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ESCALON MEDICAL CORP
Form 10KSB/A
October 27, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB / A

(AMENDMENT No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-20127

ESCALON MEDICAL CORP.
(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

PENNSYLVANIA
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

33-0272839
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

565 EAST SWEDESFORD ROAD, SUITE 200, WAYNE, PA 19087
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE'S INCLUDING ZIP CODE)

610 688-6830
(ISSUER'S TELEPHONE NUMBER)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, \$0.001 PAR VALUE PER SHARE

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no discloser will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [] No [X]

The revenues for the fiscal year ended June 30, 2006, the most recent fiscal year, were \$29,791,000.

The aggregate market value of the common voting stock held by non-affiliates of the Registrant was approximately \$27,710,483 as of September 20, 2006, based upon the closing sale price of the Common Stock as quoted on the NASDAQ Capital Market.

The number of shares of the Registrant's Common Stock outstanding as of September 20, 2006 is 6,344,657.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (Check one). Yes [] No [X]

PART III.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT AND EXECUTIVE OFFICERS OF THE REGISTRANT.

DIRECTORS OF THE COMPANY

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CLASS I NAME OF DIRECTOR	DIRECTOR SINCE	YEAR TERM WILL EXPIRE	AGE	PRINCIPAL OCCUPATION DURING PAST FIVE YEARS AND CERTAIN DIRECTORSHIPS
William L.G. Kwan	1999	2006	65	Retired; Vice President of Business Development of Alcon Laboratories, Inc. a medical products company, from October 1996 to 1999, and Vice President of International Surgical Instruments from November 1989 to October 1999.
Anthony J. Coppola	2000	2006	68	Principal and operator of The Historic Town of Smithville, Inc., a real estate and commercial property company

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from 1988 to present; Retired Division President of SKF Industries, a manufacturing company, from 1963 to 1986.

CLASS II NAME OF DIRECTOR	DIRECTOR SINCE	YEAR TERM WILL EXPIRE	AGE	PRINCIPAL OCCUPATION DURING PAST FIVE YEARS AND CERTAIN DIRECTORSHIPS
Lisa A. Napolitano	2003	2007	43	Tax Manager, Global Tax Management, Inc., a provider of compliance support services for both federal and state taxes, since 1998.
Fred G. Choate	2005	2007	60	Managing Member of Atlantic Capital Funding LLC from 2003 to present, Managing Member of Atlantic Capital Management LLC from 2004 to present; Baltic-American Enterprise Fund, Chief Investment Officer from 2003 to present; Managing Member of Greater Philadelphia Venture Capital Corp from 1992 to present. Mr. Choate has been a director of Parke Bank since 2003. Mr. Choate was formerly a director of Escalon Medical from 1998 to 2003.

CLASS III NAME OF DIRECTOR	DIRECTOR SINCE	YEAR TERM WILL EXPIRE	AGE	PRINCIPAL OCCUPATION DURING PAST FIVE YEARS AND CERTAIN DIRECTORSHIPS
Richard J. DePiano	1996	2008	65	Chairman and CEO of Escalon Medical Corp. since March 1997. CEO of the Sandhurst Company, L.P. and Managing Director of the Sandhurst Venture Fund since 1986; Chairman of the Board of Directors of PhotoMedex, Inc.
Jay L. Federman, M.D.	1996	2008	67	Chief of the Division of Ophthalmology at the Medical College of Pennsylvania and Drexel University School of Medicine and Co-Director of the Retina Service at Wills Eye Hospital, Chairman of the Board of Directors, of the Company from February 1996 to March 1997.

CORPORATE GOVERNANCE

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The SEC and Nasdaq have adopted regulations and listing requirements that relate to our corporate governance. Our Board of Directors has adopted standards and practices in order to comply with those regulations that apply to us. The Company has adopted a Code of Ethics for its executive officers, which can be accessed on the Company's web site at www.escalonmed.com. Our independent directors meet at regularly scheduled meetings at which only independent directors are present.

