ESCALON MEDICAL CORP
Form 10-K
October 13, 2009

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

FORM 10-K

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

For the fiscal year ended June 30, 2009
Commission File Number 0-20127

Escalon Medical Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania	**33-0272839**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

435 Devon Park Drive, Building 100, Wayne, PA 19087
(Address of principal executive offices, including zip code)
(610) 688-6830
(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.001	**NASDAQ Capital Market**
(Title of class)	**(Name of each exchange on which registered)**

Securities Registered Pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this Form 10-K. Yes þ No o

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

Large accelerated filer o Accelerated filero Non-accelerated filer o Smaller Reporting Company þ
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on December 31, 2008 was approximately $11,967,023, computed by reference to the price at which the common equity was last sold on the NASDAQ Capital Market on such date.

As of September 30, 2009, the registrant had 7,526,430 shares of common stock outstanding.

Documents Incorporated by Reference:

Certain information required by Part III of this Annual Report on Form 10-K will be set forth in, and is incorporated by reference from, the registrant s Proxy Statement for the 2009 Annual Meeting of Shareholders.

Escalon Medical Corp.
Annual Report on Form 10-K
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PART 1

ITEM 1. BUSINESS

Company Overview

Escalon Medical Corp. (Escalon or the Company) is a Pennsylvania corporation initially incorporated in California in 1987 and reincorporated in Pennsylvania in November 2001. Within this document, the Company collectively shall mean Escalon and its wholly owned subsidiaries: Sonomed, Inc. (Sonomed), Escalon Vascular Access, Inc. (Vascular), Escalon Medical Europe GmbH (EME), Escalon Digital Vision, Inc. (EMI), Escalon Pharmaceutical, Inc. (Pharmaceutical), Escalon Holdings, Inc. (EHI), Escalon IP Holdings, Inc., Escalon Vascular IP Holdings, Inc., Sonomed IP Holdings, Inc., Drew Scientific Holdings, Inc. and Drew Scientific Group, Plc (Drew) and its subsidiaries.

The Company operates in the healthcare market specializing in the development, manufacture, marketing and distribution of medical devices and pharmaceuticals in the areas of ophthalmology, diabetes, hematology and vascular access. The Company and its products are subject to regulation and inspection by the United States Food and Drug Administration (the FDA). The FDA and other governmental authorities require extensive testing of new products prior to sale and have jurisdiction over the safety, efficacy and manufacture of products, as well as product labeling and marketing. The Company s Internet address is www.escalonmed.com.

Drew Business

Drew is a diagnostics company specializing in the design, manufacture and distribution of instruments for blood cell counting and blood analysis. Drew is focused on providing instrumentation and consumables for the physician office and veterinary office laboratories. Drew also supplies the reagent and other consumable materials needed to operate the instruments. Drew acquired JAS Diagnostics, Inc. (JAS) on May 29, 2008. JAS was established in 2000 and specializes in the manufacture of a broad range of liquid stable, diagnostics chemistry reagents used in IVD tests. Many of these reagents are single vial stable, which offer ease of use, increased speed of results and extended on-board stability. Drew acquired certain assets of Biocode Hycel on December 31, 2008. Biocode Hycel specializes in the hematology consumables for the physician office and veterinary office laboratories. The operating results of JAS and Biocode Hycel are included as part of the Drew business segment as of May 29, 2008 and December 31, 2008, respectively.

Diabetes Testing

Drew sells two diabetic testing products: the DS5 and the Hb-Gold. The DS5 instrument, dispenser and associated reagent kit measure long-term glucose control in diabetic patients. The system s small size and ease of use make it ideal for main laboratory, clinic or satellite laboratory settings. The Hb-Gold instrument and associated reagent kit provides for the *in vitro* measurement of certain genetic diseases of the blood. In the United States, this instrument is available for research only.

Hematology

Drew offers a broad array of equipment for use in the field of human and veterinary hematology. Drew s Excell product lines are for use in the field of human hematology, whereas the Hemavet product line is for use in the veterinary field. The acquisition of Biocode Hycel added proprietary hematology reagents to the Drew hematology reagent portfolio of products.

Sonomed Business

Sonomed develops, manufactures and markets ultrasound systems for diagnostic or biometric applications in ophthalmology. The systems are of four types: A-Scans, B-Scans, High Frequency B-Scans (UBMs) and pachymeters.

A-Scans

The A-Scan provides information about the internal structure of the eye by sending a beam of ultrasound along a fixed axis through the eye and displaying the various echoes reflected from the surfaces intersected by the beam. The principal echoes occur at the cornea, both surfaces of the lens and the retina. The system displays the position and magnitudes of the echoes on an electronic display. The A-Scan also includes software for measuring distances within the eye. This information is primarily used to calculate lens power for implants.

B-Scans

The B-Scan is primarily a diagnostic tool that supplies information to physicians where the media within the eye are cloudy or opaque. Whereas physicians normally use light, which cannot pass through such media, the ultrasound beam is capable of passing through the opacity and displaying an image of the internal structures of the eye. Unlike the A-Scan, the B-Scan transducer is not in a fixed position; it swings through a 60 degree sector to provide a two-dimensional image of the eye.

UBM

The UBM is a high frequency/high resolution ultrasound device, designed to provide highly detailed information of the anterior segment of the eye. The UBM is used for glaucoma evaluation, tumor evaluation and differentiation, pre and post-intraocular lens implantation and corneal refractive surgery. The device allows the surgeons to do precise measurements within the anterior chamber of the eye.

Pachymeters

The pachymeter uses the same principles as the A-Scan, but the system is tailored to measure the thickness of the cornea. With the advent of refractive surgery (where the cornea is actually cut and reshaped) this measurement has become critical. Surgeons must know the precise thickness of the cornea so as to set the blade to make a cut of approximately 20% of the thickness of the cornea.

Vascular Business

Vascular develops, manufactures and markets vascular access products. These products are Doppler-guided vascular access assemblies used to locate desired vessels for access. Primary specialty groups that use the device are cardiac catheterization labs and interventional radiologists. The Company s vascular products include the PD Access and SmartNeedle lines of monitors, Doppler-guided bare needles and Doppler-guided infusion needles.

PD Access and SmartNeedle Monitors, Needles and Catheter Products

These devices detect blood flow using Doppler ultrasound technology and differentiate between a venous and arterial vessel. The devices utilize a miniature Doppler ultrasound probe that is positioned within the lumen of a vascular access needle. When a Doppler-guided needle pierces the skin of a patient, the probe and monitor can determine if the user is approaching an artery or vein, guiding them to a successful vascular access.

VascuView Visual Ultrasound System

This device provides a two dimensional B-Scan image of the vasculature of a patient, thereby allowing a user to visually guide a needle to the desired artery or vein access. Vascular provides periphery consumable products to maintain a sterile field when using the device.

EMI Business

EMI markets a CFA (Color/Fluorescein Angiography) digital imaging system, designed specifically for ophthalmology. This diagnostic tool, ideal for use in detecting retinal problems in diabetic and elderly patients, provides a high-resolution image, far superior to conventional film in image quality, processing and capture. The instant image display provides users with the necessary clinical information that allows treatment to be performed while the patient is still in the physician s office.

Medical/Trek Business

Medical/Trek manufactures and distributes the following ophthalmic surgical products under the Company s and/or Trek Medical Product s names. Vitreoretinal ophthalmic surgeons primarily utilize these products.

Ispan Intraocular Gases

The Company distributes two intraocular gas products C3F8 and SF6, which are used by vitreoretinal surgeons as a temporary tamponade in detached retina surgery. Under a non-exclusive distribution agreement with Scott Medical Products (Scott), the Company distributes packages of Scott gases in canisters containing up to 25 grams of gas. Along with the intraocular gases, the Company manufactures and distributes a patented disposable universal gas kit, which delivers the gas from the canister to the patient.

Viscous Fluid Transfer Systems

The Company markets viscous fluid transfer systems and related disposable syringe products, which aid surgeons in the process of injecting and extracting Silicone Oil. Adjustable pressures and vacuums provided by the equipment allow surgeons to manipulate the flow of Silicone Oil during surgery.

Fiber Optic Light Sources

Light source and fiber optic products are widely used by vitreoretinal surgeons during surgery. The Company offers surgeons a complete line of light sources along with a variety of fiber optic probes and illuminated tissue manipulators.

Research and Development

The Company conducts development of medical devices for the diagnosis and monitoring of medical disorders in the areas of diabetes, cardiovascular diseases and hematology at the Company s Dallas, Texas, Miami, Florida and Rennes, France facilities. The Company conducts medical device and vascular access product development at its New Berlin, Wisconsin facility. The development of ultrasound ophthalmic equipment is performed at the Company s Lake Success, New York facility on Long Island. Company-sponsored research and development expenditures for the fiscal years ended June 30, 2009, 2008 and 2007 were approximately $3,475,000, $4,058,000, and $3,461,000, respectively.

Manufacturing and Distribution

The Company leases an aggregate of approximately 71,750 square feet of space at its facilities in Texas, Connecticut, France and the United Kingdom and Miami, Florida. These sites are currently used for engineering, product design and development and product assembly. All of the Company s medical devices and consumables for the diagnosis and monitoring of medical disorders in the areas of diabetes, cardiovascular diseases and hematology are distributed from the Company s Dallas, Texas, Oxford, Connecticut, Miami, Florida, Rennes, France, and Barrow-in-Furness, United Kingdom facilities. See Business Conditions in Management s Discussion and Analysis of Financial Condition of Results of Operations for additional information.

The Company leases approximately 11,200 square feet of space in Wisconsin, for its surgical products and vascular access operations. The facility is currently used for engineering, product design and development, manufacturing and product assembly. The Company also leases approximately 2,500 square feet in Lawrence, Massachusetts used primarily for product design and development in the EMI business unit. The Company subcontracts component manufacture, assembly and sterilization to various vendors. The New Berlin manufacturing facility includes a class 10,000 clean room. A class 10,000 clean room is a controlled environment for producing devices while avoiding any significant contaminants. The cleanliness provided by the clean room exceeds the requirements of the FDA. The Company s ophthalmic surgical products and vascular access products are distributed from the Company s Wisconsin facility.

The Company designs, develops and services its ultrasound ophthalmic products at its approximately 12,200 square foot facility in Lake Success, New York. The Company has achieved ISO13485 certification at all of its manufacturing facilities for all medical devices, ultrasound devices and consumables the Company produces. ISO13845 requires an implemented quality system that applies to product design. These certifications can be obtained only after a complete audit of a company s quality system by an independent outside auditor. These certifications require that facilities undergo periodic reexamination. The Company has obtained European Community certification (CE) for disposable delivery systems, fiber optic light probes, medical devices and consumables for the diagnosis and monitoring of medical disorders in the areas of diabetes, cardiovascular diseases and hematology, vascular access products and certain ultrasound models.

The manufacture, testing and marketing of each of the Company s products entails risk of product liability. Product liability insurance is carried by the Company to cover primary risk.

Governmental Regulations

The Company s products are subject to stringent ongoing regulation by the FDA and similar health authorities, and if these governmental approvals or clearances of the Company s products are restricted or revoked, the Company could face delays that would impair the Company s ability to generate funds from operations.

The Company has received the necessary FDA clearances and approvals for all products that the Company currently markets. The FDA and comparable agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the manufacturing and marketing of pharmaceutical and medical device equipment and related disposables, including the obligation to adhere to the FDA s Good Manufacturing Practice regulations. Compliance with these regulations requires time-consuming detailed validation of manufacturing and quality control practices, FDA periodic inspections and other procedures. If the FDA finds any deficiencies in the validation processes, for example, the FDA may impose restrictions on marketing the specific products until such deficiencies are corrected.

Drew received a warning letter from the FDA in April 2007 that certain deficiencies were noted during the FDA s audit of the Company s United Kingdom facility. Drew has addressed the deficiencies and has brought the facility into compliance with FDA regulations. As such, the FDA notified Drew in June 2007 that the actions taken were deemed sufficient and would be verified during the next inspection. No further issues have been raised since that time.

The FDA and similar health authorities in foreign countries extensively regulate the Company s activities. The Company must obtain either 510(K) clearances or pre-market approvals and new drug application approvals prior to marketing a product in the United States. Foreign regulation also requires that the Company obtain other approvals from foreign government agencies prior to the sale of products in those countries. Also, the Company may be required to obtain FDA clearance or approval before exporting a product or device that has not received FDA marketing clearance or approval.

The Company has received CE approval on several of the Company s products that allows the Company to sell the products in the countries comprising the European Community. In addition to the CE mark, however, some foreign countries require separate individual foreign regulatory clearances.

Marketing and Sales

The Drew business segment sells its products through internal sales and marketing employees located in the United States, France and in the United Kingdom as well as through a large network of distributors, both domestic and international.

The Sonomed product line is sold through internal sales employees as well as independent sales representatives located in the United States and Europe, to a large network of distributors and directly to medical institutions.

Vascular business segment products are marketed domestically through internal sales and marketing employees located in the United States as well as through an independent sales representative in Europe and a network of domestic and foreign distributors that are managed by the Company s sales team.

