region. It also provides a launching point to drive the Company s sales expansion in Asia/Pacific.

Isolators

In our Orlando clean room, our isolator manufacturing equipment includes dual beam laser welding stations, sub-micron alignment engines, robotic assembly stations, automated dispensing systems and precision dicing equipment. The primary benefits of our approach to manufacturing are (i) reduced costs as a result of higher yields and throughput, and (ii) product consistency as a result of eliminating manual labor. We believe we are the only manufacturer of free-space isolators currently using automated manufacturing.

Collimators

Our collimator assembly workstations in our Orlando clean room include our proprietary laser fusion and housing equipment, automated testing processes, and laser polishing stations.

Subcontractors and Strategic Alliances

We believe that low-cost manufacturing will be crucial to our long-term success. In that regard, we have generally used subcontractors in our production process to accomplish certain processing steps requiring capabilities that are specialized and that we have never acquired. For example, we presently use a number of qualified subcontractors for fabricating some lenses, polishing certain lenses where required, and coating them.

Our proprietary GRADIUM boules are produced by an Asia/Pacific partner under agreement with us, which remits a royalty to us for its sales to customers in Asia/Pacific. This arrangement allows our product to gain sales exposure in Asia/Pacific and provides us with a second source for boule production.

We have taken steps to protect our proprietary methods of repeatable high quality manufacturing by patent disclosures and internal trade secret controls.

Suppliers

We utilize a number of glass compositions for the manufacture of our molded glass aspheres and lens array products. However, one such glass is a glass composition licensed from and manufactured by Corning, Inc. and represents a substantial majority of our molded aspheric lens production. Corning is currently our sole source for this glass composition. We believe that a satisfactory supply of this Corning composition will continue to be available at competitive prices, although there can be no assurance in this regard. Additional sources of other glass compositions are available. We have tested selected compositions and have established a sourcing relationship with a cost effective supplier.

Base optical materials, used in both GRADIUM and collimator products, are manufactured and supplied by a number of major optical and glass manufacturers. Optical fiber and collimator housings are manufactured and supplied by a number of major manufacturers. We believe that a satisfactory supply of such production materials will continue to be available at reasonable prices, although there can be no assurance in this regard.

We also rely on local and regional vendors for component materials and services such as chemicals and inert gases, specialty ceramics, UV and AR coatings, and other specialty coatings. To date, we have found a suitable number of qualified vendors for these materials and services.

We currently purchase a few key materials from single or limited sources. The polarizing glass used in our isolator products is supplied by Corning and Hoya. To date, we have been able to acquire an ample supply of polarizing glass. Garnet and other crystals used in our isolator products are provided by a number of vendors, including Sumitomo, TDK and Triquint. Available quantities and adequate pricing of garnet is available in the open market. We believe that a satisfactory supply of production materials will continue to be available at competitive prices, although there can be no assurance in this regard.

We rely on local and regional vendors for component materials such as housings, fixtures and magnets. In addition, certain products require external processing such as brazing and metallization. To date, we have found a suitable number of qualified vendors.

Table of Contents

Patents and Other Proprietary Intellectual Property

Our policy is to protect our technology by, among other things, patents, trade secret protection, trademarks and copyrights. The products and technologies that we employ use patents that are both owned and maintained by us and licensed to us by others. Patents have been issued, and/or patent applications have been filed, in the areas of glass composition, glass molding, gradient geometries, and certain production processes such as fiber attachment, robotic assembly and micro-fabrication. The first of our issued patents expires in 2006; the remainder expire at various times through 2019. We do not expect a material effect to result from the expiration of the patent in 2006. Patent applications corresponding to some of our United States. applications have been filed in the patent offices in Europe and Japan pursuant to the Patent Cooperation Treaty. Under the Patent Cooperation Treaty, a patent applicant may file one patent application and have it acknowledged as an accepted filing in as many member nations to the Patent Cooperation Treaty as the applicant elects.

In addition to patent protection, certain process inventions, lens designs and innovations are retained as trade secrets. A key feature of GRADIUM glass is that, once fabricated, it does not reveal our formula upon inspection and, to our knowledge, cannot be reverse-engineered.

LightPath® is registered as a service mark in the United States and BLACK DIAMOND®, GRADIUM® and Polycoat® are also registered trademarks. Other trademarks are held out and used by us under common law, such as Circulight™.

Issued patents owned or available to us may not afford adequate protection to us or may be challenged, invalidated, infringed or circumvented. Patent applications relating to our products may not result in patents being issued. Patent rights granted to us for technologies that we may license in the future may not provide competitive advantages to us. Patents that are owned or licensed by us that are issued in one jurisdiction may not be issued in any other jurisdiction. The validity of any of our patents may not be upheld if challenged by others in litigation or if such litigation alleges that our activities infringe upon patents owned by others.

Environmental and Governmental Regulation

Currently, emissions and waste from our present manufacturing processes are at such low levels that no special environmental permits or licenses are required. In the future, we may need to obtain special permits for disposal of increased waste by-products. The glass materials we utilize contain lead and other toxic elements in a stabilized molecular form. However, the high temperature diffusion process results in low-level emissions of such elements in gaseous form. If production reaches a certain level, we believe that we will be able to efficiently recycle certain of our raw material waste, thereby reducing disposal levels. We believe that we are presently in compliance with all material federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits necessary for the operation of our business.

We utilize certain chemicals, solvents and adhesives in our manufacturing process. We believe we maintain all necessary permits and believe we are in full compliance with all applicable regulations.

To our knowledge there are currently no federal, state or local regulations that restrict the manufacturing and distribution of our products. Certain end-user applications require that the complete optical systems receive government approval, such as U.S. Food and Drug Administration approval for use in endoscopy. In these cases, we will generally be involved on a secondary level and the OEM customer will be responsible for the license and approval process.

New Product Development

For many years, we were engaged in basic research and development that resulted in the invention of GRADIUM glass and certain proprietary processes for fabricating GRADIUM glass lenses. Thereafter, new product development efforts were broadened or acquired that led to the development of our capabilities in molded aspheric lenses, isolators and collimators. Today, however, as part of our cash conservation strategy, we conduct no basic research and development. Our efforts in this area are concentrated on product development to support existing and new customers in the design and manufacture of items in our three basic product lines: lenses, isolators and collimators.

As a result, our present new product development efforts are focused on markets that include Infrared Optics for imaging, blue lens applications, YAG lasers, fiber lasers, defense, medical devices, barcode scanners, optical data storage, machine vision, sensors and environmental monitoring. We incurred expenditures for new product development during the fiscal years, 2006, 2005 and 2004 of $1,038,390, $985,357 and $1,022,299, respectively. We currently plan to expend approximately $1.1 million for new product development during fiscal 2007, which could vary depending upon revenues levels, customer requirements and market opportunities perceived.

Table of Contents

Working Capital

We are required to carry modest amounts of inventory to meet the rapid delivery requirements of customers. We do require some customers to purchase excess inventory of custom products in the event the sales order is cancelled. We do not provide extended payment terms to any customers. Customers can return products due to quality issues for replacement or credit, but the return merchandise request must be filed in a timely manner.

Concentration of Customer Risk

In fiscal 2006 three customers, T-Networks, Intel Corporation (Intel) and Santur comprised more than 10% of our annual sales, with T-Networks as 11% and the other two at 10%. The loss of any of these customers, or a significant reduction in sales to any such customers, would adversely affect our revenues.

Backlog

Going forward, 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 Disclosure 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, higher backlog is better for the Company.

Disclosure backlog, as defined above, has been as follows in the immediately preceding six fiscal quarters:

Fiscal Quarter	Ended	Approximate Disclosure Backlog
Q4-2006	6/30/2006	$ 4,320,000
Q3-2006	3/31/2006	$ 3,617,000
Q2-2006	12/31/2005	$ 3,001,000
Q1-2006	9/30/2005	$ 2,507,000
Q4-2005	6/30/2005	$ 2,592,000
Q3-2005	3/31/2005	$ 2,488,000

Geographic Area Financial Information

Our revenues were primarily from the United States, but we did have 16% of our revenues from Europe, North Africa and Asia.

Employees

At June 30, 2006, we had 149 full-time equivalent employees, with 100 in Florida and 49 in China. Any employee additions or terminations over the next twelve months will be dependent upon the actual sales levels realized during fiscal 2007. Eight of our employees are engaged in management, administrative and clerical functions, nine in new product development, eleven in sales and marketing and 121 are in production and quality functions. Additionally we had 58 persons on temporary or contractor status. We have used and will continue utilizing part-time help, temporary employment agencies and outside consultants, where appropriate, to qualify prospective employees and to ramp up production as required from time to time. None of our employees is represented by labor unions.

Executive Officers

As of August 2006, the following individuals are serving as executive officers:

Kenneth Brizel has served as a Director of LightPath, Chief Executive Officer and President since July 2002. Mr. Brizel has spent more than 20 years in the communications and microelectronics industries. From October 2000 until July 2002 he was Senior Vice President Strategy and Business Development for Oplink Communications. From April 1997 to September 2000, Mr. Brizel was Director of Strategic Marketing for Optoeletronics and Network Communications Integrated Circuits groups within Lucent Microelectronics. Mr. Brizel s diverse experiences include assignments at RCA/GE, Lucent/Agere, Mostek and Star Semiconductor before joining Oplink. His responsibilities spanned sales, engineering, marketing strategy and business development. Mr. Brizel received his Bachelor of Science and Master of Science degrees in Electrical Engineering from Rensselaer Polytechnic Institute in Troy, New York.

Dorothy Cipolla has been Corporate Vice President, Chief Financial Officer, Secretary and Treasurer since February 2006. Ms. Cipolla has served as a CFO for both public and private companies. Ms. Cipolla was Chief Financial Officer and Secretary of LaserSight Technologies, Inc., from March 2004 to February 2006. Prior to joining LaserSight, she served in various financial management positions. From 1994 to 1999, she was Chief Financial Officer and Treasurer of Network Six, Inc., a NASDAQ-listed professional services firm. From 1999 to 2002, Ms. Cipolla was Vice President of Finance with Goliath Networks, Inc., a privately held network consulting company. From 2002 to 2003, Ms. Cipolla was Department Controller of Alliant Energy Corporation, a regulated utility. She received a Bachelor of Science degree in Accounting from Northeastern University and she is a certified public accountant in Massachusetts.

James Magos has been our Corporate Vice President of Sales and Marketing since July 2006. Prior to that he was our Senior Vice President of Sales since August 2003. From January 1999 to August 2003, Mr. Magos was Vice President and Chief Operating Officer for Cardinal Components Inc., a crystal manufacturer. Prior to joining Cardinal Components, Inc., he served as Vice President of Sales & Marketing for IQ Systems, Inc., Star Semiconductor, Logic Device Corporation, Harris Semiconductors (Intersil), RCA and General Electric. Mr. Magos earned his Bachelor of Science degree in Business Management from Long Island University and extensive management training during his tenure with GE, RCA and Harris.

Edward Patton has been our Vice President of Marketing since January 2003. He joined LightPath s Geltech sales and marketing group in 1998. Mr. Patton has held a variety of senior positions in the photonics industry with firms that have marketed products including optics, detectors, thin-film filters, and laser diodes into such markets as medical, industrial, defense and communications. Mr. Patton has served as Vice President Sales and Marketing at both EG&G Optoelectronics and Graseby Electro-Optics and served as President and General Manager of Graseby Infrared. Mr. Patton earned his Bachelor of Science degree in Criminal Justice from Northeastern University.

Dr. Zhouling (Joe) Wu has been our Corporate Vice President and President of China Operations since July 2006. Prior to that he was Vice President from Aug 2005. Prior to joining LightPath, Dr. Wu was the General Manager for Oplink Shanghai and was the assistant to the CEO working for Oplink Communications beginning in 2000. From 1997 till 2000, Dr. Wu was an optical scientist at Lawrence Livermore National Labs and holds a Ph.D. in optics from the Shanghai Institute of Optics and Fine Mechanics, an undergraduate degree from Tsinghua University in Beijing and an Executive MBA degree from Olin School of Business, Washington University. Dr. Wu has published 120 technical papers, one patent, and received numerous achievement awards and honors.

Jim Gaynor has been Corporate Vice President Operations since July 2006. Mr. Gaynor is a mechanical engineer with 25 years of business and manufacturing experience in volume component manufacturing in electronics and optics industries. Prior to joining LightPath from August 2002 to July 2006, Mr. Gaynor was Director of Operations and Manufacturing for Puradyn Filter Technologies. Previous to that he was Vice president of Operations and General Manager for JDS Uniphase Corporation s Transmission Systems Division from March 2000 to April 2002. He has also held executive positions with Spectrum Control, Rockwell International and Corning Glass Works. His experience includes various engineering, manufacturing and management positions in specialty glass, electronics, telecommunications components and mechanical assembly operations. His global business experience encompasses strategic planning, budgets, capital investment, employee development, cost reduction, acquisitions and business start-up and turnaround success. Mr. Gaynor holds a Bachelors of Science degree in Mechanical Engineering from the Georgia Institute of Technology and has worked in manufacturing industries since 1976.

Risk Factors

The following risk factors should be read by you together with the more detailed information included at other sections of this Form 10-K. You should understand that it is not possible to predict or identify all such risk factors. Consequently, you should not consider this list to be a complete statement of all potential risks or uncertainties. An investment in our common stock is extremely risky. You should carefully consider the following risk factors and other information in this Form 10-K before investing in our common stock. Our business and the results of operations could be seriously harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you may lose part or all of your investment.

There are forward-looking statements in these risk factors and elsewhere in this report. We use words such as believe , expect, anticipate, plan or similar words to identify forward-looking statements and any statement relating to plans, intentions, expectations or other forward-looking expression is a forward-looking statement. Forward-looking statements are made based upon our belief as of the date that such statements are made and are based largely on our current expectations and are subject to a number of risks and uncertainties, many of which are beyond our control. You should not place undue reliance on these forward-looking statements, which speak as of the date of this report. While we may make other forward-looking statements either orally or in writing in the future, we do not assume the obligation to update any forward-looking statement. The following risk factors are intended to be cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements.

Table of Contents

Our fiscal year ends on June 30 and references to years in this Form 10-K refer to our fiscal year ended as of June 30 of the referenced calendar year.

A. Risks Related To Our Business and Financial Results

We Have Substantial Cash Requirements And May Need External Financing To Fund Our Operations. While we have raised capital recently and continue to take actions to reduce cash used in operations, there can be no assurance that we will generate sufficient cash to fund our future operations and growth strategies. We may need to obtain additional external financing in the future. We do not have any commitments from others to provide additional financing in the future, and there can be no assurance that any such additional financing will be available if needed or, if available; will be on terms favorable to us. Any additional equity financing may be dilutive to shareholders, and debt financings, if available, may involve substantial restrictive covenants or require the pledging of substantially all of our assets.

The Company s cash used in operations was approximately $2.0 million compared to $1.1 million used in fiscal 2005. Our cash flow projections for the 2007 fiscal year indicate we have sufficient cash available to fund our operations for at least the next 12 months. However, the operating plans and financial projections may not be fully achieved. Factors which could increase cash used in future quarters include, but are not limited to, a decline in revenue, collectibility issues with regard to accounts receivable, increased material costs, increased labor costs, increased health insurance and benefits costs and increases in discretionary spending.

Should we find it necessary to raise more capital, in addition to the capital raised in March 2006, we may find that such funds are either not available or are available only on terms that are unattractive in terms of cost or dilution of existing shareholders interests, or both. In the event that we find it necessary to raise additional funds to sustain operations and we are unable to do so, we may need to take such actions as additional restructuring of operations to reduce costs, or to discontinue operations altogether. Should that occur, the realizability of our assets, especially inventory, property and equipment, intellectual property and other intangible assets may be such that significant adjustments to our consolidated financial statements would be required.

We Have A History Of Losses And If We Continue To Incur Losses Our Business May Fail. We have incurred net losses of $ 3.4 million, $3.5 million, and $5.6 million for fiscal 2006, 2005 and 2004, respectively, and we had an accumulated deficit of $189.7 million as of June 30, 2006. We expect to continue to incur significant sales and marketing, administrative and product development expenses, and, as a result, we will need to generate increased revenues to achieve profitability. Even if we achieve profitability, given the competition in our optical markets, we may not be able to sustain or increase profitability thereafter on a quarterly or annual basis. As a result, we will need to generate significantly higher revenues while containing costs and operating expenses if we are to achieve profitability.

