LIGHTPATH TECHNOLOGIES INC
Form DEF 14A
October 02, 2007

SCHEDULE 14A

(RULE 14A)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

LIGHTPATH TECHNOLOGIES, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, If Other Than The Registrant)

Payment of filing fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

(4) Date Filed:

LightPath Technologies, Inc.

Annual Meeting of Stockholders

November 1, 2007

Notice and Proxy Statement

October 1, 2007

Dear LightPath Stockholder:

I am pleased to invite you to the Annual Meeting of the stockholders of LightPath Technologies, Inc. The meeting will be held on Thursday, November 1, 2007 at 10:00 a.m. (local time - EDT) at Renaissance Orlando Airport Hotel. The address is 5445 Forbes Place, Orlando, FL 32812.

At the meeting, you and the other stockholders will be asked to (i) elect directors and (ii) approve an amendment to increase the shares available in the Company s Amended and Restated Omnibus Incentive Plan to allow us to continue to offer equity incentives to attract and retain individuals with skills necessary for our success. You will also have the opportunity to hear what has happened in our business in the past year and to ask questions.

The enclosed Notice and Proxy Statement contain details concerning the foregoing items and any other business to be conducted at the Annual Meeting. Other detailed information about LightPath and its operations, including its audited financial statements, are included in our Annual Report on Form 10-K, a copy of which is enclosed. We urge you to read and consider these documents carefully.

We hope you can join us at the meeting. Whether or not you expect to attend, please read the enclosed Proxy Statement, ***mark*** *your votes on the enclosed proxy card,* ***sign and date it****, and* ***return it*** *to us in the enclosed postage-paid envelope*. Your vote is important, so please return your proxy card promptly.

Sincerely,

Robert Ripp
Chairman of the Board

Corporate Headquarters

2603 Challenger Tech Court, Suite 100 * Orlando, Florida USA 32826 * 407-382-4003

LIGHTPATH TECHNOLOGIES, INC.

2603 Challenger Tech Court, Suite 100

Orlando, Florida USA 32826

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On Thursday, November 1, 2007

Dear Stockholder,

You are cordially invited to attend the Annual Meeting of Stockholders of LightPath Technologies, Inc., a Delaware corporation (the Company). The meeting will be held on Thursday, November 1, 2007 at 10:00 a.m. (local time - EDT) at Renaissance Orlando Airport Hotel. The address is 5445 Forbes Place, Orlando, FL 32812 for the following purposes:

1. To elect one director (Class I director) to the Company s Board of Directors;

2. To approve an amendment to the Company s Amended and Restated Omnibus Incentive Plan (Plan) to add 800,000 shares to the Plan; and

3. To transact such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is September 17, 2007. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors,

J. James Gaynor
Interim Chief Executive Officer
Orlando, Florida
October 1, 2007

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, *please* ***complete, date, sign and return*** the enclosed proxy as promptly as possible in order to ensure your representation at the meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, if a broker holds your shares of record, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To be held November 1, 2007

LIGHTPATH TECHNOLOGIES, INC.

2603 Challenger Tech Court, Suite 100

Orlando, Florida USA 32826

Proxies in the form enclosed with this proxy statement are solicited by the Board of Directors of LightPath Technologies, Inc., a Delaware corporation (the Company), for the use at the Annual Meeting of Stockholders to be held Thursday, November 1, 2007 at 11:00 a.m., or at any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at 10:00 a.m. (local time - EDT) at the Renaissance Orlando Airport Hotel. The address is 5445 Forbes Place, Orlando, FL 32812.

References in this proxy statement to LightPath , we , us , our , or the Company refers to LightPath Technologies, Inc.

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

Why am I receiving these materials?

We sent you this proxy statement and the enclosed proxy card because the Board of Directors of LightPath Technologies, Inc. is soliciting your proxy to vote at the Annual Meeting of Stockholders to be held on Thursday, November 1, 2007 at 10:00 a.m. (local time - EDT) at the Renaissance Orlando Airport Hotel. The address is 5445 Forbes Place, Orlando, FL 32812. You are invited to attend the Annual Meeting and we request that you vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

We intend to mail this proxy statement and accompanying proxy card on or about October 1, 2007 to all stockholders of record entitled to vote at the Annual Meeting.

Who can vote at the Annual Meeting?

Only stockholders of record at the close of business on September 17, 2007 will be entitled to vote at the Annual Meeting. On this record date, there were 5,328,481 shares (including all restricted stock awards at such date) of Class A common stock (our only class of common stock) outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on September 17, 2007, your shares were registered directly in your name with our transfer agent, Registrar & Transfer, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card to ensure your vote is counted. Even if you fill out and return your proxy, you may still vote in person if you are able to attend the meeting.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on September 17, 2007 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

The only matters scheduled for a vote are as follows:

1. The election of one director (Class I director) to our Board of Directors; and

2. The approval of an amendment to our Amended and Restated Omnibus Plan.

A vote may also be held on any other business as may properly come before the Annual Meeting or any postponement or adjournment thereof, although there is no other business anticipated to come before the Annual Meeting.

How do I vote?

With regard to the election of directors, you may vote For the nominee listed or you may vote Against the nominee. For all other matters, you may vote For or Against or abstain from voting. The procedures for voting are as follows:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy using the enclosed proxy card. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy.

To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from LightPath. Simply complete and mail the proxy card to ensure that your vote is counted. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of September 17, 2007.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted For all proposals outlined in this Proxy. If any other matter is properly presented at the meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

LightPath will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We will also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return **each** proxy card to ensure that all of your shares are voted.

What is householding ?

The Securities and Exchange Commission has adopted rules that permit companies and intermediaries such as brokers to satisfy the delivery requirements for proxy statements with respect to two or more security holders sharing the same address by delivering a single proxy statement addressed to those security holders. This process, which is commonly referred to as householding, potentially means convenience for security holders and cost savings for companies.

A number of brokers with account holders who are LightPath stockholders will be householding our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker or us that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, please notify your broker and also notify us by sending your written request to Investor Relations, LightPath Technologies, Inc., 2603 Challenger Tech Court, Suite 100, Orlando, Florida USA 32826 or by calling Investor Relations at 407-382-4003, ext. 314. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should also contact their broker and notify us in writing or by telephone.

Can I revoke or change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the meeting. You may revoke your proxy in any one of three ways:

You may submit another properly completed proxy card with a later date.

You may send a written notice that you are revoking your proxy to LightPath s Secretary at 2603 Challenger Tech Court, Suite 100, Orlando, Florida USA 32826.

You may attend the Annual Meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

How are votes counted?

Votes will be counted by the inspector of elections appointed for the meeting, who will separately count For , Against and Withhold Authority votes, abstentions and broker non-votes. A broker non-vote occurs when a nominee/broker holding shares for a beneficial owner does not vote on a particular proposal because the nominee/broker does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner. Abstentions will be counted towards the vote total for each proposal, and will have the same effect as Against votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether a matter has been approved.

How many votes are needed to approve the proposals?

With regard to Proposal No. 1 (election of directors), the nominee receiving a plurality of the votes cast at the meeting will be elected as director of the Company. A properly executed proxy marked Withhold Authority with respect to the election of the director will not be voted with respect to the director indicated, although it will be counted for purposes of determining whether there is a quorum.

To be approved, Proposal No. 2 (approval of amendment to Amended and Restated Omnibus Incentive Plan) must receive For votes from holders of a majority of the shares

represented and voted at the meeting. If you Abstain from voting, it will have the same effect as an Against vote. Not voting on these proposals, including broker non-votes, has no effect on the outcome.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares of Class A common stock entitled to vote is represented by votes at the meeting or by proxy. On the record date, there were 5,328,481 outstanding shares (including all restricted stock awards at such date) entitled to vote. Thus 2,664,242 must be represented by votes at the meeting or by proxy to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy vote or vote at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, a majority of the votes present at the meeting may adjourn the meeting to another date.

How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. LightPath will subsequently either include the final voting results in its quarterly report on Form 10-Q or issue a general press release after the meeting indicating whether the stockholders have approved the proposals or not.

When are stockholder proposals for the 2008 Annual Meeting due?

Stockholders interested in presenting a proposal to be considered for inclusion in next year s proxy statement and form of proxy may do so by following the procedures prescribed in Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act), and the Company s By-laws. To be considered for inclusion, stockholder proposals must be submitted in writing to the Corporate Secretary, LightPath Technologies, Inc., 2603 Challenger Tech Court, Suite 100, Orlando, Florida USA 32826 before June 3, 2008, which is 120 calendar days prior to the anniversary of the mailing date of this proxy statement, and must be in compliance with all applicable laws and regulations.

If a stockholder wishes to present a proposal at the 2008 Annual Meeting, but the proposal is not intended to be included in the Company s proxy statement relating to the meeting, the stockholder must give advance notice to the Company prior to the deadline for such meeting determined in accordance with the By-laws (the By-law Deadline). Under the Company s By-laws, in order for a proposal to be timely, it must be received by the Company no later than 60 days, nor earlier than 90 days, prior to the annual meeting date. If a stockholder gives notice of such a proposal after the By-law Deadline, the stockholder will not be permitted to present the proposal to the stockholders for a vote at the meeting.

Furthermore, Rule 14a-4 under the Securities Exchange Act also establishes a different deadline for submission of stockholder proposals that are not intended to be included in the Company s proxy statement with respect to discretionary voting (the Discretionary Vote Deadline). The Discretionary Vote Deadline for the 2008 Annual Meeting is August 17, 2008

(45 calendar days prior to the anniversary of the mailing date of this proxy statement). If a stockholder gives notice of such a proposal after the Discretionary Vote Deadline, the Company s proxy holders will be allowed to use their discretionary voting authority to vote against the stockholder proposal when and if the proposal is raised at the 2008 Annual Meeting. A properly submitted proposal received after the Discretionary Vote Deadline but before the By-law Deadline would be eligible to be presented at the annual meeting, however, the Company believes that its proxy holders would be allowed to use the discretionary authority granted by the proxy card to vote against the proposal at the meeting without including any disclosure of the proposal in the proxy statement relating to such meeting.

How do I get a copy of the exhibits filed with the Company s Form 10-K?

A copy of the Company s Annual Report for 2007, which contains the Company s Form 10-K for the fiscal year ended June 30, 2007, and consolidated financial statements, has been delivered to you with this proxy statement. We will provide to any stockholder as of the Record Date, who so specifically requests in writing, a copy of the exhibits filed with the Company s Form 10-K. Requests for such copies should be directed to Investor Relations at 2603 Challenger Tech Court, Suite 100, Orlando, Florida USA 32826. In addition, copies of all exhibits filed electronically by the Company may be reviewed and printed from the Securities and Exchange Commission (SEC) website at *http://www.sec.gov* under the EDGAR archives section.

Where can I get information regarding how to send communications to the Board of Directors and the Company s policy regarding Board member s attendance at annual meetings?

The Board of Directors provides a process for stockholders to send communications to the Board of Directors and has adopted a policy regarding Board member s attendance at annual meetings. Information regarding these matters is contained on our website at *http://www.lightpath.com* under Investor Relations, FAQs, questions number 9 and 10.

PROPOSAL NO. 1

ELECTION OF DIRECTOR

LightPath s Board of Directors is divided into three classes, denoted as Class I, Class III and Class III, serving staggered three-year terms with one class elected each year at the annual meeting. The current Board of Directors consists of:

Class I (term expiring in 2007)	Class II (term expiring in 2009)	Class III (term expiring in 2008)
Robert Ripp	Sohail Khan	Louis Leeburg
Robert Bruggeworth	Dr. Steven Brueck	Gary Silverman

At the 2007 annual meeting of stockholders, one director (Class I director) is to be elected to serve a three-year term or until his successor has been duly elected and qualified. Mr. Robert Bruggeworth, a current Class I director, has recently announced his intention not to run for re-election.

Pursuant to the Company s Certificate of Incorporation and By-laws, the current Board of Directors or the stockholders may nominate persons for election to the Board of Directors. In accordance with such governing documents and upon the recommendation of the Board of Directors, Robert Ripp, who is a current member of the Board of Directors, has been nominated by the Board of Directors to serve as a Class I director to serve a three-year term or until his successor has been duly elected and qualified. The Board of Directors has determined not to nominate anyone to serve in the place of Mr. Bruggeworth and to reduce the membership of the Board of Directors to five (5) upon the expiration of Mr. Bruggeworth s term.

The individual named as proxy will vote the enclosed proxy **FOR** the election of Mr. Ripp unless you direct them to withhold your votes. If Mr. Ripp becomes unable or unwilling to serve as a director before the Annual Meeting, an event which is not presently anticipated, discretionary authority may be exercised by the person named as proxy to vote for substitute nominees proposed by the Board of Directors, or, if no substitute is selected by the Board of Directors prior to or at the Annual Meeting, for a motion to reduce the present membership of the Board to the number of nominees available.

THE BOARD OF DIRECTORS RECOMMENDS VOTING FOR

THE ELECTION OF THE NOMINEE

Below are the names and ages of the directors, the years they became directors, their principal occupations or employment for at least the past five years and certain of their other directorships.

Nominee for Election to a Three-Year Term (Class I Directors)

Robert Ripp, 66 Director (Chairman of the Board)	Mr. Ripp has served as Chairman of LightPath since November 1999. During portions of fiscal year 2002 he also served as the Company s Interim President and Chief Executive Officer. Mr. Ripp was Chairman and CEO of AMP Incorporated from August 1998 until April 1999, when AMP was sold to TYCO International Ltd. Mr. Ripp held various executive positions at AMP from 1994 to August 1999. Mr. Ripp previously spent 29 years with IBM of Armonk, NY. He held positions in all aspects of operations within IBM culminating in the last four years as Vice President and Treasurer and he retired from IBM in 1993. Mr. Ripp graduated from Iona College and received a Masters of Business Administration degree from New York University. Mr. Ripp is currently on the board of directors of Ace, Ltd., and PPG Industries, all of which are listed on the New York Stock Exchange. Mr. Ripp also serves on the Company s Compensation and Finance Committees.

Class II Directors Continuing in Office Until the 2009 Annual Meeting

Sohail Khan, 53 Director	Mr. Khan has served as a Director of LightPath since February 2005. Mr. Khan serves on the board of directors for Gainspan Corporation and Sandbridge Corporation, and is currently President and Chief Executive Officer of SiGe Semiconductor. Prior to SiGe, Mr. Khan was Entrepreneur in Residence and Operating Partner of Bessemer Venture Partners, a venture capital group focused on technology investments. From 1996 to the 2006 he held various executive positions with Agere Systems/Lucent Technologies ending as Executive Vice President and Chief Strategy & Development Officer of Agere Systems. Mr. Khan has also held various management positions at NEC Electronics, Intel and the National Engineering Services of Pakistan. Mr. Khan is currently on the board of directors of Sandbridge Technologies, a private venture funded company. Mr. Khan received a Bachelor of Science in Electrical Engineering from the University of Engineering and Technology in Pakistan. Additionally, he received a Masters of Business Administration from the University of California at Berkeley.
Dr. Steven Brueck, 63 Director	Dr. Brueck has served as a Director of LightPath since July 2001. He is the Director of the Center for High Technology Materials (CHTM) and Professor of Electrical and Computer Engineering and Professor of Physics at the University of New Mexico in Albuquerque, New Mexico, which he joined in 1985. He is a graduate of Columbia University with a Bachelor of Science degree in Electrical Engineering and a graduate of the Massachusetts Institute of Technology where he received his Masters of Science

degree in Electrical Engineering and Doctorate of Science degree in Electrical Engineering. Dr. Brueck is a fellow of the OSA, the IEEE and the AAAS. Dr. Brueck serves on the Company s Audit Committee and is Chairman of the Company s Technical Advisory Board.

Class III Directors Continuing in Office Until the 2008 Annual Meeting

Louis Leeburg, 54 Director

Mr. Leeburg has served as a Director of LightPath since May 1996. Mr. Leeburg is currently a self-employed business consultant. From 1988 until 1993 he was the Vice President for Finance of The Fetzer Institute, Inc. From 1980 to 1988 he was in financial positions with different organizations with an emphasis in investment management. Mr. Leeburg was an audit manager for Price Waterhouse & Co. until 1980. Mr. Leeburg is currently on the board of directors of BioValve Inc., a private venture capital backed companies. Mr. Leeburg received a Bachelor of Science degree in Accounting from Arizona State University. He is a member of Financial Foundation Officers Group and the treasurer and trustee for the John E. Fetzer Memorial Trust Fund and The Institute for Noetic Sciences. Mr. Leeburg also serves on the Company s Audit and Finance Committees.

