



Transcript of **LIGHTPATH TECHNOLOGIES, INC. (LPTH)**

SECOND QUARTER EARNINGS CALL

**February 4, 2010
4:00 P.M.**

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Participants

Jim Gaynor, Chief Executive Officer
Dorothy Cipolla, Chief Financial Officer

Presentation

Operator

Greetings and welcome to the LightPath Technologies Second Quarter Earnings Call. At this time, all participants are on a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Dorothy Cipolla, CFO. Thank you, you may begin.

Dorothy Cipolla - LightPath Technologies - Chief Financial Officer

Thank you and good afternoon. I'd like to thank everyone for joining us today for LightPath Technologies' Fiscal 2010 Second Quarter Financial Results Conference Call. Mr. Jim Gaynor, CEO of LightPath's Technologies will be your host on the call. If anyone participating on the call this morning does not have a copy of our earnings release, please contact our office at 407-382-4003 to receive a copy.

Before we begin the call, I am going to review the company's Safe Harbor statement. Statements in this conference call that are not descriptions of historical facts are forward-looking statements relating to future events and as such, all forward-looking statements are made pursuant to the Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties and actual results may differ materially. When used in this call, the words "anticipate," "could," "enable," "estimate," "intend," "expect," "belief," "potential," "will," "should," "project," and similar expressions as they relate to LightPath Technologies are such forward-looking statements. Investors are cautioned that all forward-looking statements involve risk and uncertainties which may cause actual results to differ from those anticipated by LightPath Technologies at this time. In addition, other risks are more fully described in LightPath Technologies' public filings with the US Securities and Exchange Commission which can be viewed at www.sec.gov.



At this time, I'd like to turn the floor over to Mr. Jim Gaynor, CEO of LightPath Technologies.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Thank you, Dorothy, and thank you all for joining us today for our fiscal 2010 second quarter results conference call.

Through the second quarter of fiscal 2010, LightPath has continued to improve its performance. Our backlog is growing reaching \$4 million of orders shippable within the next 12 months, a 29% increase over Q1 of fiscal year '10. Bookings for Q2 were strong at \$2.8 million and quote activity continues to increase, up 11% from the beginning of the fiscal year.

Production rates have increased 158% from this time last year and revenue grew to 2.2 million, up 16% from Q2 fiscal year '09, and up 37.5% sequentially.

As a result of this, I am extremely pleased that as a result of these factors and the lower-than-normal SG&A expense, we are reporting a positive net income for the first time in our history. This growth is driven primarily by increased business resulting from our new recently released low cost low cost RoHS compliant lenses for laser tools and telecom applications. SG&A expenses in the second fiscal quarter were lower due to a one-time payment related to a D&O insurance claim and the extension of our investor relations media contract. As we continue to grow our top line and increase our unit volume, we anticipate continued margin improvement and profitability resulting from better fixed cost utilization and our previously announced direct cost improvements.

We have identified markets that offer substantial growth opportunity and we have introduced products designed for these markets. We have organized our sales channels to address these markets and we are implementing our strategic plan to penetrate these same markets. These improvements along with continued aggressive cash management have positioned LightPath to become cash positive and reach its profitability goals.

I would now like to turn the call over to Ms. Dorothy Cipolla, CFO, to discuss our financial results for fiscal 2010 quarter and fiscal year to-date in more detail.

Dorothy?

Dorothy Cipolla - LightPath Technologies - Chief Financial Officer

Thank you, Jim.

Revenue for the second quarter of fiscal 2010 which ended December 31, 2009 was 2.2 million compared to 1.9 million for the second quarter of fiscal 2009, an increase of 16%. The increase from the second quarter of the prior fiscal year was primarily attributable to higher sales volumes of precision molded optics offset by lower volumes of isolators. Our precision molded optics sales units were significantly higher

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but our average selling price was lower. This is the result of our pursuit of the high volume low cost lens business.

