



## **Transcript of LightPath Technologies (LPHT) 2011 First Quarter Earnings Conference Call**

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### **Participants**

Dorothy Copilla, Chief Financial Officer  
Jim Gaynor, President & Chief Executive Officer

### **Presentation**

#### **Operator**

Greetings ladies and gentleman, thank you for holding. Welcome to the LightPath first quarter 2011 earnings conference call. At this time all participants are in 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. It is now my pleasure to introduce your host Ms. Dorothy Cipolla. Thank you, you may begin.

#### **Dorothy Cipolla – LightPath Technologies - CFO**

Thank you and good afternoon. I would like to thank everyone for joining us today for LightPath Technologies fiscal 2011 first quarter financial results conference call. If anyone participating on the call does not have a copy of the earnings release they can find a copy on our website at [lightpath.com](http://lightpath.com) or if you are unable to access these materials online you may call LightPath at 407 382 4003.

I would like to start by reviewing 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 Security Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties and actual results may differ materially. Forward looking statements when used in this call can be designed by the words anticipates, could and able, estimates, intend, expect, belief, potential, will, should, project and similar expressions as they relate to LightPath Technologies and gestures or questions that all forward-looking statements involve risks and uncertainties which may cause actual results to differ from those anticipated by LightPath Technologies at this time. Factors that could cause or contribute to such differences include those risks fully described in LightPath Technologies public filings with the US Securities and Exchange Commission which can be reviewed at [SEC.gov](http://SEC.gov).

It is now my pleasure to turn the call over to your host Jim Gaynor.

#### **Jim Gaynor – LightPath Technologies – President & CEO**



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Thank you and good afternoon everyone. I would like to thank everyone for joining us today on the call and giving us this opportunity to explain our business situation and how we are growing the business. Our business continues to transition into low cost, high volume lenses used in numerous product applications such as laser levels, range finders, gun sights and projectors. Our ability to address large overseas markets, primarily in China, provides an immediate opportunity to expand our product line and diversify our revenue streams resulting in increased downside protection in the global economy.

During the first quarter of fiscal 2011 LightPath continued its trend of increased revenues, improved backlog and higher shipment per unit volume primarily within our precision molded optics product line. Despite the very difficult economic conditions effecting our customers and LightPath revenues in the first fiscal quarter of 2011 achieved steady growth of 45% year on year to \$2.25 million. It is important to note that the first quarter is typically the slowest in our business due to the European holiday season and seasonality affecting several of our major customers. During the quarter we gained five new high volume customers and lost two existing customers, one due to market conditions and the other due to nonpayment of goods already shipped. We plan to move into production on our new accounts over the next two quarters and while our new customers will more than offset those lost over the long run, this change as caused a temporary softening of our revenues in the first quarter of 2011 as compared to our plan. As a result our costs were under-absorbed resulting in lower gross margins. Despite these challenges our EBITDA and net loss showed continued improvement in the first quarter of fiscal 2011 and our backlog also remained strong. As of September 30, 2010 the backlog scheduled to ship within in the next 12 months was \$3.2 million compared to \$2.9 million as of June 30, 2010.

I would now like to turn the call over to Ms. Dorothy Cipolla, our CFO, to discuss our financial results for fiscal 2011 first quarter which ended September 30<sup>th</sup> in greater detail.

**Dorothy Cipolla – LightPath Technologies - CFO**

First I will talk about the three months ending September 30<sup>th</sup>. Revenue for the first quarter totalled \$2.25 million compared to \$1.56 million for the first quarter of last year, an increase of 45%. This increase was primarily attributable to higher sales volumes of precision molded optics and increased sales in gradient lenses, collimators and isolators. Our precision molded optics sales were higher as a result of our increased production capacity and our pursuit of high volume low cost lens business. Growth in sales going forward is expected to be derived primarily from the precision molded optic product line, particularly our low cost lenses being sold in Asia.