Our Failure to Maintain Compliance With Certain Listing Criteria Of NASDAQ Could Adversely Affect the Value of Our Common Stock. Our common stock is currently traded on the NASDAQ Capital Market (NCM). Going forward, failure to meet the applicable quantitative and/or qualitative maintenance requirements of NASDAQ could result in our securities being delisted entirely from NASDAQ. Moreover, NASDAQ has sole discretion in changing the initial and continued listing criteria for its markets, and such changes usually tend to tighten or toughen the standards, not to reduce them. Therefore, there can be no assurance that NASDAQ will not change the NCM continued listing criteria in the future such that we might no longer qualify for listing on the NCM. In the unlikely event we are delisted entirely from NASDAQ, our securities may be eligible for trading on the OTC Bulletin Board or on other unlisted markets such as The Pink Sheets, although there can be no assurance that our securities will be eligible for trading on any alternative exchanges or markets. As a consequence of such delisting, an investor could find it more difficult to dispose of or to obtain accurate quotations as to the market value of our securities. Among other consequences, delisting from NASDAQ may cause a decline in the stock price and difficulty in obtaining future financing.

Because Of Our Dependence On A Few Key Customers, The Loss of Any Key Customer Could Cause A Significant Decline In Our Revenues. In fiscal 2006, Intel accounted for approximately 10% of our net revenue and our top five customers accounted for approximately 45% of our revenues. In fiscal 2005 and 2004, Intel accounted for 13% and 16% of our net revenue, respectively. Part of our continuing strategy in fiscal 2006 was to gain key customer relationships of more significance and impact to generate higher revenues at lower costs. This strategy has met with some success and therefore we believe that that our operating results will continue to be notably dependent on sales to a relatively small number of significant customers. The loss of any of these customers, or a significant reduction in sales to any such customers, would adversely affect our revenues.

Order Cancellations And Extensions Of Product Shipment Dates By Customers Can Hinder Our Ability To Achieve Profitability. Our sales are generally made pursuant to purchase orders that are subject to cancellation, modification or rescheduling without significant penalties to our customers. In recent years, we have experienced material order cancellations and significant extensions of product shipment dates by some of our customers. If current customers stop placing orders, or unexpectedly reduce orders, we may not be able to replace these orders with orders from new customers and our ability to achieve profitability will be adversely affected. The majority of our current customers do not have any minimum purchase obligations, and they may stop placing orders with us at any time, regardless of any forecast they may have previously provided.

Table of Contents

Our New Market Penetration Efforts Are At An Early Stage Of Development And May Not Prove Successful. Our efforts to diversify our sales to additional optical applications in multiple industries are still in an early phase and our current line of products has not generated sufficient revenues to sustain our operations. While we believe our existing products are commercially viable, we anticipate the need to educate the optical components markets in order to generate market demand and market feedback may require us to further refine these products. Development of significant additional product lines will require significant further research, development, testing and marketing prior to commercialization. There can be no assurance that any proposed products will be successfully developed, demonstrate desirable optical performance, be capable of being produced in commercial quantities at reasonable costs or be successfully marketed.

Some Of Our Products Have Not Been Demonstrated To Be Commercially Successful. Although our optical lens products have been accepted commercially, the benefits of the GRADIUM glass line are not widely known and must be introduced as we can afford in markets that we believe would benefit from the performance characteristics of GRADIUM. Many prospective customers will need to make substantial expenditures in order to redesign products to incorporate our GRADIUM lenses. There can be no assurances that potential customers will view the benefits of our products as sufficient to warrant such design expenditures.

Our collimator products have not yet achieved broad commercial acceptance; our isolator production capability and sales, while encouraging at this point, are only six years old; and some of our molded aspheres applications are new. There can be no assurance that any of these will be commercially viable products or produce significant revenues. Further, there is no assurance that any products currently existing or to be developed in the future will attain sufficient market acceptance to generate significant additional revenues that are necessary for our success. We must also satisfy industry-standard Telcordia testing on telecommunication products to meet customer requirements, as well as satisfy prospective customers that we will be able to meet their demand for quantities of products, since we may be the sole supplier and licensor. We do not have lengthy experience as a manufacturer for all our product lines and have limited financial resources. We may be unable to accomplish any one or more of the foregoing to the extent necessary to develop commercially successful market acceptance of our products.

Our Relatively Short Operating History May Hinder Our Ability To Accurately Forecast Revenues And Expenses. Although 20 years old, LightPath has only generated significant revenues (higher than $5 million per year) since fiscal 2000. Through fiscal 1996, our primary activities were basic research and development of glass material properties. Because of this short and highly variable operating experience and the turnover in management in the last four years, we have in the past and may in the future be unable to accurately forecast our revenues from sales of our products, and we have limited meaningful historical financial data upon which to plan future operating expenses. Many of our expenses are fixed in the short term, and we may not be able to quickly reduce spending if our revenue is lower than we project. New product introductions will also result in increased operating expenses in advance of generating revenues, if any. Therefore, net losses in a given quarter could be greater than expected. Failure to accurately forecast our revenues and future operating expenses could cause quarterly fluctuations in our operating results, including cash flows, and may result in further volatility of or a decline in our stock price.

If We Are Unable To Develop And Successfully Introduce New And Enhanced Products That Meet The Needs Of Our Customers, Our Business May Fail. Our future success depends, in part, on our ability to anticipate our customers needs and develop products that address those needs. Introduction of new products and product enhancements will require that we effectively transfer production processes from research and development to manufacturing and coordinate our efforts with the efforts of our suppliers to rapidly achieve efficient volume production. If we fail to effectively transfer production processes, develop product enhancements or introduce new products that meet the needs of our customers as scheduled, our net revenues may decline.

Our Sales, Gross Margins, And Market Share May Be Reduced Because of Increased Competition. Competition in optical markets in which we compete is intense. Many of our competitors are large public and private companies that have longer operating histories and significantly greater financial, technical, marketing and other resources than we have. As a result, these competitors are able to devote greater resources than we can to the development, promotion, sale and support of their products. In addition, the market capitalization and cash reserves of several of our competitors are much larger than ours, and, as a result, these competitors are much better positioned than we are to acquire other companies in order to gain new technologies or products that may displace our product lines. Such acquisitions could give our competitors further advantages. For example, if our competitors acquire any of our significant customers, these customers may reduce the amount of products they purchase from us. Alternatively, some of our competitors may spinout new companies in the optical component and module market. These companies may compete more aggressively than their former parent companies due to their greater dependence on our markets. In addition, many of our potential competitors have significantly more established sales and customer support organizations, much greater name recognition, more extensive customer bases, more developed distribution channels and broader product offerings than we have. These companies can leverage their customer bases and broader product offerings and adopt aggressive pricing policies to gain market share. Additional competitors may enter the market, and we are likely to compete with new companies in the future. We expect to encounter potential customers that, due to existing relationships with our competitors, are committed to the products offered by these competitors. As a result of the foregoing factors, we expect that competitive pressures may result in price reductions, reduced margins and loss of market share.

Table of Contents

We compete with manufacturers of conventional spherical lens products and aspherical lens products, producers of optical quality glass and other developers of gradient lens technology as well as telecom product manufacturers. In both the optical lens and communications markets, we are competing against, among others, established international companies, especially in Asia. Many of these companies also are primary customers for optical and communication components, and therefore have significant control over certain markets for our products. We are also aware of other companies that are attempting to develop radial gradient lens technology. There may also be others of which we are not aware that are attempting to develop axial gradient lens technology similar to our technology. There can be no assurance that existing or new competitors will not develop technologies that are superior to or more commercially acceptable than our existing and planned technologies and products.

To maintain or improve our gross margins, we must continue to reduce the manufacturing cost of our products. We continue to take actions that are projected to reduce our material costs by obtaining additional sources for raw materials, reducing the labor costs of our production operations by establishing manufacturing capabilities in low cost regions and reducing our overhead expenses through process improvements and competitive sourcing. We believe these actions will allow us to make continued improvements in our profitability and cash requirements.

We Anticipate Further Reductions in the Average Selling Prices Of Our Products and Therefore Must Increase Our Sales Volumes; Reduce Our Costs and/or Introduce Higher Margin Products To Reach And Maintain Financial Stability. We have experienced decreases in the average selling prices of some of our products over the last five years, including most of our passive component products. We anticipate that as products in the optical component and module market become more commodity-like, the average selling prices of our products will decrease in response to competitive pricing pressures, new product introductions by us, our competitors or other factors. If we are unable to offset this anticipated decrease in our average selling prices by increasing our sales volumes or product mix, our net revenues and gross margins will decline, increasing the projected cash needed to fund operations. To address these competitive pressures, we must develop and introduce new products and product enhancements with higher margins. If we cannot maintain or improve our gross margins, our financial position may be harmed and our stock price may decline.

Because Of Our Limited Product Offerings, Our Ability To Generate Additional Revenues May Be Adversely Affected. We derive a substantial portion of our net revenues from a limited number of products. We expect that net revenues from a limited number of products will continue to account for a substantial portion of our total net revenues. Demand for these and other optical market products had declined materially in recent years; however, demand has improved since late fiscal 2003. Continued and expanding market acceptance of these products is critical to our future success. We cannot assure you that, once the communication industry and general economic conditions improve, our current or new products will achieve market acceptance at the rate at which we expect, or at all, which could adversely affect our results of operations.

If We Do Not Expand Our Sales and Marketing Organization, Our Revenues May Not Increase. The sale of our products requires long and involved efforts targeted at several key departments within our prospective customers organizations. Sales of our products require the prolonged efforts of sales, and sometimes executive, personnel, as well as specialized systems and applications engineers working together. Currently, our sales and marketing organization is somewhat limited. We believe we will need to increase our sales force in order to increase market awareness and sales of our products. Competition for qualified individuals remains, and we might not be able to hire the kind and number of sales and marketing personnel and applications engineers we need. If we are unable to expand our sales operations, we may not be able to increase market awareness or sales of our products, which would prevent us from increasing our revenues.

If We Are Unable To Make Sales In A Fragmented Market Our Revenues May Not Increase. The markets for optical lenses and laser components are highly fragmented. Consequently, we will need to identify and successfully target particular market segments in which we believe we will have the most success. These efforts will require a substantial, but unknown, amount of effort and resources. The fragmented nature of the optical products market may impede our ability to achieve commercial acceptance for our products. In addition, our success will depend in great part on our ability to develop and implement a successful marketing and sales program. There can be no assurance that any marketing and sales efforts undertaken by us will be successful or will result in any significant product sales.

Our Products Have Long And Variable Sales Cycles Which Reduce Our Ability To Accurately Forecast Revenues. The timing of our revenue is difficult to predict because of the length and variability of the sales and implementation cycles for our products. We do not recognize revenue until a product has been shipped to a customer, all significant vendor obligations have been performed and collection is considered probable. Customers may view the purchase of our products as a significant and strategic decision. As a result, customers typically expend significant effort in evaluating, testing and qualifying our products and our manufacturing process. This customer evaluation and qualification process frequently results in a lengthy initial sales cycle (often up to one year). While our customers are evaluating our products and before they place an order with us, we may incur substantial sales, marketing and product development expenses to customize our products to the customer s needs. We may also expend significant management efforts,

Table of Contents

increase manufacturing capacity and order long lead-time components or materials prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products. Because of the evolving nature of the optical markets, we cannot predict the length of these sales and development cycles. These long sales cycles may cause our revenues and operating results to vary significantly and unexpectedly from quarter to quarter, which could continue to cause volatility in our stock price.

Current And Pending Litigation May Adversely Impact Operating Results. On May 2, 2000, we commenced a class action lawsuit in the Chancery Court of Delaware, New Castle County (the Delaware Action seeking a declaratory judgment with respect to (i) our right to redeem our Class E common stock on March 31, 2001 for $.0001 per share, (ii) the right of the holders of Class E common stock to vote at the Annual Meeting to be held on October 6, 2000, and (iii) for certification of the holders of Class E common stock as a class and the named defendants as its representatives. The Delaware Action was settled in fiscal 2002 with the final settlement agreement requiring us to pay $0.40 per share to each Class E shareholder. The settlement agreement permitted Class E shareholders to elect not to participate in the settlement and thus was not binding on any Class E shareholders who so elected. Approximately 12% of the former Class E shareholders elected not to participate in the settlement (see Texas Action described below). Since the beginning of fiscal 2003, we have distributed approximately $1.4 million of the $1.5 million estimated total cost arising under the settlement agreement.

On or about June 9, 2000, a small group of holders of Class E common stock commenced an action against the Company in a state court in Texas. Plaintiffs in the Texas Action made various allegations regarding the circumstances surrounding the issuance of the Class E common stock and sought damages based upon those allegations. Management believes the allegations underlying the Texas Action are without merit.

On October 10, 2002, the Texas court granted the Company s motion for summary judgment dismissing all claims against the Company. The plaintiffs sought reconsideration of the ruling, however, the motion for reconsideration was denied and a final judgment in favor of the Company was signed on March 1, 2004. The plaintiffs appealed the summary judgment to the Fourteenth Court of Appeals in Houston, Texas. On October 20, 2005, the court of appeals affirmed the summary judgment and upheld the trial court s dismissal of all claims against the Company.

The plaintiffs appealed that ruling by filing a petition for review with the Texas Supreme Court on January 31, 2006. On April 7, 2006, the Texas Supreme Court denied the plaintiffs petition for review. On May 26, 2006, the Texas Supreme Court denied the plaintiffs motion for rehearing of the denial of the petition for review. No further review was sought by the plaintiffs. The summary judgment in favor of the Company as to all claims asserted by the plaintiffs is now final and the case is closed.

We from time to time are involved in various legal actions arising in the normal course of business. Prior to the filing of this Report we were notified of employment practices claims from former employees. We consider the likelihood of these employees being successful as remote. Currently, in conjunction with legal counsel, we are evaluating the effect if any on our financial position or results of operations.

We may from time to time become involved in other lawsuits and legal proceedings. Litigation is expensive and is subject to inherent uncertainties, and an adverse result in any such matters could adversely impact our operating results or financial condition. Additionally, any litigation to which we are subject could also require significant involvement of our senior management and may divert management s attention from our business and operations.

Sales, Political, Currency And Other Risks Associated With Our International Sales And Supply Could Negatively Impact Our Business. For fiscal 2006, approximately 16% of our net revenues were from sales to international customers; and, in fiscal 2005, approximately 12% of our net revenues were from sales to international customers. Our international sales will be limited if we cannot establish and/or maintain relationships with international distributors, establish foreign operations, expand international sales, and develop relationships with international service providers. Additionally, our international sales may be adversely affected if international economies weaken. We are subject to risks including the following:

- greater difficulty in accounts receivable collection and longer collection periods;
- the impact of recessions in economies outside the United States;
- unexpected changes in regulatory requirements;

unexpected changes in foreign demand in response to exchange rate fluctuations;

certification requirements;

reduced protection for intellectual property rights in some countries;

- potentially adverse tax consequences; and

- political and economic instability.

While we expect our international revenues to be denominated predominantly in U.S. dollars, in the future a portion of our international revenues and expenses may be denominated in foreign currencies. Accordingly, we could experience the risks of fluctuating currencies and corresponding exchange rates.

We also source certain raw materials from outside the United States. Some of those materials, priced in non-dollar currencies, have risen in price due to the recent decline of the U.S. dollar against non-dollar-pegged currencies, especially the Euro. This lowers our margins and reduces our ability to reach positive cash flow and profitability.

Our Business Has Been Subject To Fluctuations In Quarterly Results And Continued Fluctuations Could Negatively Impact Our Stock Price. The market price of our common stock could be subject to wide fluctuations in response to quarterly variations in operating results. Revenues and results of operations are difficult as yet to predict and may fluctuate substantially from quarter to quarter. For example, as a result of revenues associated with any of our key customers, any cancellation of orders from a key customer could result in significant fluctuations in quarterly results. Quarterly results have also been and may continue to be affected by asset write-downs associated with communications market weakness, our headquarters and plant consolidations and other matters, including negative cash flow.