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AUDIT COMMITTEE

Our Audit Committee consists of Anthony J. Coppola, William L.G. Kwan and Lisa A. Napolitano. Each of our Audit Committee members satisfies the independence requirements of the Exchange Act and Nasdaq rules and complies with the financial literacy requirements thereof. Our Board of Directors has determined that all members of Audit Committee, Anthony J. Coppola, Lisa A. Napolitano and William L.G. Kwan, satisfy the financial expertise requirements and have the requisite experience as defined by the SEC's rules. The Committee met four times in 2006. Consistent with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), the Audit Committee has responsibility for:

- the selection of our independent public accountants;
- reviewing the scope and results of the audit;
- reviewing related-party transactions; and
- reviewing the adequacy of our accounting, financial, internal and operating controls.

Our Audit Committee operates pursuant to a written charter, the full text of which was attached to our proxy statement for our 2004 annual meeting and is available on our website.

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COMPENSATION OF DIRECTORS

None of the Company's directors were paid any directors fees by the Company during the fiscal year ended June 30, 2006. Historically each non-employee director was issued stock options to purchase 10,000 shares of the Company's common stock each year. This year the Board discussed various alternatives to the issuance of stock options and has charged the Compensation Committee to

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present a report concerning directors fees. Directors are reimbursed for expenses incurred in connection with attending meetings of the Board and Board Committees.

EXECUTIVE OFFICERS OF THE COMPANY

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Our executive officers are as follows:

NAME ----	AGE ---	POSITION -----
Richard J. DePiano	65	Chairman and Chief Executive Officer
Robert O'Connor	45	Chief Financial Officer
Mark Karsch*	49	Chief Financial Officer
Harry M. Rimmer**	59	President, Drew Scientific, Secretary and Treasurer

Mr. DePiano has been a director of the Company since February 1996 and has served as Chairman and Chief Executive Officer of the Company since March 1997. Mr. DePiano has been the Chief Executive Officer of the Sandhurst Company, L.P. and Managing Director of the Sandhurst Venture Fund since 1986. Mr. DePiano also serves Chairman of the Board of Directors of PhotoMedex, Inc.

Mr. O'Connor was appointed Chief Financial Officer of the Company on June 30, 2006. Mr. O'Connor joined Escalon Medical Corporation from BDO Seidman, LLP where he served as a senior manager from 2004. His prior experience includes both public and private accounting roles as a manager at PricewaterhouseCoopers, L.L.P where he served in the middle market advisory services group from 1998 until 2000, and positions of controller and chief financial officer of Science Dynamics a manufacturer of high tech telecom equipment from 2000 until 2002 and Ianieri & Giampapa, LLC a certified public accounting firm from 2002 until 2004. Mr. O'Connor holds an MBA from Rutgers University -Graduate School of Management and a B.S. from Kean University. He is a certified public accountant and a member of the American Institute of Certified Public Accountants (AICPA).

* Mr. Karsch was appointed Chief Financial Officer of the Company in July 2005. and resigned in March 2006.

** Mr. Rimmer was appointed Vice President, Corporate Development of the Company in March 2000 and his employment with the Company was terminated September 2006.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires that our officers and directors, as well as persons who own 10% or more of a class of our equity securities, file reports of their ownership of our

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securities, as well as statements of changes in such ownership, with us and the Securities Exchange Commission (the "SEC"). Based upon written representations received by us from our officers, directors and 10% or greater shareholders, and our review of the statements of beneficial ownership changes filed with us by our officers, directors and 10% or greater shareholders during fiscal 2006, all filing requirements applicable to our officers and directors were complied with.

ITEM 10. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

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The following table shows the compensation paid during each of the three fiscal years ended June 30, 2006 for services rendered in all capacities to our Chief Executive Officer and our other most highly compensated executive officer whose compensation exceeded \$100,000 in the fiscal year ended June 30, 2006.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION -----	ANNUAL COMPENSATION -----			LONG-TERM COMPENSATION AWARDS -----		ALL OTHER COMPENSATION -----
	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS	
Richard J. DePiano Chairman and Chief Executive Officer	2006	\$308,500	\$150,000	\$--	40,000	\$ 9,600
	2005	\$300,000	\$200,000	\$--	25,000	\$32,600
	2004	\$261,375	\$200,000	\$--	25,000	\$33,140
Harry M. Rimmer** Senior Vice President Finance	2006	\$155,000	\$ --	\$--	20,000	\$ 1,400
	2005	\$150,000	\$ 50,000	\$--	20,000	\$ 6,900
	2004	\$125,460	\$ 75,000	\$--	20,000	\$ 7,200
Mark H. Karsch* Exec. Vice President and Chief Financial Officer	2006	\$ 96,300	\$ 31,400	\$--	N/A	\$