Our current cost structure has allowed us to sell products at lower prices while improving gross margins. Growth from sales going forward is expected to be derived primarily from the precision molded optics product line, particularly our low cost lenses being sold in Asia. Our gross margin percentage in the second quarter of fiscal 2010 compared to second quarter of fiscal 2009 increased to 43% from 25%. Total manufacturing cost of \$1.2 was approximately 170,000 lower in the second quarter of fiscal 2010 compared to the same period of the prior fiscal year. This was due to lower production costs. Unit shipment volume in precision molded optics is up 158% in the second fiscal quarter of 2010 compared to the same period last year. This resulted in better absorption of overhead costs which resulted in improved fixed cost utilization which lowers our unit cost. Direct costs, which include material, labor, and services were increased to 26% first quarter - I'm sorry, the second quarter of fiscal 2010, as compared to 22% of revenue in the second quarter of fiscal 2009. Gross margins improved as a result of the cost reduction programs we have implemented and better production yields and efficiencies.

During the second quarter of fiscal 2010, total costs and expenses decreased 590,000 to 754,000 compared to 1.3 million for the same period in fiscal 2009. Included in total costs and expenses for the second quarter of fiscal 2010 were 544,000 in SG&A expenses which decreased 565,000 or 51% from 1.1 million for the same period in the prior fiscal year. Our decrease in selling, general and administrative expenses included a reduction in salaries and benefits of 124,000 for the second quarter of fiscal 2010 compared to the same period in fiscal 2009 resulting from reduced headcount and salary reductions. We also had an \$88,000 decrease in consulting fees, a \$27,000 decrease in rent expense, a \$33,000 decrease in board of director's fees, and a decrease of \$11,000 in accounting fees.

Also, in the second quarter of fiscal 2010, LightPath benefited from the receipt of a one-time payment in the amount of 280,000 from the sale of our insurance claim against our prior D&O insurance carrier as a reimbursement for legal expenses we incurred. As a result, total operating income for the second quarter of fiscal 2010 improved to 204,000 compared to a loss of 877,000 for the same period in fiscal 2009.

Interest expense was approximately 163,000 in the second quarter of fiscal 2010 as compared to 854,000 in the second quarter of fiscal 2009. Approximately 2,000 of the interest expense for the second quarter of this year is attributable to our equipment term loan and our capital lease. The debentures issued in August of 2008 accounted for approximately 161,000 of interest expense during the quarter ended December 31, 2009 which represent periodic interest at 8% and amortization and write-off of the related debt issuance costs and debt discount, which is the value of common shares and warrants issued as an incentive to participate in the debenture placement and to induce the conversion of debt to equity. The debentures issued in August 2008 accounted for approximately 847,000 of interest during the quarter ended December 31, 2008 representing periodic interest of 8% which relates to the write-off of the related debt issuance costs and debt discount, and the value of common shares and

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warrants issued as incentive to participate in the offering. On December 31, 2008, 25% of the debentures were converted into common stock and 304,382 of debt discounts and 121,255 of debt issuance costs were written-off to interest expense in the second quarter of fiscal 2009.

Net income for the second quarter of fiscal 2010 was 42,000 or 1 cent per basic and 0 cent per diluted common share, compared with a net loss of 1.7 million or 29 cents per basic and diluted common share for the same period last year. This represents a \$1.8 million decrease in net loss. Also, there was a 748,000 improvement in net loss from the net loss of 706,000 in the first quarter of fiscal 2010. Weighted-average shares outstanding increased to 8.2 million in the second quarter compared to 5.9 million from the second quarter of last year primarily due to the issuance of shares of common stock for our private placement which happened in the first quarter of fiscal 2010.

Looking at the six months ended December 31, our revenue totaled 3.8 million compared to 4.2 million in the prior fiscal year, a decrease of 11%. The decrease from the first half of the prior year was primarily attributable to lower sales volumes across all product lines except precision molded optics. Our precision molded optics sales units were significantly higher but our average selling price was lower. This is also the result of our pursuit of the high volume low cost business which our current cost structure has allowed us to sell and still improve our gross margins. Growth in sales going forward is expected to be derived primarily from the precision molded optics product line, particularly our low cost lenses being sold in Asia.

