LIGHTPATH TECHNOLOGIES INC
Form 10-Q
January 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

S QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2013

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission file number 000-27548

LIGHTPATH TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

http://www.lightpath.com

2603 Challenger Tech Ct. Suite 100

Orlando, Florida 32826

(Address of principal executive offices)

(ZIP Code)

(407) 382-4003

(Registrant’s telephone number, including area code)

N/A

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

14,293,306 shares of common stock, Class A, $.01 par value, outstanding as of January 27, 2014.

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LIGHTPATH TECHNOLOGIES, INC.
Consolidated Balance Sheets

Assets	(Unaudited) December 31, 2013	June 30, 2013
Current assets:		
Cash and cash equivalents	$1,955,290	$1,565,215
Trade accounts receivable, net of allowance of $10,633 and $20,617	2,333,059	2,126,907
Inventories, net	2,806,210	1,770,681
Other receivables	253,530	353,530
Prepaid expenses and other assets	389,998	262,236
Total current assets	7,738,087	6,078,569
Property and equipment, net	2,356,321	2,235,781
Intangible assets, net	18,963	35,397
Other assets	27,737	27,737
Total assets	$10,141,108	$8,377,484
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$1,337,427	$1,065,651
Accrued liabilities	56,518	110,628
Accrued payroll and benefits	505,264	440,462
Deferred revenue	—	1,966
Capital lease obligation, current portion	6,196	3,602
Total current liabilities	1,905,405	1,622,309
Capital lease obligation, less current portion	9,068	3,302
Deferred rent	140,630	220,216
Warrant liability	878,916	1,102,021
Total liabilities	2,934,019	2,947,848
Stockholders’ equity:		
Preferred stock: Series D, $.01 par value, voting; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock: Class A, $.01 par value, voting; 40,000,000 shares authorized; 14,289,080 and 12,958,239 shares issued and outstanding, respectively	142,891	129,582
Additional paid-in capital	211,677,853	209,645,126
Accumulated other comprehensive income	66,531	52,736
Accumulated deficit	(204,680,186)	(204,397,808)
Total stockholders’ equity	7,207,089	5,429,636
Total liabilities and stockholders’ equity	$10,141,108	$8,377,484

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

LIGHTPATH TECHNOLOGIES, INC.

Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	Three months ended December 31,		**Six months ended** December 31,	
	2013	2012	2013	2012
Product sales, net	$2,907,869	$2,916,781	$5,717,581	$5,807,835
Cost of sales	1,667,865	1,650,461	3,158,507	3,364,203
Gross margin	1,240,004	1,266,320	2,559,074	2,443,632
Operating expenses:				
Selling, general and administrative	1,154,387	1,018,367	2,231,009	2,000,822
New product development	263,718	264,311	558,673	476,768
Amortization of intangibles	8,217	8,217	16,434	16,434
Loss on disposal of property and equipment	40	545	1,098	1,247
Total costs and expenses	1,426,362	1,291,440	2,807,214	2,495,271
Operating loss	(186,358)	(25,120)	(248,140)	(51,639)
Other income (expense):				
Interest expense	(248)	(14,616)	(420)	(45,056)
Interest expense - debt costs	(4,997)	(884)	(10,047)	(1,750)
Change in fair value of warrant liability	(35,013)	169,552	(53,965)	265,336
Other income (expense), net	24,583	11,840	30,194	75,102
Total other income (expense), net	(15,675)	165,892	(34,238)	293,632
Net income (loss)	$(202,033)	$140,772	$(282,378)	$241,993
Income (loss) per common share (basic)	$(0.01)	$0.01	$(0.02)	$0.02
Number of shares used in per share calculation (basic)	13,863,865	11,801,684	13,715,789	11,786,793
Income (loss) per common share (diluted)	$(0.01)	$0.01	$(0.02)	$0.02
Number of shares used in per share calculation (diluted)	13,863,865	12,728,486	13,715,789	12,738,595
Foreign currency translation adjustment	4,106	3,651	13,795	494
Comprehensive income (loss)	$(197,927)	$144,423	$(268,583)	$242,487

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

LIGHTPATH TECHNOLOGIES, INC.