Gary Silverman, 68 Director

Mr. Silverman has served as a Director of LightPath since September 2001. Mr. Silverman is currently the managing partner of GWS Partners, established in 1995 to conduct searches for senior-level executives and board of director candidates for a broad cross section of publicly held corporations. From 1983 to 1995 he worked for Korn/Ferry International as an executive recruiter and held the position of Managing Director. He spent fourteen years with Booz, Allen & Hamilton, and his last position was Vice President and Senior Client officer and he was responsible for generation of new business, the management of client assignments and the development of professional staff. Mr. Silverman is a graduate of the University of Illinois with both a Bachelor of Science degree and Masters of Science degree in Finance. Mr. Silverman also serves on the Company s Compensation Committee and Audit Committee.

Executive Officers Who Do Not Serve as Directors

J. James Gaynor, 56 Interim Chief Executive Officer

Mr. Gaynor was appointed interim Chief Executive Officer on September 18, 2007. Previously he was the Company s Corporate Vice President Operations since July 2006. Mr. Gaynor is a mechanical engineer with over 25 years business and manufacturing experience in volume component manufacturing in electronics and optics industries. Prior to joining LightPath, from August 2002 to July 2006, Mr. Gaynor was Director of Operations and Manufacturing for Puradyn Filter Technologies. Previous to that, he was Vice President of Operations and General Manager for JDS Uniphase Corporation s Transmission Systems Division. He has also held executive positions with Spectrum Control, Rockwell International and Corning Glass Works. His experience includes various engineering, manufacturing and management positions in specialty glass, electronics, telecommunications components and mechanical assembly operations. His global business experience

	encompasses strategic planning, budgets, capital investment, employee development, cost reduction, acquisitions and business start-up and turnaround success. Mr. Gaynor holds a Bachelor of Mechanical Engineering degree from the Georgia Institute of Technology and has worked in manufacturing industries since 1976.
Dorothy Cipolla, 51 Corporate Vice President, Chief Financial Officer, Secretary and Treasurer	Ms. Cipolla, 50, has been the Company s Chief Financial Officer, Secretary and Treasurer since February 2006. Ms. Cipolla was Chief Financial Officer and Secretary of LaserSight Technologies, Inc., from March 2004 to February 2006. Prior to joining LaserSight, she served in various financial management positions. From 1994 to 1999, she was Chief Financial Officer and Treasurer of Network Six, Inc., a NASDAQ-listed professional services firm. From 1999 to 2002, Ms. Cipolla was Vice President of Finance with Goliath Networks, Inc., a privately held network consulting company. From 2002 to 2003, Ms. Cipolla was Department Controller of Alliant Energy Corporation, a regulated utility. She received a Bachelors of Science degree in Accounting from Northeastern University and is a Certified Public Accountant in Massachusetts.
James Magos, 56 Corporate Vice President of Sales and Marketing	Mr. Magos has been the Company s Corporate Vice President of Sales and Marketing since July 2006. Prior to that he was the Company s Senior Vice President of Sales since August 2003.From January 1999 to August 2003, Mr. Magos was Vice President and Chief Operating Officer for Cardinal Components Inc., a crystal manufacturer. Prior to joining Cardinal Components Inc., he served as Vice President of Sales & Marketing for IQ Systems, Inc., Star Semiconductor, Logic Device Corporation, Harris Semiconductors (Intersil), RCA and General Electric. Mr. Magos earned his Bachelor of Science degree in Business Management from Long Island University and extensive management training during his tenure with GE, RCA and Harris.
Zhouling (Joe) Wu, 43 Corporate Vice President and President of China Operations	Dr. Zhouling (Joe) Wu has been the Company s Corporate Vice President and President of China Operations since July 2006. Prior to that he was Vice President since August 2005. From January 2003 until joining LightPath, Dr. Wu was self-employed as a consultant for various companies. Prior his consulting work, Dr. Wu was the General Manager for Oplink Shanghai and was the assistant to the CEO working for Oplink Communications beginning in 2000. From 1997 till 2000 Dr. Wu was an optical scientist at Lawrence Livermore National Labs and holds a PhD in optics from the Shanghai Institute of Optics and Fine Mechanics, an undergraduate degree from Tsinghua University in Beijing and executive MBA Olin School of Business, Washington University. Dr. Wu has published 120 technical papers, one patent, and received numerous achievement awards and honors.

Meetings of the Board of Directors and its Committees

The Board of Directors has an Audit Committee, a Compensation Committee, a Finance Committee and a Technical Advisory Committee. The Board of Directors does not have a standing nominating committee. The entire Board of Directors held 7 meetings, including telephonic meetings, during fiscal year 2007. All of the directors attended 88% or more of the meetings of the Board of Directors and the meetings held by committees of the Board on which they served. All of the then elected directors attended the 2006 Annual Meeting of Stockholders on October 27, 2006.

Audit Committee. The Audit Committee, which consists of Dr. Steven Brueck, Louis Leeburg (Chairman) and Gary Silverman, met five times during fiscal year 2007, which meetings included discussions with management and the Company s independent auditors to discuss the interim and annual financial statements and the annual report of the Company, and the effectiveness of the Company s financial and accounting functions and organization. The Audit Committee acts pursuant to a written charter adopted by the Board of Directors, a copy of which is available on the Company s website at www.lightpath.com. The Audit Committee s responsibilities include, among others, direct responsibility for the engagement and termination of the Company s independent accountants, and overseeing the work of the accountants and determining the compensation for their engagement(s). The Board of Directors has determined that the Audit Committee is comprised entirely of independent members as defined under applicable listing standards set out by the SEC, the National Association of Securities Dealers (NASD) and the Nasdaq Capital Market. The Board of Directors has also determined that at least one member of the Audit Committee, Mr. Leeburg, is an audit committee financial expert as defined by SEC rules. Mr. Leeburg s business experience that qualifies him to be determined an audit committee financial expert is described above.

Compensation Committee. The Compensation Committee, which consists of Sohail Khan, Robert Ripp and Gary Silverman (Chairman), met three times during fiscal year 2007. The Compensation Committee reviews and recommends to the Board of Directors the compensation and benefits of certain executive officers of the Company, including the Chief Executive Officer, and also administers the Amended and Restated Omnibus Plan, pursuant to which incentive awards, including stock options, are granted to directors, officers and key employees of the Company. The Compensation Committee does not have a charter.

The Compensation Committee makes all compensation decisions for its executive officers and approves recommendations regarding equity awards to all executive officers of the Company. However, the Compensation Committee does rely on the annual reviews made by the Chief Executive Officer with respect to the performance of each of its other executive officers. The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Compensation Committee. The Compensation Committee can exercise its discretion in modifying any recommended adjustments or awards to executive officers.

The Company s compensation policy is designed to attract and retain qualified key executives critical to the Company s achievement of reaching profitability and positive cash flow, and subsequently, its growth and long-term success. It is the objective of the

Compensation Committee to have a portion of each executive officer s compensation contingent upon the Company s performance as well as upon the individual s personal performance. Accordingly, each executive officer s compensation package is comprised of two elements: (i) base salary, which reflects individual performance and expertise, and (ii) variable current bonus awards payable in cash or stock-based incentive awards and tied to the achievement of certain performance goals that the Compensation Committee establishes from time to time for the Company. Based on the foregoing objectives, the Compensation Committee has structured the Company s annual and long-term incentive-based cash and non-cash executive officer compensation to motivate executive officers to achieve the business goals set by the Company and reward the executive officers for achieving such goals.

Finance Committee. The Finance Committee, which consisted of Robert Bruggeworth, (Chairman), Louis Leeburg and Robert Ripp, met three times during fiscal year 2007. Mr. Bruggeworth has decided not to seek an additional term when his term expires on October 31, 2007. Upon the expiration of Mr. Bruggeworth s term, the Finance Committee will not have a chairman. The Finance Committee reviews and provides guidance to the Board of Directors and management with respect to the Company s significant financial policies. The full Board of Directors performed these functions in fiscal year 2007 especially with regard to matters having to do with the Company s financing transactions concluded in July 2007.

Technical Advisory Committee. In fiscal year 2002, the Board of Directors authorized the creation of a Technical Advisory Committee, which committee periodically reviews the Company s products and technologies. Dr. Steven Brueck serves as chairman of the Technical Advisory Committee, which did not meet in fiscal years 2007, 2006 and 2005. No other Board members serve on the Technical Advisory Committee.

All current committee members, other than Mr. Bruggeworth, are expected to be nominated for re-election to the same committees at a Board of Directors meeting to be held immediately following the Annual Meeting.

Nominations Process and Criteria

The Board of Directors has not considered it necessary to form a committee of the Board of Directors specifically for governance or nomination matters due to the modest scope of the Company. When a governance or nominating matter is brought to the Board of Directors for consideration, the full Board of Directors will meet to review the matter and take the appropriate action by the full Board of Directors or a subset of independent directors thereof. The Board of Directors has determined that each current director meets the independence criteria for members of a nominating committee as set forth in the applicable rules of the Nasdaq Capital Market and the SEC.

Additionally, the Board of Directors believes it is not necessary to adopt criteria for the selection of directors. The Board of Directors believes that the desirable background of a new individual member of the Board of Directors may change over time and that a thoughtful, thorough process for the selection is more important than adopting criteria for directors. The Board of Directors is fully open to utilizing whatever methodology is efficient in identifying new, qualified directors when needed, including using industry contacts of the Company s directors or professional search firms.

Any shareholder wishing to propose that a person be nominated for or appointed to the Board of Directors may submit such a proposal, according to the procedure described in the shareholder proposal section on page 5 of the question and answers, to:

Corporate Secretary

LightPath Technologies, Inc.

2603 Challenger Tech Court, Suite 100

Orlando, Florida 32826

Such correspondence will be timely forwarded to the Chairman of the Audit Committee for review and consideration in accordance with the criteria described above.

Director Independence

In accordance with Nasdaq Capital Market and SEC rules, the Board affirmatively determines the independence of each director and nominee for election as a director in accordance with guidelines it has adopted, which include all elements of independence set forth in the Nasdaq Capital Market listing standards. Based on these standards, the Board has determined that each of the following non-employee directors is independent and has no relationship with the Company, except as a director and stockholder of the Company:

Robert Ripp	Steven Brueck
Robert Bruggeworth	Gary Silverman
Louis Leeburg	Sohail Khan

The Board of Directors approved a Code of Business Conduct and Ethics on May 3, 2004. The Code applies to the Chief Executive Officer, senior financial officers and the Board of Directors. A copy of the Code is posted on the Company s website at www.lightpath.com.

Related Transactions

Since July 1, 2006, the Company has not entered into any transaction, nor is there any currently proposed transaction, in which the Company was or is to be a participant and the amount involved exceeds $120,000, and in which any executive officer, any director, any nominee for director or any family member of the foregoing had or will have a direct or indirect material interest. Before the Company would consider entering into any transaction in which any executive officer, director, nominee or any family member of the foregoing would have any direct or indirect interest, regardless of the amount involved, the terms of such transaction would have to be presented to the full Board of Directors (other than any interested director) for approval.

Appointment of Independent Auditors

On December 12, 2006, the Board of Directors approved the dismissal of its independent registered public accounting firm KPMG LLP (KPMG). KPMG has audited the Company s financial statements since its appointment in fiscal year 1997 through fiscal year 2006. KPMG was the principal accountant of the registrant s financial statements for the fiscal years ended June 30, 2006 and 2005. KPMG s report on the financial statements for the fiscal years ended June 30, 2006 and 2005 did not contain an adverse opinion or disclaimer of opinion, nor were they modified or qualified as to uncertainty, audit scope or accounting principles.

In connection with the audits for the fiscal years ended June 30, 2006 and 2005 and through December 12, 2006, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

As previously reported and as discussed under Item 9A of the Company s Annual Report on Form 10-K for the year ended June 30, 2006, management identified the following material weaknesses in the Company s internal control over financial reporting: financial reporting issues concerning supervision of the accounting staff and footnote disclosures for stock based compensation, revenue recognition, inventory and accrued liabilities. Significant deficiencies also were reported in internal controls surrounding the Company s policies and procedures related to payroll processing and fixed assets.

During the year ended June 30, 2007, management made some progress in remediating certain aspects of the deficiencies reported, specifically by adopting policies and procedures related to payroll processing and fixed assets of accrued liabilities. However, other aspects of the deficiencies reported in inventory and accrued liabilities are still in the remediation process and have remained as a material weakness. Except for the matters described above, there are no reportable events under Item 304(a)(1)(v) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended (Regulation S-K) that occurred during the fiscal years ended June 30, 2006 and 2005 and through December 12, 2006. An authorized officer of the Company has discussed the material weaknesses described above with KPMG, and the Company has authorized KPMG to respond fully to the inquiries of Cross, Fernandez & Riley, LLP (CFR) concerning the subject matter of the material weaknesses described above.

On December 12, 2006, the Board of Directors appointed CFR, an independent member of the BDO Seidman Alliance network of firms, as the new independent registered public accounting firm to audit the Company s financial statements. There were no discussions between the Company and CFR regarding the application of accounting principles to specific completed or contemplated transactions, or the type of audit opinion that might be rendered on the Company s financial statements. Furthermore, no written or oral advice was provided by CFR that was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue. The Company has not consulted with CFR regarding any matter that was either the subject of a disagreement (as defined in paragraph (a)(1)(iv) of Item 304 of Regulation S-K and the related instructions to this item) or a reportable event (as described in paragraph (a)(1)(v) of Item 304 of Regulation S-K).

Representatives of CFR are expected to be present at the Annual Meeting, and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

The following table presents fees paid or to be paid for professional audit services rendered by KPMG and CFR for the audit of the Company s annual financial statements during the years ended June 30, 2007 and 2006, and fees billed for other services rendered by KPMG:

	Fiscal 2007	Fiscal 2006
KPMG Audit Fees (1)	$ 21,000	$ 261,000
CFR Audit Fees (1)	103,000	
KPMG Audit-Related Fees (2)		8,000
Tax Fees		
All Other Fees		
Total All Fees	$ 124,000	$ 269,000

(1) Audit Fees consisted of fees billed for professional services rendered for the audit of the Company s annual financial statements and review of the interim financial statements included in quarterly reports.

(2) Audit-Related Fees consisted principally of a review of registration statements and the issuance of accountants consent thereto.

The Audit Committee has adopted policies and procedures to oversee the external audit process including engagement letters, estimated fees and solely pre-approving all permitted non-audit work performed by KPMG or CFR. The Audit Committee has pre-approved all fees for work performed.

The Audit Committee has considered whether the services provided by KPMG or CFR as disclosed above in the captions Audit-Related Fee and All Other Fees and has concluded that such services are compatible with the independence of KPMG or CFR as the Company s principal accountant.

For the fiscal years 2007 and 2006, the Audit Committee pre-approved all services described above in the captions Audit Fees , Audit-Related Fees , Tax Fees and All Other Fees .

AUDIT COMMITTEE REPORT

The Audit Committee is responsible for, among other things, reviewing and discussing the Company s audited financial statements with management, discussing with the Company s independent auditors information relating to the auditors judgments about the quality of the Company s accounting principles, recommending to the Board of Directors that the Company include the audited financial statements in its Annual Report on Form 10-K and overseeing compliance with the Securities and Exchange Commission requirements for disclosure of auditors services and activities. At the recommendation of the Audit Committee, the Board of Directors first approved a charter for the Audit Committee on November 14, 2000, which was subsequently revised and approved by the Board on May 10, 2004.

Review Of Audited Financial Statements

The Audit Committee has reviewed the Company s financial statements for the fiscal year ended June 30, 2007, as audited by Cross, Fernandez and Riley, LLP, the Company s independent auditors, and has discussed these financial statements with management. In addition, the Audit Committee has discussed with Cross, Fernandez and Riley, LLP the matters required to be discussed by Statements of Auditing Standards 61 and 90, as may be modified or supplemented. Furthermore, the Audit Committee has received the written disclosures and the letter from Cross, Fernandez and Riley, LLP required by the Independence Standards Board Standard No. 1, as may be modified or supplemented, and has discussed with Cross, Fernandez and Riley, LLP its independence.