We May Issue Additional Securities With Rights Superior To Those Of The Common Stock, Which Could Materially Limit The Ownership Rights Of Shareholders. We may offer additional debt or equity securities in private and/or public offerings in order to raise working capital or to refinance our debt. Our board of directors has the right to determine the terms and rights of any debt securities and preferred stock without obtaining the approval of the stockholders. It is possible that any debt securities or preferred stock that we sell would have terms and rights superior to those of the common stock and may be convertible into common stock. Any sale of securities could adversely affect the interests or voting rights of the holders of common stock, result in substantial dilution to existing stockholders, or adversely affect the market price of our common stock. We have no present plans to issue any convertible preferred stock or any other preferred stock.

Our Stock Price Has Been, And May Continue To Be, Subject To Large Price Swings, Which We Are Not Able To Control. Broad market fluctuations or fluctuations in our operations may adversely affect the market price of our common stock. The market for our Class A common stock is volatile, the bid-ask spread is often large and the trading volume and activity can be low and sporadic. The trading price of our common stock has been and will continue to be subject to:

- volatility in the trading markets generally and in our particular market segment;

- limited trading of our common stock;

- significant fluctuations in response to quarterly variations in operating results;

- announcements regarding our business or the business of our customers or competitors;

- changes in prices of our or our competitors products and services;

- changes in product mix;

- changes in revenue and revenue growth rates;

other events or factors;

limited trading of our common stock;

significant fluctuations in response to quarterly variations in operating results;

announcements regarding our business or the business of our customers or competitors;

changes in prices of our or our competitors   products and services; and/or

changes in product mix.

Table of Contents

Statements of or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the markets in which we operate or expect to operate could have an adverse effect on the market price of our Common Stock. In addition, the stock market as a whole, as well as our particular market segment, have from time to time experienced extreme price and volume fluctuations which have particularly affected the market price for the securities of many companies and which often have appeared unrelated to the operating performance of these companies. Although our shares are publicly traded on NASDAQ, the trading market for our shares can be limited. During the fiscal year ended June 30, 2006, NASDAQ-reported trading volume for our shares averaged 5,324 shares per trading day. We cannot forecast or control any material increase in the trading volume for our shares. A lack of an active trading market for our shares could negatively impact stockholders ability to sell their shares when they desire and the price, which they could obtain.

The Fact That We Do Not Expect To Pay Dividends May Lead To A Decreased Price For Our Stock. Our board of directors has never declared a dividend on our common stock. We do not anticipate paying dividends on our common stock in the foreseeable future. Due to U.S. tax law changes in 2003, dividends may be more valuable on an after-tax basis as a component of investment return, potentially diminishing the appeal of holding our common stock. It is anticipated that our earnings, if any, will be reinvested in sales growth activities for our business.

Our Management And Principal Shareholders Control A Substantial Amount Of Our Stock And May, Therefore, Influence Our Affairs. If our management and a few principal shareholders act in concert, disposition of matters submitted to shareholders or the election of our entire board of directors may be hindered. We estimate that management, including directors, and our principal shareholders (shareholders owning more than 5% of our common stock) beneficially owned approximately 21% of the aggregate common stock outstanding as of June 30, 2006.

Our Charter Documents And Delaware Law May Inhibit A Takeover. In certain circumstances, the fact that corporate devices are in place that will inhibit or discourage takeover attempts could reduce the market value of our common stock. Our Certificate of Incorporation, Bylaws and certain other agreements contain certain provisions that may discourage other persons from attempting to acquire control of us. These provisions include, but are not limited to:

- staggered-terms of service for our board of directors;
- the authorization of the board of directors to issue shares of undesignated preferred stock in one or more series without the specific approval of the stockholders;
- the fact that in 1998 we adopted a stockholder rights plan and declared a dividend distribution of a right to purchase one share of Series D Participating Preferred Stock for each outstanding share of Class A common stock. The description and terms of such rights are set forth in a Rights Agreement dated as of May 1, 1998 between LightPath and Continental Stock Transfer & Trust Company, as Rights Agent. A copy of the Rights Agreement and related documents are filed as an Exhibit to this registration statement;
- the establishment of advance notice requirements for director nominations and actions to be taken at annual meetings; and
- the fact that special meetings of the stockholders may be called only by our Chairman, President or upon the request of a majority of our board of directors.

All of these provisions, as well as the provisions of Section 203 of the Delaware General Corporation Law (to which we are subject), could impede a merger, consolidation, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Outstanding Warrants, Stock Options And Restricted Stock Agreements May Inhibit Our Ability To Accomplish Future Financings And Adversely Affect Our Stock Price. The existence of our outstanding warrants, options and restricted stock and the potential for sales of significant amounts of previously unregistered shares of our Common Stock in the public market, or the perception that such sales could occur, may adversely affect the terms on which we can obtain additional financing or the prevailing market price of our Common Stock. As of June 30, 2006, there were issued and outstanding:

4,468,588 shares of our common stock;

warrants issued in private placement and other transactions pursuant to which 385,156 shares of Common Stock are issuable, at a weighted average exercise price of approximately $8.00 per share;

outstanding options under our Amended and Restated Omnibus Plan to purchase an aggregate of 187,794 shares of our common stock, with a weighted average exercise price of approximately $17.34 per share; and

restricted stock award grants for 178,100 shares of our common stock that have been granted of which 77,050 have vested;

Table of Contents

In addition, 224,394 shares of our common stock were reserved as of July 31, 2006, for issuance pursuant to future grants to be made under our Amended and Restated Omnibus Incentive Plan.

For the life of such options and warrants, the holders will have the opportunity to profit from a rise in the price of the underlying common stock, with a resulting dilution in the interest of other holders of common stock upon exercise or conversion. Further, the option and warrant holders can be expected to exercise their options and warrants at a time when we would, in all likelihood, be able to obtain additional capital by an offering of our unissued common stock on terms more favorable than those originally provided by such options or warrants. Of the total number of shares of common stock currently issued and outstanding, there are likely a small number of unregistered shares outstanding, other than those held by the selling stockholders, and some of those shares may be freely traded or may be traded under certain volume and other restrictions set forth in Rule 144 promulgated under the Securities Act of 1933 (the Securities Act).

We Have Agreed To Certain Limitations Upon Potential Liability Of Our Directors, Which Could Prevent Recovery Of Monetary Damages. Our Certificate of Incorporation provides that directors will not be personally liable for monetary damages to the Company or its shareholders for a breach of fiduciary duty as a director, subject to limited exceptions. Although such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission, the presence of these provisions in our Certificate of Incorporation could prevent the recovery of monetary damages by the Company or its shareholders.

We May Have Difficulty Obtaining Director And Officer Liability Insurance In Acceptable Amounts For Acceptable Rates. We carry insurance protecting our officers and directors and us against claims relating to the conduct of our business (D&O insurance). D&O insurance covers the costs incurred by companies and their management to defend against and resolve claims relating to management conduct and results of operations, such as securities class action claims. These claims are extremely expensive to defend against and resolve. Therefore we purchase and maintain D&O insurance to cover some of these costs. We pay significant premiums to acquire and maintain D&O insurance, which is provided by third-party insurers, and we agree to underwrite a portion of such exposures under the terms of these insurance coverages. During fiscal 2006 and 2005 we were able to renew our D&O insurance for a reduction in premium over the prior year. We cannot assure that, in the future, we will be able to obtain what we adjudge to be sufficient director and officer liability insurance coverage at acceptable rates and with acceptable deductibles and other limitations. Further, due to our available financial resources at the time the current coverage expires (February 2007), we may be unable to pay for or we may choose not to seek as much coverage as we adjudge to be sufficient. Failure or inability to obtain such insurance, or the election to accept less than we adjudge sufficient or none at all, could materially harm our financial condition in the event that we are required to defend against and resolve any future securities class actions or other claims made against us or our management arising from the conduct of our operations. Further, obtaining such insurance in an inadequate amount or obtaining none at all may impair our future ability to retain and recruit qualified officers and directors.

Business Interruptions Could Adversely Affect Our Business. We manufacture a majority of our products at our manufacturing facility in Orlando, Florida, and our revenues are dependent upon the continued operation of this facility. This facility is subject to a lease that expires in 2008 unless renewed pursuant to terms mutually agreeable to our landlord and us. Our operations are vulnerable to interruption by fire, hurricane, winds and rain, electric power loss, telecommunications failure and other events beyond our control. We do not have a detailed disaster recovery plan, and we do not have a backup facility or contractual arrangements with any other manufacturers in the event of a casualty to or destruction of the facility or if the facility ceases to be available to us for any other reason. If we are required to rebuild or relocate our manufacturing facility, a substantial investment in improvements and equipment would be necessary. We carry only a limited amount of business interruption insurance, which may not sufficiently compensate us for losses that may occur. Our facilities may be subject to electrical blackouts as a consequence of a shortage of available electrical power. We currently do not have backup generators or alternate sources of power in the event of a blackout. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at our facility. Any losses or damages incurred by us as a result of blackouts, rebuilding, relocation or other business interruptions, including the aforementioned, could result in a significant delay or reduction in manufacturing and production capabilities, impair our reputation, harm our ability to retain existing customers and to obtain new customers, and could result in reduced sales, lost revenue, and/or loss of market share, any of which could substantially harm our business and the results of operations.

As an example of this type of risk, the Company experienced an electric power outage at its facility caused by a storm named Hurricane Charley from the evening of August 13, 2004 to the morning of August 17, 2004. During this period, we were without the use of our production capacity and lost approximately six shifts of production.

Our Business Depends, In Part, Upon The Efforts Of Third Parties, Which We Cannot Control. Part of our strategy for the research, development and commercialization of certain products entails entering into various arrangements with corporate partners, OEMs, licensees and others in order to generate product sales, license fees, royalties and other funds adequate for product development or to enhance commercial prospects. We may also rely on our collaborative partners to conduct research efforts, product

- 18 -

Table of Contents

testing and to manufacture and market certain of our products. Although we believe that parties to any such arrangements would have an economic motivation to succeed in performing their contractual responsibilities, the amount and timing of resources to be devoted to these activities may not be within our control. There can also be no assurance that we will be successful in establishing any such collaborative arrangements or that, if established, the parties to such arrangements will assist us in commercializing products. We have a non-exclusive agreement with a catalog company to distribute certain of our products. We have agreements with nine foreign distributors to create markets for GRADIUM and our other products in their respective countries. There can be no assurance, however, that these parties, or any future partners, will perform their obligations as expected or that any revenue will be derived from such arrangements.

Future Acquisitions To Add To Our Product, Process Or Management Capabilities May Fail To Produce The Desired Benefits And Will Likely Be Dilutive To Existing Shareholders. We anticipate that in the future, as part of our business strategy, we may find strategic acquisitions of complementary companies, products or technologies to be desirable. In the event of any such future acquisitions, we could:

- issue stock that would dilute our current stockholders percentage ownership;
- incurring debt;
- assume liabilities; or
- incur expenses related to in-process research and development and intangible assets.

Any future acquisitions also could involve numerous risks, including:

- problems associated with combining the acquired operations, technologies or products; incur debt;
- unanticipated costs or liabilities;
- diversion of management s attention from our existing business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees, particularly those of the acquired entities.

We cannot assure that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future, which may harm our business.

The Loss Of, Or Our Inability To Hire, Key Personnel Would Reduce Our Ability To Manage Our Business Effectively. Our future success depends upon the continued services of our executive and non-executive officers and other key engineering, sales, marketing, manufacturing and support personnel. Our inability to retain or attract key employees could have a material adverse effect on our business and results of operations. Our operations depend, to a great extent, upon the efforts of our management. We also depend upon our ability to attract additional members to our operations teams to support our strategy. The loss of any of these key employees would adversely affect our business. We had 149 full-time equivalent employees, with 100 in Florida and 49 in China as of June 30, 2006. We also had 58 workers on a contractor status. We expect to continue to hire selectively in the manufacturing, engineering, sales and marketing and administrative functions to the extent consistent with our business levels. Our ability to continue to attract and retain highly skilled personnel will be a critical factor in determining whether we will be successful. Competition for highly skilled personnel is intense. We may not be successful in attracting, assimilating or retaining qualified personnel to fulfill our current or future needs, which could adversely impact our ability to develop and sell our products.

We Rely On The Efforts Of Our Chief Executive Officer, And The Loss Of His Services Could Materially Adversely Affect Our Business. Our success will be largely dependent upon the personal efforts and abilities of Kenneth Brizel, our President and Chief Executive Officer. Mr. Brizel is not bound by an employment agreement. If Mr. Brizel ends his relationship with the company before a qualified replacement is found, then our business, prospects and results of operations could be materially adversely affected.

B. Risks Related To The Optical Networking Industry

Sales Of Some Of Our Products Depend Upon Use Of Optical Networks To Satisfy Increased Bandwidth Requirements. The future success of this market depends on the continuing increase in the amount of data transmitted over communications networks, or bandwidth, and the growth of optical networks to meet the increased demand for bandwidth. If the Internet does not continue to expand as a widespread communications medium and commercial marketplace, the need for significantly increased bandwidth across networks and the market for optical networking products may not continue to develop. Future demand for our products is uncertain and will depend to some degree on the continued growth and upgrading of optical networks. If the growth and upgrading of optical networks does not continue, sales of some of our products may decline, which would adversely affect our revenues.

The Optical Networking Market Is New And Unpredictable And Characterized By Rapid Technological Changes And Evolving Standards. The optical networking market is relatively new and is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Because this market is relatively new, it is difficult to predict its potential size or future growth rate. It has already gone through a virulent decline. Widespread adoption of optical networks would be helpful to our future success. Potential end-user customers who have invested substantial resources in their existing copper lines or other systems may be reluctant or slow to adopt a new approach, like optical networks. Our success in generating revenues in this emerging market will depend on, among other things:

- maintaining and enhancing our relationships with our customers;
- the education of potential end-user customers and network service providers about the benefits of optical networks; and
- our ability to accurately predict and develop our products to meet industry standards.

If we are unable to do any of the foregoing, or if we fail to address changing market conditions, the sales of our products may decline, which would adversely impact our revenues.

We Anticipate Further Reductions In The Average Selling Prices Of Our Products And Therefore Must Increase Our Sales Volumes, Reduce Our Costs And/Or Introduce Higher Margin Products To Reach And Maintain Financial Stability. We have experienced decreases in the average selling prices of some of our products, including most of our passive component products, which has offset inflationary effects. Over 98% of our revenue increases have been attributed to volume increases. We anticipate that as products in the optical component and module market become more commodity-like, the average selling prices of our products will decrease further in response to competitive pricing pressures, new product introductions by us, our competitors or other factors. The optical component and module market is experiencing extreme volatility as a result of lower product demand than existed in 2000, which will make it more difficult for us to increase our sales volume. If we are unable to offset this anticipated decrease in our average selling prices by increasing our sales volumes or improving our product mix, our net revenues and gross margins will decline. In addition, to maintain or improve our gross margins, we must continue to reduce the manufacturing cost of our products, and we must develop and introduce new products and product enhancements with higher margins. If we cannot maintain or improve our gross margins, our financial position may be harmed and our stock price may decline.

C. Risks Related To Manufacturing Our Products

If We Do Not Accurately Project Demand For Our Products, We Will Have Excess Manufacturing Capacity Or Insufficient Manufacturing Capacity Which Can Adversely Affect Our Financial Results. We currently manufacture most of our products in our facility located in Orlando, Florida. Based on uncertainty in global economic conditions and particularly in our telecommunication market based products, we believe lower demand for various products will continue through fiscal 2007. We intend to operate at a right-sized production level during fiscal 2007 while retaining flexibility to meet demand if it should increase in the near future. We will accomplish this, in part, by maintaining some of our production workforce as temporary employees or contractors.

Our Failure To Accurately Forecast Material Requirements Could Cause Us To Incur Additional Costs, Have Excess Inventories Or Have Insufficient Materials To Build Our Products. We primarily use forecasts based on actual or anticipated product orders to determine our materials requirements. It is very important that we accurately predict both the demand for our products and the lead times required to obtain the necessary materials. Lead times for materials that we order vary significantly and depend on factors such as specific supplier requirements, the size of the order, contract terms and current market demand for the materials at a given time. If we overestimate our material requirements, we may have excess inventory, which would increase our costs. If we underestimate our material requirements, we may have inadequate inventory, which could interrupt our manufacturing and delay delivery of our products to our customers. Any of these occurrences would negatively impact our results of operations. Additionally, in order to avoid excess material inventories we may incur cancellation charges associated with modifying existing purchase orders with our vendors.