Consolidated Statement of Stockholders' Equity

Six Months ended December 31, 2013

(Unaudited)

	Class A Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2013	12,958,239	$129,582	$209,645,126	$ 52,736	$(204,397,808)	$5,429,636
Issuance of common stock for:						
Vested restricted stock units	191,160	1,912	(1,912)	—	—	—
Employee stock purchase plan	3,539	35	2,477	—	—	2,512
Exercise of warrants, net of costs	1,136,142	11,362	1,527,446	—	—	1,538,808
Reclassification of warrant liability upon warrant exercise	—	—	277,070	—	—	277,070
Stock based compensation on stock options and restricted stock units	—	—	227,646	—	—	227,646
Net loss	—	—	—	—	(282,378)	(282,378)
Foreign currency translation adjustment	—	—	—	13,795	—	13,795
Balance at December 31, 2013	14,289,080	$142,891	$211,677,853	$ 66,531	$(204,680,186)	$7,207,089

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

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

	Six Months Ended December 31, 2013	2012
Cash flows from operating activities		
Net income (loss)	$(282,378)	$241,993
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	424,490	408,295
Interest from amortization of debt costs	10,047	1,750
Loss on disposal of property and equipment	1,098	1,247
Stock based compensation	227,646	128,286
Provision for doubtful accounts receivable	5,813	(4,216)
Change in fair value of warrant liability	53,965	(265,336)
Deferred rent	(79,586)	(48,588)
Changes in operating assets and liabilities:		
Trade accounts receivables	(211,965)	(272,311)
Other receivables	100,000	(246,057)
Inventories	(589,741)	(215,843)
Prepaid expenses and other assets	(157,911)	28,876
Accounts payable and accrued liabilities	282,468	187,367
Deferred revenue	(1,966)	(35,784)
Net cash used in operating activities	(218,020)	(90,321)
Cash flows from investing activities		
Purchase of property and equipment	(942,408)	(488,723)
Cash flows from financing activities		
Proceeds from sale of common stock from employee stock purchase plan	2,512	3,794
Proceeds from exercise of warrants, net of costs	1,538,808	—
Payments on capital lease obligations	(4,612)	(1,801)
Net cash provided by financing activities	1,536,708	1,993
Effect of exchange rate on cash and cash equivalents	13,795	494
Change in cash and cash equivalents	390,075	(576,557)
Cash and cash equivalents, beginning of period	1,565,215	2,354,087
Cash and cash equivalents, end of period	$1,955,290	$1,777,530
Supplemental disclosure of cash flow information:		
Interest paid in cash	$420	$1,555
Income taxes paid	2,166	1,736
Vesting of restricted stock units	1,912	—
Supplemental disclosure of non-cash investing & financing activities:		
Prepaid interest on convertible debentures through the issuance of common stock	—	87,000
Purchase of equipment through capital lease arrangement	12,972	—

Reclassification of tooling costs to inventory	425,626	—
Reclassification of warrant liability upon exercise	277,070	—

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

Notes to Financial Statements

1. Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements of Article 8 of Regulation S-X promulgated under the Securities Exchange Act of 1934 and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and related notes, included in its Form 10-K for the fiscal year ended June 30, 2013, filed with the Securities and Exchange Commission (the “SEC”). Unless otherwise stated, references to particular years or quarters refer to the Company’s fiscal years ended in June and the associated quarters of those fiscal years.

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

History:

LightPath was incorporated in Delaware in 1992 to pursue a strategy of supplying hardware to the telecommunications industry. In April 2000, the Company acquired Horizon Photonics, Inc. (“Horizon”), and in September 2000 the Company acquired Geltech, Inc. (“Geltech”). During fiscal 2003, in response to sales declines in the telecommunications industry, the operations of Horizon in California and LightPath in New Mexico were consolidated into the former Geltech facility in Orlando, Florida. In November 2005**,** the Company formed LightPath Optical Instrumentation (Shanghai) Co., Ltd. (“LPOI”), a wholly-owned manufacturing subsidiary located in Jiading, People’s Republic of China. LPOI’s manufacturing operations are housed in a 16,000 square foot facility located in the Jiading Industrial Zone near Shanghai. In December 2013**,** the Company formed LightPath Optical Instrumentation (Zhenjiang) Co., Ltd. (“LPOIZ”), a wholly-owned subsidiary that will operate a 25,833 square foot manufacturing facility located in the New City district, in the Jiangsu province, of the People’s Republic of China.

LightPath is a manufacturer and integrator of families of precision molded aspheric optics, high-performance fiber-optic collimators, 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.