Generally, the members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not experts in the fields of accounting or auditing, or in determining auditor independence. However, the Board of Directors has determined that each member of the Audit Committee meets the independence criteria set forth in the applicable rules of NASDAQ and the SEC, and that at least one member of the Audit Committee, Mr. Leeburg, is an audit committee financial expert as defined by SEC rules. Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management. Accordingly, the Audit Committee s oversight does not currently provide an independent basis to determine that management has maintained procedures designed to assure compliance with accounting standards and applicable laws and regulations.

Recommendation

Based upon the foregoing review and discussion, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended June 30, 2007, be included in the Company s Annual Report on Form 10-K for such fiscal year.

Audit Committee:
Louis Leeburg, Chairman
Dr. Steven Brueck
Gary Silverman

SECURITY OWNERSHIP OF

CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of September 24 2007, the number and percentage of outstanding shares of the Company s Class A common stock, owned by: (i) each director (which includes all nominees) at such date, (ii) each of the officers named in the Summary Compensation Table below, (iii) directors and executive officers of the Company as a group at such date, and (iv) each person known by the Company to be the beneficial owner of more than 5% of the outstanding Class A common stock of the Company at such date.

All percentages are based on 5,328,481 shares outstanding (or deemed outstanding) at such date as explained below. The number of shares beneficially owned by each director or executive officer is determined under SEC rules, and the information is not necessarily indicative of the beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares to which the individual has the sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days of September 24, 2007, through the exercise of any stock option or other right to purchase, such as a warrant. Unless otherwise indicated, each person has sole investment and voting power (or shares such power with his or her spouse) with respect to the shares set forth in the following table. In certain instances, the number of shares listed may include, in addition to shares owned directly, shares held by the spouse or children of the person, or by a trust or estate of which the person is a trustee or an executor or in which the person may have a beneficial interest. The table that follows is based upon information supplied by the executive officer, directors and principal stockholders and a Schedule 13G filed with the SEC.

Name and Position (1)	Common Stock Class A (2)	Warrants	Options Currently Exercisable Or within 60 days	Total Stock and Stock Based Holdings	Percent Owned (%)
Robert Ripp, Director (3)	174,563	120,156	4,066	298,785	5.61
Gary Silverman, Director	40,762		4,066	44,828	*
Louis Leeburg, Director	37,883		4,066	41,949	*
Sohail Khan, Director	32,900		4,066	36,966	*
Robert Bruggeworth, Director	34,075		4,066	38,141	*
Dr. Steve Brueck, Director	33,450		4,066	37,516	*
J. James Gaynor, Interim CEO			5,000	5,000	*
Dorothy Cipolla, CVP, CFO, Secreatary & Treasurer			5,000	5,000	*
Zhouling (Joe) Wu, CVP & President of China Operations	7,067		20,000	27,067	*
James Magos, CVP Sales & Marketing	19,400		2,000	21,400	*
Edward Patton, Former VP Marketing	8,343			8,343	*
Kenneth Brizel, Former CEO, President & Director	74,779			74,779	1.40
All directors and executive officers currently holding office as a group (12 persons)	**463,222**	**120,156**	**56,396**	**564,995**	10.60
Carl E. Berg	726,214			726,214	13.63

* Less than one percent

Notes:

1 - Except as otherwise noted, each of the parties listed above has sole voting and investment power over the securities listed. The address for all directors, officers and other persons above is in care of LightPath Technologies, Inc., 2603 Challenger Tech Court, Suite 100, Orlando, FL 32826. The address for Mr. Berg as filed on a Form 4 filed March 22, 2007 is 10050 Bandley Drive, Cupertino, CA, 94014.

2 - Includes restricted stock outstanding at September 24, 2007 which has been issued under the Company s Amended & Restated Omnibus Incentive Plan. Restricted Stock, as presented in this proxy statement, is subject to time-based vesting conditions wherein the grantee does not have free and unfettered ownership, without a substantial risk of forfeiture, unless and until the vesting conditions have been met. Therefore, these shares are still subject to such vesting conditions and the certificates have not been issued.

3 - Does not include 7,812 shares of Class A common stock and warrants to purchase 15,000 shares of Class A common stock which are owned by trusts for Mr. Ripp s adult children and for which he disclaims beneficial ownership. Warrants owned by the trusts for his children are fully exercisable at a price of $48.00 per share. With respect to Mr. Ripp s warrants, 20,156 are exercisable at $48.00 per share and 100,000 are exercisable at $3.20 per share.

Information with regard to Restricted Stock Awards held by Officers at September 24, 2007

The Company s restricted stock grants have been made under the terms of its Amended & Restated Omnibus Incentive Plan (the Plan). Upon the making of a grant, the receiving employee (or director) has legal title to the stock for the purposes of voting the shares and receiving dividends on the shares, if any. The grants provide for a time-based vesting period during which the employee bears a substantial risk of forfeiture should he not remain employed by or associated with the Company. This risk of forfeiture allows the holder to electively choose to file a timely 83b election with the IRS and pay income and employment taxes on the value of the grant at the time of the making of the grant. Should the employee not make a timely 83b election, he shall be taxed upon the then current value of the shares at the time the shares in the grant vest. Upon vesting of the stock in a grant, the employee no longer risks losing the shares should he subsequently leave the employ of the Company. However, should the individual remain an executive officer or other Section 16 insider after the vesting event, such individual continues to have restrictions imposed with regard to the sale or other disposition of the shares by both the Company and by various insider trading rules imposed upon Section 16 insiders of public companies.

Name	Shares of Restricted Stock Held at September 24, 2007 (1)	Restricted Stock Held ($ value at September 24, 2007) (2)	Schedule of Lapse of Restrictions	
			Fiscal Year 2008	Fiscal Year 2009
James Magos	5,000	$ 18,750	2,500	2,500
Zhouling (Joe) Wu	5,000	$ 18,750	2,500	2,500

Notes:

(1) Restricted Stock Held is stock for which the vesting conditions have not yet been met as of September 24, 2007 pursuant to the agreements under which they are granted by the Compensation Committee of the Board of Directors.

(2) Valued at the September 24, 2007 closing price of the Company s Class A common stock on the Nasdaq Stock Market ($3.75 per share) without discount for lack of marketability.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires the Company s executive officers and directors and persons who own more than 10% of the Company s Class A common stock to file reports of ownership and changes in ownership with the SEC and furnish copies of such reports to the Company. The SEC has also designated specific due dates for such reports and the Company must identify in this proxy statement those persons who did not properly file such reports when due. To the best of the Company s knowledge, all required filings in fiscal year 2007 were properly made in a timely fashion. In making the above statements, the Company has relied solely on its review of copies of the reports furnished to the Company and written representations from certain reporting persons.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

The Compensation Committee of the Company s Board of Directors has responsibility for establishing, implementing and continually monitoring adherence with the Company s compensation philosophy. The Compensation Committee ensures that the total compensation paid to the executive leadership team is fair, reasonable and competitive.

Throughout this proxy statement, the individuals who served as the Company s Chief Executive Officer and Chief Financial Officer during fiscal 2007, as well as the other individuals included in the Summary Compensation Table on page 26, are referred to as the executive officers .

Compensation Philosophy and Objectives

The Company s compensation policy is designed to attract and retain qualified key executive officers critical to the Company s achievement of reaching profitability and positive cash flow, and subsequently, its growth and long-term success. It is the objective of the Compensation Committee to have a portion of each executive officer s compensation contingent upon the Company s performance as well as upon the individual s personal performance. Accordingly, each executive officer s compensation package is comprised of two elements: (i) base salary, which reflects individual performance and expertise and (ii) variable current bonus awards payable in cash or stock awards, which is tied to the achievement of certain performance goals that the Compensation Committee establishes from time to time for the Company.

In certain periods, the compensation of executive officers is also affected by internal conditions of the Company and the external market position of the Company. A more detailed description of the factors that the Board considers in establishing the components of base salary and incentive compensation for executive officer s compensation packages is included below.

Role of Executive Officers in Compensation Decisions

The Compensation Committee makes all compensation decisions for the executive officers and approves recommendations regarding equity awards to all executive officers of the Company. The Chief Executive Officer annually reviews the performance of each of the executive officers. The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Compensation Committee. The Compensation Committee can exercise its discretion in modifying any recommended adjustments or awards to executive officers.

Setting Executive Compensation

Based on the foregoing objectives, the Compensation Committee has structured the Company s annual and long-term incentive-based executive officer s compensation to motivate executives to achieve the business goals set by the Company and reward the executive officers for achieving such goals. In making compensation decisions, the Compensation Committee compares each element of total compensation against other manufacturing companies located in Central Florida and its competitors.

The Company competes with many larger companies for top executive-level talent. The Compensation Committee generally sets the compensation for executive officers based on their experience level and market factors. These objectives recognize the Committee s expectation that, over the long term, LightPath will continue to generate stockholder returns in excess of the average of its competition.

A percentage of total compensation is allocated to incentives as a result of the philosophy mentioned above. There is no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Rather, the Compensation Committee reviews information to determine the appropriate level and mix of incentive compensation. Income from such incentive compensation is realized as a result of the performance of the Company or the individual, depending on the type of award, compared to established goals.

2007 Executive Compensation Components

For the fiscal year ended June 30, 2007, the principal components of compensation for executive officers were:

Base salary;

Variable bonus awards;

Perquisites and other personal benefits.

Base Salary

The level of base salary of executive officers is established primarily on the basis of the individual s qualifications and relevant experience, the strategic goals for which he or she has responsibility, the compensation levels at companies which compete with the Company for business and executive talent, and the incentives necessary to attract and retain qualified management. Base salary is set each year to take into account the individual s performance and to maintain a competitive salary structure.

During its review of base salaries for executive officers, the Compensation Committee primarily considers:

Market data;

Internal review of the executive officer s compensation, both individually and relative to other executive officers; and

Individual performance of the executive officer.

Salary levels are typically considered annually as part of the Company s performance review process as well as upon a promotion or other change in job responsibility. Merit based increases to salaries of members of the executive leadership are based on the Committee s assessment of the individual s performance.

Variable Bonus Awards

The management incentive plans give the Compensation Committee the latitude to design cash and stock-based incentive compensation programs to promote high performance and achievement of corporate goals by directors and key employees, encourage the growth of stockholder value and allow key employees to participate in the long-term growth and profitability of the Company. The Company currently has approximately 93 employees (including the executive officers) and non-employee directors who are eligible to receive awards under this programs

The Compensation Committee may grant participants restricted shares of the Company s Common Stock or stock options under the Omnibus Amended and Restated Incentive Plan. In granting these awards, the Compensation Committee may establish any conditions or restrictions it deems appropriate. In addition, the Chief Executive Officer has discretionary authority to grant restricted shares or stock options under the Omnibus Amended and Restated Incentive Plan to certain high-performing employees or newly hired employees up to 5,000 shares per award. Awards of restricted stock or stock options vest between immediate and four years after the date of the grant. All awards of restricted stock or stock options subject to Section 16(b) of the Securities Act of 1933 require the approval of the Compensation Committee.

Options are awarded at the closing price of the Company s common stock on the date of the grant, as determined by NASDAQ. The Compensation Committee has never granted options with an exercise price that is less than the closing price of the Company s common stock on the grant date, nor has it granted options which are priced on a date other than the grant date.

The majority of the options granted by the Compensation Committee vest at a rate of 25% per year over the first four years of the ten-year option term. Vesting and exercise rights cease ninety days after termination of employment, except in the case of death (subject to a one year limitation), disability or retirement. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents.

All awards of stock options under the aforementioned programs are made at or above the market price at the time of the award. Annual awards of stock options to executive officers are made at the Compensation Committee s regularly scheduled meeting in October. Newly hired or promoted employees, other than executive officers, receive their award of stock options on the day of their hire, promotion or review. Grants of stock options to newly hired executive officers who are eligible to receive them are made on their hire date.

In September 2003, the Company announced its annual incentive bonus plan. The plan provides guidelines for the calculation of annual incentive based compensation, subject to Compensation Committee oversight and modification. At its October meeting each year, the Compensation Committee considers whether an annual bonus plan should be established for the succeeding year and, if so, approves the group of employees eligible to participate in the plan for that year. The plan includes various incentive levels based on the participant s accountability and impact on Company operations, with target award opportunities that are established as a percentage of base salary. These targets range up to 50% of base salary for the Company s employees. The plan is divided into four levels: level 1 is for the Chief Executive Officer, level 2 is for the vice presidents, level 3 is for managers and level 4 is for all other employees. The plan award is based upon achievement of corporate financial objectives relating to revenue, gross margins and cash flow, with each component accounting for 20%, 30% and 50%, respectively, of the total corporate financial objective portion of the plan award.

In October of each year, the Compensation Committee sets minimum, target and maximum levels for each component of the corporate financial objective portion of the plan. Payment of awards under the plan are based upon the achievement of such objectives for the current year. Participants in the plan receive:

- no payment for the corporate financial objective portion of the plan award unless the Company achieves the minimum performance level (as computed for the total corporate financial objective portion);

- a payment of less than 100% of the target award opportunity for the corporate financial objective portion of the plan award if the Company achieves or exceeds the minimum performance level but does not achieve the target performance level;

- a payment of at least 100% but less than 133% of the target award opportunity for the corporate financial objective portion of the plan award if the Company achieves or exceeds the target performance level but does not attain the maximum performance level.

Upon completion of the fiscal year, the Compensation Committee assesses the performance of the Company for each corporate financial objective of the plan comparing the actual fiscal year results to the pre-determined minimum, target and maximum levels for each objective and an overall percentage amount for the corporate financial objectives is calculated. For fiscal 2007, the Compensation Committee did not set any targets. The Compensation Committee plans to evaluate the actual financial results for fiscal 2007 and determine if any awards should be made. The Committee also has the discretion to award restricted stock or stock options to deserving employees whom may have not met the corporate targets but have contributed to the success of the Company.

The payout percentage over the past two years has been zero. Stock options awarded to named executive officers, not including the Chief Executive Officer, against fiscal year 2005 goal achievement aggregated a total of 12,856 shares. The options were granted on August 5, 2005 with an exercise price of $2.80 per share and a three-year vesting period.

Restricted stock units aware to executive officers against the 2006 goal achievement aggregated a total of 10,000 shares. The restricted stock units were awarded on August 3, 2006 at a value of $3.79 per share.

Generally, the Compensation Committee sets the minimum, target and maximum levels such that the relative difficulty of achieving the target level is consistent from year to year.

Perquisites and Other Personal Benefits

The Company provides executive officers with perquisites and other personal benefits that the Company and the Compensation Committee believe are reasonable and consistent with its overall compensation program to better enable the Company to attract and retain superior employees for key positions. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to executive officers.

The executive officers are provided similar benefits as all employees including health and dental insurance, short term disability, long term disability and matching 401k monies.

Attributed costs of the personal benefits described above for the executive officers for the fiscal year ended June 30, 2007, are included in column (i) of the Summary Compensation Table on page 26.

The Company has entered into Change of Control Severance Agreements with certain key employees, including the executive officers. The Change of Control Severance Agreements are designed to promote stability and continuity of senior management. Information regarding applicable payments under such agreements for the executive officers is provided under the heading Payments Made Upon a Change of Control on page 37.

Tax and Accounting Implications

Deductibility of Executive Compensation.

The Compensation Committee has considered the impact of Section 162(m) of the Internal Revenue Code, which disallows a deduction for any publicly held corporation for individual compensation exceeding $1 million in any taxable year for the Chief Executive Officer and four other most highly compensated executive officers, respectively, unless such compensation meets the requirements for the performance-based exception to Section 162(m). As the cash compensation paid by the Company to each of its executive officers is expected to be substantially below $1 million, the Compensation Committee believes that Section 162(m) will not affect the tax deductions available to the Company with respect to the compensation of its executive officers. It is the Compensation Committee s policy to qualify, to the extent reasonable and practicable, its executive officers compensation for deductibility under applicable tax law. However, the Company may from time to time pay compensation to its executive officers that may not be deductible.

Accounting for Stock-Based Compensation

Beginning on July 1, 2005, the Company began accounting for stock-based payments including its Stock Option Program, Long-Term Stock Grant Program, Restricted Stock Program and Stock Award Program in accordance with the requirements of FASB Statement 123(R).