If We Do Not Achieve Acceptable Manufacturing Yields Or Sufficient Product Reliability, Our Ability To Ship Products To Our Customers Could Be Delayed. The manufacture of our products involves complex and precise processes. Our manufacturing costs for several products are relatively fixed, and, thus, manufacturing yields are critical to our results of operations. Changes in our manufacturing processes or those of our suppliers, or the use of defective materials, could significantly reduce our manufacturing yields and product reliability. In addition, we may experience manufacturing delays and reduced manufacturing yields upon introducing new products to our manufacturing lines. We may experience lower than targeted product yields in the future which could adversely affect our operating results.

Table of Contents

If Our Customers Do Not Qualify Our Manufacturing Lines For Volume Shipments, Our Operating Results Could Suffer. Generally, customers do not purchase our products, other than limited numbers of evaluation units, prior to qualification of the manufacturing line for volume production. Our existing manufacturing lines, as well as each new manufacturing line, must pass through varying levels of qualification with our customers. Customers may require that we be registered under international quality standards, such as ISO 9001. This customer qualification process determines whether our manufacturing lines meet the customers quality, performance and reliability standards. If there are delays in qualification of our products, our customers may drop the product from a long-term supply program, which would result in significant lost revenue opportunity over the term of that program.

We Depend On Single Or Limited Source Suppliers For Some Of The Key Materials Or Process Steps In Our Products, Which Makes Us Susceptible To Supply Shortages, Poor Performance Or Price Fluctuations. We currently purchase several key materials or have outside vendors perform process steps, such as lens coatings, used in or during the manufacture of our products from single or limited source suppliers. We may fail to obtain required materials or services in a timely manner in the future, or could experience further delays from evaluating and testing the products or services of these potential alternative suppliers. The decline in demand in the telecommunications equipment industry may have adversely impacted the financial condition of certain of our suppliers, some of whom have limited financial resources. We have in the past, and may in the future, be required to provide advance payments in order to secure key materials from financially limited suppliers. Financial or other difficulties faced by these suppliers could limit the availability of key components or materials. Additionally, financial difficulties could impair our ability to recover advances made to these suppliers. Any interruption or delay in the supply of any of these materials or services, or the inability to obtain these materials or services from alternate sources at acceptable prices and within a reasonable amount of time, would impair our ability to meet scheduled product deliveries to our customers and could cause customers to cancel orders, negatively affecting our business.

Our Products May Contain Unknown Defects Which Would Adversely Affect Our Business. Some of our products are designed to be deployed in large and complex optical networks. Because of the nature of these products, they can only be fully tested for reliability when deployed in networks for long periods of time. Our fiber optic products may contain undetected defects when first introduced or as new versions are released, and our customers may discover defects in our products only after they have been fully deployed and operated under peak stress conditions. In addition, our products often are combined with products from other vendors. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to fix defects or other problems, we could experience, among other things:

- loss of customers;
- damage to our brand reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; and
- legal actions by our customers or third parties.

The occurrence of any one or more of the foregoing factors could cause our net revenues to decline or otherwise have an adverse effect on our business.

We Face Product Liability Risks Which Could Adversely Affect Our Business. The sale of our optical products involves the inherent risk of product liability claims by others. We do not currently maintain product liability insurance coverage. Product liability insurance is expensive, subject to various coverage exclusions and may not be obtainable on terms acceptable to us if we decide to procure such insurance in the future. Moreover, the amount and scope of any coverage may be inadequate to protect us in the event that a product liability claim is successfully asserted. Should any such claim be asserted and successfully litigated by an adverse party, there could be a material adverse effect to our financial position and results of operations.

D. Risks Related To Our Intellectual Property

If We Are Unable To Protect And Enforce Our Intellectual Property Rights, We May Be Unable To Compete Effectively. We believe that our patents and other intellectual property rights are important to our success and our competitive position, and we rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Although we have devoted substantial resources to the establishment and protection of our intellectual property rights, the actions taken by us may be inadequate to prevent imitation or improper use of our products by others or to prevent others from claiming violations of their intellectual property rights by us.

Table of Contents

In addition, we cannot assure that our patent applications will be approved, that any patents that we may be issued will protect our intellectual property or that third parties will not challenge any issued patents. Other parties may independently develop similar or competing technology or design around any patents that may be issued to us. We also rely on confidentiality procedures and contractual provisions with our employees, consultants and corporate partners to protect our proprietary rights, but we cannot assure the compliance by such parties with their confidentiality obligations, which could be very time consuming and expensive to enforce.

It may be necessary to litigate to enforce our patents, copyrights, and other intellectual property rights, to protect our trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Such litigation can be time consuming, distracting to management, expensive and difficult to predict. Our failure to protect or enforce our intellectual property could have an adverse effect on our business, financial condition, prospects and results of operation.

Others may have independently developed or will independently develop and patent similar or superior products and technologies, duplicate any of our products or technologies or design around our patents. There may be patents issued to others that will adversely affect the development or commercialization of our products or technologies. We do not have an insurance policy for patent infringement liability coverage for costs or damages relating to claims of infringement. We could incur substantial costs in defending suits brought against us, or any of our licensees, or in suits in which we may assert that our patent or patents provide us with rights against others or in suits contesting the validity of a patent. Any such proceedings could be protracted. In addition, there can be no assurance that we would be successful in defending our patent rights in any future infringement action. If the outcome of any such litigation is adverse to our interests, our business may be materially adversely affected.

We do not believe that any of our products or processes infringe any U.S. or foreign patent rights of any other party; however our products or processes may infringe or be found to infringe on another party s U.S. or foreign patent, or patent application. Patent applications in the United States are maintained in secrecy until the earlier of 18 months or the patent is issued. We could incur substantial costs in defending ourselves in infringement litigation brought by others, or in prosecuting infringement claims against third parties. An adverse party claiming patent or copyright infringement might assert claims for substantial damages or seek to obtain an injunction or other equitable relief, which could effectively block the ability for us to make, use, distribute and sell products.

We also rely on trade secrets and proprietary know-how. We seek to protect our trade secrets and proprietary know-how, in part, by confidentiality agreements with our employees, consultants and customers. However, our confidentiality agreements may be breached and we may not have adequate remedies for any breach. Some of the confidentiality agreements that we rely upon will expire in the next few years. Others may independently develop technology or processes substantially equivalent to or better than our technology or processes and our trade secrets may otherwise become disclosed to or independently discovered by our competitors.

We Do Not Have Patent Protection For Our Formulas And Processes, And A Loss Of Ownership Of Any Of Our Formulas And Processes Would Negatively Impact Our Business. We believe that we own our formulas and processes. However, we have not sought, and do not intend to seek, patent protection for all of our formulas and processes. Instead, we rely on the complexity of our formulas and processes, trade secrecy laws, and employee confidentiality agreements. However, we cannot assure you that other companies will not acquire our confidential information or trade secrets or will not independently develop equivalent or superior products or technology and obtain patent or similar rights. Although we believe that our formulas and processes have been independently developed and do not infringe the patents or rights of others, a variety of components of our processes could infringe existing or future patents, in which event we may be required to modify our processes or obtain a license. We cannot assure you that we will be able to do so in a timely manner or upon acceptable terms and conditions and the failure to do either of the foregoing would negatively affect our business, results of operations, financial condition and cash flows.

We May Become Involved In Intellectual Property Disputes And Litigation Which Could Adversely Affect Our Business. We anticipate based on the size and sophistication of our competitors and the history of rapid technological advances in our industry, that several competitors may have patent applications in progress in the United States or in foreign countries that, if issued, could relate to products similar to ours. If such patents were to be issued, the patent holders or licensees may assert infringement claims against us or claim that we have violated other intellectual property rights. These claims and any resulting lawsuits, if successful, could subject us to significant liability for damages and invalidate our proprietary rights. The lawsuits, regardless of their merits, could be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation could also force us to do one or more of the following, any of which could harm our business:

- stop selling, incorporating or using our products that use the disputed intellectual property;

obtain from third parties a license to sell or use the disputed technology, which license may not be available on reasonable terms, or at all; or

redesign our products that use the disputed intellectual property

Table of Contents

Necessary Licenses Of Third-Party Technology May Not Be Available To Us Or May Be Very Expensive. From time to time we may be required to license technology from third parties to develop new products or product enhancements. We can provide no assurance that third-party licenses will be available to us on commercially reasonable terms, or at all. The inability to obtain any third-party license required to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, either of which could seriously harm our ability to manufacture and sell our products.

On February 11, 2004, the University of Florida Research Foundation, Inc. (UF) notified us that we were in default under the terms of the Amended and Restated License Agreement (UF Agreement) for failure to pay certain back royalties and in April 2004 notified us that they had terminated the UF Agreement. UF claims that we owe $83,000 in unpaid royalties. This amount has not been accrued on our books. While we dispute the amount owed and have previously engaged in discussions with UF about the matter, we do not believe that the termination of the UF Agreement has materially adversely affected our business since the licensed technology had never generated annual sales in excess of 3% of our total revenues from a single customer who had previously notified us that they were ceasing purchase of the product. UF has not made any efforts since mid 2004 to collect the amounts UF claims are owed by the Company.

Item 2. Properties

The Company occupies a 41,000 square foot facility in Orlando, Florida. The Orlando facility includes a 9,000 square foot clean room and 8,000 square feet used for storage. Lease terms on the Florida facility call for monthly rental payments of approximately $70,000 until November 2008, which includes all charges, including common area maintenance, escalation, and certain pass-throughs of taxes and other operating costs. At June 30, 2006, most of the Company s physical assets, employees and operations were conducted from this facility, except for territorial sales personnel who office from their homes for the Company to serve their geographical territories. The Company believes that this facility is suitable and adequate for its immediate business needs and for up to two additional years.

The Company leased a 17,000 square foot facility located in Jiading, PRC in November 2005. The lease expires November 2010. The manufacturing operations located in the Jiading Industrial Zone near Shanghai. The China facility houses 49 employees.

Item 3. Legal Proceedings

On May 2, 2000, the Company commenced a class action lawsuit in the Chancery Court of Delaware, New Castle County (the Delaware Action) seeking a declaratory judgment with respect to (i) the Company s right to redeem its Class E common stock on March 31, 2001 for $.0001 per share, (ii) the right of the holders of Class E common stock to vote at the Annual Meeting to be held on October 6, 2000, and (iii) for certification of the holders of Class E common stock as a class and the named defendants as its representatives. The Delaware Action was settled in fiscal 2002 with the final settlement agreement requiring the Company to pay $0.40 per share to each Class E shareholder. The settlement agreement permitted Class E shareholders to elect not to participate in the settlement and thus was not binding on any Class E shareholders who so elected. Approximately 12% of the former Class E shareholders elected not to participate in the settlement (see Texas Action described below). Since the beginning of fiscal 2003, the Company distributed approximately $1.4 million of the $1.5 million estimated total cost arising under the settlement agreement.

On or about June 9, 2000, a small group of holders of Class E common stock commenced an action against the Company in a state court in Texas. Plaintiffs in the Texas Action made various allegations regarding the circumstances surrounding the issuance of the Class E common stock and sought damages based upon those allegations. Management believes the allegations underlying the Texas Action are without merit.

On October 10, 2002, the Texas court granted the Company s motion for summary judgment dismissing all claims against the Company. The plaintiffs sought reconsideration of the ruling, however, the motion for reconsideration was denied and a final judgment in favor of the Company was signed on March 1, 2004. The plaintiffs appealed the summary judgment to the Fourteenth Court of Appeals in Houston, Texas. On October 20, 2005, the court of appeals affirmed the summary judgment and upheld the trial court s dismissal of all claims against the Company.

The plaintiffs appealed that ruling by filing a petition for review with the Texas Supreme Court on January 31, 2006. On April 7, 2006, the Texas Supreme Court denied the plaintiffs petition for review. On May 26, 2006, the Texas Supreme Court denied the plaintiffs motion for rehearing of the denial of the petition for review. No further review was sought by the plaintiffs. The summary judgment in favor of the Company as to all claims asserted by the plaintiffs is now final and the case is closed.

Table of Contents

The Company may from time to time become involved in other lawsuits and legal proceedings. Litigation is expensive and is subject to inherent uncertainties, and an adverse result in any such matters could adversely impact our operating results or financial condition. Additionally, any litigation to which we are subject could also require significant involvement of our senior management and may divert management s attention from our business and operations.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted during the fourth quarter of fiscal 2006 to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Class A common stock is traded on the NASDAQ Capital Market (NCM) under the symbol LPTH .

The following table sets forth the range of high and low bid prices for the Class A common stock for the periods indicated, as reported by NASDAQ from the appropriate market. The quotation information below reflects inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

	Class A Common Stock	
	High	Low
Fiscal Year Ended June 30, 2006		
Quarter ended June 30, 2006	$ 6.57	$ 3.61
Quarter ended March 31, 2006	$ 6.72	$ 1.81
Quarter ended December 31, 2005	$ 2.80	$ 1.78
Quarter ended September 30, 2005	$ 3.15	$ 2.35
Fiscal Year Ended June 30, 2005		
Quarter ended June 30, 2005	$ 3.40	$ 1.52
Quarter ended March 31, 2005	$ 4.63	$ 2.80
Quarter ended December 31, 2004	$ 5.21	$ 3.75
Quarter ended September 30, 2004	$ 6.17	$ 4.54

As of August 31, 2006, we estimate there were approximately 350 holders of record and approximately 8,700 street name holders of the Class A common stock.

We have never declared or paid any cash dividends on our common stock and we do not intend to pay any cash dividends in the foreseeable future. We currently intend to retain all future earnings in order to finance the operation and expansion of our business. The payment of dividends, if any, in the future, is within the discretion of our board of directors and will depend on our earnings, capital requirements, financial conditions and other relevant factors.

Table of Contents

Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise and grant price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	360,894	$ 10.31	224,394
Equity compensation plans not approved by security holders	5,000	3.20	
Total	365,894	$ 10.21	224,394

Item 6. Selected Financial Data

The table below presents portions of our consolidated financial statements and is not complete. The selected financial data set forth below for the fiscal years ended June 30, 2002 through 2006 are derived from, and are qualified by reference to, our audited consolidated financial statements.

This information is only a summary and you should read it in conjunction with our historical consolidated financial statements and related notes to such financial statements and with Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this report. Historical results presented below are not necessarily indicative of the results to be expected for any future fiscal year.

In 000 s except per share data	Fiscal Year ended June 30, 2006	2005	2004	2003	2002
Total Revenues	$ 12,173	$ 11,754	$ 8,332	$ 6,785	$ 12,507
Cost of Sales	$ 10,119	$ 9,396	$ 6,283	$ 8,149	$ 15,184
Operating Loss	$ (3,470)	$ (3,425)	$ (5,973)	$ (19,312)	$ (51,582)
Net loss	$ (3,369)	$ (3,480)	$ (5,598)	$ (21,192)	$ (50,745)
Basic & Diluted Net Loss per share	$ (0.86)	$ (1.05)	$ (1.98)	$ (8.20)	$ (20.50)
Number of shares used in per share calculations	3,929	3,317	2,831	2,585	2,476
In 000 s					
Total Assets	$ 9,174	$ 7,609	$ 9,681	$ 12,498	$ 36,977
Working Capital	$ 4,972	$ 4,258	$ 4,593	$ 4,935	$ 14,139
Stockholders Equity	$ 6,430	$ 5,930	$ 7,989	$ 11,181	$ 32,442

Item 7. 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 Company. All statements in this Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this 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, our products current stage of development, the need for additional financing, competition in various aspects of its business and other risks described in this report and in our other reports on file with the Securities and Exchange Commission. 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 in this report.