Our gross margin percentage for the first half of fiscal 2010 compared to the first half of fiscal of '09 increased to 43% from 26%. Total manufacturing cost of 2.2 million were \$988,000 lower in the first half of 2010 compared to the same period last year. This was due to lower production costs. Unit shipment volume in precision molded optics is up 177% in the first half of fiscal 2010 compared to last year. This resulted in better absorption of overhead costs which resulted in improved fixed cost utilization which lowers our unit cost. Direct costs, which include material, labor and services, were decreased to 22% of revenue for the first half of fiscal 2010, as compared to 23% of revenue for last year. Gross margins improved as a result of the cost reduction programs we have previously implemented.

During the first half of fiscal 2010, total costs and expenses decreased 900,000 to 1.9 million compared to 2.8 million last year. Included in total costs and expenses for the first half of fiscal 2010 were 1.5 million in SG&A expenses which decreased 833,000 or 36% from 2.3 million for the same period in the prior year. Our decrease in SG&A expenses included a reduction in salaries and benefits of 300,000 for the first half of 2010 compared to last year resulting from reduced headcount and salary reductions. We also had an \$82,000 decrease in rental costs, a \$43,000 decrease in accounting fees, a \$38,000 decrease in insurance expense and a decrease of \$38,000 in travel expenses.

We also, in the first half of fiscal 2010, benefited from receipt of two one-time payments totaling \$576,000. The first payment in the amount of \$276,000 was from our prior D&O insurance carrier as a reimbursement of legal expenses we incurred.

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The second payment in the amount of 280,000 was from the sale of the balance of our insurance claim against Reliance. This was partially offset by higher investor relations expenses of \$158,000 and higher legal expenses for payments in connection with our recent litigation. As a result, total operating loss for the first half of fiscal 2010 improved to 323,000 compared to a loss of 1.8 million for the same period in fiscal 2009.

Interest expense was approximately 343,000 in the first half of fiscal 2010 as compared to 1 million in the first half of last year. Approximately 3,000 in interest expenses for the equipment term loan and capital equipment lease balances for the debentures which were issued in August of 2008 and these accounted for 338,000 of interest in the six months of fiscal 2 of 2010 representing 8% interest and amortization and write-off of related debt issuance costs and debt discount. The debentures issued in August of 2008 accounted for approximately 982,000 of interest during the six months ended December 31, 2008 which represents the 8% interest, amortization and write-off of related debt issuance costs, and debt discount for the debentures as an inducement for the conversion of the debentures from debt to equity. Last year, on December 31, 2008, 25% of the debentures were converted into common stock and 304,000 of debt discount and 121,000 of debt issue costs were written-off to interest expense.

Net loss for the first half of fiscal 2010 was 665,000 or 9 cents per basic and diluted share compared to a net loss of 2.7 million or 49 cents per basic and diluted common share for the same period last year. This represents a \$2.1 million decrease in net loss compared to last year. Weighted-average shares outstanding increased to 7.7 million in the first half of fiscal 2010 compared to 5.7 million in the first half of last year primarily due to the issuance of shares in the private placement in the first quarter of fiscal 2010.

Cash and cash equivalents totaled 906,000 at December 31, 2009. Total current assets and total assets at December 31, 2009 were 4.3 million and 6.6 million compared to 3.3 million and 5.8 million, respectively, at June 30, 2009. Total current liabilities and total liabilities at December 31, 2009 were 1.6 million and 3.8 million compared to 2 million and 4.1 million, respectively, for June 30, 2009. As a result, the current ratio as of December 31, 2009 improved to 2.66 to 1 compared to 1.61 to 1 as of June 30, 2009. Total stockholders' equity at December 31, 2009 totaled \$2.7 million compared to \$1.7 million at June 30, 2009.