Liquidity:

The Company has previously incurred recurring losses from operations. As of December 31, 2013 the Company has an accumulated deficit of approximately $204.7 million. Cash used in operations was approximately $218,000 for the first fiscal half of 2014 compared to cash used of approximately $90,000 for the first fiscal half of 2013. This is a change of $128,000 due primarily to the increase in stock based compensation, the change in the fair value of our June 2012 warrant liability and an increase in inventory due to the reclassification of tooling costs and prepaid assets.

At December 31, 2013, we had a book cash balance of approximately $2.0 million. During the six months ended December 31, 2013, we generated $390,000 of cash which compares to a cash usage of $577,000 for the first six months of the prior fiscal year. This increase in our cash balance for the first six months of fiscal 2014 was primarily due to the receipt in July and December 2013 of approximately $1.5 million in proceeds, net of approximately $31,000 in costs, from the exercise of common stock warrants. We issued 1,136,142 shares of common stock in connection with the exercise of these warrants. The warrants carried exercise prices ranging from $0.87 to $1.89 per share.

We believe that cash flow from operations will improve from fiscal 2013 during the rest of fiscal 2014 based upon the current booking rate combined with increased quote activity and the existing 12-month backlog. We are also continuing to seek opportunities to reduce costs and manage cash usage. We believe we can continue to achieve additional cost reductions by continuing the transition of precision molded optics lenses to less expensive glass, increasing tooling life and qualifying additional coating types in our Shanghai facility.

2. Significant Accounting Policies

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

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

Allowance for accounts receivable, is calculated by taking 100% of the total of invoices that are over 90 days past due from the due date and 10% of the total of invoices that are over 60 days past due from the due date for U.S. based accounts and 100% of invoices that are over 120 days past due for China based accounts.Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Recovery of bad debt amounts previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company's actual collection experience changes, revisions to its allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventories, which consist principally of raw materials, tooling, work-in-process and finished lenses, collimators and assemblies are stated at the lower of cost or market, on a first-in, first-out basis. Inventory costs include materials, labor and manufacturing overhead. Acquisition of goods from our vendors has a purchase burden added to cover customs, shipping and handling costs. Fixed costs related to excess manufacturing capacity have been expensed. We look at the following criteria for parts to consider for the inventory reserve: items that have not been sold in two years or that have not been purchased in two years or of which we have more than a two-year supply. These items as identified are reserved at 100%, as well as reserving 50% for other items deemed to be slow moving within the last twelve months and reserving 25% for items deemed to have low material usage within the last six months. The parts identified are adjusted for recent order and quote activity to determine the final inventory reserve. In the third quarter of fiscal 2013 we placed a 100% reserve on our isolator inventories due to our current sales forecast for this product line.

In the second quarter of fiscal 2014, we changed our classification of tooling costs associated with inventory costing. Previously, the majority of such costs were classified within property and equipment on the consolidated balance sheet. The periodic amortization of such costs was included in the pool of production overhead costs, a portion of which was capitalized into inventory. We are now classifying tooling costs as a direct inventory cost into specific products through our production costing processes.

This change was made to more accurately compute our standard costs and to reflect the process used to quote and internally estimate product costs overall. The Company believes this reclassification is preferable as it will provide greater precision in the costing of inventory and product pricing, which will enable us to better manage our margins, control our pricing and value our inventory. Since this change will more effectively value inventory based on historical tool usage factors and by individual part numbers, the result will be an increase in the accuracy of reporting the value of inventory and an improvement of matching costs with revenue. In addition, since implementation of the new inventory accounting system, our operations have been managed based on data provided from the perpetual inventory system. By tracking and valuing inventory based on perpetual records, financial reporting is better aligned with operations. Furthermore, the material requirements planning module now provides on hand and projected quantities of tools.

The majority of the impact of this change resulted in a decrease in gross value of property and equipment by approximately $889,000, less accumulated amortization of approximately $463,000, or a net decrease of approximately $426,000.

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

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

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

Deferred revenue relates to a $1.1 million purchase order from Raytheon Vision Systems (“Raytheon”) for which revenue is recognized on a percentage of completion basis. The Company is using the “cost-to-cost method” to allow it to measure progress toward completion based on the ratio of costs incurred to date to total estimated costs. The Company recorded in deferred revenue, or other receivables, in the accompanying consolidated balance sheet, based on the difference between the amounts invoiced on the project and the amount recognized into revenue, all prior to June 30, 2013, or expenses incurred. As of December 31, 2013, the Company invoiced $843,500 and recognized $1,097,030 as revenue with the difference of $253,530 recorded as other receivables which is expected to be billed in the third quarter of fiscal 2014. At December 31, 2013, we had no billed accounts receivable outstanding with respect to this purchase order. The project is expected to be completed by March 2014.