The Medical/Trek and EMI business segments sell their ophthalmic devices and instruments directly to end users through internal sales and marketing employees located at the Company s Wisconsin and Massachusetts facilities. Sales are primarily made to teaching institutions, key hospitals and eye surgery centers, focusing primarily on physicians and operating room personnel performing vitreoretinal surgery. The EMI product line is sold through internal sales employees and independent sales representatives in the United States.

Service and Support

The Company maintains a full-service program for all products sold. The Company provides limited warranties on all products against defects and performance. Product repairs are made at the Wisconsin facility for surgical devices, vascular access products and EMI devices. Sonomed s products are serviced at the Company s New York facility. Drew s products are serviced at its Dallas, Texas and Barrow-in-Furness, UK facilities.

Patents, Trademarks and Licenses

The pharmaceutical and medical device communities place considerable importance on obtaining patent and trade secret protection for new technologies, products and processes for the purpose of strengthening the Company s position in the market place and protecting the Company s economic interests. The Company s policy is to protect its technology by aggressively obtaining patent protection for substantially all of its developments and products, both in the United States and in selected countries outside the United States. It is the Company s policy to file for patent protection in those foreign countries in which the Company believes such protection is necessary to protect its economic interests. The duration of the Company s patents, trademarks and licenses vary through 2020. The Company has 21 United States patents and 31 patents issued abroad that cover the Company s surgical products and pharmaceutical technology. Drew has approximately 72 patents related to its technology.

With respect to the Company s ultrafast laser technology, licensed to Intralase Corp. Intralase , 16 patents have been issued in the United States and 11 overseas. In 1997, Intralase and Escalon entered into an agreement under which Intralase became the exclusive licensee of these patents, technology and intellectual property owned by the Company, which agreement was amended and restated in October 2000. On February 27, 2008, the Company settled all outstanding disputes and litigation with Intralase pursuant to which the Company transferred to Intralase its ownership of all patents and intellectual property formally licensed to Intralase, the license agreement was terminated, and Intralase made a lump-sum payment to the Company of $9,600,000.

The Company intends to vigorously defend its patents if the need arises.

While in the aggregate the Company s patents are of material importance to its business taken as a whole, the patents, trademarks and licenses that are the most critical to the Company s ability to generate revenues are the following:

The Escalon trademark is due for renewal on January 19, 2013, and the Company intends to renew the trademark. The Sonomed trademark was renewed in November 2006.

In the Vascular business unit, the Company has two patents that are of material importance. The first patent is an apparatus for the cannulation of blood vessels. This patent will expire on February 23, 2011. The second patent is also an apparatus for the cannulation of blood vessels. This patent expired on January 11, 2009. The Vascular segment has also one patent application pending for the cannulation of blood vessels with a hypodermic needle.

Competition

There are numerous direct and indirect competitors of the Company in the United States and abroad. These competitors include ophthalmic-oriented companies that market a broad portfolio of products including prescription ophthalmic pharmaceuticals, ophthalmic devices, consumer products (such as contact lens cleaning solution) and other eye care products; large integrated pharmaceutical companies that market a limited number of ophthalmic pharmaceuticals in addition to many other pharmaceuticals; and smaller specialty pharmaceutical and biotechnology companies that are engaged in the development and commercialization of prescription ophthalmic pharmaceuticals and products and, to some extent, drug delivery systems. The Company s competitors for medical devices and ophthalmic pharmaceuticals include, but are not limited to, Bausch & Lomb, Inc., Alcon Laboratories, Inc., Paradigm Medical, Inc., Quantel, Inc. and Accutome, Inc.

Several large companies dominate the ophthalmic market, with the balance of the industry being highly fragmented. The Company believes that these large companies capture approximately 85% of the overall ophthalmic market. The balance of the market is comprised of smaller companies ranging from start-up entities to established market players. The ophthalmic market in general is intensely competitive, with each company eager to expand its market share. The Company s strategy is to compete primarily on the basis of technological innovation to which it has proprietary rights. The Company believes, therefore, that its success will depend in large part on protecting its intellectual property through patents and other governmental regulations.

Sonomed s principal competitors are Alcon Laboratories, Inc, Quantel, Inc. and Accutome, Inc. Sonomed has had a leading presence in the ophthalmic ultrasound industry for over 30 years. Management believes that this has helped Sonomed build a reputation as a long-standing operation that provides a quality product, which has enabled the Company to establish effective distribution coverage within the United States market. Various competitors offering similar products at a lower price could threaten Sonomed s market position. The development of laser technologies for ophthalmic biometrics and imaging may also diminish the Company s market position. This equipment can be used instead of ultrasound equipment in most, but not all, patients. Such equipment, however, is more expensive.

The Medical/Trek and EMI businesses sell a broad range of ophthalmic surgical and diagnostic products. The more significant products are ISPAN® gases and delivery systems. Medical/Trek and EMI also manufacture various ophthalmic surgical products for major ophthalmic companies to be sold under their names. To remain competitive, the Company needs to maintain a low-cost operation. There are numerous other companies that can provide this manufacturing service. There are a variety of other devices that directly compete with the camera back marketed by EMI.

The Vascular access product line is comprised of disposable devices, and currently Vascular has no direct competition. However, a significantly higher priced non-disposable device that facilitates vascular access is currently being marketed. Vascular produces the only device that can be accommodated within a standard needle for assisting medical practitioners in gaining access to a vessel in the human

vascular system. There are no similar devices on the market that enable medical practitioners to gain access using their normal procedures. The only similar product utilizes a separate ultrasound monitor, but no disposables are utilized. When using the competing device, medical practitioners need to look at the monitor while advancing the needle into the patient. The perceived disadvantage of the Company s vascular product is that the retail price is substantially greater than the cost of a traditional needle.

Drew is a diagnostics company specializing in the design, manufacture and distribution of instruments for blood cell counting and blood analysis. Drew is focused on the market for the physician office and veterinary office laboratories. Drew s principal competition is Beckman Coulter and Bayer Diagnostics in the human market and IDDEX in the veterinary market. Currently Drew has only a nominal share of these markets, and the Company will seek to increase Drew s market share. The Company s strategy is to market instruments and consumables that are competitive for the low volume users in the domestic and overseas markets. Drew s success will depend on its ability to enhance its current product range and control its production costs. Drew recognizes that other companies may adopt similar strategies which could hinder Drew s ability to increase market share.

Human Resources

As of June 30, 2009, the Company employed 183 full-time employees and 4 part-time employees. Of these employees, 95 of the Company s employees are employed in manufacturing, 50 are employed in general and administrative positions, 22 are employed in sales and marketing and 12 are employed in research and development. The Company s employees are not covered by a collective bargaining agreement, and the Company considers its relationship with its employees to be good.

ITEM 1A. RISK FACTORS

Cautionary Factors That May Affect Future Results

Certain statements contained in, or incorporated by reference in, this report are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which provide current expectations or forecasts of future events. Such statements can be identified by the use of terminology such as anticipate, believe, could, estimate, expect, forecast, intend, may, plan, possible, project, sho and similar words or expressions. The Company s forward-looking statements include certain information relating to general business strategy, growth strategies, financial results, liquidity, product development, the introduction of new products, the enhancement of existing products, the potential markets and uses for the Company s products, the Company s regulatory filings with the FDA, acquisitions, the development of joint venture opportunities, intellectual property and patent protection and infringement, the loss of revenue due to the expiration on termination of certain agreements, the effect of competition on the structure of the markets in which the Company competes, increased legal, accounting and Sarbanes-Oxley compliance costs, defending the Company in litigation matters and the Company s cost-saving initiatives. The reader must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by assumptions that fail to materialize as anticipated. Consequently, no forward-looking statement can be guaranteed, and actual results may vary materially. It is not possible to foresee or identify all factors affecting the Company s forward-looking statements, and the reader therefore should not consider the following list of such factors to be an exhaustive statement of all risks, uncertainties or potentially inaccurate assumptions.

The Company cautions the reader to consider carefully these factors as well as the specific factors discussed with each specific forward-looking statement in this Form 10-K annual report and in the Company s other filings with the Securities and Exchange Commission (the SEC). In some cases, these factors have impacted, and in the future (together with other unknown factors) could impact, the Company s ability to implement the Company s business strategy and may cause actual results to differ materially from those contemplated by such forward-looking statements. Any expectation, estimate or projection contained in a forward-looking statement may not be achieved.

The Company also cautions the reader that forward-looking statements speak only as of the date made. The Company undertakes no obligation to update any forward-looking statement, but investors are advised to consult any further disclosures by the Company on this subject in the Company s filings with the SEC. Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the Company s forward-looking statements, the material factors include, without limitation, the following:

Due to our history of operating losses, our auditors are uncertain that we will be able to continue as a going concern.

The financial statements have been prepared assuming that the Company will continue as a going concern. The independent auditors report issued in conjunction with the financial statements for the year ended June 30, 2009 contains an explanatory paragraph indicating that certain matters (see page 46) raise substantial doubt about our ability to continue as a going concern. The Company cannot guarantee that it can generate net income, increase revenues or successfully expand its operation in the future, and if it cannot do so, the company may not be able to survive and any investment in the company may be lost.

We believe that our existing cash and cash flow from operations will be sufficient to fund our activities throughout fiscal 2010, however, we have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Further, our operating plan may change, and we may need additional funds to meet operational needs and capital requirements for product development and commercialization sooner than planned. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in Risk Factors.

Because our auditors have expressed a going concern opinion, our ability to obtain additional financing could be adversely affected.

Because of continued losses, negative cash flows from operating activities and new debt payments, the Company has included going concern disclosure in Note 1 to its financial statements included in this report, addressing substantial doubt about the Company s ability to continue as a going concern. This going concern disclosure could adversely affect the Company s ability to obtain favorable financing terms in the future or to obtain any additional financing if needed. If we do proceed with raising funds in the future, we may be required to raise those funds through public or private financings, strategic relationships or other arrangements. The sale of additional equity and debt securities may result in additional dilution to our stockholders. Additional financing may not be available in amounts or on terms acceptable to us or at all.

Any acquisitions, strategic alliances, joint ventures and divestitures that the Company effects could result in financial results that differ from market expectations.

In the normal course of business, the Company engages in discussions with third parties regarding possible acquisitions, strategic alliances, joint ventures and divestitures. As a result of any such transactions, the Company s financial results may differ from the investment community s expectations in a given quarter. In addition, acquisitions and alliances may require the Company to integrate a different company culture, management team, business infrastructure, accounting systems and financial reporting systems. The Company may not be able to effect any such acquisitions or alliances. The Company may have difficulty developing, manufacturing and marketing the products of a newly acquired business in a way that enhances the performance of the Company s combined businesses or product lines to realize the value from any expected synergies. Depending on the size and complexity of an acquisition, the Company s successful integration of the entity depends on a variety of factors, including the retention of key employees and the management of facilities and employees in separate geographical areas. These efforts require varying levels of management resources, which may divert the Company s attention from other business operations. The Company acquired Drew during the first quarter of fiscal 2005. Drew does

not have a history of producing positive operating cash flows and, as a result, at the time of acquisition, was operating under financial constraints and was under-capitalized and has continued to negatively impact the Company s financial results. As Drew is integrated into the Company, management continues to work to reverse the situation, while at the same time seeking to strengthen Drew s market position. The Company loaned approximately $29 million to Drew. The funds have been primarily used to procure components to build up inventory to support the manufacturing process, to pay off accounts payable and debt of Drew, and to expand the sales and marketing and research and development efforts, to fund new product development and underwrite operating losses since its acquisition. The Company cannot rule out that further working capital will be required by Drew. If the Company does not realize the expected benefits or synergies of such transactions, the Company s consolidated financial position, results of operations and stock price could be negatively impacted. Also, the Company s results may be adversely impacted because of acquisition-related costs, amortization costs for certain intangible assets and impairment losses related to goodwill in connection with such transactions. Finally, acquisitions or alliances by the Company may not occur, which could impair the Company s growth.

The Company s results fluctuate from quarter to quarter.

The Company has experienced quarterly fluctuations in operating results and anticipates continued fluctuations in the future. A number of factors contribute to these fluctuations:

Acquisitions, such as Drew, JAS and Biocode Hycel and subsequent integration of the acquired company, although such acquisitions may not occur;

The timing and expense of new product introductions by the Company or its competitors, although the Company might not successfully develop new products and any such new products may not gain market acceptance;

The cancellation or delays in the purchase of the Company s products;

Fluctuations in customer demand for the Company s products;

Fluctuations in royalty income;

The gain or loss of significant customers;

Changes in the mix of products sold by the Company;

Competitive pressures on prices at which the Company can sell its products;

Announcements of new strategic relationships by the Company or its competitors;

Litigation costs and settlements; and

General economic conditions and other external factors such as energy costs.

The Company sets its spending levels in advance of each quarter based, in part, on the Company s expectations of product orders and shipments during that quarter. A shortfall in revenue, therefore, in any particular quarter as compared to the Company s plan could have a material adverse impact on the Company s results of operations and cash flows. Also, the Company s quarterly results could fluctuate due to general market conditions in the healthcare industry or global economy generally, or market volatility unrelated to the Company s business and operating results.

The Company s cost saving initiatives may not be effective.

The Company has implemented cost-saving initiatives that may not be effective in returning the Company to profitability. If these initiatives are insufficient, additional measures may be necessary**.**

Failure of the market to accept the Company s products could adversely impact the Company s business and financial condition.