As of December 31, 2009, our backlog of orders scheduled to ship in the next 12 months, was 4 million compared to 2.3 million as of June 30, 2009.

I would now like to turn the call back over to Jim for closing comments.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Thank you, Dorothy.

Our results for the second fiscal quarter of 2010 are a result of the dedication, hard work and effort by the team at LightPath to control costs, mitigate expenses, and bring the right new products to our defined markets. We are seeing the effect of increased

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unit volumes in precision molded optics and these volumes are improving the absorption of our fixed costs and reducing cash usage in operations. With our current operating efficiencies and low cost structure our focus will continue to be on revenue growth.

Our efforts to penetrate high volume lower cost commercial markets in Asia shows tremendous promise for this fiscal year and we are excited by the acceptance of the new lenses we have recently introduced. Going forward we will continue to focus on these market opportunities and on implementing new distribution channels to expand our presence in the Asian precision optic lens market.

This concludes our formal comments. And at this time, I'd like to open the call for questions. So, operator, if you would please start the Q&A portion of the call?

Operator

Thank you. We will now be conducting the question and answer session. If you would like to ask a question, please press *1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the * key. Once again, that's * followed by 1 on your telephone keypad if you would like to ask a question.

Our first question is from Michael Dyat, a private investor. Please go ahead with your question.

Michael Dyat - Private Investor

Jim and Dorothy, this is a great report, thank you very much. It looks good. I wonder if you might comment on how things have been working in Europe and some of the other geographic areas that you've been talking about in prior calls with the new distribution agent you had described in Europe last time.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Okay. Actually, Michael, the change that we made over there in expansion of the territories that we have given to our distributor there, AMS Technologies, has been working extremely well. Record activity has increased dramatically. The business that we're booking over there is increasing. And I think, overall, we generally have much better coverage than we had before. The result, we're quite pleased with how that change and channel to market is working for us.

Michael Dyat - Private Investor

Great. Thank you very much.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

You're welcome.

Operator

The next question is from Steven Hart with Heller Capital Investments. Please go ahead with your question.

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Steven Hart - Heller Capital Investments

Hi there. Congratulations on the quarter. I guess about four or five months ago you announced an expanded distribution network with WPG that was going to bump service, so it's expanding both Americas and a bunch of southern Asian markets. Can you talk about how, especially in the southern Asian markets, how instrumental they have been or maybe have not been towards your progress there? I mean, how much of this growth that you're experiencing is attributable to them versus what's still to come from them in the next few quarters?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

I would say Steven to-date, the growth that we're getting from that distribution channel is yet to mature and the reason for that is now that we've aligned with them, this is a relatively new market business for WPG. It's not where their strength has been in, in the past. So they are in the process of learning the product line and it's coming along.

Now I would say that what we are seeing from them is some increased productivity which gives us the indication that they're looking in the right places and as they come up the learning curve into our market segments or the types of applications that are particularly good for us, I expect to see continued improvement in that channel and I still think it's going to be a very, very good thing for us but the growth that we've seen to-date historically – there hasn't been a big factor in that yet and I didn't really expect them to be in Asia and we're still working with them to expand some territories over there and they are also working on aligning themselves with some other types of companies that are in the photonics business which I think will be also positive for us as well as the other companies we can push-pull into certain markets through that.

So I still remain very optimistic and encouraged and I think the WPG alliance is going to work very well for us in the future.

Steven Hart - Heller Capital Investments

Okay, thanks.

Operator

The next question is from Richard Schaeffer, private investor. Please go ahead with your question.

Richard Schaeffer – Private Investor

Yes, I was wondering, are any of your products – do you have to clear any of your products with the Department of Commerce for national security reasons when you would be selling to China or East Asia?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

You know, none of our commercial products I think fall under that category. If we do end up in it, we are capable we're an ARCAR (ph) certified manufacturing facility in the US which has to do with tariffs and control on arms and those kind of products as well as some defense contractors but that has not been an issue for us. From a commercial standpoint, the lens component level, we don't have any issues there.