Table of Contents

Liquidity and Capital Resources

History: From February 1996 (when our IPO occurred) to fiscal 2001, inclusive, we raised a net total of approximately $86 million from the issuance of common and preferred stocks, the sale of convertible debt and the exercise of options and warrants on our capital stock. We did not have any equity or debt financing transactions in fiscal 2003; however in fiscal 2006, 2005 and 2004 we raised approximately $3.6 million, $1.0 million and $1.9 million, respectively, from the issuance of common stock.

Our optical product markets experienced a severe downturn beginning fiscal 2001, which continued into fiscal 2003 and resulted in a significant decline in the demand for our products over that period. Beginning in 2004 and continuing in fiscal 2006, we believe that some improvement occurred in demand for our products in several of our markets. Nevertheless, we did not reach a status of positive cash flow or profitability during fiscal 2006. We have developed our operating plan for fiscal 2007 and believe we have adequate financial resources for achievement of that plan and to sustain operations in the coming year.. Nevertheless, we will be managing against that plan closely during the year and should the plan objectives not be met during the year, remedial actions will be initiated.

Cash flows: Cash used by operations during fiscal 2006 was approximately $2.0 million, an increase of approximately $0.9 million from fiscal 2005. Throughout fiscal 2006, on a comparative basis to fiscal 2005, we reduced our cash expenditures through reductions in insurance, professional services, and telecommunication costs. Cash use was also unfavorably affected in fiscal 2006 by a decrease in gross margin resulting in operating losses.

While progress has been made to reduce operating cash outflow in fiscal 2005 and 2004, significant risk and uncertainty remains. Our cash provided by operations was less than $100,000 for the fourth quarter of fiscal 2006. The fiscal 2007 operating plan and related financial projections which we have developed anticipate continued 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.

Factors which could adversely affect cash balances in future quarters include, but are not limited to, a decline in revenue or a lack of anticipated sales growth, increased material costs, increased labor costs, planned production efficiency improvements not being realized, increases in property, casualty, benefit and liability insurance premiums and increases in other discretionary spending, particularly sales and marketing related.

In the event that we find it necessary to raise additional funds to sustain operations and we are unable to do so, we may need to take such actions as additional restructuring of operations to reduce costs. Should that occur, the realizability of certain assets, especially inventory, property and equipment, intellectual property and other intangible assets may be such that significant adjustments to our consolidated financial statements would be required.

During fiscal 2006, we expended approximately $569,000 for capital equipment in comparison to $134,000 during fiscal 2005. The majority of the capital expenditures during fiscal 2006 were related to equipment used to enhance or expand our production capacity. Our operating plan for fiscal 2007 estimates expenditures at similar levels to enhance or expand our capacity, however, we may spend more or less depending on opportunities and circumstances. Our plans include the purchase of an anti-reflective coating machine in fiscal 2007. This machine should allow us to improve margins and control quality.

Key Performance Indicators

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 with characteristics of the semiconductor industry. In this latter type of business we work with a customer to help them determine optical specifications and even create certain optical designs for them, including complex multi-component designs that we call engineered assemblies. That is followed by sampling them small numbers of the product for their test and evaluation. Thereafter, should the customer conclude that our specification or design is the best solution to their product need; we negotiate and win a contract (sometimes called a design win) whether of a blanket purchase order type or a supply agreement. The strategy is to create an annuity revenue stream that makes the best use of our production capacity as compared to the turns business, which is unpredictable and uneven. A key business objective is to convert as much of our business to the design win and annuity model as is possible. We have several challenges in doing so:

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

Table of Contents

- 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 all of their 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 major product line, production yield rates by major product line and the output and yield data from significant intermediary manufacturing processes that support the production of the finished shippable product. These indicators can be used to calculate such other related indicators as fully yielded unit production per-shift, which varies by the particular product and our state of automation in production of that product at any given time. Higher unit production per shift means lower unit cost and therefore improved margins or improved ability to compete where desirable for price sensitive customer applications. The data from these reports is used to determine tactical operating actions and changes. We believe that our non-financial production indicators, such as those noted, are proprietary information.

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

- sales backlog;

- 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:

Going forward, 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 Disclosure 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, higher backlog is better for the Company.

Disclosure backlog, as defined above, has been as follows in the immediately preceding six fiscal quarters:

Fiscal Quarter	Ended	Approximate

		Disclosure Backlog
Q4-2006	6/30/2006	$ 4,320,000
Q3-2006	3/31/2006	$ 3,617,000
Q2-2006	12/31/2005	$ 3,001,000
Q1-2006	9/30/2005	$ 2,507,000
Q4-2005	6/30/2005	$ 2,592,000
Q3-2005	3/31/2005	$ 2,488,000

We believe the upward trend in the Disclosure Backlog was principally caused by a build up in telecommunications orders in the third and fourth quarter of fiscal year 2006. We believe the trend will continue as sales to customers in our other markets continue to grow.

Inventory levels:

We manage 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. The table below shows our DCSI for the immediately preceding eight fiscal quarters:

Fiscal Quarter	Ended	DCSI (days)
Q4-2006	6/30/2006	58
Q3-2006	3/31/2006	51
Q2-2006	12/31/2005	80
Q1-2006	9/30/2005	87
Fiscal 2006 average		**62**
Q4-2005	6/30/2005	82
Q3-2005	3/31/2005	69
Q2-2005	12/31/2004	55
Q1-2005	9/30/2004	65
Fiscal 2005 average		**68**

Accounts receivable levels and quality:

Similarly, we manage accounts receivable levels 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 days 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. The table below shows our DSO for the immediately preceding eight fiscal quarters:

Fiscal Quarter	Ended	DSO (days)
Q4-2006	6/30/2006	53
Q3-2006	3/31/2006	66
Q2-2006	12/31/2005	52
Q1-2006	9/30/2005	62
Fiscal 2006 average		**58**
Q4-2005	6/30/2005	55
Q3-2005	3/31/2005	53
Q2-2005	12/31/2004	52
Q1-2005	9/30/2004	58
Fiscal 2005 average		**55**

The table below presents certain of our significant contractual obligations as of June 30, 2006. The operating leases relate to real estate and are commitments that are expensed as paid per the terms of the related contracts.

Table of Contents

Contractual Obligations Payments Due By Period

(dollars in 000 s)

Contractual obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years	Comments
Operating lease	$ 1,884	$ 716	$ 1,082	$ 86	$	Real estate lease with monthly payments
Capital lease	67	21	41	5		Equipment lease with monthly payments
Line of Credit	270	270				Equipment financing line of credit
Open purchase obligations	1,259	1,259				Current purchase orders outstanding
	$ 3,480	$ 2,266	$ 1,123	$ 91	$	

Year ended June 30, 2006 compared to the year ended June 30, 2005

Consolidated Operations

Our consolidated revenues totaled $12.2 million for fiscal 2006, an increase of approximately $400,000 or 4% compared to revenues for fiscal 2005 of $11.8 million. The increase was attributable to increases in aspheric lenses offset by decreases in isolator and collimator products. The aspheric lens increases were from across several of the industries that we serve with that product line. Our operating plan for fiscal 2007 projects continued revenue gains in aspheric lenses, isolator and collimators.

Fiscal 2006 consolidated cost of sales of $10.1 million was approximately 83% of net revenues of $12.2 million, which is an increase over fiscal 2005 when our cost of sales was approximately 80% of net revenues. This increase was caused by several factors. Among them, overtime costs to increase production volumes for molded optics, startup costs associated with the Shanghai facility and lower plant utilization due to product mix changes. Going forward into fiscal 2007, the emphasis will be continued unit cost reductions driven by efficient purchasing and higher yields from statistical process control applications. Our operating plan projects higher gross margin levels in fiscal 2007 than we achieved in fiscal 2006.

Selling, general and administrative expenses increased by approximately $206,000 to $4.4 million in fiscal 2006 from $4.2 million in fiscal 2005. The increase was primarily due to additional wages and compensation related expenses offset by reductions in depreciation expense, insurance expense and legal fees. Our operating plan for fiscal 2007 projects business levels that will require selling, general and administrative expenses to increase, primarily caused by selective hiring of additional employees and expected cost increases in certain items such as payroll and benefit related costs and commissions due to increased sales volume.

New product development costs in fiscal 2006 were consistent with fiscal 2005 at approximately $1.0 million in fiscal 2006. This modest increase of $53,000 was primarily due to increased outside services and small tooling costs. Our operating plan for fiscal 2007 projects some increases in new product development spending in order to support increased quote and customer design activity as well as continued investment in new product projects.

In fiscal 2006 our amortization of intangibles decreased by approximately $520,000 to approximately $60,000 from approximately $580,000 in fiscal 2005. The most significant component of our identified intangibles subject to amortization relates to the developed technology (molded aspheric lenses) from our acquisition of Geltech in fiscal 2001. That asset was determined to have a four-year life at the time of the acquisition, which was accounted for by the purchase method. That amortization ended after the first quarter of fiscal 2005.

Other income and expenses increased by approximately $157,000 to $102,000 of income from approximately $55,000 of expense in fiscal 2005.

Net loss for fiscal 2006 was approximately $3.4 million compared with $3.5 million in fiscal 2005, an improvement of approximately $100,000. This $100,000 improvement in the current year was comprised principally of:

Gross margin decrease of $340,000;

- G&A wage increases of $400,000; and

- Depreciation and amortization reduction of $900,000.

Year ended June 30, 2005 compared to the year ended June 30, 2004

Consolidated Operations

Our consolidated revenues totaled $11.8 million for fiscal 2005, an increase of approximately $3.4 million or 41% compared to revenues for fiscal 2004 of $8.3 million. The increase was attributable to increases in all of our product categories with aspheric lenses and isolator products accounting for over 60% of the increase. While both represented increased total demand, the aspheric lens increases were from across several of the industries that we serve with that product line while the isolator increases were from a few customers, mostly in communications markets, specifically data communications. Our results for fiscal 2006 continued revenue gains in aspheric lenses but showed a decline in collimator and gradium sales caused by decreased demand and price competition.

Fiscal 2005 consolidated cost of sales of $9.4 million was approximately 80% of net revenues of $11.8 million, which is an increase over fiscal 2004 when our cost of sales was approximately 75% of net revenues. This increase was caused by several factors. Among them, a one-time charge in rework and scrap in aspheric lenses, early stage production costs related to the introduction of new products and competitive pricing pressure in our isolator line. In fiscal 2006, the emphasis was on unit cost reductions driven by efficient purchasing and higher yields from statistical process control applications.

Selling, general and administrative expenses decreased by approximately $1.0 million to $4.2 million in fiscal 2005 from $5.2 million in fiscal 2004. The decrease was primarily due to a $238,000 reduction in compensation related expenses and $223,000 reduction in depreciation expense. Other improvements were realized from cost savings such as a $122,000 decrease in insurance related expense, $100,000 decrease in rent, repairs and maintenance, and telephone expenses, $64,000 decrease in franchise and sales tax, and a $39,000 reduction in legal expenses in 2005 compared to 2004. In fiscal 2006 business levels required selling, general and administrative expenses to increase, primarily caused by selective hiring of additional employees and expected cost increases in certain items such as payroll and benefit related costs and commissions due to increased sales volume.

New product development costs were consistent with fiscal 2004 at approximately $1.0 million in fiscal 2005. This modest decrease of $37,000 was primarily due to reduced outside services and small tooling costs, partially offset by an increase in compensation related expenses. In fiscal 2006 some increases in new product development spending occurred in order to support increased quote and customer design activity as well as continued investment in new product projects.

In fiscal 2005 our amortization of intangibles decreased by approximately $1.3 million to approximately $600,000 from approximately $1.9 million in fiscal 2004. The most significant component of our identified intangibles subject to amortization relates to the developed technology (molded aspheric lenses) from our acquisition of Geltech in fiscal 2001. That asset was determined to have a four-year life at the time of the acquisition, which was accounted for by the purchase method. That amortization ended after the first quarter of fiscal 2005.

Other income and expenses decreased by approximately $400,000 to less than $100,000 of expenses from approximately $400,000 of income in fiscal 2004. The most significant reason for the reduction is the one time legal settlement that occurred in fiscal 2004.

Net loss for fiscal 2005 was approximately $3.5 million compared with $5.6 million in fiscal 2004, an improvement of approximately $2.1 million. This $2.1 million improvement in the current year was comprised principally of:

- Gross margin improvement of $200,000;

- Insurance expense reduction of $100,000; and

- Depreciation and amortization reduction of $1.4 million.

Critical Accounting Policies

The preparation of our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires us to select appropriate company accounting policies, and to make judgments and estimates affecting the application of those accounting policies. In applying our accounting policies, different business conditions or the use of different assumptions may result in materially different amounts reported in our Consolidated Financial Statements.

Table of Contents

In response to the SEC Release No. 33-8040, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, we have identified the most critical accounting principles upon which the Company s financial statements depend. The critical principles were determined by considering accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting principles identified relate to: (i) revenue recognition; (ii) inventory valuation; (iii) long-lived assets; and (iv) intangible assets. These critical accounting policies and our other significant accounting policies are further disclosed in Note 2 to our Consolidated Financial Statements.

Revenue recognition. We recognize revenue upon shipment of the product provided that persuasive evidence of a final agreement exists, title has transferred, the selling price is fixed and determinable, and collectibility is reasonably assured.

Inventory valuation. We regularly assess the valuation of inventories and write down those inventories that are obsolete or in excess of forecasted usage to estimated net realizable value. Estimates of realizable value are based upon the our analyses and assumptions, including, but not limited to, forecasted sales levels by product, expected product lifecycle, product development plans and future demand requirements. If market conditions are less favorable than our forecast or actual demand from customers is lower than our estimates, we may be required to record additional inventory write-downs. If demand is higher than expected, we may be able to use or sell inventories that have previously been written down.

Long-Lived Assets. We evaluate the carrying value of long-lived assets, including property and equipment, whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. Such events or circumstances include, but are not limited to, a prolonged industry downturn, a significant decline in our market value, or significant reductions in projected future cash flows. If facts and circumstances warrant such a review, a long-lived asset would be impaired if future undiscounted cash flows, without consideration of interest, are insufficient to recover the carrying amount of the long-lived asset. Once deemed impaired, the long-lived asset is written down to its fair value which could be considerably less than the carrying amount or future undiscounted cash flows. The determination of future cash flows and, if required, fair value of a long-lived asset is, by its nature, a highly subjective judgment. Fair value is generally determined by calculating the discounted future cash flows using a discount rate based upon our weighted average cost of capital. Significant judgments and assumptions are required in the forecast of future operating results used in the preparation of the estimated future cash flows, including long-term forecasts of the amounts and timing of overall market growth and our percentage of that market, groupings of assets, discount rate and terminal growth rates. Changes in these estimates could have a material adverse effect on the assessment of long-lived assets, thereby requiring us to write down the assets.

Intangible Assets. We generally obtain intangible assets in connection with a business unit purchase (for example, in a business combination). The assignment of value to individual intangible assets generally requires the use of a specialist, such as an appraiser. The assumptions used in the appraisal process are forward-looking, and thus subject to significant judgment. Because individual intangible assets may be: (i) expensed immediately upon acquisition (for example, purchased in-process research and development assets); or (ii) amortized over their estimated useful life (for example, acquired technology), their assigned values could have a material affect on current and future period results of operations. Further, intangible assets are subject to the same judgments when evaluating for impairment as other long-lived assets.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file in a particular jurisdiction. FIN 48 is effective for fiscal years beginning after December 15, 2006. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to retained earnings. The Company is currently evaluating the impact of FIN 48 on its consolidated financial position and results of operations.

In June 2006, the FASB Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06 3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06 3). EITF 06 3 requires the disclosure of the Company s accounting policy regarding its gross or net presentation of externally imposed taxes on revenue producing transactions in the notes to the consolidated financial statements. EITF 06 3 is effective for the first annual or interim reporting period beginning after December 15, 2006. The Company is currently evaluating the impact of adopting EITF 06 3 on its consolidated financial statement disclosures.

In June 2006, the FASB ratified EITF No. 06-2 Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences. EITF 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in FASB Statement 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of this Issue are effective for fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment to accumulated deficit approach upon adoption. The Company is currently evaluating the impact, if any, that the adoption of EITF 06-2 will have on its financial statements.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We invest a portion of our cash reserves in a money market fund, which invests at least 80% of its net assets in securities issued by the U.S. Treasury and in related repurchase agreements. The money market fund is not protected under the FDIC; however, we have not experienced any losses in these funds. We do not believe that changes in market interest rates of up to 10% either up or down will have any material effect on our results of operations.