Compensation Committee Interlocks and Insider Participation

In September 2003, Robert Ripp, the Company s Chairman and member of the Company s Compensation Committee, provided an unsecured line of credit to the Company to enable it to borrow up to $300,000 on or before September 30, 2004. Any outstanding balances and accrued interest were to be fully due and payable on September 30, 2004. The interest rate was 5% per annum on any funded balances outstanding. No funds were borrowed under this line of credit and it was not renewed upon its expiration. In connection with this line of credit, Mr. Ripp was issued a warrant to purchase 100,000 shares of Common Stock, which is exercisable until September 30, 2013. The exercise price to acquire the shares underlying the warrant is $3.20 per share.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Compensation Committee:

Robert Ripp
Gary Silverman
Sohail Khan

Summary Compensation Table

The following table sets forth certain compensation awarded to, earned by or paid to (i) the Chief Executive Officer and Chief Financial Officer, (ii) the three of the other most highly compensated executive officers of the Company serving as executive officers at the end of fiscal year 2007, and (iii) up to three additional individuals for whom disclosure would have been provided pursuant to clauses (i) and (ii) above but for the fact that the individual was not serving as an executive officer of the Company as of the end of fiscal year 2007, for services rendered in executive officer capacities to the Company during fiscal years 2007, 2006 and 2005.

Name and Position (a)	Fiscal Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) ** (e)	Options Awards ($)** (f)	All Other Compensation ($) * (i)	Total ($) (j)
J. James Gaynor	2007	122,500			148,050	28,514	299,064
Interim Chief Executive Officer (1)	2006						
	2005						
James Magos	2007	201,886		18,950	96,000	18,571	335,407
Corporate Vice President of Sales and Marketing (2)	2006	180,310			18,759	30,108	229,177
	2005	151,290	20,750		17,680	72,953	262,673
Dorothy M. Cipolla (3)	2007	146,117			96,000	12,842	254,959
Corporate Vice President, Chief Financial Officer, Treasurer & Secretary	2006	45,577			67,950		113,527
	2005						
Zhouling (Joe) Wu	2007	136,385	10,000	18,950	96,000	13,138	274,473
President - China Operations (4)	2006	100,962	10,000		36,150	19,380	166,492
	2005						
Kenneth Brizel,	2007	266,200			192,000	14,067	472,267
Former Chief Executive Officer and President (5)	2006	275,000				12,666	287,666
	2005	262,484	5,000			204,541	472,025
Edward Patton	2007	134,890			48,000	12,808	195,698
Former Vice President of Marketing (6)	2006	114,400			18,759	14,278	147,437
	2005	115,500	6,750	22,100	17,680	5,234	167,264

Notes:

* Other Annual Compensation, as defined by SEC rules except under the applicable de minimis rule for all periods presented. The de minimis rule does not require reporting of perquisites and other compensation that totals less than $10,000. The nature of these compensatory items include the Company s matching of elective employee 401(k) deferrals, the Company s contribution toward the premium cost for employee and dependent medical, dental, life and disability income insurances, and in the case of Mr. Magos, a taxable automobile allowance.

** For valuation assumptions on restricted stock and stock option awards refer to note 9 of the Company s 10-K for fiscal 2007.

(1) The Company employed Mr. Gaynor July 24, 2006 as Vice President of Operations. Accordingly, the compensation figures indicated for 2007 do not represent a full year s compensation. Other amounts in 2007 include $15,026 for relocation expenses.

(2) Mr. Magos salary included commissions of $41,466, $35,310 and $37,500, for 2007, 2006 and 2005 respectively. Mr. Magos All Other Compensation represents the taxable value of restricted stock upon vesting of $14,278 and $35,453 in 2006 and 2005, respectively, taxable payments that reflect performance against goals for long-term sales contracts and current sales bookings.

(3) The Company employed Ms. Cipolla in February 2006 in the stated capacity. Accordingly, the compensation figures indicated for 2006 do not represent a full year s compensation.

(4) The Company employed Dr. Wu in September 2005 in the stated capacity. Accordingly, the compensation figures indicated for 2006 do not represent a full year s compensation.

(5) Mr. Brizel s All Other Compensation includes the taxable value of restricted stock upon vesting of $167,094 in 2005. Other amounts in 2005 are relocation-related. Mr. Brizel resigned from the Company on September 18, 2007.

(6) Mr. Patton s All Other Compensation for 2005 and 2004 is the taxable value of restricted stock upon vesting. Mr. Patton left the Company May 15, 2007. Compensation for 2007 includes $10,487 of severance and $9,938 of vacation payout.

Grants of Plan-Based Awards

The following table provides the specified information concerning grants of plan-based awards to the executive officers named in the Summary Compensation Table. Upon completion of the fiscal year, the Compensation Committee assesses the performance of the Company for each corporate financial objective of the annual incentive plan comparing the actual fiscal year results to the pre-determined minimum, target and maximum levels for each objective and an overall percentage amount for the corporate financial objectives is calculated. The Compensation Committee also has the discretion to award restricted stock or stock options to deserving employees whom may have not meet the corporate targets but have contributed to the success of the Company.

Name (a)	Grant Date (b)	All Other Stock awards: Number of shares of stock or units (#) (i)	All Other option awards: Number of securities underlying options (#) (j)	Exercise or Base Price of option arards ($) (k)	Grant date fair value of stock and option awards ($) (l)
Kenneth Brizel	10/27/06		40,000	4.80	4.80
Dorothy Cipolla	10/27/06		20,000	4.80	4.80
James Magos	8/3/06	5,000			3.79
	10/27/06		20,000	4.80	4.80
Zhouling (Joe) Wu	8/3/06	5,000			3.79
	10/27/06		20,000	4.80	4.80
J. James Gaynor	7/24/06		15,000	3.47	3.47
	10/27/06		20,000	4.80	4.80

Narrative Discussion of Summary Compensation Table and Grants of Plan-Based Awards Table

The following is a narrative discussion of the material factors which we believe are necessary to understand the information disclosed in the foregoing Summary Compensation Table and the Grants of Plan-Based Awards Table. The following narrative disclosure is separated into sections, with a separate section for each of our executive officers.

Kenneth Brizel

Cash Compensation (Base Salaries and Bonuses). Mr. Brizel was awarded total cash compensation for his services to the Company in 2007 in the amount of $266,200. This represents his annual base salary for 2007. The base salary paid to Mr. Brizel for 2007 constituted approximately 56% of the total compensation paid to Mr. Brizel as set forth in the Total column in the Summary Compensation Table.

Long-Term Equity Incentive Awards. The Compensation Committee did not award Mr. Brizel any compensation for achieving fiscal 2006 goals but did award a discretionary bonus of 40,000 stock options at its October meeting. On October 27, 2006, Mr. Brizel was granted an option to purchase 40,000 shares which vests one-fourth of the shares on each of the first, second and third anniversaries of the grant date, and vests as to the last fourth on October 27, 2010. Based on the vesting schedule of the options, the Company expects to recognize compensation expense of approximately $48,000 in each of 2008, 2009 and 2010 and $16,000 in 2011 as a result of the adoption of FASB Statement No. 123-R, Share-Based Payment.

All Other Compensation. Mr. Brizel was eligible to participate in COBRA health insurance, or in any other benefits generally available to the Company s executive officers. He received other compensation of $14,067 for payments made for matching 401k contributions and insurance payments for health insurance, dental insurance, life insurance, short term disability and long term disability premiums.

Employment Agreement. We entered into an employment agreement and change of control agreement with Mr. Brizel effective as of February 14, 2007. The employment agreement was amended on September 18, 2007. The employment agreement stipulated that Mr. Brizel would serve in the capacity of President and Chief Executive Officer of the Company. The Agreement will continue indefinitely until terminated in writing by the Company or Mr. Brizel, which termination may be made with or without cause. Mr. Brizel was entitled to $286,000 per year as base salary, which could have been changed by the Board on an annual basis based on an evaluation of Mr. Brizel s performance. He was also eligible to receive an annual cash bonus in an amount determined by the Board of Director but not to exceed 50% of his then-current base salary. No bonus was paid toward fiscal 2007 or 2006 goal achievement. Mr. Brizel was entitled to participate in all other compensation and benefit plans made available by the Company. The employment agreement also included covenants effective during the course of employment and upon the termination of the agreement, providing for compliance in regards to confidentiality of information; assignment of proprietary information, non-solicitation of Company employees, clients, suppliers, vendors, consultants and independent contractors; and non-competition. The non-solicitation and non-competition covenants shall remain effective for one year following termination of employment.

Mr. Brizel s employment with the Company terminated effective September 18, 2007. His employment agreement was amended to reflect that his employment was terminated other than for cause and he is eligible to receive $286,000 of severance payments over the next twelve months.

Change of Control. On February 13, 2007, the Company and Mr. Brizel entered into a Change of Control Agreement, which provided that, in the event of a change of control of the Company and Mr. Brizel s employment with the Company or its successor terminated by reason of a termination without cause or a termination for good reason within one month prior to and no more than thirteen months following the effective date of such change of control, Mr. Brizel would have been entitled to certain rights, which include the following: (i) all of his stock and stock options in the Company or its successor would vest and become fully exercisable; and (ii) he would have been entitled to a lump sum payment in the amount of one and half times his then-current base salary, which would have been in lieu of any severance payments under his employment agreement.

James Magos

Cash Compensation (Base Salaries and Bonuses). Mr. Magos was awarded total cash compensation for his services to the Company in 2007 in the amount of $201,886. This represents his annual base salary of $160,420 and commissions of $41,466 for 2007. The base salary paid to Mr. Magos for 2007 constituted approximately 48% of the total compensation paid to Mr. Magos as set forth in the Total column in the Summary Compensation Table.

Long-Term Equity Incentive Awards. The Compensation Committee awarded Mr. Magos a discretionary bonus of 5,000 restricted stock shares in August 2006 for achievements in fiscal 2005. The Compensation Committee did not award Mr. Magos any compensation for achieving fiscal 2006 goals but did award a discretionary bonus of 20,000 stock options at its October meeting. On August 3, 2006, Mr. Magos was granted restricted stock of 5,000 shares which vests one-half of the shares on each of the first and second anniversaries of the grant date. Based on the vesting schedule of the options, the Company expects to recognize compensation expense of approximately $9,173 in 2008, and $764 in 2009 as a result of the adoption of FASB Statement No. 123-R, Share-Based Payment. On October 27, 2006, Mr. Magos was granted an option to purchase 20,000 shares which vests one-fourth of the shares on each of the first, second and third anniversaries of the grant date, and vests as to the last fourth on October 27, 2010. Based on the vesting schedule of the options, the Company expects to recognize compensation expense of approximately $24,000 in each of 2008, 2009 and 2010 and $8,000 in 2011 as a result of the adoption of FASB Statement No. 123-R, Share-Based Payment.

All Other Compensation. Mr. Magos is eligible to participate in COBRA health insurance, or in any other benefits generally available to the Company s executive officers. He received other compensation of $18,571 for payments made for matching 401k contributions, an auto allowance and insurance payments for health insurance, dental insurance, life insurance, short term disability and long term disability premiums.

Change of Control Agreement. Mr. Magos is eligible to receive three months compensation in the event of a change of control.

Dorothy Cipolla

Cash Compensation (Base Salaries and Bonuses). Ms. Cipolla was awarded total cash compensation for her services to the Company in 2007 in the amount of $146,117. This represents her annual base salary for 2007. The base salary paid to Ms. Cipolla for 2007 constituted approximately 57% of the total compensation paid to Ms. Cipolla as set forth in the Total column in the Summary Compensation Table.

Long-Term Equity Incentive Awards. The Compensation Committee did not award Ms. Cipolla any compensation for achieving fiscal 2006 goals but did award a discretionary bonus of 20,000 stock options at its October meeting. On October 27, 2006, Ms. Cipolla was granted an option to purchase 20,000 shares which vests one-fourth of the shares on each of the first, second and third anniversaries of the grant date, and vests as to the last fourth on October 27, 2010. Based on the vesting schedule of the options, the Company expects to recognize compensation expense of approximately $24,000 in each of 2008, 2009 and 2010 and $8,000 in 2011 as a result of the adoption of FASB Statement No. 123-R, Share-Based Payment.

All Other Compensation. Ms. Cipolla is eligible to participate in COBRA health insurance, or in any other benefits generally available to the Company s executive officers. She received other compensation of $12,842 for payments made for matching 401k contributions and insurance payments for health insurance, dental insurance, life insurance, short term disability and long term disability premiums.

Change of Control Agreement. Ms. Cipolla is eligible to receive three months compensation in the event of a change of control.

Zhouling (Joe) Wu

Cash Compensation (Base Salaries and Bonuses). Mr. Wu was awarded total cash compensation for his services to the Company in 2007 in the amount of $136,385. This represents his annual base salary for 2007. The base salary paid to Mr. Wu for 2007 constituted approximately 50% of the total compensation paid to Mr. Wu as set forth in the Total column in the Summary Compensation Table.

Long-Term Equity Incentive Awards. The Compensation Committee awarded Mr. Wu a discretionary bonus of 5,000 restricted stock shares in August 2006 for achievements in fiscal 2005. The Compensation Committee did not award Mr. Wu any compensation for achieving fiscal 2006 goals but did award a discretionary bonus of 20,000 stock options at its October meeting. On August 3, 2006, Mr. Wu was granted restricted stock of 5,000 shares which vests one-half of the shares on each of the first and second anniversaries of the grant date. Based on

the vesting schedule of the options, the Company expects to recognize compensation expense of approximately $9,173 in 2008, and $764 in 2009 as a result of the adoption of FASB Statement No. 123-R, Share-Based Payment. On October 27, 2006, Mr. Wu was granted an option to purchase 20,000 shares which vests one-fourth of the shares on each of the first, second and third anniversaries of the grant date, and vests as to the last fourth on October 27, 2010. Based on the vesting schedule of the options, the Company expects to recognize compensation expense of approximately $24,000 in each of 2008, 2009 and 2010 and $8,000 in 2011 as a result of the adoption of FASB Statement No. 123-R, Share-Based Payment.

All Other Compensation. Mr. Wu is eligible to participate in COBRA health insurance, or in any other benefits generally available to the Company s executive officers. He received other compensation of $13,138 for payments made for matching 401k contributions and insurance payments for health insurance, dental insurance, life insurance, short term disability and long term disability premiums.

Change of Control Agreement. Mr. Wu is eligible to receive three months compensation in the event of a change of control.

J. James Gaynor

Cash Compensation (Base Salaries and Bonuses). Mr. Gaynor was awarded total cash compensation for his services to us in 2007 in the amount of $122,500. This represents his annual base salary for 2007. The base salary paid to Mr. Gaynor for 2007 constituted approximately 41% of the total compensation paid to Mr. Gaynor as set forth in the Total column in the Summary Compensation Table.

Long-Term Equity Incentive Awards. The Compensation Committee did not award Mr. Gaynor any compensation for achieving fiscal 2006 goals but did award a discretionary bonus of 20,000 stock options at its October meeting. On July 24, 2006, Mr. Gaynor was granted an option to purchase 15,000 shares which vests on July 24, 2008. Based on the vesting schedule of the options, we expect to recognize compensation expense of approximately $8,672 in 2008, and $723 in 2009 as a result of the adoption of FASB Statement No. 123-R, Share-Based Payment. On October 27, 2006, Mr. Gaynor was granted an option to purchase 20,000 shares which vests one-fourth of the shares on each of the first, second and third anniversaries of the grant date, and vests as to the last fourth on October 27, 2010. Based on the vesting schedule of the options, we expect to recognize compensation expense of approximately $24,000 in each of 2008, 2009 and 2010 and $8,000 in 2011 as a result of the adoption of FASB Statement No. 123-R, Share-Based Payment.

All Other Compensation. Mr. Gaynor is eligible to participate in COBRA health insurance, or in any other benefits generally available to our executive officers. He received other compensation of $28,514 for payments made for relocations, matching 401k contributions and insurance payments for health insurance, dental insurance, life insurance, short term disability and long term disability premiums.