Richard Schaeffer – Private Investor

Okay, thank.

Operator

The next question is from Steve Donovan, private investor. Please go ahead.

Steve Donovan – Private Investor

Hello there.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Hi Steve.

Steve Donovan – Private Investor

Congratulations on this historic development. I'm really thrilled and was so happy to wake up this morning and see this news.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Me too Steve. I'm really excited about it as we all are here at Lightpath, thank you.

Steve Donovan – Private Investor

I agree with you. Absolutely for the first quarter in the company's history and all the ground that you're laying and the progress that's being made, it's really, really hopeful.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Yeah, I mean I'm really excited about it and I think we've positioned ourselves well. We've got good market opportunities in front of us. So I'm anticipating many more to come.

Steve Donovan – Private Investor

Wonderful. I've two quick questions. Going forward, the comparison between 2010 first half and 2009 first half is benefitted by the \$556,000 insurance claim and the debt cost of \$425,000 in 2009. I'm not sure I have the numbers correct but that's a big amount, almost a million so going forward, do you think you'll be able to hang on to your profitability with the momentum from revenue and cost improvements.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Yes I do Steve, because I think – I don't think, I know. I mean, I know where we have to get from a top line to be able to support the covering our cost and generating positive cash and a profit and 2.2 million is still a little below that number so we were able to take advantage of some lower SG&A expenses as a result of some of these things. It got us there a quarter sooner but going forward, we're going to be at those levels and if you consider where the backlog is sitting and the order rates that we're experiencing now in combination with, if you also look at what's happened with the gross margins over the last five or six quarters, in 2009 our gross margins averaged around 25% if I remember the percentage correctly. For the first half of both quarters in 2010 fiscal, we're at 43% and that's a clean number. These one-time events are not in that gross margin in that operating number. They're below the line of SG&A. So at those margin rates and with the volumes that we have coming and the transformation that we've done with the company so that we can address these larger

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markets albeit at higher margins, I'm extremely confident that we're not going to go backwards.

Steve Donovan – Private Investor

Beautiful. One other question: your unit growth was very dramatic, 158% for the second quarter versus the previous year?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Uh-huh.

Steve Donovan – Private Investor

And can you give us an indication of the revenue per unit just roughly or are we talking \$5 a lens or?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

I think we have lenses in all different categories going down through the mix. With the historical type business that we've been doing is in the \$20-30 range on the average. We've got some other market segments where we're selling lenses for \$10-15 and then we've got these higher volumes, extremely high volume-type things where we're selling lenses from \$1 to \$2 range and so I think you've got that whole thing. Now, the mix changes, you know, that average price moves around but it's still in the neighborhood of 10-15 dollars.

Steve Donovan – Private Investor

And then are these primarily lenses as opposed to assemblies?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Yes. These are at this point just lenses. Now some of them are mounted in holders but that's a relatively small percentage.

Steve Donovan – Private Investor

Do you see – obviously there's an opportunity to move some of them into assemblies?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Yeah. I think predominantly we have a couple of product lines like collimators that really are an assembly. We have another as we continue to develop and work in the infrared, a lot of that business is planned to be assemblies. And there's nothing that would prevent us from working into assemblies with some of our customers that that would make a value add to them as well as to us. So we certainly have the capability. We have the technology. It's just a matter of finding the right opportunities at the right price point.

Steve Donovan – Private Investor

Beautiful. Great report, many thanks.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Okay, thank Steve.

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As a reminder if you'd like to ask a question, please press *1 on your telephone keypad. The next question is from Robert Engbinder with Garden State Securities. Please state your question.