The Company s business and financial condition will depend in part upon the market acceptance of the Company s products. The Company s products may not achieve market acceptance. Market acceptance depends on a number of factors including:

The price of the products;

The continued receipt of regulatory approvals for multiple indications;

The establishment and demonstration of the clinical safety and efficacy of the Company s products; and

The advantages of the Company s products over those marketed by the Company s competitors.

Any failure to achieve significant market acceptance of the Company s products will have a material adverse impact on the Company s business.

The Company s products are subject to stringent ongoing regulation by the FDA and similar health care regulatory authorities, and if the FDA s approvals or clearances of the Company s products are restricted or revoked, the Company could face delays that would impair the Company s ability to generate funds from operations.

The FDA and similar health care regulatory authorities in foreign countries extensively regulate the Company s activities. The Company must obtain either 510(K) clearances or pre-market approvals and new drug application approvals prior to marketing any products in the United States. Foreign regulation also requires that the Company obtain other approvals from foreign government agencies prior to the sale of products in those countries. Also, the Company may be required to obtain FDA approval before exporting a product or device that has not received FDA marketing clearance or approval.

The Company has received the necessary FDA approvals for all products that the Company currently markets in the United States. Any restrictions on or revocation of the FDA approvals and clearances that the Company has obtained, however, would prevent the continued marketing of the impacted products and other devices. The restrictions or revocations could result from the discovery of previously unknown problems with the product. Consequently, FDA revocation would impair the Company s ability to generate funds from operations.

The FDA and comparable agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the manufacturing and marketing of pharmaceutical and medical device equipment and related disposables, including the obligation to adhere to the FDA s Good Manufacturing Practice regulations. Compliance with these regulations requires time-consuming detailed validation of manufacturing and quality control processes, FDA periodic inspections and other procedures. If the FDA finds any deficiencies in the validation processes, for example, the FDA may impose restrictions on marketing the specific products until such deficiencies are corrected.

The Company has received CE approval on several of the Company s products that allows the Company to sell the products in the countries comprising the European Community. In addition to the CE mark, however, some foreign countries may require separate individual foreign regulatory clearances. The Company may not be able to obtain regulatory clearances for other products in the United States or foreign markets.

The process for obtaining regulatory clearances and approvals underlying clinical studies for any new products or devices and for multiple indications for existing products is lengthy and will require substantial commitments of Company s financial resources and Company s management s time and effort. Any delay in obtaining clearances or approvals or any changes in existing regulatory requirements would materially adversely impact the Company s business.

The Company s failure to comply with the applicable regulations would subject the Company to fines, delays or suspensions of approvals or clearances, seizures or recalls of products, operating restrictions, injunctions or civil or criminal penalties, which would adversely impact the Company s business, financial condition and results of operations.

The success of competitive products could have an adverse impact on the Company s business.

The Company faces intense competition in the medical device and pharmaceutical markets, which are characterized by rapidly changing technology, short product life cycles, cyclical oversupply and rapid price erosion. Many of the Company s competitors have substantially greater financial, technical, marketing, distribution and other resources. The Company s strategy is to compete primarily on the basis of technological innovation, reliability, quality and price of the Company s products. Without timely introductions of new products and enhancements, the Company s products will become technologically obsolete over time, in which case the Company s revenues and operating results would suffer. The success of the Company s new product offerings will depend on several factors, including the Company s ability to:

Properly identify customer needs;

Innovate and develop new technologies, services and applications;

Establish adequate product distribution coverage;

Obtain and maintain required regulatory approvals from the FDA and other regulatory agencies;

Protect the Company s intellectual property;

Successfully commercialize new technologies in a timely manner;

Manufacture and deliver the Company s products in sufficient volumes on time;

Differentiate the Company s offerings from the offerings of the Company s competitors;

Price the Company s products competitively;

Anticipate competitors announcements of new products, services or technological innovations; and

Anticipate general market and economic conditions.

The Company may not be able to compete effectively in the competitive environments in which the Company operates.

The Company s products employ proprietary technology, and this technology may infringe on the intellectual property rights of third parties.

The Company holds several United States and foreign patents for the Company s products. Other parties, however, hold patents relating to similar products and technologies. If patents held by others were adjudged valid and interpreted broadly in an adversarial proceeding, the court or agency could deem them to cover one or more aspects of the Company s products or procedures. Any claims for patent infringements or claims by the Company for patent enforcement would consume time, result in costly litigation, divert technical and management personnel or require the Company to develop non-infringing technology or enter into royalty or licensing agreements. The Company may become subject to one or more claims for patent infringement. The Company may not prevail in any such action, and the Company s patents may not afford protection against competitors with similar technology.

If a court determines that any of the Company s products infringes, directly or indirectly, on a patent in a particular market, the court may enjoin the Company from making, using or selling the product. Furthermore, the Company may be required to pay damages or obtain a royalty-bearing license, if available, on acceptable terms.

Lack of availability of key system components could result in delays, increased costs or costly redesign of the Company s products.

Although some of the parts and components used to manufacture the Company s products are available from multiple sources, the Company currently purchases most of the Company s components from single sources in an

effort to obtain volume discounts. Lack of availability of any of these parts and components could result in production delays, increased costs or costly redesign of the Company s products. Any loss of availability of an essential component could result in a material adverse change to

the Company s business, financial condition and results of operations. Some of the Company s suppliers are subject to the FDA s Good Manufacturing Practice regulations. Failure of these suppliers to comply with these regulations could result in the delay or limitation of the supply of parts or components to the Company, which would adversely impact the Company s financial condition and results of operations.

The Company s ability to market or sell the Company s products may be adversely impacted by limitations on reimbursements by government programs, private insurance plans and other third party payors.

The Company s customers bill various third party payors, including government programs and private insurance plans, for the health care services provided to their patients. Third party payors may reimburse the customer, usually at a fixed rate based on the procedure performed, or may deny reimbursement if they determine that the use of the Company s products was elective, unnecessary, inappropriate, not cost-effective, experimental or used for a non-approved indication. Third party payors may deny reimbursement notwithstanding FDA approval or clearance of a product and may challenge the prices charged for the medical products and services. The Company s ability to sell the Company s products on a profitable basis may be adversely impacted by denials of reimbursement or limitations on reimbursement, compared with reimbursement available for competitive products and procedures. New legislation that further reduces reimbursements under the capital cost pass-through system utilized in connection with the Medicare program could also adversely impact the marketing of the Company s products.

Future legislation or changes in government programs may adversely impact the market for the Company s products.

From time to time, the federal government and Congress have made proposals to change aspects of the delivery and financing of health care services. The Company cannot predict what form any future legislation may take or its impact on the Company s business. Legislation that sets price limits and utilization controls adversely impact the rate of growth of the markets in which the Company participates. If any future health care legislation were to adversely impact those markets, the Company s product marketing could also suffer, which would adversely impact the Company s business.

The Company may become involved in product liability litigation, which may subject the Company to liability and divert management attention.

The testing and marketing of the Company s products entails an inherent risk of product liability, resulting in claims based upon injuries or alleged injuries or a failure to diagnose associated with a product defect. Some of these injuries may not become evident for a number of years. Although the Company is not currently involved in any product liability litigation, the Company may be party to litigation in the future as a result of an alleged claim. Litigation, regardless of the merits of the claim or outcome, could consume a great deal of the Company s time and attention away from the Company s core businesses. The Company maintains limited product liability insurance coverage of $1,000,000 per occurrence and $2,000,000 in the aggregate, with umbrella policy coverage of $5,000,000 in excess of such amounts. A successful product liability claim in excess of any insurance coverage may adversely impact the Company s financial condition and results of operations. The Company s product liability insurance coverage may not continue to be available to the Company in the future on reasonable terms or at all.

The Company s international operations could be adversely impacted by changes in laws or policies of foreign governmental agencies and social and economic conditions in the countries in which the Company operates.

The Company derives a portion of its revenue from sales outside the United States. Changes in the laws or policies of governmental agencies, as well as social and economic conditions, in the countries in which the Company operates could impact the Company s business in these countries and the Company s results of operations. Also, economic factors, including inflation and fluctuations in interest rates and foreign currency exchange rates, and competitive factors such as price competition, business combinations

of competitors or a decline in industry sales from continued economic weakness, both in the United States and other countries in which the Company conducts business, could adversely impact the Company s results of operations.

The Company is dependent on its management and key personnel to succeed.

The Company s principal executive officers and technical personnel have extensive experience with the Company s products, the Company s research and development efforts, the development of marketing and sales programs and the necessary support services to be provided to the Company s customers. Also, the Company competes with other companies, universities, research entities and other organizations to attract and retain qualified personnel. The loss of the services of any of the Company s executive officers or other technical personnel, or the Company s failure to attract and retain other skilled and experienced personnel, could have a material adverse impact on the Company s ability to maintain or expand businesses.

The market price of the Company s stock has historically been volatile, and the Company has not paid cash dividends.

The volatility of the Company s common stock imposes a greater risk of capital losses on shareholders as compared to less volatile stocks. In addition, such volatility makes it difficult to ascribe a stable valuation to a shareholder s holdings of the Company s common stock. The following factors have and may continue to have a significant impact on the market price of the Company s common stock:

Acquisitions, strategic alliances, joint ventures and divestitures that the Company effects, if any;

Announcements of technological innovations;

Changes in marketing, product pricing and sales strategies or new products by the Company s competitors;

Changes in domestic or foreign governmental regulations or regulatory requirements; and

Developments or disputes relating to patent or proprietary rights and public concern as to the safety and efficacy of the procedures for which the Company s products are used.

Moreover, the possibility exists that the stock market, and in particular the securities of technology companies such as the Company, could experience extreme price and volume fluctuations unrelated to operating performance.

The Company has not paid cash dividends on its common stock and does not anticipate paying cash dividends in the foreseeable future.

The impact of terrorism or acts of war could have a material adverse impact on the Company s business.

Terrorist acts or acts of war, whether in the United States or abroad, could cause damage or disruption to the Company s operations, its suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability, any of which could have a material adverse impact on the Company s business.

The Company s charter documents and Pennsylvania law may inhibit a takeover.

Certain provisions of Pennsylvania law and the Company s Bylaws could delay or impede the removal of incumbent directors and could make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of the Company. These provisions could limit the share price that certain investors might be willing to pay in the future for shares of the Company s common stock. The Company s Board of Directors is divided into three classes, with directors in each class elected for three-year terms. The Bylaws impose various procedural and other requirements that could make it more difficult for shareholders to effect certain corporate actions. The Company s Board of Directors may issue shares of preferred stock without shareholder approval on such terms and conditions, and having such

rights, privileges and preferences, as the Board may determine. The rights of the holders of common stock will be subject to, and may be adversely impacted by, the rights of the holders of any preferred stock that may be issued in the future. The Company has no current plans to issue any shares of preferred stock.

There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with United States GAAP. Any changes in estimates, judgments and assumptions used could have a material adverse effect on the Company s business, financial position and operating results.

The consolidated financial statements included in the periodic reports the Company files with the SEC are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of financial statements in accordance with GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. This includes estimates, judgments and assumptions for assessing the recoverability of the Company s goodwill and other intangible assets, pursuant to Statement of Financial Accounting Standards, or SFAS, No. 142, *Goodwill and Other Intangible Assets*, and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. If any estimates, judgments or assumptions change in the future, the Company may be required to record additional expenses or impairment charges. Any resulting expense or impairment loss would be recorded as a charge against our earnings and could have a material adverse impact on our financial condition and operating results. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets (including goodwill and other intangible assets), liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on the Company s financial position and operating results.

On an on-going basis, the Company evaluates its estimates, including, among others, those relating to:

product returns;

allowances for doubtful accounts;

inventories and related reserves;

intangible assets and goodwill;

income and other tax accruals;

deferred tax asset valuation allowances;

discounts and allowances;

warranty obligations; and

contingencies and litigation.

The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company s assumptions and estimates may, however, prove to have been incorrect and the Company s actual results may differ from these estimates under different assumptions or conditions. While the Company believes the assumptions and estimates it makes are reasonable, any changes to the Company s assumptions or estimates, or any actual results which differ from the Company s assumptions or estimates, could have a material adverse effect on the Company s financial position and operating results.

The Company will be exposed to risks relating to evaluations of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002.

The Company anticipates spending a substantial amount of management time and resources to comply with changing laws, rules, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and regulations promulgated by the SEC.

Under the current and proposed rules and regulations of the SEC, the Company is currently not required to comply with all of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 until the Company files its Annual Report on Form 10-K for the Company s fiscal year ending June 30, 2010, as long as the Company continues to meet the definition of a non-accelerated filer. In the Company s Annual Report on Form 10-K for the year ending June 30, 2009, the Company s management is required to provide an assessment as to the effectiveness of the Company s internal control over financial reporting, which assessment will be deemed furnished to rather than filed with the SEC. In the Company s Annual Report on Form 10-K for the year ending June 30, 2010 and for each fiscal year thereafter, the Company s management will be required to provide an assessment as to the effectiveness of our internal control over financial reporting and the Company s independent registered public accounting firm will be required to provide an attestation as to the Company s management s assessment, which assessment and attestation will be filed with the SEC. The assessment and attestation processes required by Section 404 are relatively new to the Company. Accordingly, the Company may encounter problems or delays and additional expense in completing its obligations and receiving an unqualified report on the Company s internal control over financial reporting by the Company s independent registered public accounting firm.