Item 8. Financial Statements and Supplementary Data

See index at page F-1 for the Financial Statements for each of the years in the three-year period ended June 30, 2006.

Supplementary Quarterly Financial Data (unaudited)

The following table summarizes unaudited, quarterly financial data for fiscal 2006 and fiscal 2005:

(In 000 s except per share data)

Fiscal 2006 Quarters Ended

	September 30	December 31	March 31	June 30	Full Year
Sales	$ 2,702	$ 2,954	$ 3,107	$ 3,410	$ 12,173
Gross profit (loss)	$ 551	$ 774	$ 309	$ 419	$ 2,053
Net loss	$ (808)	$ (618)	$ (1,118)	$ (825)	$ (3,369)
Basic and diluted net loss per share	$ (0.22)	$ (0.17)	$ (0.29)	$ (0.18)	$ (0.86)
Number of shares used in per share calculation	3,696	3,696	3,827	4,464	3,929

(In 000 s except per share data)

Fiscal 2005 Quarters Ended

	September 30	December 31	March 31	June 30	Full Year
Sales	$ 2,950	$ 3,314	$ 3,065	$ 2,425	$ 11,754
Gross profit (loss)	$ 578	$ 549	$ 797	$ 434	$ 2,358
Net loss	$ (1,582)	$ (893)	$ (309)	$ (696)	$ (3,480)
Basic and diluted net loss per share	$ (0.49)	$ (0.27)	$ (0.09)	$ (0.20)	$ (1.05)
Number of shares used in per share calculation	3,259	3,292	3,312	3,404	3,317

The following table summarizes unaudited, product line revenue data for fiscal 2006 and 2005:

Revenue Data (in thousands)

	Fiscal 2006	Fiscal 2005
Aspheric lenses	8,876	8,039
Isolators	2,695	2,747
Colliamtors	602	968
	12,173	11,754

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There has been no change of accountants nor any disagreements with accountants on any matter of accounting principles or practices or financial statement disclosures required to be reported under this Item.

Table of Contents

Item 9A. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

The Company s management conducted an evaluation, with the participation of its President and Chief Executive Officer (CEO) and its Chief Financial Officer (CFO), of the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a 15(e) and 15d 15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this Annual Report on Form 10 K. Based upon that evaluation the CEO and CFO concluded that the Company s disclosure controls and procedures were not effective in reporting, on a timely basis, information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act, because of material weaknesses in its internal control over financial reporting as of June 30, 2006, as described below.

b) Management s Annual Report on Internal Control over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness in internal control over financial reporting is defined by Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2 as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company s ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company s annual or interim financial statements that is more than inconsequential will not be prevented or detected.

Payroll Processing

The Company identified the following significant deficiency relating to internal controls over payroll processing:

The Company s internal control policies and procedures over payroll were not sufficiently designed in that incompatible duties were not sufficiently segregated. Additionally, time sheets were not reviewed and approved by an appropriate supervisor. This could allow one individual to record unauthorized payroll transactions without being detected for an extended period. Management review of payroll expenses is considered a compensating control, but does not reduce the likelihood of an error to less than remote.

Fixed Assets

The Company identified the following significant deficiency relating to internal controls over fixed assets:

The Company s internal controls over fixed asset additions were not operating effectively and failed to detect duplicate items entered in the detail records. In addition, some fixed asset records were not sufficiently detailed to allow specific identification of the item. This resulted in an adjustment to the financial statements. Management review of financial reports is considered a compensating control, but does not reduce the likelihood of an error to less than remote.

Revenue Recognition

The Company identified the following material weaknesses relating to internal controls over revenue recognition:

The Company s internal controls over revenue recognition were not operating effectively in that shipping documents were not verified prior to recording customer invoices. As a result, revenue cut-off procedures were not effective in that some customer orders were not reviewed for proper cutoff. This resulted in a material adjustment to the financial statements.

Inventory

The Company identified the following material weaknesses relating to internal controls over inventory:

The Company s policies and procedures regarding inventory standard costs and overhead were not designed effectively in that updates were not completed throughout the year to reflect changes in actual prices and overhead costs. This resulted in a material adjustment to inventory at year-end.

The Company s procedures over identification of obsolete inventory items were not operating effectively during the year. Additional management analysis at year end resulted in a material increase to the allowance for obsolete inventory.

Accrued Liabilities

The Company identified the following material weaknesses relating to internal controls over accrued liabilities:

The Company s procedures used to identify certain liabilities were not operating effectively during the year. Audit procedures identified unrecorded liabilities at year-end including accounts payable, temporary labor, employee benefits and commissions payable. The aggregate of these items resulted in a material adjustment to the financial statements.

Financial Reporting

The Company identified the following material weaknesses relating to internal controls over financial reporting:

The Company s policies and procedures relating to the financial reporting process did not ensure that financial statements were prepared and reviewed in a timely manner. Specifically, the company had insufficient (i) review and supervision within the accounting department, and (ii) preparation and review procedures for footnote disclosures related to stock based compensation accompanying the Company s financial statements. These deficiencies resulted in insufficient disclosures during the preparation of the Company s interim and annual consolidated financial statements.

c) Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect the Company s internal control over financial reporting.

d) Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting

Management has concluded that the Company lacked a sufficient segregation of duties in processing payroll transactions. Management believes the following steps will remedy this significant deficiency:

The Company utilizes an outside service to process payroll. The CFO will review and approve the bi-weekly reports with particular attention paid to the maintenance report of all changes submitted.

The Company plans to periodically have a non-HR person deliver the paychecks or pay stubs.

Table of Contents

Management has also concluded that the Company lacked sufficiently detailed records to provide accurate fixed assets records. Management believes the following steps will remedy this significant deficiency:

The Company utilizes PC based package to manage the fixed assets. The CFO will review and approve all additions to the system.

The Company plans to keep additional detailed records of all fixed asset additions, which will include copies of all pertinent invoices.

The Company plans to reconcile the PC based system to the general ledger monthly instead of quarterly.

Management has also concluded that the Company lacked sufficient controls over ensuring proper revenue recognition. Management will put proper cutoff controls in place by ensuring controls surrounding shipping and tracking numbers for shipments are being followed. The Company is also reviewing various operational and financial responsibilities in an effort to make this process more effective and create more preventive controls through out the process.

Management has also concluded that the Company lacked sufficient controls over ensuring proper inventory valuation. The Company is in the process of reviewing the entire inventory process to determine the cause of the areas of continuing control breakdowns and develop viable long-term solutions. The Company is also reviewing various operational and financial responsibilities in an effort to make this process more efficient and create more preventive controls through out the process. Additionally, the Company will performed a review of all significant part numbers to ensure accurate bill of materials and proper costing of inventory items. The Company will conduct testing for obsolete inventory on a quarterly basis.

Management has also concluded that the Company lacked sufficient controls over accrued liabilities. The Company is in the process of reviewing the entire purchasing process to determine the cause of the areas of continuing control breakdowns and will develop new controls to ensure proper cutoff and recording of accrued liabilities particularly those surrounding vendor invoices, temporary labor, employee benefits and commissions payable.

Management has also concluded that the Company lacked sufficient controls over financial reporting. The Company is in the process of reviewing the entire monthly close process to ensure that financial statements are prepared and reviewed in a timely manner. Training on financial reporting and changes in SEC disclosures will be provided to the accounting staff.

The aforementioned material weaknesses will not be considered remediated until new processes are fully implemented, operate for a sufficient period of time, and we are confident they are operating effectively. Management anticipates that the Company will report in our Quarterly Report on Form 10 Q for the first quarter of 2007 that material weaknesses in our internal control over financial reporting continue to exist and that the disclosure controls and procedures are not effective as of September 30, 2006. Management is committed to finalizing its remediation action plan and implementing the necessary enhancements to its policies and procedures to fully remediate the material weaknesses discussed above.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Except as disclosed under the item Business, Executive Officers in this report, the information required under this item will be set forth in our proxy statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required under this item will be set forth in our proxy statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required under this item will be set forth in our proxy statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information required under this item will be set forth in our proxy statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference.

Table of Contents

Item 14. Principal Accountant Fees and Services.

The information required under this item will be set forth in our proxy statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

(1) Financial Statements See Index on page F-1

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets As of June 30, 2006 and 2005

Consolidated Statements of Operations For the years ended June 30, 2006, 2005 and 2004

Consolidated Statements of Stockholders Equity For the years ended June 30, 2006, 2005 and 2004

Consolidated Statements of Cash Flows For the years ended June 30, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

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

Exhibit Number	Description	Notes
3.1.1	Certificate of Incorporation of Registrant, filed June 15, 1992 with the Secretary of State of Delaware	1
3.1.2	Certificate of Amendment to Certificate of Incorporation of Registrant, filed October 2, 1995 with the Secretary of State of Delaware	1
3.1.3	Certificate of Designations of Class A common stock and Class E-1 common stock, Class E-2 common stock, and Class E-3 common stock of Registrant, filed November 9, 1995 with the Secretary of State of Delaware	1
3.1.4	Certificate of Designation of Series A Preferred Stock of Registrant, filed July 9, 1997 with the Secretary of State of Delaware	2
3.1.5	Certificate of Designation of Series B Stock of Registrant, filed October 2, 1997 with the Secretary of State of Delaware	3
3.1.6	Certificate of Amendment of Certificate of Incorporation of Registrant, filed November 12, 1997 with the Secretary of State of Delaware	3
3.1.7	Certificate of Designation of Series C Preferred Stock of Registrant, filed February 6, 1998 with the Secretary of State of Delaware	4
3.1.8	Certificate of Designation, Preferences and Rights of Series D Participating Preferred Stock of Registrant filed April 29, 1998 with the Secretary of State of Delaware	5
3.1.9	Certificate of Designation of Series F Preferred Stock of Registrant, filed November 2, 1999 with the Secretary of State of Delaware	6
3.1.10	Certificate of Amendment of Certificate of Incorporation of Registrant, filed February 28, 2003 with the Secretary of State of Delaware	7

Table of Contents

Exhibit Number	Description	Notes
10.3	Merger Agreement dated April 14, 2000 between Registrant and Horizon Photonics, Inc.	10
10.4	Merger Agreement dated August 9, 2000 between Registrant and Geltech, Inc.	11
10.5	Loan Agreement dated January 11, 2006 between Registrant and Regenmacher Holdings, Ltd.	12
10.6	Assured Supply Agreement dated October 24, 2005 between Registrant and Ball Aerospace & Technologies Corp.	12
10.7	Rights Agreement dated as of May 1, 1998, between Registrant and Continental Stock Transfer & Trust Company	13
10.8	Securities Purchase Agreement dated as of March 19, 2006, among Registrant, and the selling stockholders signatory thereto	13
10.9	Registration Rights Agreement dated as of March 19, 2006, among Registrant, and the selling stockholders signatory thereto	13
10.10	Form of Common Stock Purchase Warrant dated as of March 19, 2006, issued Registrant, to certain selling stockholders	13
21	Subsidiaries of Registrant	*
23	Consent of Independent Registered Public Accounting Firm	*
24	Power of Attorney	*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code	*

Notes:

1. This exhibit was filed as an exhibit to our Registration Statement on Form SB-2 (File No: 33-80119) filed with the Securities and Exchange Commission on December 7, 1995 and is incorporated herein by reference thereto.
2. This exhibit was filed as an exhibit to our annual report on Form 10-KSB40 filed with the Securities and Exchange Commission on September 11, 1997 and is incorporated herein by reference thereto.
3. This exhibit was filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 1997 and is incorporated herein by reference thereto.
4. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No. 333-47905) filed with the Securities and Exchange Commission on March 13, 1998 and is incorporated herein by reference thereto.
5. This exhibit was filed as an exhibit to our Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 28, 1998 and is incorporated herein by reference thereto.
6. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No: 333-94303) filed with the Securities and Exchange Commission on January 10, 2000 and is incorporated herein by reference thereto.
7. This exhibit was filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on January 24, 2003 and is incorporated herein by reference thereto.
8. This exhibit was filed as an exhibit to our annual report on Form 10-KSB filed with the Securities and Exchange Commission on August 31, 2000 and is incorporated herein by reference thereto.
9. This exhibit was filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on September 12, 2002 and is incorporated herein by reference.
10. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No: 333-37622) filed with the Securities and Exchange Commission on May 23, 2000 and is incorporated herein by reference thereto.
11. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 3, 2000 and is incorporated herein by reference thereto.
12. This exhibit was filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on February 14, 2006 and is incorporated herein by reference thereto.

13. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2006, and is incorporated herein by reference thereto.

* Filed herewith.

Table of Contents

LightPath Technologies, Inc.

Index to Consolidated Financial Statements

F-1

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors

LightPath Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of LightPath Technologies, Inc., and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three year period ended June 30, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LightPath Technologies, Inc., and subsidiaries as of June 30, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three year period ended June 30, 2006 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Certified Public Accountants

Orlando, Florida

September 15, 2006

Table of Contents

LIGHTPATH TECHNOLOGIES, INC.

Consolidated Balance Sheets

	June 30 2006	June 30 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 3,763,013	$ 2,462,540
Trade accounts receivable, net of allowance of $85,800 and $26,500 respectively	1,891,024	1,456,612
Inventories	1,876,793	1,741,494
Prepaid expenses and other assets	145,349	222,430
Total current assets	7,676,179	5,883,076
Property and equipment - net	1,172,651	1,335,612
Intangible assets - net	265,473	325,008
Other assets	59,731	65,214
Total assets	$ 9,174,034	$ 7,608,910
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,668,683	$ 865,960
Accrued liabilities	236,501	387,618
Accrued payroll and benefits	514,424	358,606
Notes Payable	270,710	
Capital lease obligations, current portion	14,255	12,479
Total current liabilities	2,704,573	1,624,663
Capital lease obligation, excluding current portion	39,937	54,193
Stockholders equity:		
Common stock: Class A, $.01 par value, voting; 34,500,000 shares authorized; 4,468,588 and 3,695,644 shares issued and outstanding at June 30, 2006 and 2005, respectively	44,686	36,956
Additional paid-in capital	196,064,721	192,426,330
Accumulated deficit	(189,679,883)	(186,311,002)
Unearned compensation		(222,230)
Total stockholders equity	6,429,524	5,930,054
Total liabilities and stockholders equity	$ 9,174,034	$ 7,608,910

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

F-3

Table of Contents

LIGHTPATH TECHNOLOGIES, INC.

Consolidated Statements of Operations

For the Years Ending June 30,

	2006	2005	2004
Product sales, net	$ 12,172,587	$ 11,753,968	$ 8,331,671
Cost of sales	10,119,458	9,395,935	6,283,349
Gross margin	2,053,129	2,358,033	2,048,322
Operating expenses:			
Selling, general and administrative	4,434,704	4,228,342	5,170,996
New product development	1,038,390	985,357	1,022,299
Amortization of intangibles	59,535	580,889	1,947,562
Gain on sale of equipment	(9,134)	(11,334)	(121,303)
Reorganization and relocation expense			1,766
Total costs and expenses	5,523,495	5,783,254	8,021,320
Operating loss	(3,470,366)	(3,425,221)	(5,972,998)
Other income (expense)			
Gain on settlement of litigation			606,230
Interest and other expenses		(99,489)	(271,676)
Investment and other income (expense), net	101,485	44,905	40,037
Net loss	$ (3,368,881)	$ (3,479,805)	$ (5,598,407)
Loss per share (basic and diluted)	$ (0.86)	$ (1.05)	$ (1.98)
Number of shares used in per share calculation	3,929,132	3,316,560	2,831,128

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

F-4

Table of Contents

LIGHTPATH TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Years ended June 30, 2006, 2005 and 2004

	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Unearned Compensation	Total Stockholders Deficit
Balances at June 30, 2003	2,584,591	$ 25,846	$ 188,921,742	$ (177,232,790)	$ (534,017)	$ 11,180,781
Issuance of common stock	550,000	5,500	1,864,358			1,869,858
Exercise of stock options	973	10	3,094			3,104
Issuance of warrants			315,364			315,364
Vesting of restriced stock awards, net of issuance and forfeitures	86,985	870	(118,011)		117,141	
Stock based compensation					218,019	218,019
Net Loss				(5,598,407)		(5,598,407)
Balances at June 30, 2004	3,222,549	$ 32,226	$ 190,986,547	$ (182,831,197)	$ (198,857)	$ 7,988,719
Issuance of common stock	350,000	3,500	981,937			985,437
Exercise of stock options	781	8	1,016			1,024
Issuance of restriced stock awards, net of vesting and forfeitures	122,314	1,222	456,830		(458,052)	
Stock based compensation					434,679	434,679
Net Loss				(3,479,805)		(3,479,805)
Balances at June 30, 2005	3,695,644	$ 36,956	$ 192,426,330	$ (186,311,002)	$ (222,230)	$ 5,930,054
Adoption of FAS 123R			(222,230)		222,230	
Private placement of common stock	730,000	7,300	3,573,756			3,581,056
Exercise of stock options	8,749	88	7,399			7,487
Cashless exercise of warrants	34,195	342	(342)			
Stock based compensation			279,808			279,808
Net Loss				(3,368,881)		(3,368,881)
Balances at June 30, 2006	4,468,588	$ 44,686	$ 196,064,721	$ (189,679,883)	$	$ 6,429,524

See accompanying notes to consolidated financial statements.