Robert Engbinder – Garden State Securities

Well, Jim and Dorothy first let me congratulate you for being the first management team to take LightPath to profitability. This company has been around a long time and to see a profit is certainly refreshing. You just touched upon the question I wanted to ask you Jim which was in the infrared space, my understanding is the selling prices of those infrared lenses is quite high and there is quite a large opportunity there for LightPath, can you kind of give us a little more color as to what that opportunity looks like?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Sure. I think infrared at least from what LightPath brings to the marketplace is the ability to mold lenses. And the molding process is a technology which I believe is an enabling technology to further the commercialization of infrared-type lenses in the marketplace. In other words, it's a way of mass production with lower cost and repeatability that would allow this type of product – to lower the price points of the cameras, sensors and systems that these optics would be used in so that they can become more consumer-friendly I guess is the word and reach price points where you would have a much larger volume and much easier acceptance of the technology for sensors, security cameras, things that cost thousands of dollars could then conceivably start to be sold for hundreds of dollars and as that happens the volumes go up.

I think we may be a year or two away from that happening. There's still some development work that needs to be done in that regard and in the meantime, there is a market there albeit smaller, and more defense-type related-type products while we develop that technology into its full commercialization capability. So I think you'll see prices move down as that happens but volumes will go up and I think at this point we'll take advantage of the higher prices with the lower volumes which is okay while we're developing the technology.

Robert Engbinder – Garden State Securities

This would be in addition to what you're currently doing where you're really not rolling out a lot of infrared lens right now, correct?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Right. I mean, we're selling a few but not in any significant quantities.

Robert Engbinder – Garden State Securities

Okay, and my second question is we're hearing a lot about a telecom equipment pickup and based upon past experience with LightPath, my understanding is that bodes well for you and collimators and isolators and are you seeing any pickup in that area?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

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Yeah, I mean actually, quite a bit of the business that we're currently drawing in the short term is a reawakening of the telecom markets and that market is really being exercised and the infrastructures being put in place in a lot of the emerging countries. This is driven by the expansion of the internet and cloud computing and high-definition TV, smart phones which are bandwidth phones which are requiring higher bandwidths and network capacity so that is driving fiber optics infrastructure being put in place in places like China and India, Thailand – Asia in general.

Robert Engbinder – Garden State Securities

So the old LightPath is back?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

So there is a definite opportunity which we are capitalizing on and one of the things that we were able to do is we recently introduced a series of RoHS compliant high index glass lenses which are ideally suited for those applications.

Robert Engbinder – Garden State Securities

Fantastic. That's great. Well, listen, I want to congratulate you again. Thank you so much Dorothy and Jim. I look forward to the next quarter.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Alright, thank Bob.

Operator

The next question is from Bart Marcy, private investor. Please go ahead.

Bart Marcy – Private Investor

Good afternoon Jim and Dorothy, again congratulations.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Hey Bart.

Bart Marcy – Private Investor

Picking up on some of the questions and the answers leads me to a question about the navy SBIR contract and the opportunity forum that you had last June and I believe the Company attended that. Has that led to any engineered assemblies and some samples going out to some potentially new customers?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Not to the extent that I had hoped Bart, but what it has done is we've pretty much essentially completed the work associated with that SBIR which was really to develop a larger sized lens molding capability and so what we have proven from a process point of view is that we can mold up to about 40 mm currently. We're currently bidding on another development program to take that from 40 mm up to 100 mm.

Bart Marcy – Private Investor

Great, thank you much.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

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So that's where that stands.

Bart Marcy – Private Investor

Thanks a lot.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Alright.

Operator

The next question is from Richard Schaeffer, private investor. Please go ahead.

Richard Schaeffer – Private Investor

Congratulations again on your quarter. You've been talking - you've stepped up margin from 25% to 43%. How solid is that on your \$4 million backlog? Is that a secure and then even going forward on let's say a 2-5 year basis, where do you expect margins to be in a few years as more products comes online?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Richard, I think – first of all I consider it a very solid number and I think it has upside potential and it has upside potential for us because as we continue to put the unit volume and the revenue into our existing capacity, we'll continue to do a better job of absorbing our overhead cost and I think the overhead we have in place has lots of upside room for additional volume before we have to increase it to any significant amount. And the work that we did over the last year and a half on the direct cost which really started with converting our tooling to a ceramic-based tooling which allowed us to press at higher temperatures and those higher temperatures allowed us to incorporate significantly lower-cost glass systems into our processes and that has addressed a significant change in our cost structure and that combined with operating in China so we have the advantage of the labor cost has put an order of magnitude change in our cost structure. Now that put us in a position where we could then address certain markets like this industrial laser tools from a price point where we can be price-competitive with anybody in the world and still make very good margins which is the effect that you're seeing in the last two quarters. So I really expect those margins to hold. Our direct costs are going to be in the 22% to 28% of revenue which I think is a reasonable place for our type of business for our direct cost to be.