While the Company believes that it will be able to timely meet the Company s obligations under Section 404 and that the Company s management will be able to certify as to the effectiveness of the Company s internal control over financial reporting, there is no assurance that the Company will be able to do so. If the Company is unable to timely comply with Section 404, the Company s management is unable to certify as to the effectiveness of the Company s internal control over financial reporting or the Company s independent registered public accounting firm is unable to attest to that certification, the price of the Company s common stock may be adversely affected. Even if the Company timely meets the certification and attestation requirements of Section 404, it is possible that the Company s independent registered public accounting firm will advise the Company that they have identified significant deficiencies and/or material weaknesses, which may also adversely affect the price of our common stock.

Substantially all of our cash and cash equivalents and marketable securities are held at a single financial institution.

Substantially all of the Company s cash and cash equivalents and short-term marketable securities are presently held at one national financial institution. Accordingly, the Company is subject to credit risk if this financial institution is unable to repay the balance in the account or deliver the Company s securities or if the financial institution should become bankrupt or otherwise insolvent. Any of the above events could have a material and adverse effect on the Company s business and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS:

The Company does not believe there are any unresolved SEC staff comments.

ITEM 2. PROPERTIES

The Company currently leases an aggregate of approximately 103,650 square feet of space for its (i) corporate offices in Wayne, Pennsylvania, (ii) Drew has administrative offices and/or manufacturing facilities in Barrow-in-Furness, United Kingdom, Dallas, Texas, Rennes, France (BioCode) and Miami, Florida (JAS) and Waterford, Connecticut. (iii) Sonomed has a manufacturing facility in Lake Success, New York, and (iv) Vascular has a manufacturing facility in New Berlin, Wisconsin. (v) EMI has a product design and development facility in Lawrence, Massachusetts. The corporate offices in Pennsylvania cover approximately 6,000 square feet and expire in July 2013. The facility in the United Kingdom covers approximately 4,800 square feet whose lease expires in September 2011. The facility in Texas covers approximately 20,000 square feet whose lease expires in March 2014. The facility in Rennes covers approximately 23,800 square feet and expires in January 2015. The Miami facility lease covers approximately 20,000 square feet and expires in July 2015. The Connecticut facility lease covers approximately 3,150 square feet and expires in January 2010. The New York facility leases covering approximately 12,200 square feet, expires in October 2011. The Wisconsin lease, covering approximately 11,200 square feet of space expires in July 2015. The Massachusetts lease, covering 2,500 square feet is a

month to month lease. Annual rent under all of the Company s property and equipment lease arrangements was approximately $855,000 for the year ended June 30, 2009.

ITEM 3. LEGAL PROCEEDINGS

The Company, from time to time is involved in various legal proceedings and disputes that arise in the normal course of business. These matters have previously and could pertain to intellectual property disputes, commercial contract disputes, employment disputes, and other matters. The Company does not believe that the resolution of any of these matters has had or is likely to have a material adverse impact on the Company s business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The 2008 Annual Meeting of Shareholders was held on June 29, 2009. The following matters were acted upon:

The following persons were elected as Class III directors of the Company, each for a term of three years and until his or her successor is elected and qualified.

Nominees for Director	For	Against	Withheld
Richard J. DePiano	6,499,167	0	75,568
Jay L. Federman, MD	6,506,233	0	69,502

The other persons continuing as Directors of the Company after the Annual Meeting of Shareholders are Anthony J. Coppola, Lisa Napolitano, Fred Choate and William L.G. Kwan.

PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock trades on the NASDAQ Capital Market under the symbol ESMC. The table below sets forth, for the periods indicated, the high and low sales prices as quoted on the NASDAQ Capital Market.

	High	**Low**
Fiscal year ended June 30, 2009		
Quarter ended September 30, 2008	$3.12	$2.00
Quarter ended December 31, 2008	$2.00	$0.88
Quarter ended March 31, 2009	$2.30	$1.40
Quarter ended June 30, 2009	$2.35	$1.60
Fiscal year ended June 30, 2008		
Quarter ended September 30, 2007	$8.60	$3.95
Quarter ended December 31, 2007	$5.72	$2.99
Quarter ended March 31, 2008	$4.39	$2.78
Quarter ended June 30, 2008	$3.40	$2.86

As of September 30, 2009, there were 4,355 holders of record of the Company s common stock. On September 30, 2009 the closing price of the Company s Common Stock as reported by the NASDAQ Capital Market was $2.07 per share.

Escalon has never declared or paid a cash dividend on its common stock and presently intends to retain any future earnings to finance future growth and working capital needs.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data are derived from the consolidated financial statements of the Company. The data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included herein in Item 7 and the financial statements and related notes to consolidated financial statements thereto included herein in Item 8.

	For the Years Ended June 30,				
	2009	**2008**	**2007**	**2006**	**2005**
	(Amounts in thousands, except per share amounts)				
Statement of Operations Data:					
Net revenues:					
Product revenue	$ 34,468	$ 29,988	$ 27,893	$ 27,544	$ 23,864
Other revenue	133	222	10,945	2,247	3,060
Revenues, net	**34,601**	**30,210**	**38,838**	**29,791**	**26,924**
Costs and expenses:					
Cost of goods sold	19,548	17,310	15,771	16,004	13,158
Marketing, general and administrative	14,847	14,392	13,806	13,995	12,556
Research and development	3,474	4,058	3,461	2,828	1,893
Goodwill impairment	9,526	9,575	0	0	0
Total costs and expenses	**47,395**	**45,335**	**33,038**	**32,827**	**27,607**
(Loss) income from operations	**(12,794)**	**(15,125)**	**5,800**	**(3,036)**	**(683)**
Other (expense) and income:					
Gain on sale of assets	92	0	0	0	0
Gain on sale of available for sale securities	0	0	75	1,157	3,412
Equity in Ocular Telehealth Management, LLC	(65)	(88)	(88)	(174)	(64)
Interest income	19	300	208	162	69
Interest expense	(216)	(12)	(29)	(64)	(55)
Total other (expense) and income	**(172)**	**200**	**166**	**1,081**	**3,362**
Net (loss) income before taxes	**(12,966)**	**(14,925)**	**5,966**	**(1,955)**	**2,679**
Provision for income taxes	0	135	51	31	232
Net (loss) income	**$ (12,966)**	**$ (15,060)**	**$ 5,915**	**$ (1,986)**	**$ 2,447**

Basic net (loss) income per share	**$ (1.82)**	**$ (2.36)**	**$ 0.93**	**$ (0.32)**	**$ 0.42**
Diluted net (loss) income per share	**$ (1.82)**	**$ (2.36)**	**$ 0.92**	**$ (0.32)**	**$ 0.39**
Weighted average shares basic used in per share calculation	**7,138**	**6,389**	**6,375**	**6,152**	**5,832**
Weighted average shares diluted used in per share calculation	**7,138**	**6,389**	**6,434**	**6,152**	**6,231**

	(Amounts in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 1,810	$ 3,708	$ 8,879	$ 3,380	$ 5,116
Working capital	10,713	10,547	17,238	10,616	13,613
Total assets	25,055	31,896	45,017	38,645	40,049
Short term debt	1,375	502	150	233	230
Long-term debt, net of current portion	4,741	251	0	163	392
Total liabilities	12,617	7,364	5,612	5,545	5,530
Accumulated deficit	(56,233)	(43,267)	(28,208)	(34,122)	(32,136)
Shareholders equity	12,439	24,532	39,406	33,100	34,519

No cash dividends were paid in any of the periods presented.

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

The following discussion and analysis should be read together with the consolidated financial statements and notes thereto and other financial information contained elsewhere in this Form 10-K and the discussion under Risk Factors included in Part IA of this Form 10-K.

The Company operates primarily in five reportable business segments: Drew, Sonomed, Vascular, Medical/Trek and EMI.

Drew is a diagnostics company specializing in the design, manufacture and distribution of instruments for blood cell counting and blood analysis. Drew is focused on providing instrumentation and consumables for the physician office and veterinary office laboratories. Drew also supplies the reagent and other consumable materials needed to operate the instruments. Drew added to its reagent business with the May 29, 2008 purchase of JAS and the December 31, 2008 acquisition of certain assets of BioCode Hycel (see footnote 12).

Sonomed develops, manufactures and markets ultrasound systems used for diagnosis or biometric applications in ophthalmology.

Vascular develops, manufactures and markets vascular access products.

Medical/Trek develops, manufactures and distributes ophthalmic surgical products under the Escalon Medical Corp. and/or Trek Medical Products names.

EMI manufactures and markets digital camera systems for ophthalmic fundus photography. For a more complete description of these businesses and their products, see Item 1 Description of Business.

Executive Overview Fiscal Years Ended June 30, 2009 and 2008

The following highlights are discussed in further detail within this Form 10-K. The reader is encouraged to read this Form 10-K in its entirety to gain a more complete understanding of factors impacting Company performance and financial condition.

Product revenue increased approximately 14.9% during fiscal year ended June 30, 2009 as compared to the prior fiscal year. The increase is primarily related to strong sales in the Company s Drew and EMI business units which increased approximately 35.7% and 17.9%, respectively, offset by sales decreases in the Sonomed, Vascular and Trek business units of 2.1%, 6.1% and 10.5%, respectively.

Other revenue decreased approximately $89,000 or 40.1% during the fiscal year ended June 30, 2009 as compared to the prior fiscal year. The decrease is due decreased royalties earned from the Bio-Rad royalty agreement.

Cost of goods sold as a percentage of product revenue decreased to approximately 56.7% of revenues during the fiscal year ended June 30, 2009, as compared to approximately 57.7% of product revenue for the prior fiscal year. Gross margins in the Drew business segment have historically been lower than those in the Company s other business units. Cost of goods sold in the Drew business segment was approximately 62.0% of product revenue during the fiscal year ended June 30, 2009 as compared to approximately 67.0% in the prior fiscal year. The aggregate cost of goods sold as a percentage of product revenue of the Sonomed, Vascular, EMI and Medical/Trek business units during fiscal year ended June 30, 2009 decreased to approximately 50.9% of product revenue from approximately 52.0% in the prior fiscal year.

Operating expenses decreased approximately .7% during the fiscal year ended June 30, 2009 as compared to the prior fiscal year. This was due to increased marketing, general and administrative expenses of 3.2% offset by a 14.4% decrease in research and development expenses related to the decision to drastically reduce Drew s research and development department in June 2008 in favor to a move to an outsourced research and development model.

The Company concluded that all $9,526,000 of the goodwill recorded at Sonomed was impaired as of June 30, 2009 and $9,575,000 of the goodwill recorded at Drew was impaired as of June 30, 2008. As a result, the Company recorded a non-cash goodwill impairment charge to operations totaling $9,526,000 and $9,575,000 for the year ended June 30, 2009 and 2008, respectively (see footnote 4 of notes to consolidated financial statements for additional information).

Results of Operations

Fiscal Years Ended June 30, 2009 and 2008

The following table shows consolidated product revenue by business segment as well as identifying trends in business segment product revenues for the fiscal years ended June 30, 2009 and 2008. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2009	2008	% Change
Product Revenue:			
Drew	$ 18,085	$ 13,332	35.7%
Sonomed	9,175	9,367	-2.1%
Vascular	3,868	4,119	-6.1%
EMI	2,078	1,762	17.9%
Medical/Trek	1,262	1,410	-10.5%
Total	**$ 34,468**	**$ 29,990**	**14.9%**

Consolidated product revenue increased approximately $4,478,000, or 14.9%, to $34,468,000 during the year ended June 30, 2009 as compared to the last fiscal year.

In the Drew business unit, product revenue increased $4,753,000, or 35.7%, as compared to last fiscal year. The increase is primarily due to the acquisition of JAS on May 29, 2008 and of Biocode Hycel on December 31, 2008

which combined increased revenue by $4,405,000. The remainder of the increase is primarily due to strong sales of Drew s D3 instrument which received FDA approval on December 18, 2008.

Product revenue decreased $192,000, or 2.1%, to $9,175,000 in the Sonomed business segment as compared to the last fiscal year. This decrease in volume is related to the global economic downturn and the effect it has had on the ability of Sonomed s traditional customer base to add additional or upgraded capital equipment at this time. These troubling economic conditions have also lead to increased sales discounts to Sonomed s distributors in order to entice end users to purchase or to compete with toughening competition.. (see Goodwill Impairment-Sonomed below and footnote 4 of notes to consolidated financial statements for further discussion).

Product revenue decreased $251,000, or 6.1%, to $3,868,000 in the Vascular business segment during the year ended June 30, 2009 as compared to last fiscal year. The decrease was primarily caused by the introduction of the VascuView instrument in February 2008 which generated a $550,000 one time sale during the prior year, however current year sales of the VascuView were not material due to certain limitations in its functionality. The VascuView is currently being enhanced and is expected to contribute to revenue during the second half of 2010. The large decrease in VascuView sales were offset by increased volume in Vascular s core needle business of approximately $274,000.