Our gross margin percentage in the first quarter compared to last year decreased to 37% from 43%. Total manufacturing cost of \$1.43 million was approximately \$539,000 in the first quarter compared to the same period last year. The manufacturing cost increase is a reflection of an increasing cost in order to support higher production and sales volume and a product mix change including increased sales of isolators and collimators which have a higher material cost. Unit shipment volume in precision molded optics increased by 11% in the first quarter of 2011 compared to the same period last year. Direct costs which include material, labor and

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services increased to 27% of revenue in the first quarter as compared to 17% of revenue in the first quarter of last year due to the product mix change. Gross margins were lower due to reduced overhead absorption and higher material costs due to the product mix change.

During the first quarter total costs and expenses increased \$109,000 to \$1.3 million compared to \$1.2 million for the same period last year. This increase is due to \$63,000 higher wages, \$21,000 higher stealth tax for tooling and 21,000 higher stock compensation expense due to stock options branding in the third quarter of fiscal 2010. Included in total cost and expenses for the first quarter of this year were \$1.1 million in FTNA, as a result total operating loss for the first quarter of fiscal 2011 was reduced to a total loss of \$475,000 compared to a loss of \$527,000 for last year. That interest expense was approximately \$378,000 in the first quarter of 2011 as compared to \$180,000 in the same period last year.

The convertible debentures issued in August 2008 accounted for approximately all of this interest expense during the quarter ended September 30, 2010. This includes periodic interest at 8% and amortization of the related debt issuance costs and debt discount, and write off of debt issue costs, prepaid interest and debt discount for debentures converted into shares of common stock during the first quarter. During the first quarter we reduced out debt by \$732,500 through the conversion of debentures to shares of common stock by certain investors, leaving a remaining balance due to these certain investors of \$1.2 million which is covered by our existing cash on hand. The converged of the debentures resulted in an accelerated charge to the income statement totally \$200,000 to cover the interest in debt issuance cause that were being amortized over the life of the debentures.

Net loss for the first quarter of fiscal 2011 was increased \$147,000 to \$853,000 or \$0.09 per share, basic and diluted. Compared to a net loss of \$706,000 or \$0.09 per basic and diluted common share for last year. This increase in loss is the result of the \$200,000 of accelerated interest charges due to the early conversion of the apportion of the debentures. Weighted average basic shares outstanding increased to \$9 million in the first quarter of fiscal 2011 compared to \$7.6 million in the first quarter of last year which is primarily due to the issuance of shares of common stock related to a private placement in the fourth quarter of fiscal 2010 and debentures converted into equity in this quarter.

I now would like to talk about a few areas on the balance sheet. Cash and cash equivalents totaled \$1.35 million at September 30, 2010. Total current assets and total assets at September 30<sup>th</sup> were \$4.7 million and \$7.3 million compared to \$4.8 million and \$7.5 million, respectively, at June 30<sup>th</sup>. Total current liabilities and total liabilities at September 30<sup>th</sup> were \$2.3 million and \$2.9 million compared to \$1.1 million and \$3.2 million, respectively, for June 30, 2010. This change is primarily related to the convertible debentures moving from long-term liability to current liabilities with \$1.1 million due to the repaid in August 2011. As a result, the current ratio as of September was 2.01 to 1 compared to 4.41 to 1 as of June 30<sup>th</sup>. Total stockholders' equity at June 30<sup>th</sup> totaled \$4.4 million compared to \$4.2 million at June 30<sup>th</sup>, 2010. As of September 30, 2010 our backlog of orders scheduled to ship in the next 12 months, was \$3.2 million compared to \$2.9 million as of June 30<sup>th</sup>.

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

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**Jim Gaynor – LightPath Technologies – President & CEO**

Thank you Dorothy. We expect margin improvements based on the production efficiencies and reductions in product cost as a result of the shift in the majority of our manufacturing operations to our Shanghai facility. Our direct to China sales channels have opened up a greater market opportunity to fill demand with our low-cost lenses used in laser systems, laser tools, biomedical instrumentation and telecommunication equipment provided by high volume manufacturers throughout Asia. In the coming quarters we remain cautiously optimistic and in the long run believe our business strategy offers significant financial rewards for the company and our shareholders. This concludes my comments at this time and I would like to open the call for questions. Operator would you please start the Q&A portion of the call?