The Company recognized and recorded $50,000 in license income in “other income (expense), net” in September 2012. The transaction is being accounted for under the guidance of ASC 605-10, Revenue Recognition, in which all fees under the agreement are expected to be collectible in full, the licensing arrangement is exclusive and the term of the license extends beyond the remaining life of the patents.

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

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

The Company files U.S. Federal income tax returns, and various states and foreign jurisdictions. The Company's open tax years subject to examination by the Internal Revenue Service and the Florida Department of Revenue generally remain open for three years from the date of filing.

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

New product development costs are expensed as incurred.

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

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

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

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

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

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

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2013.

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

The Company values its warrant liabilities based on open-form option pricing models which, based on the relevant inputs, render the fair value measurement at Level 3. The Company bases its estimates of fair value for warrant liabilities on the amount it would pay a third-party market participant to transfer the liability and incorporates inputs such as equity prices, historical and implied volatilities, dividend rates and prices of convertible securities issued by comparable companies maximizing the use of observable inputs when available. See further discussion at Note 11.

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

Derivative financial instruments. The Company accounts for derivative instruments in accordance with ASC 815,which requires additional disclosures about the Company's objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements.

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Freestanding warrants issued by the Company in connection with the issuance or sale of debt and equity instruments are considered to be derivative instruments. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

Comprehensive income (loss) of the Company is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) has two components, net income (loss) and other comprehensive income (loss), and is included on the statement of operations and comprehensive income. Our other comprehensive income (loss) consists of foreign currency translation adjustments made for financial reporting purposes.

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

Recent accounting pronouncements. The Company has implemented all new accounting pronouncements issued by FASB and the SEC that are in effect and that may impact its financial statements, and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

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

3. Inventories

The components of inventories include the following:

	(Unaudited) December 31, 2013	June 30, 2013
Raw materials	$1,261,991	$628,956
Work in process	949,558	493,536
Finished goods	800,310	874,311

Reserve for obsolescence	(205,649)	(226,122)
	$2,806,210	$1,770,681

In the second quarter of fiscal 2014, gross tooling costs of approximately $889,000, less accumulated amortization of approximately $463,000, were reclassified from fixed assets and $20,102 was reclassified from prepaid expenses into inventory. The value of tooling in raw materials is $592,867 at December 31, 2013.

4. Property and Equipment

Property and equipment are summarized as follows:

	Estimated Life (Years)	(Unaudited) December 31, 2013	June 30, 2013
Manufacturing equipment	5 - 10	$4,145,023	$3,859,620
Computer equipment and software	3 - 5	277,078	255,100
Furniture and fixtures	5	76,045	75,762
Leasehold improvements	5 - 7	862,698	826,307
Construction in progress		789,765	279,869
Tooling	1 - 5	—	852,143
Total property and equipment		6,150,609	6,148,801
Less accumulated depreciation and amortization		3,794,288	3,913,020
Total property and equipment, net		$2,356,321	$2,235,781

Tooling was reclassified to inventory in the second quarter of fiscal 2014.

5. Intangible Assets

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

	(Unaudited) December 31, 2013	June 30, 2013
Gross carrying amount	$ 621,302	$621,302
Accumulated amortization	(602,339)	(585,905)
Net carrying amount	$ 18,963	$35,397

Amortization expense related to intangible assets totaled approximately $16,000 during both six-month periods ended December 31, 2013 and 2012. The net carrying amount will be amortized over the following schedule for the remainder of fiscal 2014 and fiscal 2015:

2014	2015	**Total**
16,434	2,529	18,963

6. Accounts Payable

The accounts payable balance includes approximately $54,500 and $51,300 of related party transactions for board of directors' fees as of December 31, 2013 and June 30, 2013, respectively.

7. Compensatory Equity Incentive Plan and Other Equity Incentives

Share-Based Compensation Arrangements—The Company's Amended and Restated Omnibus Incentive Plan (the "Plan") included several available forms of stock compensation of which incentive stock options and restricted stock awards have been granted to date.