Change of Control Agreement. Mr. Gaynor is eligible to receive three months compensation in the event of a change of control.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards	
(a)	(b)	(c)	(e)		(f)	(g)	(h)
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price ($)	Vesting Schedule	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
James Magos	2,000	2,000	$ 4.42	25%/yr for 4 yrs	10/20/2014	2,500	$ 12,325
		3,214	$ 2.80	3 year cliff	8/5/2013		
		2,000	$ 4.88	2 year cliff	1/27/2016		
		20,000	$ 4.80	25%/.yr for 4 yrs	10/27/2016		
Kenneth Brizel		40,000	$ 4.80	25%/yr for 4 yrs	10/27/2016		
Dorothy Cipolla		15,000	$ 4.53	2 year cliff	2/28/2016		
		20,000	$ 4.80	25%/yr for 4 yrs	10/27/2016		
Zhouling (Joe) Wu		20,000	$ 4.80	25%/yr for 4 yrs	10/27/2016	2,500	$ 12,325
		15,000	$ 2.41	2 yr cliff	11/10/2015		
J. James Gaynor		15,000	$ 3.47	2 year cliff	7/24/2016		
		20,000	$ 4.80	25%/yr for 4 yrs	10/27/2016		

Option Exercises and Stock Vested

	Option Awards		Stock Awards	
Name (a)	Number of Shares Acquired Upon Exercise (#) (b)	$ Value Realized ($) (c)	Number of Shares Acquired Upon vesting (#) (d)	Value Realized on vesting ($) (e)
James Magos				
Edward Patton				
Kenneth Brizel			12,500	46,875
Dorothy Cipolla				
Joe Wu				
James Gaynor				

Potential Payments upon Termination or Change-in-Control

The following table provides change of control payments due to the executive officers named in the Summary Compensation Table. These payments would be due to the executive officers in the event of a change of control.

	Change of Control Payments (1)
James Magos	$ 39,875
Dorothy Cipolla	$ 37,500
Zhouling (Joe) Wu	$ 35,000
J. James Gaynor	$ 35,000

(1) A change of control is defined as any of the following transactions occurring:

the dissolution or liquidation of the Company,

the stockholders of the Company approve an agreement providing for a sale, lease or other disposition of all or substantially all of the assets of the Company and the transactions contemplated by such agreement are consummated,

a merger or a consolidation in which the Company is not the surviving entity,

any person acquires the beneficial ownership of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of directors, and

the individuals who, prior to the transaction, are members of the Board (the Incumbent Board) cease for any reason to constitute at least fifty percent (50%) of the Board, except that if the election of or nomination for election by the Stockholders of any new director was approved by a vote of at least fifty percent (50%) of the Incumbent Board, such new director shall be deemed for purposes of this subsection to be a member of the Incumbent Board.

Notwithstanding the foregoing, a public offering (including the initial or any subsequent public offering) of the common stock of the Company shall not be considered a Change of Control.

DIRECTOR COMPENSATION

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on its Board of Directors. In setting director compensation, the Company considers the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill-level required by the Company of members of the Board of Directors.

Cash Compensation Paid to Board Members

For fiscal year 2005 and beyond, all non-employee members of the Board of Directors will receive a retainer of $2,000 per month, paid quarterly. There will be no meeting attendance fees paid unless, by action of the Board of Directors, such fees are deemed advisable due to a special project or other effort requiring extra-normal commitment of time and effort. Additionally, the following fees will be paid to the Chairman of the Board and Committee Chairmen on a quarterly basis for their responsibilities overseeing their respective functions:

Chairman of the Board	$ 15,000
Audit Committee Chairman	$ 2,000
Compensation Committee Chairman	$ 1,000
Finance Committee Chairman	$ 1,000
Technical Advisory Board Chairman	$ 500

Directors who are employees of the Company receive no compensation for their service as directors.

Stock Option/Restricted Stock Program

Each non-employee director is eligible to receive equity incentives under the Company s Amended and Restated Omnibus Plan, including stock options and restricted stock awards or units.

Director Summary Compensation Table

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended June 30, 2007.

Name (1) (a)	Fees Earned or Paid in Cash ($)		Stock Awards ($)(2)	Option Awards ($)(3)	Total ($)
Tractors owned/leased (at year end)	10,770	10,649	9,460	8,906	7,508
Independent contractors (at year end)	337	16			
Trailers/containers (at year end)	44,318	44,330	39,465	35,366	30,391
Company tractor miles (in thousands)	1,022,677	1,000,127	986,288	922,560	790,018

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

FORWARD-LOOKING STATEMENTS

This report contains statements that may be considered to be forward-looking or predictions concerning future operations or events. Such statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are inherently uncertain, subject to risks and should be viewed with caution. These statements are based on management s belief or interpretation of information currently available. Shareholders and prospective investors are cautioned that actual results and future events may differ materially from the forward-looking statements as a result of many factors. Among all the factors and events that are not within the Company s control and could have a material impact on future operating results include: general economic conditions, terrorists attacks or actions, acts of war, cost and availability of diesel fuel, adverse weather conditions, competitive rate fluctuations, availability of drivers, revenue equipment resale or trade values and the ability of revenue equipment manufacturers to perform in accordance with agreements for guaranteed equipment trade-in values. Current and future changes in fuel prices could result in significant fluctuations of quarterly earnings. The above is not an all-inclusive list. Financial and operating results of the Company may fluctuate as a result of these and other risk factors or events as described from time to time in Company filings with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statement to the extent it becomes aware that it will not be achieved for any reason.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Certain amounts included in or affecting the Company s financial statements and related disclosures must be estimated, requiring certain assumptions with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect:

the amounts reported for assets and liabilities;

the disclosure of contingent assets and liabilities at the date of the financial statements; and

the amounts reported for revenues and expenses during the reporting period.

Therefore, the reported amounts of assets and liabilities, revenues and expenses and associated disclosures with respect to contingent assets and obligations are necessarily affected by these estimates. Management evaluates these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from estimates. Any effects on business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

In preparing financial statements and related disclosures, management must use estimates in determining the economic useful lives of assets, provisions for uncollectible accounts receivable, exposures under self-insurance plans and various other recorded or disclosed amounts. However, management believes that certain accounting policies are of more significance in the financial statement preparation process than others and are discussed below. To the extent that actual outcomes differ from estimates, or additional facts and circumstances cause management to revise estimates, earnings will be affected.

Workers Compensation and Accident Costs

The Company purchases insurance coverage for a portion of expenses related to employee injuries (workers compensation), vehicular collisions and accidents and cargo claims. Most insurance arrangements include a level of self insurance (deductible) coverage applicable to each claim, but provide an umbrella policy to limit the Company s exposure to catastrophic claim costs that are completely insured. The amounts of self insurance change from time to time based on certain measurement dates and policy expiration dates. The Company s current insurance coverage specifies that the first $5,000 of any claim is self insured and that the self insured limit on certain claims was up to $2 million in 2001 and decreased to $1.5 million effective January 1, 2002, which is prefunded with its insurance carrier. The Company is substantially self insured for loss of and damage to its owned and leased revenue equipment. Company safety and claims personnel work directly with representatives from the insurance companies to continually update the estimated ultimate cost of each claim. At December 31, 2001, the Company had approximately $14 million of estimated net claims payable. In addition, the Company is required to pay certain advanced deposits and monthly premiums. At December 31, 2001, the Company had a prepaid insurance asset of approximately $38 million.

During the fourth quarter of 2001, the Company modified its method of estimating and recording its ultimate cost related to auto liability and workers compensation claims, which will result in a more accurate estimate of the Company s ultimate loss from claims. The Company began applying loss development factors to its accident and workers compensation claims history. This new method results in a more accurate estimate of the Company s ultimate loss from claims than its prior method. This new method resulted in a restatement of the following balances at December 31, 1998: a $10.2 million decrease in retained earnings, a $16.3 million increase in claims payable and a $6.1 million increase in deferred tax assets. These adjustments had no material impact on year 2000 and 1999 consolidated earnings.

Revenue Equipment

The Company operates a significant number of tractors, trailers and containers in connection with its business. This equipment may be purchased or acquired under capital or operating leases. In addition, revenue equipment may be rented from third parties and various railroads under short-term rental arrangements. Revenue equipment which is purchased is depreciated on the straight-line method over the estimated useful life down to an estimated salvage or trade-in value. Equipment acquired under capital leases is initially recorded at the net present value of the minimum lease payments and amortized on the straight-line method over the lease term or the estimated useful life, which ever is shorter.

The Company has an agreement with its primary tractor supplier for guaranteed residual or trade-in values for certain new equipment acquired since 1999. The Company has utilized these values in accounting for purchased and leased tractors. If the supplier was unable to perform under the terms of such agreements, it could have a material negative impact on the Company s financial results.

Revenue Recognition

The Company recognizes revenue based on the relative transit time of the freight transported. Accordingly, a portion of the total revenue which will be billed to the customer once a load is delivered is recognized in each reporting period based on the percentage of the freight pickup and delivery service that has been completed at the end of the reporting period.

Segments

The Company operated three segments during the calendar year 2001. Segments included Truck (JBT), Intermodal (JBI) and Dedicated Contract Services (DCS). JBT business included full truck-load, dry-van freight which is primarily transported utilizing company-owned or controlled revenue equipment. Freight in the JBT segment is typically transported over roads and highways and no portion of a movement involves railroads. The JBI segment includes freight which is transported by rail over at least a portion of the movement. JBI freight may also include certain repositioning truck loads which are moved by JBI equipment or third-party carriers, in circumstances where the movement directs JBI equipment back toward intermodal operations. DCS segment business usually includes company-owned revenue equipment and employee drivers who are assigned to a specific customer, traffic lane or service. DCS operations most frequently involve formal, written long-term agreements which govern services performed and applicable rates.

Prior to July 1, 2000, the Logistics business segment (JBL) primarily consisted of J.B. Hunt Logistics, a wholly-owned subsidiary which provided a wide range of comprehensive transportation and freight management services. Such services included experienced professional managers, information and freight optimization technology and the actual design or redesign of freight system solutions. JBL utilized JBT, JBI or DCS owned or controlled assets and employees, or third-party carriers, or a combination to meet service requirements. JBL services were typically provided in accordance with written long-term agreements. Effective July 1, 2000, JBL exchanged its ownership in substantially all of its assets for an initial membership interest in TPC.

RESULTS OF OPERATIONS

2001 Compared With 2000

Operating Segments

For Years Ended December 31

(in millions of dollars)

	Gross Revenue			Operating Income	
	2001	2000	% Change	2001	2000
JBT	$ 828.6	$ 833.8	(1)%	$ 8.7	$ (7.1)
JBI	740.5	681.1	9%	42.1	36.7
DCS	548.7	478.6	15%	17.4	28.4
JBL		230.0*		-	8.1*
Other	.6			4.0	(2.7)
Subtotal	2,118.4	2,223.5	(5)%	72.2	63.4
Inter-segment eliminations	(18.1)	(63.1)			
Total	$ 2,100.3	$ 2,160.4	(3)%	$ 72.2	$ 63.4

**As of December 31, 2000, TPC qualified as a reportable business segment for financial reporting purposes. However, the logistics segment (JBL) information for 2001 shown above excludes TPC from its inception in July 2000. TPC is accounted for on the equity method and does not qualify as a reporting segment in 2001.*

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes appearing in this annual report.

Overview of 2001

Financial and operating results for the year 2001 were impacted by a number of significant items. General economic conditions in the transportation industry were soft during the majority of the year and fuel costs varied dramatically, sometimes changing more than 10% from one month to the next. However, overall fuel costs for 2001 were down from prior year. Consolidated operating revenues for 2001 decreased approximately 3% from 2000. Excluding the JBL operations, which were contributed to TPC as of July 1, 2000, revenue growth for the remaining business segments was approximately 6%. The growth in the remaining segments is attributable to expansion of the Company s operating fleet of tractors from an average of 10,055 in 2000 to 10,710 in 2001 an average increase of 655 tractors or 6.5%. While fuel costs and

related fuel surcharge revenues varied significantly during 2001, the net change in fuel surcharge revenue had less than a 1% impact on revenue between 2001 and 2000.

JBT segment revenue totaled $828.6 million in 2001, down 1% from 2000. This decline was due in part to the softer economy that created a reduced demand for freight. The Company began focusing on improving the operating ratio through cost management initiatives rather than JBT fleet growth. The Company has no plans to grow the JBT fleet until such time that a reasonable operating income has been achieved warranting the additional investment of capital. JBT tractor count, including independent contractors (I/C s) declined nearly 3% during 2001 and tractor utilization was also down approximately 3%. However, revenue per loaded mile increased 3.2%, excluding fuel surcharges, reflecting freight mix changes and pure rate increases,. The Truck segment generated operating income of $8.7 million in 2001, compared with a loss of $7.1 million in 2000. As a result of a new initiative commenced in late 2000, the number of I/C s in JBT grew to 337 in 2001, from 16 at the end of 2000. Continued volatility in the earnings power of the Truck unit is likely to prevail until supply and demand factors in the truckload industry improve. Additional improvement is significantly dependent upon increases in the availability of freight.

JBI segment business was reasonably strong during 2001 and grew 9% to $740.5 million from $681.1 million in 2000. The Intermodal segment held its tractor count essentially flat at 910 during 2001. Unlike the other segments, growth of JBI is not easily tracked by number of tractors, as JBI can utilize outside dray carriers and the other JBHT business units to support load and revenue growth. The increase in revenue can be attributed to a 5% increase in the number of loads from 2000 to 2001 coupled with a 1.7% increase in revenue per loaded mile, excluding fuel surcharges. As a result of revenue growth and utilization of containers, JBI operating income climbed 13% in 2001 to $42.1 million from $36.7 million in 2000.

DCS segment revenue grew 15% during 2001, to $548.7 million from $478.6 million in 2000. This growth rate was down significantly from recent years due to: 1) soft economic conditions which made companies more apprehensive about changing or outsourcing their transportation needs, and; 2) the Company s unwillingness to reduce rates to increase market share. The DCS segment tractor fleet grew by 15% during 2001, but revenue growth was limited by idle tractors throughout most of the year. DCS generated $17.4 million of operating income in 2001, compared with $28.4 million in 2000. The lower margin and reduced operating income was primarily a result of idle tractors and a higher proportionate amount of shared trailer pool and corporate support costs being assigned to the business, as a result of improving the tracking of trailer usage and the increased internal transfer price, which is charged by JBT and JBI when DCS utilizes their assigned trailers. Cost control and close analysis of individual fleet profitability remains a DCS objective. As in the case of Truck, DCS has no fleet growth planned for 2002.

For the year ended December 31, 2001, the Company s share of TPC s results of operations totaled a loss of $1.9 million, compared with earnings of $440,000 for the six month period ended December 31, 2000. TPC s operating loss in 2001 was primarily due to start up expenses. JBHT s financial exposure is limited to its approximate $6.4 million investment in TPC as the Company has not made any additional commitments or guaranteed any of TPC s financial obligations.

The following table sets forth items in the Consolidated Statements of Earnings as a percentage of operating revenues and the percentage increase or decrease of those items as compared with the prior year.

	Percentage of Operating Revenue		**Percentage Change Between Years**
	2001	**2000**	**2001 vs. 2000**
Operating revenues	100.0%	100.0%	(2.8)%
Operating expenses:			
Salaries, wages and employee benefits	37.6%	35.6%	2.7%
Rents and purchased transportation	28.8	32.1	(13.0)
Fuel and fuel taxes	10.8	11.3	(6.9)
Operating supplies and expenses	6.9	6.1	11.4
Depreciation and amortization	6.8	6.2	6.2
Insurance and claims	2.0	1.8	8.7
Operating taxes and licenses	1.6	1.5	
Communication and utilities	1.2	1.2	(.7)
General and administrative expenses, net of gains	.9	1.3	(32.5)
Total operating expenses	96.6	97.1	(3.3)
Operating income	3.4	2.9	13.9
Interest expense	(1.3)	(1.1)	5.0
Equity in earnings of associated companies		.2	
Earnings before income taxes	2.1	2.0	1.5
Income taxes	.5	.3	59.2
Net earnings	1.6%	1.7%	(8.7)%

Consolidated Operating Expenses

Total operating expenses in 2001 declined 3.3% from 2000, decreasing in relative proportion to operating revenues. The Company s operating ratio (operating expenses expressed as a percentage of operating revenues) improved slightly to 96.6% in 2001 from 97.1% in 2000. As previously mentioned, the JBL segment was contributed to TPC effective July 1, 2000. This approximate 10% reduction in consolidated operating revenues was the primary factor in reduced rents and purchased transportation expense. The JBI segment relied solely on JBT and third party carriers for transportation services and accordingly, purchased transportation costs as a percent of revenue were significantly higher than the other segments. The decline in fuel and fuel tax expense was primarily due to significantly lower fuel cost per gallon in late 2001. The increase in 2001 operating supplies and expenses reflected higher tractor and trailing equipment maintenance and tire costs. Insurance and claims costs reflected higher collision rates in JBT during 2001. The significant decline in general and administrative expenses was due to an approximate $5.5 million gain on the sale of a group of trailers, which closed in March of 2001. Gains on revenue equipment dispositions are included in this expense classification and totaled a net gain of $4.8 million in 2001, compared with a loss of $267,000 in 2000.