**Operator**

Ladies and gentlemen 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 can 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 \* keys. One moment please while we poll for questions. Our first question comes from the line of Michael Dyat, private investor. Please proceed with your question.

<Q>: Hi Jim and Dorothy. Good report again, I appreciate it. I do have two quick questions. Maybe to talk a bit more about the shift in the gross margin that you noted in the press report where it seemed to go down. Is that going to be staying there, or coming back? And coming back to an earlier question I've had in prior calls, you've talk about Europe and some of the action there, as well as how you have done in some of these technical trade conferences?

**Jim Gaynor – LightPath Technologies – President & CEO**

Okay, well let me take the first one. You know the margin did dip primarily because our volume dropped a little in the first quarter compared to where we have been running and we didn't absorb all of the same overhead costs that we have before and as I said we fully expect that to come right back as we move through this current fiscal year. So I am not too worried about that. Looking at all the operating parameters in terms of our yields and productivity, those kinds of measures that we keeping putting tight reign on, everything is still in line to where it has been in the past. So really it's just a matter of making sure that we bring in that revenue and we have this little dip as the result of these two major customers that one lost his contracts which means we lost some business and the other, we made a conscious decision to stop doing business with over payment issues and we resolved those current payment issues but we decided that we would not continue to do business with that particular customer. Those were some pretty tough decisions and some pretty big impacts. We have been able as I said to replace that business but you know now it's a matter of how quickly we can bring it online and I think we will start to see that in this current quarter and the following quarter we should be back to where we have been.

<Q>: Then I asked about Europe and are you getting good sort of order interest at these technical conferences?

**Jim Gaynor – LightPath Technologies – President & CEO**



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I mean the technical conferences and the trade shows that we attend are one of the major generation, lead generation tools that we have and it's actually where we get quite a bit of our business from. So they have been doing very well for us and we are going to continue that. As you may have noticed in some of the press releases we are expanding that effort, particularly in China and we have started to make really good progress in the relationships and the number of customers that we're getting directly in China. You know it's taken us a while to get LightPath recognized within the Asian market and the guys over there have done an outstanding job and really being accepted as a player in that market locally and by that I mean the Asian continent and China in particular. So that has done very well for us. In Europe, in particular, since we put AMS Technologies on and used the master distributor strategy that we set in place, we have seen a tremendous growth in our business in Europe and we are really very pleased with that and AMS has moved to one of our larger accounts and customers and is doing quite well so I am very pleased with that. That strategy has actually exceeded our expectations.

<Q>: Great, well thank you. I liked particularly the new staffing in China, it looked very strong.

**Jim Gaynor – LightPath Technologies – President & CEO**

Thank you.

**Operator**

Thank you our next question comes from the line of Bob Ainbinder with Garden State Securities. Please proceed with your question.

<Q>: Good afternoon Jim, good afternoon Dorothy.

**Dorothy Cipolla – LightPath Technologies - CFO**

Hi Bob.

<Q>: First let me congratulate you both on another solid quarter and great work over the past several years Jim, since you've taken the reins. We've really noticed the difference in LightPath, and the progress that you are making. I really want to congratulate you on a job well done. With that, could you give us a little more color, as to the margin question that Michael Dyat asked you? In particular, what was it that actually drove down those margins? Was it the customer, or are you selling more isolators, I guess is more my question? Is the isolator business starting to really pick up in China, and is that something you see as a real revenue generator, as we move forward?

**Jim Gaynor – LightPath Technologies – President & CEO**

Well I think there is a couple of things behind it, one is there was a pretty good product mix shift in this particular quarter and part of that was because we were selling more isolators given the recent strength in the telecom markets, so some of that business has come back. We don't expect that to be long-term but that is a higher material content product and it has lower margins associated with it so it was a bigger piece of the mix. We also have been working on the development of some new designs with some particular customers on the collimator line and so we were



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actually putting out some prototypes so we have some upfront costs that as they go into production which they will be going this current quarter and the follow on quarters we will see a much better return from that business. So there are some definitely and then what happened is some of the low-cost which had pretty good margins, some of that business dropped off with these customer shifts and will be coming back so we had that kind of the mixed change as well. All of that then, the unit volume dropping off temporarily, we didn't cover all of the overheads that we had been covering so the biggest portion of that is just that absorption of this fixed cost that we have, which we believe is the right size for the business that we expect to have. I really feel that this will be a very temporary situation and we will see very quick important as we go through this fiscal year.