The 2004 Employee Stock Purchase Plan ("ESPP") permits employees to purchase shares of Class A common stock through payroll deductions, which may not exceed 15% of an employee's compensation, at a price not less than 85% of the market value of the stock on specified dates (June 30 and December 31). In no event may any participant purchase more than $25,000 worth of shares of Class A common stock in any calendar year and an employee may purchase no more than 4,000 shares on any purchase date within an offering period of 12 months and 2,000 shares on any purchase date within an offering period of six months. The discount on market value is included in selling, general and administrative expense in the accompanying consolidated statements of operations and was $248 and $473 for the six months ended December 31, 2013 and 2012, respectively.

These two plans are summarized below:

	Award Shares Authorized	Award Shares Outstanding at December 31, 2013	Available for Issuance at December 31, 2013
Equity Compensation Arrangement			
Amended and Restated Omnibus Incentive Plan	2,715,625	1,507,458	569,103
Employee Stock Purchase Plan	200,000	—	105,918
	2,915,625	1,507,458	675,021

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

For stock options granted in the six month periods ended December 31, 2013 and 2012, the Company estimated the fair value of each stock option as of the date of grant using the following assumptions:

	Six Months Ended December 31, 2013		Six Months Ended December 31, 2012	
Expected volatility	118	%	110	%
Weighted average expected volatility	118	%	110	%
Dividend yields	0	%	0	%
Risk-free interest rate	2.48	%	0.67	%
Expected term, in years	11.85		6.25	

Most options granted under the Plan vest ratably over two to four years and are generally exercisable for ten years. The assumed forfeiture rates used in calculating the fair value of options and restricted stock unit grants with both performance and service conditions were 20% and 0%, respectively, for the six months ended December 31, 2013 and 2012. The volatility rate and expected term are based on seven-year historical trends in Class A common stock closing prices and actual forfeitures. The interest rate used is the U.S. Treasury interest rate for constant maturities.

Information Regarding Current Share-Based Compensation Awards—A summary of the activity for share-based compensation awards in the six months ended December 31, 2013 is presented below:

	Stock Options			Restricted Stock Units (RSUs)	
	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contract Life (YRS)	Shares	Weighted Average Remaining Contract Life (YRS)
June 30, 2013	585,009	$ 2.38	5.9	834,700	1.1
Granted	80,000	1.41	9.8	212,760	2.8
Exercised	—	—	—	(191,160)	—
Cancelled	(13,851)	2.40	—	—	—
December 31, 2013	651,158	$ 2.26	6.0	856,300	1.1
Awards exercisable/vested as of **December 31, 2013**	433,408	$ 2.65	4.7	435,332	—
Awards unexercisable/unvested as of **December 31, 2013**	217,750	$ 1.46	8.7	420,968	1.1
	651,158			856,300	

The total intrinsic value of options outstanding and exercisable at December 31, 2013 and 2012 was $19,325 and $0, respectively.

The total intrinsic value of RSUs exercised during the six months ended December 31, 2013 and 2012 was $288,652 and $0, respectively.

The total intrinsic value of RSUs outstanding and exercisable at December 31, 2013 and 2012 was $592,052 and $350,077, respectively.

The total fair value of RSUs vested during the six months ended December 31, 2013 and 2012 was $264,372 and $139,000, respectively.

The total fair value of option shares vested during the six months ended December 31, 2013 and 2012 was $62,986 and $68,000, respectively.

As of December 31, 2013, there was $507,212 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share options and restricted stock units) granted under the Plan. We expect to recognize the compensation cost as follows:

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	Stock Options	Restricted Stock Units	Total
Six months ended June 30, 2014	$29,042	$99,913	$128,955
Year ended June 30, 2015	41,127	156,625	197,752
Year ended June 30, 2016	26,784	112,291	139,075
Year ended June 30, 2017	17,057	20,865	37,922
Year ended June 30, 2018	3,508	—	3,508
	$117,518	$389,694	$507,212

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

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

The Company issues new shares of Class A common stock upon the exercise of stock options. The following table is a summary of the number and weighted average grant date fair values regarding the Company’s unexercisable/unvested awards as of December 31, 2013 and changes during the six months then ended:

Unexercisable/unvested awards	Stock Options	RSU Shares	Total Shares	Weighted-Average Grant Date Fair Values
June 30, 2013	183,250	371,670	554,920	$ 1.57
Granted	80,000	212,760	292,760	1.41
Vested	(45,500)	(163,462)	(208,962)	1.43
Cancelled/Forfeited	—	—	—	—
December 31, 2013	217,750	420,968	638,718	$ 1.19

Financial Statement Effects and Presentation—The following table shows total stock-based compensation expense for the six months ended December 31, 2013 and 2012 included in the consolidated statements of operations and comprehensive income:

	(Unaudited) Six Months Ended	(Unaudited) Six Months Ended

	December 31, 2013	December 31, 2012
Stock options	38,857	33,692
RSU	188,789	94,594
Total	227,646	128,286
The amounts above were included in:		
General & administrative	221,994	122,292
Cost of sales	—	1,580
New product development	5,651	4,414
	227,645	128,286

8. Income (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the weighted-average number of shares of Class A common stock outstanding, during each period presented. Diluted earnings per share is computed similarly to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue shares of Class A common stock were exercised or converted into shares of Class A common stock. The computation for basic and diluted loss per share are described in the following table:

	(Unaudited) Three months ended December 31,		(Unaudited) Six months ended December 31,	
	2013	2012	2013	2012
Net income (loss)	$(202,033)	$140,772	$(282,378)	$241,993
Weighted average common shares outstanding:				
Basic	13,863,865	11,801,684	13,715,789	11,786,793
Effect of dilutive securities:				
Restricted stock units	—	594,700	—	594,700
Common stock warrants	—	332,102	—	357,102
Diluted	13,863,865	12,728,486	13,715,789	12,738,595
Earnings (Loss) per common share:				
Basic	$(0.01)	$0.01	$(0.02)	$0.02
Diluted	$(0.01)	$0.01	$(0.02)	$0.02
Excluded from computation:				
Options to purchase common stock	651,158	576,393	651,158	576,393
Restricted stock units	856,300	—	856,300	—
Common stock warrants	2,127,230	3,734,669	2,127,230	3,709,669
Convertible debentures	—	706,169	—	706,169
	3,634,688	5,017,231	3,634,688	4,992,231

9. Foreign Operations

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the balance sheet date, and revenues and expenses are translated at average rates of exchange for the six month periods. Gains or losses on the translation of the financial statements of a non-U.S. operation, where the functional currency is other than the U.S. dollar, the Renminbi (“RMB”), are reflected as a separate component of equity. The foreign exchange translation adjustment reflects a net gain of approximately $14,000 for the six months ended December 31, 2013 and a gain of approximately $500 for the six months ended December 31, 2012. The Company, as of December 31, 2013, had approximately $6.53 million in assets and $5.34 million in net assets located at LPOI's Shanghai facility and LPOIZ's Zhenjiang facility.

10. Convertible Debentures

On August 1, 2008, we executed a Securities Purchase Agreement with respect to the private placement of the 8% Senior Convertible Debentures ("Debentures"). Among the investors were Steven Brueck, J. James Gaynor, Louis Leeburg, Robert Ripp, Gary Silverman and James Magos, all of whom were directors or officers of LightPath as of August 1, 2008.

Investors also received warrants to purchase up to 950,974 shares of our common stock. We received gross proceeds of $970,315 from the exercise of these warrants. These warrants expired on August 1, 2013.

On December 31, 2008, the Debentures were amended to allow debenture holders to convert 25% of their Debentures into shares of Class A common stock. As a result, $732,250 of the Debentures were converted into 475,496 shares of Class A common stock. To induce the debenture holders to partially convert the Debentures, we issued additional warrants. These warrants expired on December 31, 2013.

On March 25, 2013, the Company and the remaining Debenture holders holding approximately 93.10% of the outstanding principal amount of the Debentures executed a Conversion Agreement (the "Conversion Agreement") in connection with the early conversion of the Debentures. In consideration of converting the Debentures prior to the maturity date, the Company issued to each Debenture holder additional shares of Class A common stock to compensate the converting Debenture holders for the difference between the conversion price per share, or $1.54, and the closing bid price per share of common stock as reported on the Nasdaq Capital Market on March 22, 2013, or $0.79 (the "Conversion Incentive Shares"). In connection with the conversion of the Debentures, the Company issued a total of 1,148,738 shares of common stock, 559,448 of which we issued as Conversion Incentive Shares.

The summary of the Debenture conversion activity by fiscal year is as follows:

Outstanding Principal	Repayment of Outstanding