Product revenue increased $316,000, or 17.9%, in the EMI business segment when compared to the last fiscal year. The EMI product offering of digital imaging systems continues to expand and has seen increased market acceptance during the year ended June 30, 2009.

In the Medical/Trek business unit, product revenue decreased $148,000, or 10.5%, to $1,262,000 during the year ended June 30, 2009 as compared to the last fiscal year. The decrease is related to the continued aging of Medical/Trek s product offerings.

The following table presents consolidated other revenue by reportable business segment for the fiscal years ended June 30, 2009 and 2008. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2009	**2008**	**% Change**
Other Revenue:			
Drew	$ 133	$ 222	-40.1%
Sonomed	0	0	0.0%
Vascular	0	0	0.0%
EMI	0	0	0.0%
Medical/Trek	0	0	0.0%
Total	**$ 133**	**$ 222**	**-40.1%**

Consolidated other revenue decreased by approximately $89,000, or 40.1%, to $133,000 during the fiscal year ended June 30, 2009 as compared to the prior fiscal year. The decrease is due to decreased royalties earned from Bio-Rad royalty agreement (see footnote 11 of notes to the consolidated financial statements).

The following table presents consolidated cost of goods sold by reportable business segment and as a percentage of related segment product revenues for the fiscal years ended June 30, 2009 and 2008. Table amounts are in thousands:

	Fiscal Years Ended June 30,			
	2009	**%**	**2008**	**%**
Cost of Goods Sold:				
Drew	$ 11,207	62.0%	$ 8,928	67.0%
Sonomed	4,974	54.2%	5,029	53.7%
Vascular	1,450	37.5%	1,538	37.3%
EMI	1,069	51.4%	820	46.5%
Medical/Trek	848	67.2%	995	70.6%
Total	**$ 19,548**	**56.7%**	**$ 17,310**	**57.7%**

Consolidated cost of goods sold totaled approximately $19,548,000, or 56.7%, of product revenue, for the fiscal year ended June 30, 2009 as compared to $17,310,000, or 57.7%, of product revenue, for the prior fiscal year.

Cost of goods sold in the Drew business segment totaled $11,207,000, or 62.0%, of product revenue, for the fiscal year ended June 30, 2009 as compared to $8,928,000, or 67.0%, of product revenue, for the prior fiscal year. The decrease in the cost of goods sold as a percentage of revenue is due to the acquisitions of JAS on May 29, 2008 and certain assets of Biocode Hycel on December 31, 2008. Sales at both of these divisions consist primarily of higher margin reagent sales. These higher margin sales have been offset by margin compression related to the continued strength of the Euro against the US Dollar which negatively affects the margins on Drew s new D3 offering that is manufactured in France by an OEM partner.

Cost of goods sold in the Sonomed business segment totaled $4,974,000, or 54.2%, of product revenue, for the fiscal year ended June 30, 2009 as compared to $5,029,000, or 53.7%, of product revenue, for prior fiscal year. The increase in Sonomed s cost of goods sold as a percentage of revenue was primarily caused by an increase in sales discounts during the period as a result of sales to the more price sensitive international market combined with a decrease in overall domestic sales.

Cost of goods sold in the Vascular business segment totaled $1,450,000, or 37.5%, of product revenue, for fiscal year ended June 30, 2009 as compared to $1,538,000, or 37.3%, of product revenue, for the last fiscal year. The relatively unchanged cost of goods as a percentage of product revenue is indicative of Vascular s continued solid margins on its core needle business.

Cost of goods sold in the EMI business segment totaled $1,069,000, or 51.4%, of product revenue, for fiscal year ended June 30, 2009 as compared to $820,000, or 46.5%, of product revenue, for the last fiscal year. The increase as a percentage of product revenue was due to the need to increase discounts related to the difficult economic environment experienced during the current year.

Cost of goods sold in the Medical/Trek business segment totaled $848,000, or 67.2%, of product revenue, for the fiscal year ended June 30, 2009 as compared to $995,000, or 70.6%, of product revenue, for the last fiscal year. The decrease as a percentage of product revenue was due to price increase to its customers.

The following table presents consolidated marketing, general and administrative expenses as well as identifying trends in business segment marketing, general and administrative expenses for the fiscal years ended June 30, 2009 and 2008. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2009	2008	% Change
Marketing, General and Administrative:			
Drew	$ 7,090	$ 5,287	34.1%
Sonomed	2,485	2,219	12.0%
Vascular	1,458	1,576	7.5%
EMI	601	605	-0.7%
Medical/Trek	3,213	4,705	31.7%
Total	**$ 14,846**	**$ 14,392**	**3.2%**

Consolidated marketing, general and administrative expenses increased $454,000, or 3.2%, to $14,846,000 during the fiscal year ended June 30, 2009 as compared to the prior fiscal year.

Marketing, general and administrative expenses in the Drew business segment increased $1,803,000, or 34.1%, to $7,090,000 as compared to the same period last fiscal year. The increase is primarily due to the acquisitions of JAS on May 29, 2008 and certain assets of Biocode Hycel on December 31, 2008 offset by significantly lower legal fees during the current year and by reductions in force implemented in June 2008.

Marketing, general and administrative expenses in the Sonomed business segment increased by $266,000, or 12.0%, to $2,485,000 as compared to the prior fiscal year. The increase is due primarily to the addition of a marketing consultant in the United States and the addition of a consultant in South-east Asia and increased travel and advertising related to marketing and trade show activity during the current year.

Marketing, general and administrative expenses in the Vascular business segment decreased $118,000, or 7.5%, to $1,458,000 as compared to the same period last fiscal year. This decrease is related to a reduction in force at our Wisconsin facility and decreased participation in trade shows and advertising.

Marketing, general and administrative expenses in the EMI business segment decreased $4,000 or .7% to $601,000 as compared to last fiscal year.

The Medical/Trek business unit s marketing, general and administrative expenses decreased $1,492,000 or 31.7% to $3,213,000 as compared to the last fiscal year. The decrease was due primarily to a reduction in force, lower compensation expense for directors under SFAS No. 123(R) rules, decreased expenses for third party consultants in valuation services, information technology and accounting, and a reduction in legal fees.

The following table presents consolidated research and development expenses by reportable business segment and as a percentage of related segment product revenues for the fiscal years ended June 30, 2009 and 2008. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2009	**2008**	**% Change**
Research and Development:			
Drew	$ 1,800	$ 2,745	-34.4%
Sonomed	1,085	779	39.3%
Vascular	219	260	-15.8%
EMI	362	268	35.1%
Medical/Trek	9	6	50.0%
Total	**$ 3,475**	**$ 4,058**	**-14.4%**

Consolidated research and development expenses decreased $583,000, or 14.4%, to $3,475,000 during the fiscal year ended June 30, 2009 as compared to the prior fiscal year. Research and development expenses were primarily expenses associated with the planned introduction of new or enhanced products in the Drew, Sonomed, Vascular and EMI business units.

Research and development expenses in the Drew business segment decreased $945,000, or 34.4%, to $1,800,000. The decrease is related to the decision made in June 2008 to drastically reduce Drew s research and development department and move to an outsourced research and development model.

Research and development expenses in the Sonomed business segment increased $306,000 or 39.3%, to $1,085,000 as compared to the last fiscal year. The increase is primarily due to consulting expenses incurred during the year related to the development two new products, the VuMax III, and the PacScan Plus. The PacScan Plus has been completed and received FDA approval in September 2009. Additional work on the VuMax III has been suspended.

Research and development expenses in the Vascular business segment decreased $41,000 or 15.8%, to $219,000 as compared to the last fiscal year. The decrease was due to higher costs in the prior year related to the completion of the VascuViewTM, a new visual ultrasound device, which received FDA approval on January 20, 2008.

Research and development in the EMI business segment increased $94,000 or 35.1%, to $362,000 as compared to the last fiscal year. The increase was primarily due to higher expenses in the current period related to the development of the new Access product.

Research and development in the Medical/Trek business segment increased $3,000 to $9,000 as compared to the last fiscal year.

Gain on sale of assets was approximately $92,000 and $0 during the fiscal years ended June 30, 2009 and 2008, respectively due to the sale of assets at Drew related to Drew s decision to outsource future machine shop operations.

The Company recognized a loss of approximately $65,000 and $88,000 related to its investment in Ocular Telehealth Management (OTM) during the fiscal years ended June 30, 2009 and 2008, respectively. Commencing July 1, 2005, the Company began recognizing all of the losses of OTM in its consolidated financial statements. OTM is an early stage privately held company. Prior to July 1, 2005, the share of OTM s loss recognized by the Company was in direct proportion to the Company s ownership equity in OTM. OTM began operations during the three-month period ended September 30, 2004. (See note 13 of the notes to consolidated financial statements.)

Interest income was $19,000 and $300,000 for the fiscal years ended June 30, 2009 and 2008, respectively. The increase was due to higher cash balances and effective yields on investments.

Interest expense was $216,000 and $12,000 for the fiscal years ended June 30, 2009 and 2008, respectively. The increase is related to increased debt related to the JAS and Biocode acquisitions.

Goodwill Impairment-Sonomed

During the last six months of the fiscal year ended June 30, 2009 Sonomed experienced a significant decrease in demand for its product offering. The Company believes that this decrease in volume is related to the global economic downturn and the effect it has had on the ability of Sonomed s traditional customer base to add additional or upgraded capital equipment at this time. These troubling economic conditions have also lead to increased sales discounts to Sonomed s distributors in order to entice end users to purchase or to compete with toughening competition. These uncertainties in the market along with increased competition from existing competitors and emerging technologies have made it difficult for Sonomed to project future revenue and cash flow. The effect these conditions had on fiscal 2009 s actual performance as compared to budgeted performance was significant with actual profitability approximately 65% lower than anticipated. The Company believes that these negative sales and profitability trends will continue for the foreseeable future and thus will have a significant negative effect on Sonomed s estimated future operating results and cash flow. Sonomed reduced its work force by 13% during the fourth quarter of the year ended June 30, 2009 in response to these uncertainties. Sonomed believes that these events negatively affected the evaluation of the future operating results and cash flows of Sonomed.

The Company tests goodwill for possible impairment on an annual basis and at any other time events occur or circumstances indicate that the carrying amount of goodwill may be impaired.

The first step of the SFAS No. 142 impairment analysis consists of a comparison of the fair value of the reporting segment with its carrying amount, including the goodwill. The fair value was determined based on the income approach, which estimates the fair value based on the future discounted cash flows. Under the income approach, the Company assumed, with respect to Sonomed, a forecasted cash flow period of five years, long-term annual growth rates of 3% and a discount rate of 19%.

Based on the annual income approach analysis that was separately performed for each operating segment, it was determined that in the Sonomed segment the carrying amount of the goodwill was in excess of its respective fair value. As such, the Company was required to perform the second step analysis for Sonomed in order to determine the amount of the goodwill impairment. The second step analysis consisted of comparing the implied fair value of the goodwill with the carrying amount of the goodwill, with an impairment charge resulting from any excess of the carrying value of the goodwill over the implied fair value of the goodwill. Based on the second step analysis, the Company concluded that all $9,525,550 of the goodwill recorded at Sonomed was impaired. As a result, the Company recorded a non-cash goodwill impairment charge to operations totaling $9,525,550 for the year ended June 30, 2009.

The determination as to whether a write-down of goodwill is necessary involves significant judgment based on short-term and long-term projections of the Company. The assumptions supporting the estimated future cash flows of the reporting segment, including profit margins, long-term forecasts, discount rates and terminal growth rates, reflect the Company s best estimates.

Goodwill Impairment-Drew

Drew encountered a series of events during the third and fourth quarters of the fiscal year ended June 30, 2008 that had a material effect on the valuation of our goodwill related to the purchase of Drew. These events include a development delay of Drew s DS-360 instrument that Drew had previously anticipated would be completed by the fourth quarter of the fiscal year ending June 30, 2008, and a contract dispute with Point Care Technologies (PCT) that has delayed the development of Drew s 2280 HT HIV instrument (see footnote 8 Commitments and Contingencies in the notes to the financial statements in the Company s Form 10-K annual report for the fiscal year ended June 30, 2008).

The development of Drew s proposed new diabetes instrument, the DS-360, is indefinitely delayed because of difficulties related to the final phase of its development. The DS-360 is intended as Drew s next generation diabetes instrument, which is a key line of business for Drew. The uncertainty of the DS-360 s completion combined with the continued aging of Drew s existing diabetes instrument offerings has had a negative impact on Drew s estimated future operating results and cash flow. Drew, in consultation with independent consultants, continues to evaluate the development status of the DS-360 project. Until the evaluation is completed, Drew cannot estimate the timing of the 510(k) application submission for the instrument to the FDA or whether the submission will be made.

Also, Drew had anticipated that the joint development project it had undertaken with PCT of Drew s 2280 HT HIV instrument would be completed during the fiscal year ended June 30, 2008. In December 2008 Drew settled a contract dispute with PCT relating to this project (see footnote 8 Commitments and Contingencies in the Company s Form 10-K annual report for the fiscal year ended June 30, 2008 for details on the dispute). As part of the settlement, dated November 3, 2008 Drew and PCT are no longer jointly developing the 2280 HT HIV instrument, and Drew is unable to estimate when or if the 2280 HT HIV instrument will be completed. Drew undertook the development effort at considerable cost because it believed that the 2280 HT HIV instrument had significant potential in monitoring the status of HIV patients. The uncertainty whether the 2280 HT HIV will be completed has had a negative impact on Drew s estimated future operating results and cash flow.