(1) Includes payment by the Company of (i) in the case of Mr. DePiano, (a) an automobile allowance and (b) insurance premiums paid for life insurance; and (ii) in the case of Mr. Rimmer, an automobile allowance.

* Mr. Karsch resigned in March 2006.

** Mr. Rimmer's employment with the Company was terminated September 2006.

As of June 30, 2006, we granted the following stock options to the persons named in the Summary Compensation Table:

OPTION GRANTS IN LAST FISCAL YEAR

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NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	INDIVIDUAL GRANTS		EXERCISE PRICE (P SHARE)
		% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR		
Richard J. DePiano	40,000	13.87%		\$8.06
Harry M. Rimmer	20,000	6.93%		\$8.06

- (1) These options were granted under the Company's 1999 Equity Incentive Plan and have a term of ten years, subject to earlier termination in certain events. See "Employment Agreements". On June 30, 2006, the Compensation Committee of the Company approved the acceleration of vesting of all of the outstanding stock options to purchase shares of the Company's common stock. The acceleration applies to all stock options outstanding as of June 30, 2006 under the Company's 1991 Stock Option Plan, 1992 Stock Option Plan, 1993 Stock Option Plan, 1999 Stock Option Plan and 2004 Equity Incentive Plan. The senior officers of the Company who are subject to reporting under Section 16(a) of the Securities Exchange Act of 1934 shall be subject to the following restriction with respect to the sale of shares purchased upon exercise of a stock option whose vesting has been accelerated: Such sale shall be prohibited until the earlier of: (i) the date on which the option would otherwise have vested; (ii) twelve months from the date hereof; or (iii) termination of employment.

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The following table show information with respect to options exercised during the year ended June 30, 2006 and held on June 30, 2006 by the persons named in the Summary Compensation Table and the status of their options at June 30, 2006.

AGGREGATE OPTIONS EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUE

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF UNEXERCISED OPTIONS AT JUNE 30, 2006		VALUE OF UNEXERCISED IN-THE-MONEY OPTION JUNE 30, 2006	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Richard J. DePiano	112,500	\$273,325	236,897	0	\$1,196,330	\$-
Harry M. Rimmer	--	\$ -0-	143,000	0	\$ 722,150	\$-

No awards were made to any named executive officer during such fiscal year under any long-term incentive plan. The Company does not currently sponsor any defined benefit or actuarial plans at this time.

EMPLOYMENT AGREEMENT

On May 12, 1998, the Company entered into an employment agreement with

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Richard J. DePiano as the Chairman and Chief Executive Officer of the Company. The initial term of the employment agreement commenced on May 12, 1998 and continued through June 30, 2001. The employment agreement renews on July 1 of each year for successive terms of three years unless either party notifies the other party at least 30 days prior to such date of the notifying party's determination not to renew the agreement. The current base salary provided under the agreement, as adjusted for yearly cost of living adjustments, is \$300,000 per year, and the agreement provides for additional incentive compensation in the form of a cash bonus to be paid by the Company to Mr. DePiano at the discretion of the Board of Directors. The agreement also provides for health and long-term disability insurance and other fringe benefits as well as an automobile allowance of \$800 per month.

On June 23, 2005, the Company entered into a Supplemental Executive Retirement Benefit Agreement with Mr. DePiano. The agreement provides for the payment of supplemental retirement benefits to Mr. DePiano in the event of his termination of service Mr. DePiano with the Company under the following circumstances:

- If Mr. DePiano retires at age 65 or older, the Company is obligated to pay the executive \$8,000 per month for life, with payments commencing the month after retirement. If Mr. DePiano were to die within a period of three years after such retirement, the Company would be obligated to continue making such payments until a minimum of 36 monthly payments have been made to the covered executive and his beneficiaries in the aggregate.