Table of Contents

LIGHTPATH TECHNOLOGIES, INC.

Consolidated Statements of Cash Flows

	Year Ended June 30, 2006	2005	2004
Cash flows due to operating activities			
Net loss	$ (3,368,881)	$ (3,479,805)	$ (5,598,407)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	791,147	1,669,724	3,043,201
Gain on sale of equipment	(9,134)	(11,334)	(121,303)
Stock based compensation	279,808	434,679	218,019
Provision for (recovery from) doubtful accounts receivable	90,200	(138,887)	101,583
Write off abandoned patents			105,179
Changes in operating assets and liabilities:			
Trade Receivables	(524,612)	479,388	(631,231)
Inventories	(135,299)	(361,693)	(382,465)
Prepaid expenses and other assets	82,564	279,658	402,266
Accounts Payable and accrued expenses including payroll	807,424	68,921	421,349
Accrued severence and exit costs		(41,276)	(46,261)
Net cash used in operating activities	(1,986,783)	(1,100,625)	(2,488,070)
Cash flows due to investing activities			
Property and equipment additions	(569,432)	(133,625)	(358,333)
Proceeds from sale of assets	9,915	112,627	136,820
Net cash used in investing activities	(559,517)	(20,998)	(221,513)
Cash flows due to financing activities			
Proceeds from sale of common stock/exercise of stock options	7,487	986,462	1,872,962
Proceeds from private placement of common stock, net of expenses	3,581,056		
Borrowings on line of credit	270,710		
Proceeds(Payments) on capital lease obligation	(12,480)	66,672	
Net cash provided by financing activities	3,846,773	1,053,134	1,872,962
Increase (Decrease) in cash and cash equivalents	1,300,473	(68,489)	(836,621)
Cash and cash equivalents, beginning of period	2,462,540	2,531,029	3,367,650
Cash and cash equivalents, end of period	$ 3,763,013	$ 2,462,540	$ 2,531,029
Supplimental disclosure of cash flow information:			
Interest paid	$ 22,292	$ 7,163	$
Non-cash financing activity:			
Issuance of warrant in connection with line of credit	$	$	$ 315,364

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

LightPath Technologies, Inc.

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

1. Organization and History; Liquidity Matters

Organization and History

LightPath Technologies, Inc. (LightPath or the Company) was incorporated in Delaware in 1992 as 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. (Horizon). On September 20, 2000, the Company acquired Geltech, Inc. (Geltech). LightPath is a manufacturer and integrator of families of precision molded aspheric optics, high-performance fiber-optic collimator, isolators, 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 or the Company), refer to LightPath individually or, as the context requires, collectively with its subsidiaries on a consolidated basis.

During fiscal year 1996, the Company completed an initial public offering (IPO) and in fiscal years 1997, 1998, 2000, 2004, 2005 and 2006 the Company completed seven private placements of securities to raise additional capital. These funds were used to further the research, development and commercialization of optical products such as lenses, isolators and collimators. Additionally, during fiscal year 2000 warrants issued at the IPO and private placement warrants were exercised for approximately $65.5 million.

Liquidity Matters

The Company s optical product markets experienced a severe downturn beginning in 2001, which continued into 2003 and resulted in a significant decline in the demand for the Company s products over that period. Beginning in 2004 and continuing through 2006, management believes that some improvement occurred in demand for the Company s products in several of its markets. Nevertheless, the Company did not reach a status of positive cash flow or profitability during this fiscal year. Management has developed our operating plan for fiscal 2007 and believes the Company has adequate financial resources for achievement of that plan and to sustain operation in the coming year.. Nevertheless, management will be monitoring the plan closely during the year and should the plan objectives not be met during the year, remedial actions will be initiated. The Company has no firm commitments for any material future financing at this time and has a cash balance of approximately $3.8 million at June 30, 2006. The Company may still seek external debt or equity financing if it can be obtained in an amount and on terms that are acceptable. Our plans include the purchase of an anti-reflective coating machine in fiscal 2007. This machine should allow us to improve margins and control quality.

Cash flows: Cash used by operations during fiscal 2006 was approximately $2.0 million, an increase of approximately $0.9 million from fiscal 2005. Throughout fiscal 2006, on a comparative basis to 2005, the Company reduced its cash expenditures through the reductions in insurance, professional services, and telecommunication costs. Cash use was also unfavorably affected in fiscal 2006 by a decrease in gross margin and startup costs for the Shanghai facility.

While progress has been made to reduce operating cash outflow in fiscal 2005 and 2004, significant risk and uncertainty remains. The Company s cash provided by operations was less than $100,000 for the fourth quarter of fiscal 2006. The fiscal 2007 operating plan and related financial projections we have developed anticipate continued 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.

Factors which could adversely affect cash balances in future quarters include, but are not limited to, a decline in revenue or a lack of anticipated sales growth, increased material costs, increased labor costs, planned production efficiency improvements not being realized, increases in property, casualty, benefit and liability insurance premiums and increases in other discretionary spending, particularly sales and marketing related.

During fiscal 2006, capital expenditures were $569,000 in comparison to $134,000 during fiscal 2005. The majority of the capital expenditures during fiscal 2006 were related to equipment used to enhance or expand production capacity. The Company s operating plan for fiscal 2007 estimates expenditures at similar levels to enhance or expand capacity, however, spending may be more or less depending on opportunities and circumstances. Our plans include the purchase of an anti-reflective coating machine in fiscal 2007. This machine should allow us to improve margins and control quality.

2. Summary of Significant Accounting Policies

Consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Certain prior period balances have been reclassified to conform to current presentation.

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

Inventories, which consist principally of raw materials, work-in-process and finished lenses, isolators, collimators and components are stated at the lower of cost or market, on a first-in, first-out basis. Inventory costs include materials, labor and manufacturing overhead. Cash flows from the sale of inventory are classified as operating activities in the statement of cash flows.

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets ranging from three to seven years. Platinum molds, used in GRADIUM productions, are recorded at their estimated salvage value.

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

In accordance with SFAS No. 144, long-lived assets, such as property 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 the estimated, undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Intangible assets consisting of customer list and supply contracts, licenses, patents, trademarks, and others, are recorded at cost. Upon issuance of the license, patent or trademark, these assets are being amortized on the straight-line basis over the estimated useful life of the related assets ranging from ten to seventeen years. Customer list and supply contracts and other intangibles are being amortized on a straight-line basis over the estimated period of benefit ranging from two to five years.

The Company has adopted provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value.

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases 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 are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Revenue is generally recognized from product sales when products are shipped to the customer provided that LightPath has received a valid purchase order, the price is fixed, title has transferred, collection of the associated receivable is reasonably assured, and there are no remaining significant obligations. Revenues from product development agreements are recognized on a percentage of completion basis. Provisions for estimated losses are made in the period in which such losses are determined.

Sales to Intel Corporation were approximately $1.2 million and $1.6 million, which represents 10% and 13% of net revenues for the years ended June 30, 2006 and 2005, respectively. Sales to T-Networks were approximately $1.4 million and $700,000, which represents 11% and 6% of net revenues for the years ended June 30, 2006 and 2005, respectively. Sales to Santur were approximately $1.2 million and $500,000, which represent 10% and 5% of net revenues for the years ended June 30, 2006 and 2005, respectively.

New product development costs are expensed as incurred.

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

Effective July 1, 2005, the Company adopted SFAS 123R, which revises SFAS 123 and supersedes APB 25. SFAS 123R requires all share-based payments to employees to be recognized in the financial statements based on their fair values using an option-pricing model, such as the Black-Scholes model, at the date of grant. SFAS 123R allows the use of either the modified prospective method or the retrospective recognition method. The Company elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options and restricted shares beginning in the first quarter of adoption. For all unvested options outstanding as of July 1, 2005, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, will be recognized on a straight-line basis in the Consolidated Statements of Operations over the remaining vesting period. SFAS 123R requires that the Company estimate forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also impact the amount of unamortized compensation expense to be recognized in future periods. See Note 10 Compensatory Equity Incentive Plan and Other Equity Incentives.

Management makes estimates and assumptions during the preparation of the consolidated financial statements relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment and intangibles; and valuation allowances for receivables and inventories. Actual results could differ from those estimates.

Leases are reported in accordance with SFAS 13, *Accounting for Leases*. The effect of rent increases, rent holidays and related items are amortized to obtain consistent expense over the term of the lease.

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

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

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file in a particular jurisdiction. FIN 48 is effective for fiscal years beginning after December 15, 2006. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to retained earnings. The Company is currently evaluating the impact of FIN 48 on its consolidated financial position and results of operations.

In June 2006, the FASB Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06 3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06 3). EITF 06 3 requires the disclosure of the Company s accounting policy regarding its gross or net presentation of externally imposed taxes on revenue producing transactions in the notes to the consolidated financial statements. EITF 06 3 is effective for the first annual or interim reporting period beginning after December 15, 2006. The Company is currently evaluating the impact of adopting EITF 06 3 on its consolidated financial statement disclosures.

In June 2006, the FASB ratified EITF No. 06-2 Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences. EITF 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in FASB Statement 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of this Issue are effective for fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment to accumulated deficit approach upon adoption. The Company is currently evaluating the impact, if any, that the adoption of EITF 06-2 will have on its financial statements.

Table of Contents

3. Inventories

The components of inventories include the following at June 30:

	2006	2005
Raw material	$ 805,419	$ 671,108
Work in Process	908,700	837,442
Finished Goods	162,674	232,944
	$ 1,876,793	$ 1,741,494

4. Property and Equipment net

Property and equipment consist of the following at June 30:

	Estimated Life(Years)	2006	2005
Manufacturing equipment	5	$ 5,728,094	$ 5,276,436
Computer equipment and software	5	591,159	525,335
Furniture and fixtures	5	180,035	168,923
Platinum molds	5	44,100	44,100
Leasehold improvements	7	714,833	699,620
Total Property and Equipment		7,258,221	6,714,414
Less accumulated depreciation and amortization		6,085,570	5,378,802
Total property and equipment, net		$ 1,172,651	$ 1,335,612

Assets under capital lease totaled $88,850 as of June 30, 2006 and had related accumulated depreciation of $26,655.

5. Intangible Assets net

Intangible assets consist of the following at June 30:

	Life In years	2006	2005
Patents and trademarks granted	2-5	$ 2,860,000	$ 2,860,000
Other intangibles	10 17	621,301	621,302
		3,481,301	3,481,302
Accumulated amortization:			
Patents and trademarks granted		2,860,000	2,833,333
Other intangibles		355,828	322,961
Less accumulated amortization		3,215,828	3,156,294
Net Intangible Asset Value		265,473	325,008
Total intangible assets net		$ 265,473	$ 325,008

Amortization expense related to intangible assets totaled approximately $60,000 and $581,000 during the fiscal years ended June 30, 2006 and 2005, respectively.

The amount of the June 30, 2006, net intangible asset value to be amortized over each of the next five years follows.

2007	2008	2009	2010	2011
$ 32,868	$ 32,868	$ 32,868	$ 32,868	$ 32,868

6. Restructuring

On June 27, 2002, the Company announced a restructuring plan to consolidate its corporate headquarters and manufacturing facilities from New Mexico to Orlando, Florida. A restructuring accrual for employee severance and other exit costs was recorded at June 30, 2002, for approximately $1.1 million, which included employee severance for 67 employees and other lease costs. As of June 30, 2005, all of these accrued restructuring costs were paid. The severance benefits were paid by December 31, 2002 and the lease payments were complete by June 30, 2005.

7. Capital leases and note payable

In the second quarter of fiscal 2005, we entered into a $75,000 capital equipment lease for equipment to support our molded optics production. We augmented this financing on January 11, 2006, with a four-year secured loan agreement that provides for borrowings of up to $500,000. At June 30, 2006 we had drawn approximately $271,000 on the line of credit. A total of $12,480 and $8,328 principal has been paid as of June 30, 2006 and 2005, respectively. The equipment purchased under the lease agreement had secured these obligations. There were no capital lease obligations at June 30, 2004.

8. Stockholders Equity

Common stock The Company s common stock consists of the following:

Authorized 34,500,000 shares of Class A common stock, $.01 par value. The stockholders of Class A common stock are entitled to one vote for each share held.

On June 1, 2005, the Company completed a private placement of an aggregate of 350,000 shares of the Company s Class A common stock, $0.01 par value (the common stock), and warrants to purchase 140,000 shares of common stock (the Warrants), to two investors for aggregate gross cash proceeds to the Company of $1,050,200. Professional fees of $64,763 were paid netting the proceeds to the Company of $985,437. No underwriting discounts or commissions were paid. The sales of securities were made pursuant to the terms of a Unit Subscription Agreement dated June 1, 2005, among the Company and the investors. The price per share of common stock in the private placement was $3.00, and the closing sale price of the common stock on the Nasdaq NCM on

Table of Contents

June 1, 2005, was $2.56. The Warrants were sold in the private placement for an aggregate price of $200.00, and they have a five-year term and are exercisable by the investors, after March 1, 2006, at a warrant exercise price of $4.30 per share. The Company could receive an additional $602,000 if all of the Warrants are ultimately exercised. The Company utilized the proceeds of the private placement for working capital and general corporate purposes.

In March 2006 the Company raised gross proceeds of approximately $3.8 million by way of the sale of newly issued common stock to certain institutional and private investors. Professional fees of $251,445 were paid netting the proceeds to the Company of $3,581,056. This round of financing was lead by Iroquois Master Fund Ltd. who purchased 30,000 shares of the 730,000 shares of common stock sold at $5.25 per share. The net proceeds from the offering will be utilized for new product development, equipment expenditures and working capital to support the continued growth of the business. The investors also received warrants with an exercise period of five years beginning on September 20, 2006 for the future purchase of 219,000 shares of the Company s common stock at $7.41 per share. If all of the warrants are ultimately exercised an additional $1.5 million will be raised. Dawson James Securities acted as exclusive placement agent and financial advisor.

A Registration Statement on Form S-3 was filed with the Securities and Exchange Commission on May 3, 2006 to register under the Securities Act of 1933 the shares sold in this private placement including the shares issuable upon exercise of the warrants.

Preferred Stock The Company s preferred stock consists of the following: Authorized 5,000,000 shares of Series D preferred stock, $.01 par value. Certain stockholders have the right to purchase Series D preferred stock, if an unrelated party acquires more than 20% of the Company s stock. These rights expire in 2008. There were no shares issued as of June 30, 2006.

Warrants

Class C and Class E warrants were issued in connection with the private placements of Series A and Series B Convertible Preferred Stock. Of the total Class C and Class E warrants which were granted to the preferred stockholders, the 1,412 which remained outstanding at June 30, 2004, which entitled the holder to purchase one share of Class A common stock each at a weighted average exercise price of $39.83 expired November 29, 2004.