Because of these developments and the continued diminished operating results of Drew s aging legacy projects, the Company reduced its work force during the fourth quarter of the year ended June 30, 2008 by 23 positions and restructured certain management responsibilities. These events negatively affected the evaluation by the Company of the future operating results and cash flows of Drew.

The Company tests goodwill for possible impairment on an annual basis and at any other time events occur or circumstances indicate that the carrying amount of goodwill may be impaired.

The first step of the SFAS No. 142 impairment analysis consists of a comparison of the fair value of the reporting segment with its carrying amount, including the goodwill. The fair value was determined based on the income approach, which estimates the fair value based on the future discounted cash flows. Under the income approach, the Company assumed, with respect to Drew, a forecasted cash flow period of five years, long-term annual growth rates of 5% and a discount rate of 14%.

Based on the annual income approach analysis that was separately performed for each operating segment, it was determined that in the Drew segment the carrying amount of the goodwill was in excess of its respective fair value. As such, the Company was required to perform the second step analysis for Drew in order to determine the amount of the goodwill impairment. The second step analysis consisted of comparing the implied fair value of the goodwill with the carrying amount of the goodwill, with an impairment charge resulting from any excess of the carrying value of the goodwill over the implied fair value of the goodwill. Based on the second step analysis, the Company concluded that all $9,574,655 of the goodwill recorded at Drew was impaired. As a result, the Company recorded a non-cash goodwill impairment charge to operations totaling $9,574,655 for the year ended June 30, 2008.

The determination as to whether a write-down of goodwill is necessary involves significant judgment based on short-term and long-term projections of the Company. The assumptions supporting the estimated future cash flows of the reporting segment, including profit margins, long-term forecasts, discount rates and terminal growth rates, reflect the Company s best estimates.

Results of Operations

Fiscal Years Ended June 30, 2008 and 2007

The following table shows consolidated product revenue by business segment as well as identifying trends in business segment product revenues for the fiscal years ended June 30, 2008 and 2007. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2008	2007	% Change
Product Revenue:			
Drew	$ 13,332	$ 11,627	14.7%
Sonomed	9,367	9,823	-4.6%
Vascular	4,119	3,467	18.8%
EMI	1,762	1,484	18.7%
Medical/Trek	1,410	1,492	-5.5%
Total	**$ 29,990**	**$ 27,893**	**7.5%**

Consolidated product revenue increased approximately $2,097,000, or 7.5%, to $29,990,000 during the year ended June 30, 2008 as compared to the fiscal year ended June 30, 2007.

In the Drew business unit, product revenue increased $1,705,000, or 14.7%, as compared to the fiscal year ended June 30, 2007. The increase is primarily due to the sales of Drew s D3 instrument which received FDA approval on December 18, 2008, strong demand for the Primus instrument and continued growth of Drew s reagent sales from its United Kingdom facility.

Product revenue decreased $456,000, or 4.6%, to $9,367,000 in the Sonomed business segment as compared to the fiscal year ended June 30, 2007. The decrease in product revenue was caused by the continued migration of Sonomed s revenue to International markets. The international market is served primarily by distributors who receive significant discounts as compared to traditional direct sales in the domestic market.

Product revenue increased $652,000, or 18.8%, to $4,119,000, at the Vascular business segment during the year ended June 30, 2008 as compared to the fiscal year ended June 30, 2007. The increase was primarily caused by the introduction of the new VascuView instrument which generated $550,000 in revenue during the year. Overall needle volume was lower during the year. A midyear price adjustment, however, resulted in higher needle revenue for the year.

Product revenue increased $278,000, or 18.7%, in the EMI business segment when compared to the fiscal year ended June 30, 2007. This increase is attributable to the increase in sales of the digital imaging systems from the January 2006 MRP acquisition.

In the Medical/Trek business unit, product revenue decreased $82,000, or 5.5%, to $1,410,000 during the year ended June 30, 2008 as compared to the fiscal year ended June 30, 2007.

The following table presents consolidated other revenue by reportable business segment for the fiscal years ended June 30, 2008 and 2007. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2008	2007	% Change
Other Revenue:			
Drew	$ 222	$ 243	-8.6%
Sonomed	0	0	0.0%
Vascular	0	0	0.0%
EMI	0	0	0.0%
Medical/Trek	0	10,702	-100.0%
Total	**$ 222**	**$ 10,945**	**-98.0%**

Consolidated other revenue decreased by approximately $10,723,000, or 98.0%, to $222,000 during the fiscal year ended June 30, 2008 as compared to the fiscal year ended June 30, 2007. The decrease is primarily due to the $9,600,000 settlement reached with Intralase on February 27, 2007. Under the settlement agreement, Intralase made a lump sum payment to Escalon of $9,600,000 in exchange for which all pending litigation between the parties was dismissed, the parties exchanged general releases, the Company transferred to Intralase its ownership of patents and intellectual property formerly licensed to Intralase by the Company, and the License Agreement was terminated. In addition, the payment from Intralase satisfied all outstanding past, current and future royalties owed or alleged to be owed by Intralase to the Company.

The following table presents consolidated cost of goods sold by reportable business segment and as a percentage of related segment product revenues for the fiscal years ended June 30, 2008 and 2007. Table amounts are in thousands:

	Fiscal Years Ended June 30,			
	2008	%	2007	%
Cost of Goods Sold:				
Drew	$ 8,928	67.0%	$ 7,681	66.1%
Sonomed	5,029	53.7%	4,976	50.7%
Vascular	1,538	37.3%	1,393	40.2%
EMI	820	46.5%	711	47.9%
Medical/Trek	995	70.6%	1,011	67.8%
Total	**$ 17,310**	**57.7%**	**$ 15,772**	**56.5%**

Consolidated cost of goods sold totaled approximately $17,310,000, or 57.7%, of product revenue, for the fiscal year ended June 30, 2008 as compared to $15,772,000, or 56.5%, of product revenue, for the fiscal year ended June 30, 2007.

Cost of goods sold in the Drew business segment totaled $8,928,000, or 67.0%, of product revenue, for the fiscal year ended June 30, 2008 as compared to $7,681,000, or 66.1%, of product revenue, for the fiscal year ended June 30, 2007. The increase in the cost of goods sold as a percentage of revenue is due to the margin compression related to the continued strength of the Euro against the US Dollar which negatively affects the margins on Drew s new D3 offering that is manufactured in France by an OEM partner. The decrease in instrument gross margins was

partially offset by an increase in the sale of higher volume spare parts and continued sales of higher gross margin reagents.

Cost of goods sold in the Sonomed business segment totaled $5,029,000, or 53.7%, of product revenue, for the fiscal year ended June 30, 2008 as compared to $4,976,000, or 50.7%, of product revenue, for the fiscal year ended June 30, 2007. The increase in Sonomed s cost of goods sold as a percentage of revenue was primarily caused by an increase in sales discounts during the period as a result of sales to the more price sensitive international market combined with a decrease in overall domestic sales of the Company s Vumax II ultrasound systems.

Cost of goods sold in the Vascular business segment totaled $1,538,000, or 37.3%, of product revenue, for fiscal year ended June 30, 2008 as compared to $1,393,000, or 40.2%, of product revenue, for the fiscal year ended June 30, 2007. The decrease as a percentage of product revenue was due to a price increase during the year on traditional needle business offset by the $585,000 of revenue during the year on Vascular s new lower margin VascuView product.

Cost of goods sold in the EMI business segment totaled $820,000, or 46.5%, of product revenue, for fiscal year ended June 30, 2008 as compared to $711,000, or 47.9%, of product revenue, for the fiscal year ended June 30, 2007. The decrease as a percentage of product revenue was due to continued production efficiencies and lower sales discounts in the second half of 2008.

Cost of goods sold in the Medical/Trek business segment totaled $995,000, or 70.6%, of product revenue, for the fiscal year ended June 30, 2008 as compared to $1,011,000, or 67.8%, of product revenue, for the fiscal year ended June 30, 2007. The increase as a percentage of product revenue was due to increased material costs that Trek was unable to completely pass on to its customers.

The following table presents consolidated marketing, general and administrative expenses as well as identifying trends in business segment marketing, general and administrative expenses for the fiscal years ended June 30, 2008 and 2007. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2008	**2007**	**% Change**
Marketing, General and Administrative:			
Drew	$ 5,287	$ 5,475	-3.4%
Sonomed	2,219	1,931	14.9%
Vascular	1,576	1,598	-1.4%
EMI	605	480	26.0%
Medical/Trek	4,705	4,323	8.8%
Total	**$ 14,392**	**$ 13,807**	**4.2%**

Consolidated marketing, general and administrative expenses increased $585,000, or 4.2%, to $14,392,000 during the fiscal year ended June 30, 2008 as compared to the fiscal year ended June 30, 2007.

Marketing, general and administrative expenses in the Drew business segment decreased $188,000, or 3.4%, to $5,287,000 as compared to the fiscal year ended June 30, 2007. The decrease is primarily due to a reduction in headcount during the year offset by increased legal fees of approximately $250,000 related to breach of contract litigation between Drew and PointCare Technologies. During June 2008 Drew decided to outsource future research and development projects resulting in a reduction in force of 23 positions.

Marketing, general and administrative expenses in the Sonomed business segment increased by $288,000, or 14.9%, to $2,219,000 as compared to the fiscal year ended June 30, 2007. The increase is due primarily to the increase in international marketing consulting in Europe and the addition of a consultant in South-east Asia, increased travel and advertising related to marketing and trade show activity during the current year.

Marketing, general and administrative expenses in the Vascular business segment decreased $22,000, or 1.4%, to $1,576,000 as compared to the fiscal year ended June 30, 2007.

Marketing, general and administrative expenses in the EMI business segment increased $125,000 or 26.0% to $605,000 as compared to the fiscal year ended June 30, 2007. The increase is primarily related to the addition of sales people during the year.

The Medical/Trek business unit s marketing, general and administrative expenses increased $382,000 or 8.8% to $4,705,000 as compared to the fiscal year ended June 30, 2007. The increase was due primarily to the addition of a chief operating officer and controller during the year, compensation expense for directors under SFAS No. 123(R) rules, and increased third party consultants in valuation services, information technology and the implementation of a new Company wide ERP system during the year.

The following table presents consolidated research and development expenses by reportable business segment and as a percentage of related segment product revenues for the fiscal years ended June 30, 2008 and 2007. Table amounts are in thousands:

	Fiscal Years Ended June 30,		
	2008	**2007**	**% Change**
Research and Development:			
Drew	$ 2,745	$ 2,355	16.6%
Sonomed	779	495	57.4%
Vascular	260	172	51.2%
EMI	268	350	-23.4%
Medical/Trek	6	89	-93.3%
Total	**$ 4,058**	**$ 3,461**	**17.3%**

Consolidated research and development expenses increased $597,000, or 17.3%, to $4,058,000 during the fiscal year ended June 30, 2008 as compared to the fiscal year ended June 30, 2007. Research and development expenses were primarily expenses associated with the planned introduction of new or enhanced products in the Drew, Sonomed, Vascular and EMI business units.

Research and development expenses in the Drew business segment increased $390,000, or 16.6%, to $2,745,000. The increase was primarily related to additional salaries and benefits and consulting fees associated with the development of the DS-360, a diabetes instrument, the HT, a CD4 instrument and the development of additional chemical reagents for use on Drew s Trilogy instrument.

Research and development expenses in the Sonomed business segment increased $284,000 or 57.4%, to $779,000 as compared to the fiscal year ended June 30, 2007. The increase is primarily due to consulting expenses incurred during the fourth quarter of the fiscal year ended June 30, 2008 related to the development the VuMax III and continued improvements made to Sonomed s existing product offering.

Research and development expenses in the Vascular business segment increased $88,000 or 51.2%, to $260,000 as compared to the fiscal year ended June 30, 2007. The increase was primarily due to completing the development of the VascuViewTM, a new visual ultrasound device.

Research and development in the EMI business segment decreased $82,000 or 23.4%, to $268,000 as compared to the fiscal year ended June 30, 2007. The decrease was primarily due to higher expenses in the prior period related to various enhancements to EMI s digital systems.

Research and development in the Medical/Trek business segment decreased $83,000 or 93.3% to $6,000 as compared to the fiscal year ended June 30, 2007. This decrease is due primarily to the elimination of the corporate research and development department in the first quarter of fiscal 2007 related to the Company s previously announced cost reduction plan.

Gain on sale of available for sale securities was approximately $0 and $75,000 during the fiscal years ended June 30, 2008 and 2007, respectively due to the sale of 3,000 shares of Intralase common stock during fiscal 2007. The Company has no remaining available for sale securities.

The Company recognized a loss of approximately $88,000 and $88,000 related to its investment in OTM during the fiscal years ended June 30, 2008 and 2007, respectively. Commencing July 1, 2005, the Company began recognizing all of the losses of OTM in its consolidated financial statements. OTM is an early stage privately held company. Prior to July 1, 2005, the share of OTM s loss recognized by the Company was in direct proportion to the Company s ownership equity in OTM. OTM began operations during the three-month period ended September 30, 2004. (See note 14 of the notes to consolidated financial statements.)