Equity in earnings (loss) of associated companies reflects the Company s share of operating results for TPC and for the Mexican joint venture. Equity in earnings amounts included the following:

	Year Ended December 31 (000)			
	2001		2000	
TPC	$	(1,918)	$	440
Mexican joint venture		(165)		4,337
	$	(2,083)	$	4,777

The year 2001 financial results of the Company s Mexican joint venture primarily reflect adjustments to the carrying value of the investment due to the anticipated sale of the Company s interests. The Company has an agreement in principle for a sale to the majority owner of the joint venture. This transaction is expected to be consummated in early 2002. If the transaction closes under the current terms and conditions, no material impact on earnings is anticipated.

2000 Compared With 1999

Operating Segments

For Years Ended December 31

(in millions of dollars)

	Gross Revenue			Operating Income	
	2000	1999	% Change	2000	1999
JBT	$ 833.8	$ 763.2	9%	$ (7.1)	
JBI	681.1	651.6	5%	36.7	
Van	1,514.9	1,414.8	7%	29.6	$ 44.4
DCS	478.6	320.2	49%	28.4	24.1
Logistics (JBL)	230.0*	387.9	(41)%	8.1*	10.5
Other				(2.7)	(4.7)
Subtotal	2,223.5	2,122.9	5%	63.4	74.3
Inter-segment eliminations	(63.1)	(77.8)			
Total	$ 2,160.4	$ 2,045.1	6%	$ 63.4	$ 74.3

**As of December 31, 2000, TPC qualified as a reportable business segment for financial reporting purposes. However, the logistics segment information shown above excludes TPC from its inception in July 2000. TPC is accounted for on the equity method.*

Overview of 2000

Financial and operating results for the year 2000 were impacted by a number of significant items. Consolidated operating revenues for 2000 increased 6% over 1999. Excluding the JBL operations, which were contributed to TPC as of July 1, 2000, revenue growth for the remaining segments was approximately 15%. The increase in fuel surcharge revenue associated with higher costs of fuel in the current year accounted for approximately 4% of revenue growth for these remaining segments. Prior to January 1, 2000, the JBT and JBI businesses had been operated and reported together as the Van business segment. Accordingly, 2000 was the first full year that certain JBT and JBI identifiable information was available.

JBT segment revenue increased 9%, to $833.8 million in 2000, from $763.2 million, in 1999. Revenue per loaded mile, excluding fuel surcharges, increased 3.2% in 2000. The JBT company owned/leased tractor fleet totaled 5,850 at December 31, 2000. A new initiative to utilize independent contractors, who own their tractors was commenced in late 2000. The JBT segment had operating arrangements with 16 independent contractors at December 31, 2000. The JBT segment incurred an operating loss of $7.1 million in 2000. Since the JBT and JBI segments were operated in combined fashion during 1999, no comparative operating results were available. A portion of the year 2000 JBT operating loss was due to certain costs incurred to separate the JBT and JBI business units.

The JBI segment business grew 5%, to $681.1 million in 2000, from $651.6 million in 1999. Intermodal revenue per loaded mile in 2000, exclusive of fuel surcharges, was essentially flat compared with 1999. The increase in revenue was primarily due to a 5% increase in revenue per load over 1999 and the JBI tractor fleet totaled 908 at December 31, 2000. The intermodal segment generated operating income of $36.7 million in 2000. A comparable amount for 1999 is not available.

During 2000, DCS segment revenue grew 49%, to $478.6 million, from $320.2 million in 1999. A portion of the DCS segment revenue growth was due to transfers of equipment and drivers from the JBT business segment. The DCS tractor fleet increased 43% to total 3,890 at December 31, 2000. DCS operating income was $28.4 million in 2000, compared with $24.1 million in 1999. The lower margin on the DCS segment business in 2000 was primarily due to a higher proportionate share of corporate support costs being assigned to the business.

The JBL business was contributed to TPC effective July 1, 2000. JBL generated $230 million of revenue and $8.1 million of operating income between January 1, 2000 and June 30, 2000. The Company s share of TPC s results of operations was reported on a one-line, non-operating item on the Consolidated Statements of Earnings and totaled $440,000 in 2000. No gain or loss was recognized upon formation and contribution of JBL segment assets to TPC.

The following table sets forth items in the Consolidated Statements of Earnings as a percentage of operating revenues and the percentage increase or decrease of those items as compared with the prior year.

	Percentage of Operating Revenue		**Percentage Change Between Years**
	2000	**1999**	**2000 vs. 1999**
Operating revenues	100.0%	100.0%	5.6%
Operating expenses:			
Salaries, wages and employee benefits	35.6%	34.9%	7.9%
Rents and purchased transportation	32.1	33.7	.8
Fuel and fuel taxes	11.3	8.3	43.3
Operating supplies and expenses	6.1	6.2	4.1
Depreciation and amortization	6.2	7.3	(9.8)
Insurance and claims	1.8	2.0	(3.9)
Operating taxes and licenses	1.5	1.3	20.4
Communication and utilities	1.2	1.0	15.1
General and administrative expenses	1.3	1.7	(17.8)
Total operating expenses	97.1	96.4	6.4
Operating income	2.9	3.6	(14.6)
Interest expense	(1.1)	(1.4)	(9.2)
Equity in earnings of associated companies	.2	.2	52.1
Earnings before income taxes	2.0	2.4	(13.5)
Income taxes	.3	.8	(62.9)
Net earnings	1.7%	1.6%	13.1%

Consolidated Operating Expenses

Total operating expenses in 2000 increased 6.4% over 1999, in relative proportion to the increase in operating revenues. The Company s operating ratio (operating expenses expressed as a percentage of operating revenues) increased to 97.1% in 2000 from 96.4% in 1999. As previously mentioned the JBL segment was contributed to TPC effective July 1, 2000. This change reduced the rate of revenue growth and was the primary factor in the reduction of rents and purchased transportation expense as a percent of revenue in 2000. The significant increase in fuel and fuel tax expense was driven by an approximate 35% higher cost per gallon and slightly lower fuel miles per gallon in 2000. Fuel surcharges, which were initiated in late 1999, recovered approximately 90% of higher fuel costs during 2000. The more than 20% increase in operating taxes and licenses expense was due to the 13% increase of the tractor fleet and higher state base plate license cost per tractor in 2000. The decline in general and administrative expenses was primarily a result of unusually high bad debt expense in 1999 and system support charges paid by TPC in 2000. Those payments to the Company from TPC reduced general and administrative expenses. Gain and loss on equipment dispositions are also included in this classification and totaled a loss of $267,000 and $849,000 in 2000 and 1999, respectively. The lower year 2000 interest expense reflected the reduction of average debt balances, partly due to the use of the proceeds from sale and leaseback transactions to pay outstanding debt balances.

Equity in earnings of associated companies reflects the Company s share of operating results for TPC and for the Mexican joint venture. Equity in earnings amounts include the following:

	Year Ended December 31 (000)	
	2000	1999
TPC	$ 440	
Mexican joint venture	4,337	3,141
	$ 4,777	$ 3,141

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The Company generates significant amounts of cash from operating activities. Net cash provided by operating activities increased to $172 million in 2001 compared to $125 million in 2000, and $136 million in 1999. The increase from 2000 to 2001 was mainly due to increases in prepaid lease expense related to a significant upfront payment for an operating lease in late 2000. The decrease in cash provided by operations in 2000 versus 1999 is due to the items mentioned above and the Company s decision to acquire revenue equipment through capital and operating leases rather than purchase.

Net cash used in investing activities was $24 million in 2001, $100 million in 2000 and $19 million in 1999. The primary use of funds for investing activities was the acquisition of new revenue equipment. Net invested cash was reduced in 2001, primarily due to the utilization of operating and capital leases. Net invested cash in 1999 was reduced by proceeds from a sale and leaseback of approximately $175 million of trailing equipment.

Cash used in financing activities was $103 million in 2001, $32 million in 2000 and $113 million in 1999. The increase in 2001 is due primarily to net repayments of commercial paper. The decrease in 2000 when compared to 1999 is due to the use of proceeds received from the sale leaseback transaction in 1999 to reduce the outstanding commercial paper balance at December 31, 1999.

SELECTED BALANCE SHEET DATA

As of December 31		2001		2000		1999
Working capital ratio		1.45		1.04		1.09
Current maturities of long-term debt and lease obligations (millions)	$	38	$	101	$	60
Total debt and capitalized lease obligations (millions)	$	392	$	401	$	328
Total debt to equity		.86		.96		.84
Total debt as a percentage of total capital		.46		.49		.46

From time to time the Board of Directors authorizes the repurchase of Company common stock. Purchases of Company stock were:

	2001	2000	1999
Number of shares acquired		500,000	
Price range of shares		$10.94 - $16.13	

Liquidity

The Company s continued growth is primarily contingent upon it s ability to provide funds in order to obtain revenue equipment. Various financing arrangements, including purchases, capital leases and operating leases are utilized from time to time to fund revenue equipment additions. A tractor capital lease program was initiated in July of 2000 and the majority of tractor acquisitions through September 2001 were under this program. Tractor additions since October of 2001 have been purchased with excess cash flow. The majority of trailing equipment additions since October of 2000 have been under operating lease programs. Effective in November of 2001, the JBI business unit began to take delivery of the first of 6,000 new containers. The Company expects to purchase these containers and the majority of tractor acquisitions during 2002 using funds provided from operations and short-term debt.

Under the terms of its various financing and leasing agreements, the Company is required to maintain certain financial covenants including leverage tests, minimum tangible net worth levels and other financial ratios. The Company was in compliance with all of the financial covenants at December 31, 2001. One operating lease arrangement requires the Company to maintain an investment grade credit rating for the Company s Senior unsecured debt. The Company currently is rated BBB by Standard & Poors and Baa3 by Moody s. A credit rating downgrade to BB+ by Standard & Poors or to Ba1 by Moody s, while not expected by the Company, could result in an adjustment to the rental payments under the obligation. Management estimates that such a credit downgrade could result in a $1.9 million annual increase in the associated rental payments.

Contractual Cash Obligations

As of December 31, 2001

(000)

		Amounts Due By Period			
		Less Than	One To	Four To	After
	Total	One Year	Three Years	Five Years	Five Years
Operating Leases	$ 321,212	$ 70,078	$ 106,447	$ 92,940	$ 51,747
Capital leases	188,381	38,514	149,867		
Senior and subordinated notes payable	223,260	10,000	213,260		
Subtotal	$ 732,853	$ 118,592	$ 469,574	$ 92,940	$ 51,747
Commitments to acquire revenue equipment	128,000	128,000			
Total	$ 860,853	$ 246,592	$ 469,574	$ 92,940	$ 51,747

Financing Commitments

As of December 31, 2001

(000)

	Commitments Expiring By Period				
	Total	**Less Than One Year**	**One To Three Years**	**Four To Five Years**	**After Five Years**
Revolving credit arrangements	$ 165,000	$ 165,000			
Standby letters of credit	26,760	26,760			
Total	$ 191,760	$ 191,760			

In January of 2001, Moody s Investors Service downgraded the ratings of the Company s senior unsecured debt to Baa3 from Baa2 and its commercial paper to Prime-3 from Prime-2. The Company is authorized to borrow up to $165 million under its current short-term revolving line of credit, which matures November 13, 2002. There was no balance

outstanding on the revolving line of credit at December 31, 2001. At December 31, 2001, the Company had committed to purchase approximately $128 million of revenue and service equipment, net of proceeds from sale or trade-in allowances. Additional capital spending for new revenue equipment is anticipated during 2002. However, funding for such expenditures is expected to come from cash generated from operations and existing borrowing facilities. The Company had approximately $165 million of unused borrowing capacity at December 31, 2001 under its committed revolving line of credit.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 Business Combinations (FAS 141) and Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (FAS 142). FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of FAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt FAS 142 effective January 1, 2002. . The Company has no negative goodwill as contemplated under Statements 141 and 142 related to its equity method investments. The adoption of this new accounting pronouncement is not expected to have a material impact on the Company s consolidated financial position or results of operations.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations . Statement 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Statement 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently assessing the impact of Statements 143 on its consolidated financial condition and results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), which supersedes both Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (FAS 121) and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). FAS 144 retains the fundamental provisions in FAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with FAS 121. For example, FAS 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. FAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike FAS 121, an impairment assessment under FAS 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under FAS No. 142, Goodwill and Other Intangible Assets.

The Company is required to adopt FAS 144 no later than its first fiscal year beginning after December 15, 2001. Management does not expect the adoption of FAS 144 for long-lived assets held for use to have a material impact on the Company s financial statements because the impairment assessment under FAS 144 is largely unchanged from FAS 121. The provisions of this statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities and therefore, will depend on future actions initiated by management. As a result, management cannot determine the potential effects that adoption of FAS 144 will have

on the Company s financial statements with respect to future disposal decisions.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company s earnings are affected by changes in short-term interest rates as a result of its issuance of short-term debt. The Company from time to time utilizes interest rate swaps to mitigate the effects of interest rate changes; none were

outstanding at December 31, 2001. Risk can be estimated by measuring the impact of a near-term adverse movement of 10% in short-term market interest rates. If short-term market interest rates average 10% more during the next twelve months, there would be no material adverse impact on the Company s results of operations based on variable rate debt outstanding at December 31, 2001. At December 31, 2001, the fair value of the Company s fixed rate long-term obligations approximated carrying value.

Although the Company conducts business in foreign countries, international operations are not material to the Company s consolidated financial position, results of operations or cash flows. Additionally, foreign currency transaction gains and losses were not material to the Company s results of operations for the year ended December 31, 2001. Accordingly, the Company is not currently subject to material foreign currency exchange rate risks from the effects that exchange rate movements of foreign currencies would have on the Company s future costs or on future cash flows it would receive from its foreign investment. To date, the Company has not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Independent Auditors Report

The Board of Directors
J. B. Hunt Transport Services, Inc.:

We have audited the accompanying consolidated balance sheets of J. B. Hunt Transport Services, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. B. Hunt Transport Services, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 12, retained earnings at December 31, 1998, has been restated to reflect an increase in insurance claims payable.

Tulsa, Oklahoma

February 1, 2002

J. B. HUNT TRANSPORT SERVICES, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2001 and 2000

(Dollars in thousands, except per share amounts)

		2001	2000 (As restated, see Note 12)
Assets			
Current assets:			
Cash and cash equivalents	$	49,245	5,370
Trade accounts receivable		233,246	225,797
Inventories		8,915	7,233
Prepaid licenses and permits		17,507	17,224
Other current assets		75,886	75,347
Total current assets		384,799	330,971
Property and equipment, at cost:			
Revenue and service equipment		1,067,465	1,117,689
Land		19,834	19,987
Structures and improvements		78,469	76,159
Furniture and office equipment		98,201	120,622
Total property and equipment		1,263,969	1,334,457
Less accumulated depreciation		432,258	489,282
Net property and equipment		831,711	845,175
Other assets (note 9)		43,788	55,775
	$	1,260,298	1,231,921

(continued)

J. B. HUNT TRANSPORT SERVICES, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2001 and 2000

(Dollars in thousands, except per share amounts)

	2001	2000 (As restated, see Note 12)
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt (note 2)	$ 10,000	84,400
Current installments of obligations under capital leases (note 8)	28,426	16,489
Trade accounts payable	163,291	158,585
Claims accruals	18,003	13,260
Accrued payroll	30,251	29,148
Other accrued expenses	12,713	10,389
Deferred income taxes (note 4)	3,150	6,882
Total current liabilities	265,834	319,153
Long-term debt, excluding current maturities (note 2)	212,950	222,694
Obligations under capital leases, excluding current installments (note 8)	140,657	77,694
Claims accruals	5,275	21,274
Deferred income taxes (note 4)	177,265	173,282
Total liabilities	801,981	814,097
Stockholders equity (notes 2, 3 and 12):		
Preferred stock, par value $100. Authorized 10,000,000 shares; none outstanding		
Common stock, par value $.01 per share. Authorized 100,000,000 shares; issued 39,009,858 shares	390	390
Additional paid-in capital	115,319	107,090
Retained earnings	407,987	375,042
Accumulated other comprehensive loss	(7,037)	(6,502)
	516,659	476,020
Treasury stock, at cost (3,031,000 shares in 2001 and 3,795,400 shares in 2000)	(58,342)	(58,196)
Total stockholders equity	458,317	417,824
Commitments and contingencies (notes 2, 4, 5, 6 and 8)		

	$	1,260,298	1,231,921

See accompanying notes to consolidated financial statements.