Richard Schaeffer – Private investor

And you see that going forward for more than just a couple of quarters?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Absolutely. I mean, we've changed the way we build product and the approach from being a high mix low volume type producer into being a high volume manufacturer of products. And that was where a lot of work which required the patience from our investors over the last two years while we put those changes in place that we're now seeing the results of.

Richard Schaeffer – Private Investor

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And then the last question is do you see any avenue right now that is likely to require new capital funding to ramp up and take advantage of? Are there -- is there -- are there things in the works? Or perhaps is LightPath on a -- going to be on more of a cash flow basis in the next year or so?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Well, I think obviously we have capacity in place to continue to grow the business right now and that's come from the yield improvements and the efficiencies and prior investments that we have made. That can get us a long way. As we continue to take on these volumes, we may need to invest a small amount of money to expand that existing press capacity in China but we believe we have that covered. And so at this point, I don't see us -- meaning in the immediate future to go out for funding but the right opportunity came along, certainly we would have to evaluate that and make a decision. But we can grow the business quite substantially with what we've got, even from this point.

Richard Schaeffer – Private Investor

Okay, thank you.

Operator

The next question is from Steve Donovan, private investor. Please go ahead with your question.

Steve Donovan - Private Investor

Hey Jim, just one more question. A few questions ago you said that you would mold a lens that's 100 millimeters in diameter?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Well, that would be the goal, to have that capability

Steve Donovan - Private Investor

And that -- that's a very large lens.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Yes. That's a government-type driven development program Steve that we're bidding on. I don't know that we're going to get it. I mean I hope we do. I think we should given the success we've had going from 25 to 40. It's the logical next step and it would be a very large lens for a very specific-type of application.

Steve Donovan -- Private Investor

Can you indicate what type of application and what it would sell for?

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Right now I don't know Steve. I think that's a bit too speculative on my part to try and guess that.

Steve Donovan - Private Investor

The technology is such that you can mold that size lens using the same technology that you're molding a tiny lens?

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Jim Gaynor – LightPath Technologies – Chief Executive Officer

Well, there's some difference in the equipment and you get into some exponential changes in pressures and those kinds of things so there's a lot of work to do from a process point of view but we basically in the first step that we did getting to these larger lenses we kind of found what we think is a path to be able to do it. So a lot of engineering work involved in that but yeah, we think we can do it with basically the same theory that we're using but there are some differences.

Steve Donovan - Private Investor

It's amazing the moves that you're able to make with the business platform you've set up.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

I think it does give us quite a bit of flexibility and obviously getting the base baseness stabilized such that it can pay for itself and start to fund new things. That's the way we want to run a normal business model and that's what we're working diligently to make sure that we put it in place and now we can start to have the discussions about what's next for LightPath and where do we take the business and that's the best opportunity for us.

Steve Donovan - Private Investor

Great. Thanks so much.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Okay

Operator

There are no further questions in the queue. I would like to turn the call back over to management for closing remarks.

Jim Gaynor – LightPath Technologies – Chief Executive Officer

Well, thank you operator. I'd like to thank our shareholders and everyone who has participated on today's call and I would also like to thank the team at LightPath Technologies for their hard work and dedication and I look forward to updating you again on our fiscal 2010 Third Quarter Conference Call in May. If you have any further questions, please feel free to contact myself or Dorothy and have a great day.

Operator

This concludes the teleconference. You may disconnect your lines. Thank you for your participation.