Interest income was $300,000 and $208,000 for the fiscal years ended June 30, 2008 and 2008, respectively. The increase was due to higher cash balances and effective yields on investments.

Interest expense was $12,000 and $29,000 for the fiscal years ended June 30, 2008 and 2007, respectively.

Liquidity and Capital Resources

The following table presents overall liquidity and capital resources from continuing operations during the fiscal years ended June 30, 2009 and 2008. Table amounts are in thousands:

	June 30,	
	2009	**2008**
Current Ratio:		
Current assets	$ 17,561	$ 16,573
Less: Current liabilities	6,848	6,026
Working capital	**$ 10,713**	**$ 10,547**
Current ratio	**2.6 to 1**	**2.8 to 1**
Debt to Total Capital Ratio:		
Notes payable and current maturities	$ 1,375	$ 502
Long-term debt	4,741	251
Total debt	6,116	753
Total equity	12,439	24,532
Total capital	**$ 18,555**	**$ 25,285**
Total debt to total capital	**33.0%**	**3.0%**

Working Capital Position

Working capital increased $166,000 as of June 30, 2009 and the current ratio decreased to 2.6 to 1 from 2.8 to 1 when compared to June 30, 2008. The increase in working capital was caused primarily by a decrease in cash of $1,898,000 from $3,708,000 to $1,810,000 in 2008 and 2009, respectively. Accounts receivable increased $958,000 from $3,896,000 in 2008 to $4,854,000 in 2009. Overall total current assets increased $988,000 from $16,573,000 in 2008 to $17,561,000 in 2009. Total current liabilities which consist of current portion of long term debt, accounts

payable and accrued expenses increased $822,000, from $6,026,000 in 2008 to $6,848,000 in 2009.

Cash Used In or Provided By Operating Activities

During fiscal 2009, the Company used approximately $1,688,000 of cash for operating activities as compared to using approximately $2,936,000 for operating activities during the year ended June 30, 2008.

Loss from operations decreased approximately $2,095,000 in fiscal 2009 as compared to fiscal 2008, from $15,060,000 in 2008 to $12,965,000 in 2009. The net loss for 2009 and 2008 includes a non-cash goodwill impairment charge in the amount of $9,526,000 and $9,575,000, respectively.

Cash Flows Used In Investing and Financing Activities

Cash flows used in investing activities for 2009 were approximately $489,000. This amount is made up of purchases of fixed assets of $223,000, investment in OTM of $42,000, and the purchase of certain assets of Biocode Hycel in the amount of $324,000 and offset by the collection on a note receivable of $100,000.

Cash flows used in investing activities for 2008 were approximately $2,007,000. This amount is made up of the purchase of fixed assets of $613,000, investment in OTM of $69,000 and the purchase of JAS for $1,325,000.

Any necessary capital expenditures have generally been funded out of cash from operations, and the Company is not aware of any factors that would cause historical capital expenditure levels to not be indicative of capital expenditures in the future and, accordingly, does not believe that the Company will have to commit material resources to capital investment for the foreseeable future.

Cash flows provided by in financing activities in the amount of $527,000 during 2009 relate to repayment of debt of $502,000, and offset by the proceeds of $1,029,000 from the issuance of common stock.

Cash flows used in financing activities in the amount of $143,000 during 2008 relate to repayment of debt of $150,000, offset by the proceeds of $7,000 from the exercise of common stock options.

We believe that our existing cash and cash flow from operations will be sufficient to fund our activities throughout fiscal 2010, however, we have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Further, our operating plan may change, and we may need additional funds to meet operational needs and capital requirements for product development and commercialization sooner than planned. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in Risk Factors.

If we do proceed with raising funds in the future, we may be required to raise those funds through public or private financings, strategic relationships or other arrangements. The sale of additional equity and debt securities may result in additional dilution to our stockholders. Additional financing may not be available in amounts or on terms acceptable to us or at all.

Debt History

On December 31, 2008 Drew acquired certain assets of Biocode Hycel for approximately $5,900,000 (4,200,000 euros) plus acquisition costs of approximately $300,000. The sales price was payable in cash of approximately $325,000 (approximately 231,000 euros) and $5,875,040 in debt from Drew. The seller provided financing is collateralized by certain assets of Biocode Hycel. Biocode Hycel assets are being vertically integrated into the Company s clinical diagnostics business that includes Drew and JAS.

The seller-provided financing, which is guaranteed by the Company, requires payment over four years as follows:

the first interest-only payment is due in December of 2009 at an annual interest rate of 7%;

thereafter, every nine months, an interest payment is due at an annual interest rate of 7%;

18 months after the closing date a principal payment of Euro 800,000 is due;

30 months after the closing date a principal payment of Euro 1,000,000 is due;

36 months after the closing date a principal payment of Euro 1,000,000 is due; and

48 months after the closing date a principal payment of Euro 1,375,000 is due.

The payment amount in United States Dollars will be determined on the payment due date, based upon the then current exchange rate between the United States Dollar and the Euro.

On May 29, 2008 Drew issued a note payable in the amount of $752,623 related to the purchase of JAS Diagnostics, Inc. The note is collateralized by JAS common stock and guaranteed by the Company. Principal is payable in six quarterly installments of $124,437 plus interest at the prime rate (3.5% on June 30, 2009) as published by the Bank of America.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company was not a party to any off-balance sheet arrangements as of and for the fiscal years ended June 30, 2009 and 2008. The following table presents the Company s contractual obligations as of June 30, 2009 (interest is not included in the table as it is not material):

	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt	**$ 6,115,918**	$ 1,374,711	$ 2,809,600	$ 1,931,607	$ 0
Operating lease agreements	**4,916,069**	946,602	1,945,993	1,524,773	498,701
Total	**$ 11,031,987**	**$ 2,321,313**	**$ 4,755,593**	**$ 3,456,380**	**$ 498,701**

Forward-Looking Statement About Significant Items Likely To Impact Liquidity

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred recurring operating losses and negative cash flows from operating activities. These conditions raise substantial doubt about the Company s ability to continue as a going concern. If the Company is unsuccessful in its efforts to raise additional capital in the near term, the Company may be required to significantly reduce its research, development, and administrative activities, including further reduction of its employee base. The 2009 financial statements do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our continuance as a going concern is dependent on our future profitability and on the on-going support of our shareholders, affiliates and creditors. In order to mitigate the going concern issues, we are actively pursuing business partnerships, managing our continuing operations, and seeking capital funding on an ongoing basis via the issuance of securities and private placements.

We believe that our existing cash and cash flow from operations will be sufficient to fund our activities throughout fiscal 2010, however, we have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Further, our operating plan may change, and we may need additional funds to meet operational needs and capital

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requirements for product development and commercialization sooner than planned. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in Risk Factors.

If we do proceed with raising funds in the future, we may be required to raise those funds through public or private financings, strategic relationships or other arrangements. The sale of additional equity and debt securities may result in additional dilution to our stockholders. Additional financing may not be available in amounts or on terms acceptable to us or at all.

On July 23, 2004, the Company acquired approximately 67% of the outstanding ordinary shares of Drew, pursuant to the Company s exchange offer for all of the outstanding ordinary shares of Drew and subsequently acquired the remaining shares during the fiscal year ended June 30, 2005. As of June 30, 2006, the Company has acquired all of the outstanding ordinary shares of Drew. Drew does not have a history of producing positive operating cash flows and, as a result, at the time of acquisition, was operating under financial constraints and was under-capitalized. As Drew is integrated into the Company, management continues to work to reverse the situation, while at the same time seeking to strengthen Drew s market position. The Company has loaned approximately $29 million to Drew. The funds have been primarily used to procure components to build up inventory to support the manufacturing process as well as to pay off accounts payable and debt of Drew. The Company may need to provide further working capital for Drew.

Common Stock

The Company s common stock is currently listed on the NASDAQ Capital Market. In order to continue to be listed on the NASDAQ Capital Market, the following requirements must be met:

Shareholders equity of $2,500,000 or market value of listed securities of $35,000,000 or net income from continuing operations (in the latest fiscal year or two of the last three fiscal years) of $500,000;

500,000 publicly held shares;

$1,000,000 market value of publicly held shares;

A minimum bid price of $1;

300 round lot shareholders;

Two market makers; and

Compliance with corporate governance standards.

As of June 30, 2009, Escalon complied with these requirements.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that impact amounts reported therein. The most significant of those involve the application of Statement of Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets, discussed further in the notes to consolidated financial statements included in this Form 10-K. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, and, as such, include amounts based on informed estimates and judgments of management. For example, estimates are used in determining valuation allowances for deferred income taxes, uncollectible receivables, obsolete inventory, sales returns and rebates warranty liabilities and purchased intangible assets. Actual results achieved in the future could differ from current estimates. The Company used what it believes are reasonable assumptions and, where applicable, established valuation techniques in making its estimates.

Revenue Recognition

The Company recognizes revenue from the sale of its products at the time of shipment, when title and risk of loss transfer. The Company provides products to its distributors at agreed wholesale prices and to the balance of its customers at set retail prices. Distributors can receive discounts for accepting high volume shipments. The discounts are reflected immediately in the net invoice price, which is the basis for revenue recognition. No further material discounts are given.

The Company s considerations for recognizing revenue upon shipment of product to a distributor are based on the following:

Persuasive evidence that an arrangement (purchase order and sales invoice) exists between a willing buyer (distributor) and the Company that outlines the terms of the sale (company information, quantity of goods, purchase price and payment terms). The buyer (distributor) does not have a right of return.

Shipping terms are ex-factory shipping point. At this point the buyer (distributor) takes title to the goods and is responsible for all risks and rewards of ownership, including insuring the goods as necessary.

The Company s price to the buyer (distributor) is fixed and determinable as specifically outlined on the sales invoice. The sales arrangement does not have customer cancellation or termination clauses.

The buyer (distributor) places a purchase order with the Company; the terms of the sale are cash, COD or credit. Customer credit is determined based on the Company s policies and procedures related to the buyer s (distributor s) creditworthiness. Based on this determination, the Company believes that collectibility is reasonably assured.

The Company assesses collectibility based on creditworthiness of the customer and past transaction history. The Company performs ongoing credit evaluations of its customers and does not require collateral from its customers. For many of the Company s international customers, the Company requires an irrevocable letter of credit to be issued by the customer before the purchase order is accepted.

Valuation of Intangible Assets

The Company annually evaluates for impairment its intangible assets and goodwill in accordance with SFAS 142, Goodwill and Other Intangible Assets, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable, see footnote 4 to consolidated financial statements included in this Form 10-K for details on a goodwill impairment charge related to the carrying amount of Sonomed and Drew s goodwill. These intangible assets include goodwill, trademarks and trade names. Factors the Company considers important that could trigger an impairment review include significant under-performance relative to historical or projected future operating results or significant negative industry or economic trends. If these criteria indicate that the value of the intangible asset may be impaired, an evaluation of the recoverability of the net carrying value of the asset is made. If this evaluation indicates that the intangible asset is not recoverable, the net carrying value of the related intangible asset will be reduced to fair value. Any such impairment charge could be significant and could have a material adverse impact on the Company s financial statements if and when an impairment charge is recorded.

Income/(Loss) Per Share

The Company computes net income/(loss) per share under the provisions of SFAS No. 128, Earnings Per Share, (SFAS 128) and Staff Accounting Bulletin, No. 98 (SAB 98).

Under the provisions of SFAS 128 and SAB 98, basic and diluted net income/(loss) per share is computed by dividing the net income/(loss) for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net income/(loss) per share excludes potential common shares if the impact is anti-dilutive. Basic earnings per share are computed by

dividing net income/(loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are determined in the same manner as basic earnings per share, except that the number of shares is increased by assuming exercise of dilutive stock options and warrants using the treasury stock method.

Taxes

Estimates of taxable income of the various legal entities and jurisdictions are used in the tax rate calculation. Management uses judgment in estimating what the Company s income will be for the year. Since judgment is involved, there is a risk that the tax rate may significantly increase or decrease in any period.

In determining income/(loss) for financial statement purposes, management must make certain estimates and judgments. These estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expense. SFAS 109 Accounting for Income Taxes also requires that the deferred tax assets be reduced by a valuation allowance, if based on the available evidence, it is more likely that not that all or some portion of the recorded deferred tax assets will not be realized in future periods.

In evaluating the Company s ability to recover the Company s deferred tax assets, management considers all available positive and negative evidence including the Company s past operating results, the existence of cumulative losses and near-term forecasts of future taxable income that is consistent with the plans and estimates management is using to manage the underlying businesses.

Through June 30, 2009, the Company has recorded a full valuation allowance against the Company s net operating losses due to uncertainty of their realization as a result of the Company s earnings history, the number of years the Company s net operating losses and tax credits can be carried forward, the existence of taxable temporary differences and near-term earnings expectations. The amount of the valuation allowance could decrease if facts and circumstances change that materially increase taxable income prior to the expiration of the loss carryforwards. Any reduction would reduce (increase) the income tax expense (benefit) in the period such determination is made by the Company.