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J. B. HUNT TRANSPORT SERVICES, INC.

AND SUBSIDIARIES

Consolidated Statements of Earnings

Years ended December 31, 2001, 2000 and 1999

(Dollars in thousands, except per share amounts)

		2001	2000	1999
Operating revenues	$	2,100,305	2,160,447	2,045,073
Operating expenses:				
Salaries, wages and employee benefits (note 5)		790,210	769,393	713,378
Rents and purchased transportation		604,542	694,756	689,561
Fuel and fuel taxes		226,102	242,835	169,407
Operating supplies and expenses		145,850	130,947	125,748
Depreciation and amortization		142,755	134,391	148,968
Insurance and claims		42,381	38,982	40,555
Operating taxes and licenses		32,616	32,641	27,118
Communication and utilities		24,358	24,528	21,309
General and administrative expenses, net of gains		19,282	28,563	34,740
Total operating expenses		2,028,096	2,097,036	1,970,784
Operating income		72,209	63,411	74,289
Interest expense		(27,044)	(25,747)	(28,346)
Equity in earnings (loss) of associated companies		(2,083)	4,777	3,141
Earnings before income taxes		43,082	42,441	49,084
Income taxes (note 4)		10,137	6,366	17,175
Net earnings	$	32,945	36,075	31,909
Basic earnings per share	$	0.93	1.02	0.90
Diluted earnings per share	$	0.91	1.02	0.89

See accompanying notes to consolidated financial statements.

J. B. HUNT TRANSPORT SERVICES, INC.
AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

Years ended December 31, 2001, 2000 and 1999

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity (Notes 2 and 3)
Balances at December 31, 1998 (As restated Note 12)	$ 390	106,985		315,966	(5,621)	(52,242)	365,478
Sale of subsidiary stock		200					200
Tax benefit of stock options exercised		55					55
Sale of treasury stock to employees		(65)				477	412
Forfeiture of restricted stock to employees		(3)				(15)	(18)
Cash dividends paid ($.20 per share)				(7,126)			(7,126)
Comprehensive income:							
Net earnings			31,909	31,909			31,909
Foreign currency translation adjustments			297		297		297
Total comprehensive income			$ 32,206				
Balances at December 31, 1999 (As restated Note 12)	390	107,172		340,749	(5,324)	(51,780)	391,207
Remeasurement of stock options		110					110
Tax benefit of stock options exercised		31					31
Sale of treasury stock to employees		(223)				1,160	937
Repurchase of treasury stock						(7,576)	(7,576)
Cash dividends paid ($0.05 per share)				(1,782)			(1,782)
Comprehensive income:							
Net earnings			36,075	36,075			36,075
Foreign currency translation adjustments			(1,178)		(1,178)		(1,178)
Total comprehensive income			$ 34,897				
Balances at December 31, 2000 (As restated Note 12)	$ 390	107,090		375,042	(6,502)	(58,196)	417,824
Tax benefit of stock options exercised		5,361					5,361
Sale of treasury stock to employees		2,868				(146)	2,722

Comprehensive income:							
Net earnings			32,945	32,945			32,945
Foreign currency translation adjustments			(535)		(535)		(535)
Total comprehensive income			$ 32,410				
Balances at December 31, 2001	$ 390	115,319		407,987	(7,037)	(58,342)	458,317

See accompanying notes to consolidated financial statements.

J. B. HUNT TRANSPORT SERVICES, INC.

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2001, 2000 and 1999

(Dollars in thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net earnings	$ 32,945	36,075	31,909
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	142,755	134,391	148,968
(Gain) loss on sale of revenue equipment	(4,833)	267	849
Provision for deferred income taxes	251	5,843	16,146
Equity in (earnings) loss of associated companies	2,083	(4,777)	(3,141)
Tax benefit of stock options exercised	5,361	31	55
Remeasurement of options		110	
Forfeiture of restricted stock			(18)
Amortization of discount	256	55	594
Changes in operating assets and liabilities:			
Trade accounts receivable	(7,449)	12,776	(54,206)
Other assets	3,353	(58,057)	(26,624)
Trade accounts payable	4,706	(21,424)	32,042
Claims accruals	(11,256)	10,078	(5,141)
Accrued payroll and other accrued expenses	3,427	9,705	(5,760)
Net cash provided by operating activities	171,599	125,073	135,673
Cash flows from investing activities:			
Additions to property and equipment	(138,466)	(225,672)	(224,795)
Investment in associated company		(5,000)	
Proceeds from sale of equipment	110,711	126,350	214,493
Decrease (increase) in other assets	3,512	4,404	(9,128)
Net cash used in investing activities	(24,243)	(99,918)	(19,430)

(continued)

J. B. HUNT TRANSPORT SERVICES, INC.

AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

Years ended December 31, 2001, 2000 and 1999

(Dollars in thousands)

		2001	2000	1999
Cash flows from financing activities:				
Net borrowings (repayments) of commercial paper borrowings	$	(74,400)	39,400	(96,350)
Repayments of long-term debt		(10,000)	(60,000)	(10,000)
Principal payments under capital lease obligations		(21,803)	(3,370)	
Proceeds from sale of subsidiary stock				200
Proceeds from sale of treasury stock		2,722	937	412
Repurchase of treasury stock			(7,576)	
Dividends paid			(1,782)	(7,126)
Net cash used in financing activities		(103,481)	(32,391)	(112,864)
Net increase (decrease) in cash and cash equivalents		43,875	(7,236)	3,379
Cash and cash equivalents at beginning of year		5,370	12,606	9,227
Cash and cash equivalents at end of year	$	49,245	5,370	12,606
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest	$	27,248	26,138	28,944
Income taxes	$	779	3,654	95
Non-cash activities:				
Capital lease obligations for revenue equipment	$	96,703	97,553	
Assets contributed to associated company	$		2,927	

See accompanying notes to consolidated financial statements.

J.B. HUNT TRANSPORT SERVICES, INC.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements

December 31, 2001, 2000 and 1999

(1) Summary of Significant Accounting Policies

(a) Description of Business

J. B. Hunt Transport Services, Inc., together with its wholly-owned subsidiaries (Company), is a diversified transportation services company operating under the jurisdiction of the U.S. Department of Transportation and various state regulatory agencies.

As of December 31, 2001 the Company has three distinct operating segments: Truck; Intermodal; and Dedicated Contract Services. For years prior, the Company had four operating segments: Truck; Intermodal; Dedicated Contract Services; and Logistics. See note 10.

(b) Principles of Consolidation and Critical Accounting Policies

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been elimi−nated in consolidation.

Our discussion and analysis of financial condition and operations are based on our consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America and contained within this report. Certain amounts included in or affecting our financial statements and related disclosure must be estimated, requiring us to make certain assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared. Therefore, the reported amount of our assets and liabilities, revenues and expenses and associated disclosures with respect to contingent assets and obligations are necessarily affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates.

However, we believe that certain accounting policies are of more significance in our financial statement preparation process than others including determining the economic useful lives of our assets, provisions for uncollectible accounts receivable, exposures under our self-insurance plans and various other recorded or disclosed amounts. To the extent that actual outcomes differ from our estimates, or additional facts and circumstances cause us to revise our estimates, our earnings will be affected.

(continued)

(c) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

(d) Tires in Service

The Company capitalizes tires placed in service on new revenue equipment as a part of the equipment cost. Replacement tires and costs for recapping tires are expensed at the time the tires are placed in service.

(e) Property and Equipment

Depreciation of property and equipment is calculated on the straight-line method over the estimated useful lives of 5 to 10 years for revenue and service equipment, 10 to 40 years for structures and improvements, and 3 to 10 years for furniture and office equipment.

Property and equipment under capital leases are stated at the present value of minimum lease payments; and amortized over the straight-line method over the shorter of the lease term or estimated useful life of the asset.

(f) Revenue Recognition

The Company recognizes revenue based on relative transit time in each reporting period with expenses recognized as incurred.

(g) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(continued)

(h) Earnings Per Share

A reconciliation of the numerator and denominator of basic and diluted earnings per share is shown below (in thousands, except per share amounts):

	Years ended December 31			
	2001		2000	1999
Basic earnings per share:				
Numerator (net earnings)	$	32,945	36,075	31,909
Denominator (weighted average shares outstanding)		35,602	35,313	35,313
Earnings per share	$	.93	1.02	.90
Diluted earnings per share:				
Numerator (net earnings)	$	32,945	36,075	31,909
Denominator:				
Weighted average shares outstanding		35,602	35,313	35,628
Effect of common stock options		597	104	174
		36,199	35,417	35,802
Earnings per share	$	.91	1.02	.89

Options to purchase shares of common stock that were outstanding during each year but were not included in the computation of diluted earnings per share because the options exercise price was greater than the average market price of the common shares are shown in the table below.

	2001		2000		1999	
Number of shares under option		410,900		5,394,000		4,318,000
Range of exercise prices	$	18.38 37.50	$	14.00 37.50	$	17.38 37.50

(continued)

(i) Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the Company s large number of customers and the diverse range of industries which they represent. As of December 31, 2001 and 2000, the Company had no significant concentrations of credit risk.

(j) Foreign Currency Translation

Local currencies are generally considered the functional currencies outside the United States. Assets and liabilities are translated at year-end exchange rates for operations in local currency environments. Income and expense items are translated at average rates of exchange prevailing during the year.

Foreign currency translation adjustments, which reflect foreign currency exchange rate changes applicable to the net assets of the Mexican operations have been recorded as a separate item of accumulated other comprehensive loss in stockholders equity for the years ended December 31, 2001 and 2000.

(k) Stock Based Compensation

The Company has adopted the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation and, as permitted under SFAS No. 123, applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for compensation costs for its stock option plans. Accordingly, compensation expense is recognized on the date of grant only if the current market price of the underlying common stock at date of grant exceeds the exercise price.

(l) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

The Company continually evaluates the carrying value of its assets for events or changes in circumstances which indicate that the carrying value 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 future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(continued)

(m) Comprehensive Income

Comprehensive income consists of net earnings and foreign currency translation adjustments and is presented in the consolidated statements of stockholders equity.

(n) Claims Accruals

Claims payable represent accruals for the uninsured portion of pending accident liability, workers compensation, physical damage and cargo damage. These accruals are estimated based on management s evaluation of the nature and severity of individual claims and an estimate of future claims development based on the Company s past claims experience. Claims payable were restated as of December 31, 1998 (See Note 12).

The Company s 2001 insurance coverage specifies that the first $5,000 of any claim is self insured and that the self insured limit on certain claims was $1 million which is prefunded with its insurance carrier. The Company is substantially self insured for loss of and damage to its owned and leased revenue equipment.

(2) Long-Term Debt

Long-term debt consists of (in thousands):

	2001	2000
Commercial paper	$	74,400
Senior notes payable, due 9/1/03, interest at 6.25% payable semiannually	98,260	98,260
Senior notes payable, due 9/15/04, interest at 7.00% payable semiannually	95,000	95,000
Senior subordinated notes, interest at 7.80% payable semiannually	30,000	40,000
	223,260	307,660
Less current maturities	(10,000)	(84,400)
Unamortized discount	(310)	(566)
	$ 212,950	222,694

(continued)

The Company is authorized to issue up to $165 million under its current revolving line of credit. This line of credit is supported by a credit agreement, with a group of banks, which expires November 13, 2002. No balances were outstanding under this line of credit at December 31, 2001. The 7.80% senior subordinated notes are payable in five equal annual installments, the first of which was due on October 30, 2000.

Under the terms of the credit agreements and the note agreements, the Company is required to maintain certain financial covenants including leverage tests, minimum tangible net worth levels and other financial ratios. The Company was in compliance with all of the financial covenants at December 31, 2001.

Current maturities of long-term debt at December 31, 2001 consist of the third installment of the 7.80% senior subordinated notes. The aggregate annual maturities of long-term debt for each of the four years ending December 31 are as follows (in thousands): 2002, $10,000; 2003, $108,260; 2004, $105,000; and 2005, $0.

(3) Capital Stock

The Company maintains a Management Incentive Plan (Plan) that provides various vehicles to compensate key employees with Company common stock or common stock equivalents. Under the original Plan, the Company was authorized to award, in aggregate, not more than 5,000,000 shares. During 1998 and again in 2000, the stockholders of the Company amended the Plan whereby the Company is now authorized to award, in aggregate, not more than 8,500,000 shares. At December 31, 2001 there were approximately 1,573,000 shares available for grant under the Plan. The Company has utilized three such vehicles to award stock or grant options to purchase the Company s common stock: restricted stock awards, restricted options and nonstatutory stock options.

Restricted stock awards are granted to key employees subject to restrictions regarding transferability and assignment. Shares of Company common stock are issued to the key employees and held by the Company until each employee becomes vested in the award. Vesting of the awards generally occurs over a four-year period of time from the award date. Termination of the employee for any reason other than death, disability or certain cases of retirement causes the unvested portion of the award to be forfeited.

The Plan provides that nonstatutory stock options may be granted to key employees for the purchase of Company common stock for 100% of the fair market value of the common stock at the grant date. The options generally vest over a ten-year period and are forfeited if the employee

(continued)

terminates for any reason. The Company amended certain vested options related to employees of its logistics segment, extending the exercise period after termination. This resulted in a remeasurement of these options and accordingly $110,000 was charged to compensation expense in 2000.

Compensation expense (benefit) under the Plan for restricted stock awards is charged to earnings over the vesting period and amounted to approximately ($5,400) for the year ended December 31, 1999. There have been no restricted stock awards in 2001 and 2000.

A summary of the restricted and nonstatutory options to purchase Company common stock follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares Exercisable
Outstanding at December 31, 1998	3,349,890	$ 16.98	323,390
Granted	471,000	14.03	
Exercised	(26,375)	12.90	
Terminated	(56,950)	16.09	
Outstanding at December 31, 1999	3,737,565	16.65	551,940
Granted	908,250	12.75	
Exercised	(98,100)	13.06	
Terminated	(237,950)	16.15	
Outstanding at December 31, 2000	4,309,765	15.94	831,812
Granted	881,000	14.43	
Exercised	(600,051)	14.78	
Terminated	(553,570)	17.48	
Outstanding at December 31, 2001	4,037,144	15.57	488,620

During 1995, the Board of Directors established a nonqualified stock option plan to provide performance based compensation to the Chairman of the Board (Chairman s Plan). The Chairman s Plan allows the Chairman the option to purchase up to 2.5 million shares of the Company s common stock at a price of $17.63 per share. These options vested after five years. Under the original Chairman s Plan the options must be exercised within one year of vesting and all unexercised options will terminate. During 2000, the stockholders of the Company amended

(continued)

the Chairman s Plan whereby the exercise period was extended to be within two years of vesting of which 1.5 million shares were exercised during the year ended December 31, 2001. The number of options outstanding for the Chairman s Plan was 1 million at December 31, 2001.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company s net earnings would have been reduced to the pro forma amounts indicated below.

		2001		2000	1999
Net earnings (in thousands)	As reported	$	32,945	36,075	31,909
	Pro forma		29,862	30,723	27,391
Basic earnings per share	As reported		.93	1.02	.90
	Pro forma		.84	.87	.77
Diluted earnings per share	As reported		.91	1.02	.89
	Pro forma		.82	.87	.76

Pro forma net earnings reflects only options granted since December 31, 1995. Therefore, the full impact of calculating compensation costs for stock options under SFAS No. 123 is not reflected in the pro forma net earnings amounts presented above because compensation cost is reflected over the options vesting periods of 5 to 10 years and compensation cost for options granted prior to January 1, 1996 is not considered.