<Q>: Okay with that could you give us a little color as to the new hires in Asian and a little background on the people that you hired and what you expect out of them?

**Jim Gaynor – LightPath Technologies – President & CEO**

What we've done there is we've hired a, we're putting in a level of middle management in the Shanghai operation, you know as that plant becomes more and more the major producer of our product, we wanted to make sure that we had the right skill level and experience level in the quality and the materials planning and supply chain management areas and those were the two key positions that we added. Both of those guys come to us with about 10-15 years experience in international companies in China and they're able to know how to run things, how to make sure that our quality systems are operating properly and consistently and from a supply chain management point of view and materials flow and planning, giving us a level of expertise that we didn't have on site prior to this. That was the idea between putting those people in and continuing to develop that organization, we wanted to make sure that we had the right management skills in place.

<Q>: Okay. And as far as our operations in the US, do we anticipate building out any manufacturing capacity for our government contracts? Is there anything in that area that you might be able to disclose?

**Jim Gaynor – LightPath Technologies – President & CEO**

Well you know what we're trying to do there Bob is we've had this strategy for a couple of years now. We're moving the majority of our commercial type operations and manufacturing for that into the Chinese facility to take advantage of the low-cost platform and focusing the Orlando operation on engineering work, the research and development work as well as some defense work and setting it up. As we go through time here and we develop this infrared product line we really expect that to be the next thing that puts significant manufacturing operations back into the Orlando operations moving forward. So that's the way we've implemented our strategy to take advantage of those cost advantages and now we've got the organization set up properly to do that and then as we develop this infrared product line what we'll see is more manufacturing. Infrared, we feel that at least 50% of that business opportunity is going to be defense related, whether that's, from our perspective that would be for us selling to a major defense contractor who has got some of kind of defense contract.

<Q>: It's an exciting time for LightPath, sounds like we're firing on all cylinders.



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**Jim Gaynor – LightPath Technologies – President & CEO**

You know I think that real thing that people want to know about is how we're going to get off this bubble and when will we be able to sustain profitability and those kinds of things. I think what we have done, we've done the majority of the internal cost work that is required for us to open up larger markets as we've explained in the past and now it's a matter of how quickly we can grow our revenues and you know we've got some very aggressive plans in place to make that happen. You've seen some of the events and we've disclosed then where we've expanded our new distributors and our distribution channel both in Europe and in Asia and I think Europe is a little ahead of the curve there and it is working very well and we're doing that same thing in Asia. We've added a couple of distributors there and we're going to add a couple more so that we get better exposure in that very vibrant market. We have hired an experienced and well qualified executive in Brian Soller as our business development so that we can help us to find to right directions that we need to go and what the opportunities for the future are and you know he comes to us with quite a bit of experience and really the proper background to help directly in our business.

We continually, actively pursue additional cost reductions. We haven't stopped trying to get our costs and improve those cost structures as we move forward. As we do that, that will allow us to have even deeper penetration into these high volume markets and really see some really good opportunities for us along that line. So what that lead us to is our strategy is in the short term we have a very aggressive focus on this high volume, low cost markets which are basically telecom and industrial laser tools, in the midterm we're going to be beefing up our value added services and you know move the company a step up the ladder in terms of value, value added type opportunities and in the long-term it's based on our penetration into the infrared and we truly believe that we have an enabling technology there that will allow us to offer a very cost competitive product into the infrared space and thermal imaging and sensors and security type devices.

So I think we are continuing to execute this strategy or continuing to make good progress and you know I think it's going to lead to a very bright future for this company, I'm really very excited about it.