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- If Mr. DePiano dies before his retirement, while employed by the Company, the Company would be obligated to make 36 monthly payments to his beneficiaries of \$8,000 per month commencing in the month after his death.
- If Mr. DePiano were to become permanently disabled while employed by the Company, the Company would be obligated to pay the executive \$8,000 per month for life, with payments commencing the month after he suffers such disability. If Mr. DePiano were to die within three years after suffering such disability, the Company would be obligated to continue making such payments until a minimum of 36 monthly payments have been made to him and his beneficiaries in the aggregate.
- If Mr. DePiano's employment with the Company is terminated by the Company, prior to him attaining age 65 or if he terminates his employment with the Company for good reason, as defined in the agreement, the Company would be obligated to pay him \$8,000 per month for life. If Mr. DePiano were to die within a period of three years after such termination, the Company would be obligated to continue making such payments until a minimum of 36 monthly payments have been made to him and his beneficiaries in the aggregate.

During the fourth quarter of fiscal 2005, the Company recorded as an expense in our Consolidated Statement of Income, \$1,087,000, which represents the present value of the supplemental retirement benefits awarded.

As Chief Financial Officer, Mr. O'Connor's annual base salary will be \$200,000. Mr. O'Connor has been granted stock options to purchase 60,000 shares of the Company's common stock, which are exercisable in full as of the June 30, 2006 grant date. The exercise price of these options is \$5.05 per share. Mr.

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O'Connor will be entitled to a severance payment equal to his annual base salary and an increase of his annual base salary to \$250,000 in connection with a change of control.

Mark Karsch became the Company's Chief Financial Officer in July 2005 and resigned in February 2006.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table shows Securities authorized for issuance under equity compensation plans.

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EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (B)	NU REMA FUT EQUIT (EX REFL
Equity compensation plans approved by security holders	920,685	\$5.728	
Equity compensation plans not approved by security holders	120,000	\$15.60	
TOTAL	1,040,685 =====		

STOCK OWNERSHIP

The following table shows the amount and percentage of our outstanding common stock beneficially owned by each director, each nominee for director, each executive officer named in the Summary Compensation Table, persons or groups who beneficially own more than 5% of our outstanding common stock and all of our executive officers and directors as a group as of September 30, 2006.

BENEFICIAL OWNERSHIP TABLE

NAME AND ADDRESS OF 5% BENEFICIAL OWNERS AND OFFICERS, DIRECTORS AND GROUP	AMOUNT OF BENEFICIAL OWNERSHIP OF OUTSTANDING SHARES (1)	PERCENT OF CLASS	AMOUNT OF BENEFICIAL OWNERSHIP OF SHARES UNDERLYING OPTIONS	AMOUNT AGGREG BENEFIC OWNERS

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Richard J. DePiano	144,278	2.27%	236,897	381,1
Fidelity Management & Research Co.	585,100	9.22%	--	585,1
Barclays Global Investors, N.A.	383,072			
Harry M. Rimmer	3,000	0.05%	143,000	146,0
Robert O'Connor	--	0.00%	60,000	60,0
Mark Karsch	--	--	--	
Jay L. Federman, MD	12,072	0.19%	45,000	57,0
William L. Kwan	--	0.00%	50,000	50,0
Fred G. Choate	--	0.00%	10,000	10,0
Anthony J. Coppola	--	0.00%	25,000	25,0
Lisa A. Napolitano	--	0.00%	22,000	22,0
All Directors and executive officers As a group (8 persons)	159,350	2.51%	591,897	715,2

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* Mr. Rimmer's employment with the Company was terminated September 2006.

(1) Information furnished by each individual named. This table includes shares that are owned jointly, in whole or in part with the person's spouse, or individually by his or her spouse.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Escalon Medical Corp.
(Registrant)

By: /s/ Richard J. DePiano

Richard J. DePiano
Chairman and Chief Executive Officer

Dated: October 27, 2006