The per share weighted-average fair value of stock options granted during 2001, 2000 and 1999 was $10.82, $9.07 and $4.13, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: 2001 expected dividend yield 0.0%, volatility of 59.9%, risk-free interest rate of 4.7%, and an expected life of 6.2 years; 2000 expected dividend yield 0.0%, volatility of 52.4%, risk-free interest rate of 5.2%, and an expected life of 6.6 years; 1999 expected dividend yield 1.2%, volatility of 51.6%, risk-free interest rate of 6.5%, and an expected life of 7.3 years.

(continued)

The following table summarizes information about stock options outstanding at December 31, 2001:

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price per share	Options exercisable	Weighted average exercise price per share
$ 10.01-20.00	4,758,294	5.3	$ 15.54	1,398,870	$ 16.74
20.01-30.00	267,950	5.9	23.07	86,750	22.66
30.01-40.00	10,000	7.5	37.50	3,000	37.50
$ 10.01-40.00	5,036,244	5.3	$ 15.98	1,488,620	$ 17.13

(continued)

(4) Income Taxes

Total income tax (income) expense for the years ended December 31, 2001, 2000 and 1999 was allocated as follows (in thousands):

	2001	2000	1999
Earnings before income taxes	$ 10,137	6,366	17,175
Stockholders equity, for tax benefit of stock options exercised	5,361	31	55
	$ 4,776	6,335	17,120

(Payable) refundable income taxes at December 31, 2001 and 2000 were $(3,989,000) and $3,133,000, respectively. These amounts have been included in other current liabilities and assets on the balance sheet, respectively.

Income tax expense (benefit) attributable to earnings before income taxes consists of (in thousands):

	2001	2000	1999
Current expense:			
Federal	$ 9,661	66	662
State and local	225	457	367
	9,886	523	1,029
Deferred expense (benefit):			
Federal	208	8,032	18,233
State and local	43	(2,189)	(2,087)
	251	5,843	16,146
Total tax expense	$ 10,137	6,366	17,175

Income tax expense attributable to earnings before income taxes differed from the amounts computed using the statutory federal tax rate of 35% for the following reasons (in thousands):

(continued)

	2001		2000	1999
Income tax statutory rate	$	15,078	14,854	17,179
State tax, net of Federal effect		(174)	(1,125)	(869)
Sale/leaseback benefit		(8,021)	(7,863)	(741)
Mexican joint-venture redemption		2,331		
Other, net		923	500	1,606
Total tax expense	$	10,137	6,366	17,175

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are presented below (in thousands):

	2001		2000
Deferred tax assets:			
Claims accruals, principally due to accrual for financial reporting purposes	$	12,419	13,352
Tax credit carryforwards		12,181	9,105
Net operating loss carryforwards			37,830
Accounts receivable, principally due to allowance for doubtful accounts		1,635	3,227
Other		1,266	5,101
Total gross deferred tax assets		27,501	68,615

	2001		2000
Deferred tax liabilities:			
Plant and equipment, principally due to differences in depreciation and capitalized interest	$	162,406	182,712
Prepaid permits and insurance, principally due to expensing for income tax purposes		7,877	20,222
Sale and leaseback transaction		28,123	36,144
Mexican joint-venture		3,396	
Other		6,114	9,701
Total gross deferred tax liabilities		207,916	248,779
Net deferred tax liability	$	180,415	180,164

(continued)

The Company believes its history of profitability and taxable income, the reversal of deferred tax liabilities, and its utilization of tax planning sufficiently supports the carrying amount of the deferred tax assets. Accordingly, the Company has not recorded a valuation allowance as all deferred tax benefits are more likely than not to be realized.

At December 31, 2001, the Company had general business tax credit carryforwards of approximately $3,827,000 expiring from the year 2007 to 2009, and alternative minimum tax credit carryforwards with no expiration of approximately $8,354,000.

(5) Employee Benefit Plans

The Company maintains a defined contribution employee retirement plan, which includes a 401(k) option, under which all employees are eligible to participate. The Company matches a specified percentage of employee contributions, subject to certain limitations. For the years ended December 31, 2001, 2000 and 1999, total Company contributions to the plan, including matching 401(k) contributions, were $7,555,000, $6,553,000 and $7,348,000, respectively.

(6) Fair Value of Significant Financial Instruments

(a) Cash and Cash Equivalents, Accounts Receivable, and Trade Accounts Payable

The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Long-Term Debt

The fair value of the fixed rate debt is presented as the present value of future cash flows discounted using the Company s current borrowing rate for notes of comparable maturity. The calculation arrives at a theoretical amount the Company would pay a creditworthy third party to assume its fixed rate obligations and not the termination value of these obligations. Consistent with market practices, such termination values may include various prepayment and termination fees that the Company would contractually be required to pay if it retired the debt early.

The estimated fair values of the Company s financial instruments are summarized as follows (in thousands):

(continued)

	At December 31, 2001		At December 31, 2000	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	$ 49,245	49,245	5,370	5,370
Accounts receivable	231,389	231,389	225,797	225,797
Trade accounts payable	163,291	163,291	158,585	158,585
Long-term debt:				
Commercial paper			74,400	74,400
Fixed rate obligations	223,260	228,331	233,260	234,352

(7) Related Party Transactions

The Company advances premiums on life insurance policies on the lives of the Company s principal stockholder and his wife. All premiums paid by the Company, along with accrued interest thereon, are reimbursable from a trust which is the owner and beneficiary of the policy. The Company has a guarantee from the stockholder for the amount of premiums paid by the Company together with interest at the rate of 5% per annum until June of 2000. In July of 2000 the Board of Directors approved an adjustment to the interest rate to be the average borrowing rate of the Company when additional advances were made. The interest rate changed to 7.42% in August 2001. The amounts reimbursable to the Company amount to approximately $9,049,000 and $8,002,000 at December 31, 2001 and 2000, respectively, and are included in other assets in the accompanying consolidated balance sheets. See also note 9 for disclosure of transactions with an associated company.

(8) Commitments and Contingencies

During 1999, the Company entered into a sale and leaseback transaction for a portion of its container fleet. Containers having a net book value of approximately $175,000,000 were sold to third party leasing companies at approximate net book value. A gain on the transaction has been deferred and will be amortized to income in relation to rent expense recognized under the leases. The containers are being leased back under operating leases over terms of four to ten years. The Company also leases trailing equipment, terminal facilities, shuttle yards and computer equipment under operating leases having various terms. Under the terms of certain lease agreements, the Company is required to maintain certain covenants including minimum credit ratings. The Company was in compliance with this requirement at December 31, 2001.

During 2001 the Company entered into various capital lease agreements to lease revenue equipment. These capital leases are secured by revenue equipment with a net book value at December 31, 2001 of approximately $168,000,000 and contain certain guarantees of residual value at the end of the lease terms with fixed price purchase options.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2001 are:

(continued)

	Capital Leases		Operating Leases
2002	$	38,514	70,078
2003		90,269	55,191
2004		59,598	51,256
2005			49,982
2006			42,958
Thereafter			51,747
Total minimum lease payments		188,381	321,212
Less amount representing interest (at rates ranging from 4.2% to 8.5%)		19,298	
Present value of net minimum capital lease payments		169,083	
Less current installments of obligations under capital leases		28,426	
Obligations under capital leases excluding current installments	$	140,657	321,212

At December 31, 2001 and 2000 gross property and equipment recorded under capital leases was $194,256,000 and $97,553,000, respectively. Total rent expense was $98,783,000 in 2001, $87,545,000 in 2000, and $39,862,000 in 1999, respectively. At December 31, 2001, the Company had committed to purchase approximately $128,000,000 of revenue and service equipment net of expected proceeds from sale or trade-in allowances. The Company is involved in certain claims and pending litigation arising from the normal conduct of business. Based on the present knowledge of the facts and, in certain cases, opinions of outside counsel, management believes the resolution of claims and pending litigation will not have a material adverse effect on the financial condition or results of operations of the Company.

(9) Investment in Affiliated Company

In March 2000, the Company, along with four other motor carriers, announced the intent to contribute all of its non-asset based logistics business into a recently formed joint venture, Transplace, Inc. (TPC). TPC is an internet-based global transportation logistics company. TPC commenced operations effective July 1, 2000. The Company contributed all of its logistics segment business and all related intangible assets, plus $5.0 million of cash, in exchange for an approximate 27% initial membership interest in TPC. The Company accounts for its approximate 27% interest in TPC utilizing the equity method of accounting. No gain or loss was recognized

(continued)

upon formation and contribution of logistics segment assets to TPC. The excess of the Company s share of TPC s net assets over its cost basis is being amortized over 20 years on a straight-line method. Equity in earnings of TPC was a loss of $1,919,000 in 2001.

The Company provided various services to TPC under a shared service agreement, the terms of which expired on December 31, 2001. The services included the following: payroll and benefits; accounting; computer system maintenance; office facilities; and telecommunications. The fees from these services approximated $6,483,000 and $2,971,000 in 2001 and 2000, respectively, and were recorded in the consolidated statement of earnings as reimbursements of salaries, wages and employee benefits and general and administrative expenses.

The Company earned revenues of $69,696,000 and $43,500,000 from TPC in providing transportation services during 2001 and in the last six months of 2000, respectively.

At December 31, 2001 and 2000, trade accounts receivable included $4,198,000 and $1,148,000, respectively, due from TPC for freight and fees related to the shared service agreement.

For the year ending December 31, 2001, the Company had incurred approximately $32,649,000 in purchased transportation expense as a result of TPC providing transportation services.

(10) Segment Information

The Company had three reportable business segments during 2001, Truck (JBT), Intermodal (JBI), and Dedicated Contract Services (DCS). For years prior, the Company had four reportable business segments, JBT, JBI, DCS and Logistics. JBT business includes full truck-load, dry-van freight which is typically transported utilizing company-owned or controlled revenue equipment. This freight is typically transported over roads and highways and does not move by rail. The JBI segment includes freight which is transported by rail over at least some portion of the movement and also includes certain repositioning truck freight moved by JBI equipment or third-party carriers, when such highway movement is intended to direct JBI equipment back toward intermodal operations. The JBT and JBI business segments were operated in combined fashion (formally reported as Van/Intermodal in prior periods) and limited identifiable comparative information is available for JBT and JBI prior to January 1, 2000. Accordingly, the Company has provided comparable segment information for the year ended December 31, 2001 based on the prior segmentation, which included JBT and JBI as the former segment, Van/Intermodal .

DCS segment business typically includes company-owned revenue equipment and employee drivers which are assigned to a specific customer, traffic lane or service. DCS operations usually include formal, written long-term agreements or contracts which govern services performed and applicable rates.

(continued)

Prior to July 1, 2000, the Logistics business segment primarily consisted of J. B. Hunt Logistics (JBL) a wholly-owned subsidiary which provided a wide range of comprehensive transportation and freight management services. Such services included experienced professional managers, information and optimization technology and the actual design or redesign of freight system solutions. JBL utilized JBT, JBI or DCS owned or controlled assets and employees, or third-party carriers, or a combination to meet customer service requirements. JBL services typically were provided in accordance with written long-term agreements. As discussed in Note 9, the Company exchanged its ownership in JBL for an initial membership interest in TPC. Effective July 1, 2000, the Company began accounting for its ownership in TPC utilizing the equity method of accounting. As of December 31, 2000, TPC qualifies as a reportable business segment and, accordingly, the Logistics segment information shown below includes both JBL and TPC. Information for TPC included in the following tables is the entity s results of operations without regard to the Company s ownership interest which is then subtracted in reconciling to the consolidated statement of earnings.

The Company s customers are geographically dispersed across the United States and include many of the Fortune 500 companies. One customer exceeded 10% of consolidated operating revenues in 2001 and 2000. No single customer exceeded 10% in 1999. A summary of certain segment information is presented below (in millions):

	Assets			
	2001		2000	1999
Truck	$	892	871	
Intermodal		172	128	
Van/Intermodal		1,064	999	826
Logistics			33	73
Dedicated Contract Services		179	138	95
Other (includes corporate and intersegment eliminations)		17	62	133
Total	$	1,260	1,232	1,127

	Revenues			
	2001		2000	1999
Truck	$	829	834	763
Intermodal		740	681	652
Van/Intermodal		1,569	1,515	1,415
Logistics			727	388
Dedicated Contract Services		549	479	320
Total segment revenues		2,118	2,721	2,123
Inter-segment eliminations		(18)	(63)	(78)
Less revenues of equity method investee			(498)	
Consolidated statements of earnings amount	$	2,100	2,160	2,045

(continued)

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	Operating income		
	2001	**2000**	**1999**
Truck	$ 9	(7)	
Intermodal	42	37	
Van/Intermodal	51	30	44
Logistics		9	11
Dedicated Contract Services	17	28	24
Other	4	(3)	(5)
Total segment operating income	$ 72	64	74
Less operating income of equity method investee		(1)	
Consolidated statements of earnings amount	$ 72	63	74

	Depreciation expense		
	2001	**2000**	**1999**
Truck	$ 70	65	
Intermodal	21	23	
Van/Intermodal	91	88	113
Logistics			1
Dedicated Contract Services	44	36	26
Other	8	10	9
Total	$ 143	134	149

(continued)

(11) Quarterly Financial Information (Unaudited)

Operating results by quarter for the years ended December 31, 2001 and 2000 are as follows (in thousands, except per share data):

	Quarter			
	First	Second	Third	Fourth
2001:				
Operating revenues	$ 495,419	521,489	537,156	546,241
Operating income	$ 8,367	15,318	11,950	36,574
Net earnings	$ 1,645	8,568	4,549	18,183
Basic earnings per share	$ .05	.24	.13	.51
Diluted earnings per share	$ .05	.24	.12	.50
2000:				
Operating revenues	$ 533,556	583,500	509,422	533,969
Operating income	$ 9,554	20,347	15,817	17,694
Net earnings	$ 5,013	11,054	9,123	10,885
Basic earnings per share	$ .14	.31	.26	.31
Diluted earnings per share	$ .14	.31	.26	.31

(12) Restatement of Beginning Retained Earnings

In 2001, the Company modified its method of estimating and accruing its ultimate cost related to accident workers compensation, cargo and physical damage claims in accordance with accounting principles generally accepted in the United States of America. The Company began applying loss development factors to its accident and workers compensation claims history. This new method results in a more accurate estimate of the Company s ultimate loss from claims than its prior method.

This new method resulted in a restatement of the following balances at December 31, 1998: a decrease in retained earnings of $10.2 million, an increase in claims payable of $16.3 million, and an increase in deferred tax assets of $6.1 million. This restatement had no material impact on the 2000 and 1999 consolidated statements of income. Accordingly, the Company s consolidated balance sheet at December 31, 2000 has been restated to reflect the same adjustments to retained earnings, claims payable and deferred tax assets.

(continued)

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No reports on Form 8-K have been filed within the twenty-four months prior to December 31, 2001 involving a change of accountants or disagreements on accounting and financial disclosure.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

DIRECTORS

The schedule of directors is hereby incorporated by reference from the Notice and Proxy Statement for Annual Meeting of Stockholders to be held April 25, 2002 set forth under section entitled Proposal One Election of Directors .

EXECUTIVE OFFICERS

Information with respect to executive officers of the Company is set forth in Item 4 of this Report under the caption Executive Officers of the Company .

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required for Items 11 and 12 is hereby incorporated by reference from the Notice and Proxy Statement for Annual Meeting of Stockholders to be held on April 25, 2002 set forth under sections entitled Principal Stockholders of the Company, Report of the Compensation Committee, 2002 Performance-based Compensation, and Compensation Committee Interlocks and Insider Participation.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required for Item 13 is hereby incorporated by reference from Note (7) Related Party Transactions and Note (9) Investment in Affiliated Company of the Notes to Consolidated Financial Statements and from the Notice and Proxy Statement for Annual Meeting of Stockholders to be held on April 25, 2002 set forth under the section entitled Compensation Committee Interlocks and Insider Participation.

PART IV

ITEM 14. EXHIBITS

The following documents are filed as part of this report:

(a) Exhibits

The response to this portion of Item 14 is submitted as a separate section of this report (Exhibit Index).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Lowell, Arkansas, on the 28th day of May, 2002.

J.B. HUNT TRANSPORT SERVICES, INC.
(Registrant)

By:	/s/	Kirk Thompson Kirk Thompson President and Chief Executive Officer
By:	/s/	Jerry W. Walton Jerry W. Walton Executive Vice President, Finance and Administration, Chief Financial Officer
By:	/s/	Donald G. Cope Donald G. Cope Senior Vice President, Controller, Chief Accounting Officer