<Q>: Very good. Jim, I really appreciate it. Dorothy thank you so much both of you for your hard work, I look forward to the next conference call.

**Jim Gaynor – LightPath Technologies – President & CEO**

Thanks Bob.

**Dorothy Cipolla – LightPath Technologies - CFO**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Steven Donovan with Donovan Associates. Please proceed with your question.

<Q>: Hi Jim and Dorothy.



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**Jim Gaynor – LightPath Technologies – President & CEO**

Hi Steve how are you?

**Dorothy Cipolla – LightPath Technologies - CFO**

Hi Steven.

<Q>: I'm doing great.

**Jim Gaynor – LightPath Technologies – President & CEO**

Great.

<Q>: First of all I'm grateful that you sounded a note of caution in the previous conference call because it made me tune into the fact that it might be a little weak. So when I got up this morning and saw the size of the quarterly loss I was shocked and I was just wondering, can you give some detail on how big these two customers were in terms of order size or something like that? Were they, the ones that you lost because they didn't pay and

**Jim Gaynor – LightPath Technologies – President & CEO**

We you know the one customer was in a telecom space and that was a pretty good sized customer for us and he was doing pretty good volume of business which is why we got so much money owed to us so quickly and he decided he wasn't going to pay it. I mean he had, at one point he had successfully used almost 30,000 lenses and didn't pay us for them. So we had to do something rather drastic which in my 30 plus years of business I've never had to do before in dealing with a customer. Then the other was in the industrial tool space, he was at the time in the higher volume customer and he was using close to about 20-30,000 lenses a month and that was also a pretty big hit. But we've been able to replace that business so I was quite pleased with that. One thing I would say Stephen is almost half of the loss that we reported had to do with the early conversion of the debentures and cleaning up that balance sheet and getting some of that debt off the books. I think that actually in the long-term it's a very good thing.

<Q>: Right and so you're experiencing this as a hiccup or a temporary set back and you know by now as it gets more settled in.

**Jim Gaynor – LightPath Technologies – President & CEO**

I'm very convinced that this is a short-term event.

<Q>: Okay. I'm just curious, you said in the report that you had an 11% increase in the unit volume from quarter to quarter and that seems very low to me with your transition to high volume.

**Jim Gaynor – LightPath Technologies – President & CEO**

Well I mean when you're doing the pluses and minuses I guess that's just the way it worked out at this particular point in terms of the business that we had versus the business that we were able to replace. I think that's just kind of an anomaly with those kind of numbers.



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<Q>: I'm sure you have read and studied closely the Cullen report that came out a month or so ago. Do this in any way impact the predictions for the year 2011?

**Jim Gaynor – LightPath Technologies – President & CEO**

No I think we're going to see good growth this year and similar to the kind of growth we saw between 09 and 10. I'm very confident that we will be able to recover the, if you really look at this quarter compared to the first quarter of last year it is a significant increase as we reported, we had a couple of unique events occur or it would have been a much different situation if those things hadn't have happened and I think we've got ourselves, we still feel very good about that research report and feel like that it's still a pretty accurate portrayal of what we expect to happen going forward.

<Q>: It was an excellent report.

**Jim Gaynor – LightPath Technologies – President & CEO**

Thank you.

<Q>: Really beautifully written and very thorough. Okay, well I'm grateful for the report. Thank you for all your hard work and I look forward to checking in in three months.

**Jim Gaynor – LightPath Technologies – President & CEO**

Okay Steven thank you.

**Operator**

Thank you. Once again ladies and gentlemen if you would like to ask a question please press \*1 on your telephone keypad. It appears there are no further questions at this time.

**Jim Gaynor – LightPath Technologies – President & CEO**

Alright, thank you operator. I would like to thank our shareholders and everyone who has participated on today's call and as usual I would also like to thank the team at LightPath for their hard work and dedication. I look forward to updating you again on our fiscal 2011 second quarter conference call. If you have any further questions please feel free to contact myself or Dorothy and also you may also visit us online at lightpath.com. Have a great day.

**Operator**

Thank you. Ladies and gentleman this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.