Other warrants include:

- warrants to purchase up to 35,156 shares of Class A common stock at $48.00 per share at any time through November 10, 2009 issued to Robert Ripp, on November 5, 1999 in connection with his election to serve as Chairman of the Board of Directors

- warrants to purchase up to 110,000 shares of Class A common stock at $4.30 per share at any time through February 23, 2009 in connection with a private placement financing in fiscal 2004

- a warrant to purchase up to 100,000 shares of Class A common stock at $3.20 per share at any time through September 29, 2013 issued to Robert Ripp on September 29, 2003 in connection with his providing a line of credit to the Company

- warrants to purchase up to 140,000 shares of Class A common stock at $4.30 per share at any time through June 1, 2010 in connection with a private placement financing in fiscal 2005

- warrants to purchase up to 219,000 shares of Class A common stock at $7.41 per share at any time through September 20, 2011 in connection with a private placement financing in fiscal 2006

Table of Contents

The following table provides information on warrants during fiscal 2006, 2005, and 2004.

Outstanding	Warrants	
	Class C and E	Other
June 30, 2004	1,412	245,156
Expiration of unexercised warrants	(1,412)	
Issuance of warrants in connection with private placement financing		140,000
June 30, 2005		385,156
Cashless exercise of warrants		(104,360)
Issuance of warrants in connection with private placement financing		219,000
June 30, 2006		499,796

9. Income Taxes

Due to the Company s losses from operations, there was no provision for income taxes and no taxes were paid, during the years ended June 30, 2006, 2005, and 2004. The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are as follows at June 30:

	2006	2005
Deferred tax assets:		
Net operating loss and credit carryforwards	$ 35,991,000	$ 34,660,000
Stock-based compensation	6,712,000	6,606,000
Capital Loss and R&D credits	1,139,000	941,000
Research and development expenses	2,364,000	2,341,000
Inventory	69,000	394,000
Accrued expenses and other	2,257,000	2,224,000
Gross deferred tax assets	48,532,000	47,166,000
Valuation allowance for deferred tax assets	(48,249,000)	(46,857,000)
Total deferred tax assets	283,000	309,000
Deferred tax liabilities:		
Intangible assets	(188,000)	(223,000)
Depreciation and other	(95,000)	(86,000)
Total deferred tax liabilities	(283,000)	(309,000)
Net deferred tax liability	$	$

The reconciliation of income tax attributable to operations computed at the U.S. federal statutory tax rates and the actual tax provision of zero results primarily from the change in the valuation allowance and inventory reserves.

Table of Contents

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependant upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income of approximately $95 million prior to the expiration of net operating loss carry-forwards in 2007 through 2025. Based on the level of historical taxable income, management has provided for a valuation adjustment against the deferred tax assets.

At June 30, 2006, the Company has net operating loss carry forwards for Federal income tax purposes of approximately $95 million, which will expire from 2007 through 2025, if not utilized. The Company also has research and development credit carry forwards of approximately $1,139,000, which will expire beginning in 2023, if not previously utilized. A portion of the net operating loss carry forwards may be subject to certain limitations of the Internal Revenue Code Section 382 which would restrict the annual utilization in future periods due principally to changes in ownership in prior periods.

10. Compensatory Equity Incentive Plan and Other Equity Incentives

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

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

These three plans are summarized below:

Equity Compensation Arrangement	Options Authorized	Options Outstanding at June 30, 2006	Available for Issuance at June 30, 2006
Amended and Restated Omnibus Incentive Plan	915,625	360,894	224,394
Non Qualified Plan	5,000	5,000	
ESPP	196,000		196,000
	1,116,625	365,894	420,394

	Options	RSU s	All Awards
Weighted average fair value of share awards granted in period	2.12	2.41	2.22

The 2004 Employee Stock Purchase Plan (ESPP) permits employees to purchase common stock through payroll deductions, which may not exceed 15% of an employee s compensation, at a price not less than 85% of the market value of the stock on specified dates (June 30 and December 31). In no event may any participant purchase more than $25,000 worth of shares in any calendar year and an employee may purchase no more than 4,000 shares on any purchase date. This discount is included in selling, general and administrative expense in the accompanying financial statements.

Table of Contents

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. The Company uses the Black-Scholes pricing model. The ESPP fair value is the amount of the discount the employee obtains at the date of the purchase transaction.

For stock options granted in the years ended June 30, 2006, 2005 and 2004, the Company estimated the fair value of each stock option as of the date of grant using the following assumptions:

	Year ended		
	June 30, 2006	June 30, 2005	June 30, 2004
Range of expected volatilities	267% - 298%	102% - 112%	112%
Weighted average expected volatility	273%	112%	112%
Range of dividend yields	0%	0%	0%
Range of risk-free interest rate	4.37% - 5.01%	4.16% - 4.25%	5%
Range of expected term, in years	6 - 6.5	3	3

Most options granted under the Company s Plan vest ratably over two to four years and generally have ten-year contract lives. The initial assumed forfeiture rate used in calculating the fair value of grants with both performance and service conditions is 44%. The volatility rate is based on a four-year historical trends in common stock closing prices the expected term is calculated using the simplified method. The interest rate used is the treasury interest rate for constant maturities.

F-15

Table of Contents

Information Regarding Current Share-based Payment Awards A summary of the activity for share-based payment awards in the years ended June 30, 2006 and 2005 is presented below:

	Stock Options			Restricted Stock Units	
	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contract Lifes (YRS)	Shares	Weighted Average Remaining Contract Lifes (YRS)
Options Outstanding June 30, 2004	94,785	36.19	7.2	166,109	2.3
Granted	60,500	4.32	9.3	108,100	1.4
Exercised	(407)	5.11	7.7	(116,959)	
Cancelled	(57,144)	70.71	6.3	(20,400)	1.6
Options Outstanding June 30, 2005	97,734	21.87	4.6	136,850	2.0
Granted	110,170	3.05	8.3	60,000	2.4
Exercised	(999)	1.28	7.0	(3,750)	
Cancelled	(19,111)	36.93	7.4	(15,000)	0.7
Options Outstanding June 30, 2006	187,794	17.34	6.5	178,100	1.7
Awards exercisable/ vested as of June 30, 2006	56,462	4.21	6.0	75,800	
Awards unexercisable/ unvested as of June 30, 2006	131,332	3.26	7.5	102,300	1.1
	187,794			178,100	

The weighted-average grant date fair value of share options granted during the fiscal years ended 2006, 2005 and 2004 was $2.11, $1.63 and $1.05, respectively. The total intrinsic value of share options exercised during the years ended June 30, 2006, 2005 and 2004 was $232,884, $179,758 and $24,410, respectively.

The total intrinsic value of shares outstanding and exercisable at June 30, 2006 was $937,642 and $360,014, respectively.

The total fair value of shares vested during the years ended June 30, 2006, 2005 and 2004 was $66,045, $102,496, and $4,887, respectively. As of June 30, 2006 there was $437,029 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share options and restricted stock units) granted under the Plan. The cost is expected to be recognized as follows:

	Stock Options	Restricted Stock Units	Total
Year ended June 30, 2007	139,269	100,221	239,490
Year ended June 30, 2008	118,289	48,200	166,489
Year ended June 30, 2009	14,554	16,067	30,621
Year ended June 30, 2010	429		429
	272,541	164,488	437,029

Table of Contents

The table above does not include shares under the Company s ESPP, which has purchase settlement dates in the second and fourth fiscal quarters. The Company s ESPP is not administered with a look back option provision and, as a result, there is not a population of outstanding option grants during the employee contribution period.

Restricted stock unit awards vest immediately or from two to four years from the date of grant.

The Company issues new shares of common stock upon the exercise of stock options. The following table is a summary of the number and weighted average grant date fair values regarding our unexercisable/unvested awards as of June 30, 2006 and changes during the year then ended:

Unexercisable/unvested awards	**Stock Options Shares**	**RSU Shares**	**Total Shares**	**Weighted Average Grant Date Fair Values (per share)**
At June 30, 2005	63,168	95,850	159,018	$ 80.77
Granted	110,170	60,000	170,170	3.05
Vested	(22,895)	(38,550)	(61,445)	4.21
Cancelled	(19,111)	(15,000)	(34,111)	36.93
At June 30, 2006	131,332	102,300	233,632	$ 17.34

Acceleration of Vesting The Company has not accelerated the vesting of any stock options.

Financial Statement Effects and Presentation The following table shows total stock-based compensation expense for the year ended June 30, 2006 included in the Consolidated Statement of Operations:

	Stock Options	**RSU**	**Total**
General and administrative expenses	58,118	166,355	224,473
Cost of Goods Sold	33,991	20,306	54,297
Research & Development	1,038		1,038
	93,147	186,661	279,808

Table of Contents

The following table shows the effect on reported net income and income per share for the years ended June 30, 2005 and 2004 to reflect the impact had the Company been required to include fair value stock compensation as an expense (pro-forma):

	Year Ended June 30, 2005	Year Ended June 30, 2004
Net loss, as reported	$ (3,479,805)	$ (5,598,407)
Add: Total stock-based employee compensation expenses included in reported net loss	434,679	218,019
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	877,679	713,198
Pro forma let loss	$ (3,922,805)	$ (6,093,586)
Loss per share:		
Basic and diluted, as reported	$ (1.05)	$ (1.98)
Basic and diluted, pro forma	$ (1.18)	$ (2.15)

11. Net Loss Per Share

Basic net loss per common share is computed based upon the weighted average number of common shares outstanding during each period presented. The computation of diluted net loss per common share does not differ from the basic computation because potentially issuable securities would be anti-dilutive. The following outstanding securities were not included in the computation of diluted earnings per share at June 30, 2006: stock options and unvested restricted stock awards to acquire 365,894 shares, and warrants to acquire 604,156 shares of Class A common stock.

12. Defined Contribution Plan

The Company implemented a defined contribution plan on January 1, 1997 covering substantially all employees. The original plan was terminated on January 31, 2003 with the closure of LightPath s New Mexico facility and certain employee accounts transferred to the LightPath defined contribution plan. Annual discretionary contributions, if any, are made by the Company to match a portion of the funds employees contribute. Company matching contributions during the fiscal year ended June 30, 2006, 2005, and 2004 were approximately $ 34,000, $41,000 and $36,000, respectively.

13. Lease Commitments

The Company has operating leases for office space. At June 30, 2006, the Company has entered into lease agreements for manufacturing and office facilities in Orlando, Florida. The Orlando lease, which is for a seven-year original term with renewal options, expires November 2008.

At June 30, 2006, the Company has entered into lease agreements for manufacturing and office facilities in Shanghai, China. The China lease, which is for a five-year original term with renewal options, expires November 2010.

Rent expense totaled $853,337, $852,829 and $819,652 during the years ended June 30, 2006, 2005 and 2004, respectively.

During 2005, the company entered into a five-year capital lease agreement for manufacturing equipment and is included as part of Property and Equipment. Assets under capital lease are included in manufacturing equipment for $88,850, with accumulated amortization as of June 30, 2006 and 2005 of $26,655 and $8,885, respectively. Amortization related to capital leases is included in depreciation expense.

Table of Contents

The approximate future minimum lease payments under capital and operating leases at June 30, 2006 were as follows:

	Capital Lease	Operating Lease
Fiscal year ending June 30,		
2007	$ 20,654	$ 715,848
2008	20,654	736,379
2009	20,654	345,870
2010	5,164	60,825
2011		25,344
Thereafter		
Total Minimum Payments	$ 67,126	$ 1,884,266
Less Imputed Interest	(12,934)	
Present value of minimum lease payments included in long term debt	54,192	
Less short term portion	14,255	
Long term portion	$ 39,937	

14. Commitments and Contingencies

On May 2, 2000, the Company commenced a class action lawsuit in the Chancery Court of Delaware, New Castle County (the Delaware Action) seeking a declaratory judgment with respect to (i) the Company s right to redeem its Class E common stock on March 31, 2001 for $.0001 per share, (ii) the right of the holders of Class E common stock to vote at the Annual Meeting to be held on October 6, 2000, and (iii) for certification of the holders of Class E common stock as a class and the named defendants as its representatives. The Delaware Action was settled in fiscal 2002 with the final settlement agreement requiring the Company to pay $0.40 per share to each Class E shareholder. The settlement agreement permitted Class E shareholders to elect not to participate in the settlement and thus was not binding on any Class E shareholders who so elected. Approximately 12% of the former Class E shareholders elected not to participate in the settlement (see Texas Action described below). Since the beginning of fiscal 2003, the Company distributed approximately $1.4 million of the $1.5 million estimated total cost arising under the settlement agreement.

On or about June 9, 2000, a small group of holders of Class E common stock commenced an action against the Company in a state court in Texas. Plaintiffs in the Texas Action made various allegations regarding the circumstances surrounding the issuance of the Class E common stock and sought damages based upon those allegations. Management believes the allegations underlying the Texas Action are without merit.

On October 10, 2002, the Texas court granted the Company s motion for summary judgment dismissing all claims against the Company. The plaintiffs sought reconsideration of the ruling, however, the motion for reconsideration was denied and a final judgment in favor of the Company was signed on March 1, 2004. The plaintiffs appealed the summary judgment to the Fourteenth Court of Appeals in Houston, Texas. On October 20, 2005, the court of appeals affirmed the summary judgment and upheld the trial court s dismissal of all claims against the Company.

The plaintiffs appealed that ruling by filing a petition for review with the Texas Supreme Court on January 31, 2006. On April 7, 2006, the Texas Supreme Court denied the plaintiffs petition for review. On May 26, 2006, the Texas Supreme Court denied the plaintiffs motion for rehearing of the denial of the petition for review. No further review was sought by the plaintiffs. The summary judgment in favor of the Company as to all claims asserted by the plaintiffs is now final and the case is closed.

The Company from time to time is involved in various legal actions arising in the normal course of business. Management, after reviewing with legal counsel all of these actions and proceedings, believes that the aggregate losses, if any, will not have a material adverse effect on the Company s financial position or results of operations.

Table of Contents

15. Related Party Transactions

During the fiscal years ended June 30, 2006, 2005, and 2004 directors (or their firms) of the Company, provided legal and consulting services to the Company for which they billed the Company an aggregate of approximately $ 0, $35,000 and $38,000, respectively.

In September 2003, the Company s Chairman provided an unsecured line of credit to the Company to enable it to borrow up to $300,000 on or before September 30, 2004. Any outstanding balances and accrued interest on September 30, 2004 became fully due and payable. The interest rate was 5% per annum on any funded balances outstanding. In connection with this line of credit, the Chairman was issued a warrant to purchase 100,000 shares of Class A common stock at any time until September 30, 2013 at an exercise price of $3.20 per share of Class A common stock, which was the closing market price of the Class A common stock as reported by Nasdaq on September 26, 2003 (date of approval of the transaction by the Company s Audit Committee of the Board). The fair value of the warrant, $315,364, was determined using a Black-Scholes valuation model and was amortized over the one-year life of the credit facility. The term of the facility expired September 30, 2004 and the Company made no borrowings under this line of credit.

16. 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 period. 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, are reflected as a separate component of equity if significant. The Company as of June 30, 2006 had approximately $187,000 in assets and $120,000 in net assets located in China.

End of Consolidated Financial Statements

F-20

Table of Contents

Pursuant to the requirements of Section 13 or 15(d) 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: September 26, 2006

By: /s/ KENNETH BRIZEL
Kenneth Brizel
Chief Executive Officer, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ KENNETH BRIZEL	September 26, 2006	/s/ Dorothy M. Cipolla	September 26, 2006
Kenneth Brizel,		**Dorothy M. Cipolla,**	
Chief Executive Officer, President,		**Chief Financial Officer**	
Director (Principal Executive Officer)		**(Principal Financial Officer)**	
/s/ ROBERT RIPP	September 26, 2006	/s/ Sohail Khan	September 26, 2006
Robert Ripp		**Sohail Khan**	
Director (Chairman of the Board)		**Director**	
/s/ ROBERT BRUGGEWORTH	September 26, 2006	/s/ LOUIS LEEBURG	September 26, 2006
Robert Bruggeworth		**Louis Leeburg**	
Director		**Director**	
/s/ DR. STEVEN R. J. BRUECK	September 26, 2006	/s/ GARY SILVERMAN	September 26, 2006
Dr. Steven R. J. Brueck		**Gary Silverman**	
Director		**Director**	