The Company has adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which provides a comprehensive model for the recognition, measurement, and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return. Under FIN 48, a company can recognize the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. The Company has elected to recognize interest expense and penalties related to uncertain tax positions as a component of its provision for income taxes.

Stock-Based Compensation

Effective July 1, 2007, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards 123(R) (SFAS 123(R)) Share-Based Payments . SFAS 123(R) is a revision of SFAS No. 123 and supersedes ABP Opinion No. 25. The Company used the modified prospective transition method and therefore did not have to restate results for prior periods. Under this transition method, stock-based compensation expense for 2007 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, July 1, 2006, based on the grant date fair value estimate in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted after July 1, 2006 is based on the grant-date fair

value estimate in accordance with the provisions of SFAS 123(R). The Company will recognize these compensation costs on a straight-line basis over the requisite service period of the award.

Valuations are based on highly subjective assumptions about the future, including stock price volatility and exercise patterns. The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model. Expected volatilities are based on the historical volatility of the Company s stock. The Company uses historical data to estimate option exercise and employee terminations. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

Prior to the adoption of SFAS 123(R), the Company accounted for stock-based compensation in accordance with APB No. 25.

Recently Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development and restructuring costs. In addition, under SFAS 141(R), changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is not permitted. The effect of SFAS 141(R) on our consolidated financial statements will be dependent on the nature and terms of any business combinations that we consummate on or after July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. We do not expect the adoption of SFAS 160 to have a significant impact on our consolidated financial statements unless a future transaction results in a noncontrolling interest in a subsidiary.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits a company to choose to measure many financial instruments and other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing a company with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and, accordingly, we adopted the provisions of this Statement on July 1, 2008. The adoption of SFAS No. 159 did not have a material effect on the financial statements on our consolidated financial statements. However, we do not expect the effect to be significant.

In February 2008, the FASB issued FSP FAS No. 157-2, Effective Date of FASB Statement No. 157 (FSP FAS No. 157-2), that partially deferred the effective date of SFAS No. 157 for one year for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Company adopted FSP FAS No. 157-2 on January 1, 2009. See Note 15 *Fair Value of Financial Instruments* for additional disclosures required under FSP FAS No. 157-2 for non-financial assets and liabilities recognized or disclosed at fair value in the statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. 142-3 will improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FSP No. 141R, and other U.S. generally accepted accounting principles. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company has adopted this standard as of January 1, 2009. The impact of adopting FSP No. 142-3 is expected to be immaterial to the Company s Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4), which provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements,* when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 will be effective for interim reporting periods after June 15, 2009. FSP FAS 157-4 does not require disclosures in earlier periods presented for comparative purposes at initial adoption, and, in periods after initial adoption, comparative disclosures are only required for periods ending after initial adoption. The adoption of FSP FAS 157-4 is not expected to have a material impact on the financial condition or results of operations of the Company.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (APB) 28-1 (FSP FAS No. 107-1 and APB No. 28-1), *Interim Disclosures about Fair Value of Financial Instruments*, which amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and requires disclosures about the fair value of financial instruments for interim reporting periods of publically traded companies as well as in annual financial statements. FSP FAS No. 107-1 and APB No. 28-1 also amends APB Opinion, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS No. 107-1 and APB No. 28-1 are effective for interim reporting periods ending after June 15, 2009. FSP FAS No. 107-1 and APB No. 28-1 do not require disclosures for earlier periods presented for comparative purposes at initial adoption, and, in periods after initial adoption, comparative disclosures are only required for periods ending after initial adoption.

In May 2009, the FASB issued FSP FAS No. 165, *Subsequent Events*, which formalizes the recognition and non-recognition of subsequent events and the disclosure requirements not addressed in other generally accepted accounting guidance. This statement is effective for the Company s financial statements beginning with the annual period ended on June 30, 2009. The adoption of SFAS No. 165 will not have an impact on the financial condition or results of operations of the Company.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which changes the determination of when a variable interest entity (VIE) should be consolidated. Under SFAS No. 167, the determination of whether to consolidate a VIE is based on the power to direct the activities of the VIE that most significantly impact the VIE s economic performance together with either the obligation to absorb losses or the right to receive benefits that could be significant to the VIE, as well as the VIE s purpose and design. This statement is effective for fiscal years beginning after November 15, 2009. We believe the adoption of this pronouncement will not have a material impact on our Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 states that the FASB Accounting Standards Codification will become the source of authoritative U.S. GAAP recognized by the FASB. Once effective, the Codification s content will carry the same level of authority, effectively superseding SFAS No. 162. The GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and non-authoritative. This statement will be effective for the Company s financial statements beginning with the interim period ending September 30, 2009. The adoption of SFAS No. 168 will not impact the financial condition or results of operations of the Company.

ITEM 7A. QUANTITATIVE AND QUALIITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, results of operations or cash flows. In the normal course of doing business, we are exposed to the risks associated with foreign currency exchange rates and changes in interest rates.

Interest Rate Risk

The table below provides information about the Company s financial instruments consisting of fixed interest rate debt obligations. For debt obligations, the table represents principal cash flows and related interest rates by expected maturity dates. (See note 5 of the notes to consolidated financial statements for further information regarding the Company s debt obligations.)

		Interest Rate	2010	2011	2012	2013	Total
Notes Payable	Former JAS Shareholders	Prime	$ 250,871				$ 250,871
Notes Payable	Biocode Hycel	7%	$ 1,123,840	$ 1,404,800	$ 1,404,800	$ 1,931,607	$ 5,865,047

Currency Fluctuations

For the years ended June 30, 2009, 2008 and 2007, approximately 19.6%, 13.2% and 12.5%, respectively, of our net revenues were generated in currencies other than the United States dollar. Fluctuations in the value of foreign currencies relative to the United States dollar affect our reported results of operations. If the United States dollar weakens relative to the foreign currency, then our earnings generated in the foreign currency will, in effect, increase when converted into United States dollars and vice versa. Exchange rate differences resulting from the strength or weakness of the United States dollar against the Euro and the United Kingdom Pound Sterling resulted in increases of approximately $323,000, in net revenues in 2009 compared to 2008, $235,000 in net revenues in 2008 compared to 2007 and an increase of approximately $279,000 in net revenues in 2007 compared to 2006. During the three years ended June 30, 2009, no subsidiary was domiciled in a highly inflationary environment and the impact of inflation and changing prices on our net sales and revenues and on loss from continuing operations was not material.

Conducting an international business inherently involves a number of difficulties, risks, and uncertainties, such as export and trade restrictions, inconsistent and changing regulatory requirements, tariffs and other trade barriers, cultural issues, longer payment cycles, problems in collecting accounts receivable, political instability, local economic downturns, seasonal reductions in business activity in Europe during the traditional summer vacation months, and potentially adverse tax consequences.

The following table presents foreign revenue as a percentage of total revenue:

	June 30, 2009	**June 30, 2008**
Total Foreign Sales	**$15,536,654**	**$12,661,554**
Total Net Revenues	**$34,467,930**	**$29,988,386**
International Percentage	**45.1%**	**42.2%**

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Escalon Medical Corp.
Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Escalon Medical Corporation

We have audited the accompanying consolidated balance sheets of Escalon Medical Corp. and Subsidiaries as of June 30, 2009 and 2008, and the related consolidated statements of operations, stockholders equity and comprehensive loss, and cash flows for each of the years in the three-year period ended June 30, 2009. These financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Escalon Medical Corp. and Subsidiaries as of June 30, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements for the year ended June 30, 2009 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the commencement of debt payments on the debt related to the Brocode Hycel acquisition and continued losses from operations and negative cash flows from operating activities raise substantial doubt about its ability to continue as a going concern. Management s plans concerning these matters are also described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Mayer Hoffman McCann P.C.
Plymouth Meeting, Pennsylvania
October 13, 2009

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2009	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,810,045	$ 3,708,456
Accounts receivable, net	4,853,856	3,896,297
Inventory, net	9,830,922	8,670,160
Other current assets	1,065,823	297,807
Total current assets	**17,560,646**	**16,572,720**
Furniture and equipment, net	892,966	1,078,839
Goodwill	2,065,236	11,590,786
Trademarks and trade names	694,006	694,006
Patents, net	1,824,172	157,883
Covenant not to compete and customer list, net	1,880,639	1,691,610
Other assets	137,737	110,176
Total assets	**$ 25,055,402**	**$ 31,896,020**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,374,711	$ 501,752
Accounts payable	2,553,481	2,628,004
Accrued expenses	2,919,540	2,895,920
Total current liabilities	**6,847,732**	**6,025,676**
Long-term debt, net of current portion	4,741,207	250,871
Accrued post-retirement benefits	1,027,821	1,087,000
Total long-term liabilities	5,769,028	1,337,871
Total liabilities	**12,616,760**	**7,363,547**
Shareholders equity:		
Preferred stock, $0.001 par value; 2,000,000 shares authorized; no shares issued		
Common stock, $0.001 par value; 35,000,000 shares authorized; 7,413,930 and 6,413,930 issued and outstanding at June 30, 2009 and June 30, 2008, respectively	7,526	6,526
Common stock warrants	1,733,460	1,601,346

Additional paid-in capital	67,458,745	66,299,130
Accumulated deficit	(56,232,503)	(43,267,466)
Accumulated other comprehensive (loss)	(528,586)	(107,063)
Total shareholders equity	**12,438,642**	**24,532,473**
Total liabilities and shareholders equity	**$ 25,055,402**	**$ 31,896,020**

See notes to consolidated financial statements

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended June 30,	2009	2008	2007
Net revenues:			
Product revenue	$ 34,467,930	$ 29,988,386	$ 27,892,738
Other revenue	132,807	222,075	10,945,042
Revenues, net	**34,600,737**	**30,210,461**	**38,837,780**
Costs and expenses:			
Cost of goods sold	19,548,209	17,309,671	15,771,254
Marketing, general and administrative	14,846,502	14,392,004	13,806,399
Research and development	3,474,284	4,058,289	3,461,322
Goodwill impairment	9,525,550	9,574,655	0
Total costs and expenses	**47,394,545**	**45,334,619**	**33,038,975**
Income (loss) from operations	**(12,793,808)**	**(15,124,158)**	**5,798,805**
Other (expense) and income:			
Gain on sale of assets	91,871	0	75,000
Equity in Ocular Telehealth Management, LLC	(65,387)	(88,206)	(87,852)
Interest income	18,562	299,538	208,457
Interest expense	(216,274)	(11,827)	(28,753)
Total other income	**(171,228)**	**199,505**	**166,852**
Net income (loss) before taxes	**(12,965,036)**	**(14,924,653)**	**5,965,657**
Provision for income taxes	0	134,990	51,054
Net income (loss)	**$ (12,965,036)**	**$ (15,059,643)**	**$ 5,914,603**
Basic net income (loss) per share	**$ (1.82)**	**$ (2.36)**	**$ 0.93**
Diluted net income (loss) per share	**$ (1.82)**	**$ (2.36)**	**$ 0.92**
Weighted average shares basic	**7,137,541**	**6,389,008**	**6,374,929**
Weighted average shares diluted	**7,137,541**	**6,389,008**	**6,434,275**

See notes to consolidated financial statements

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30, 2009, 2008 and 2007

	Common Stock		Common Stock	Additional Paid-in		Accumulated Other Comprehensive Income	Total Shareholders
	Shares	Amount	Warrants	Capital	Accumulated Deficit	(Loss)	Equity
BALANCE AT JUNE 30, 2006	**6,457,157**	**$ 6,457**	**$ 1,601,346**	**$ 65,699,258**	**$ (34,122,427)**	**$ (84,527)**	**$ 33,100,107**
Comprehensive Income (Loss):							
Net income					5,914,603		**5,914,603**
Change in unrealized gains on available for sale securities						(50,220)	**(50,220)**
Foreign currency translation						95,394	**95,394**
Total comprehensive income					**5,914,603**	**45,174**	**5,959,777**
Exercise of stock options	42,200	42		84,692			**84,734**
Compensation expense				162,576			**162,576**
Income tax benefit from exercise of stock options				98,412			**98,412**
BALANCE AT JUNE 30, 2007	**6,499,357**	**$ 6,499**	**$ 1,601,346**	**$ 66,044,938**	**$ (28,207,824)**	**$ (39,353)**	**$ 39,405,606**
Comprehensive Income (Loss):							
Net loss					(15,059,643)		**(15,059,643)**
Foreign currency translation						(67,710)	**(67,710)**
Total comprehensive loss					**(15,059,643)**	**(67,710)**	**(15,127,353)**
Exercise of stock options	27,073	27		7,435			**7,462**
Compensation expense				246,757			**246,757**
	6,526,430	**6,526**	**1,601,346**	**66,299,130**	**(43,267,466)**	**(107,063)**	**$ 24,532,472**

BALANCE AT JUNE 30, 2008							
Issuance of common stock	1,000,000	1,000		895,886			**896,886**
Issuance of warrants			132,114				**132,114**
Comprehensive Income (Loss):							
Net loss					(12,965,036)		**(12,965,036)**
Foreign currency translation						(421,523)	**(421,523)**
Total comprehensive loss					(12,965,036)	(421,523)	**(13,386,559)**
Compensation expense				$ 263,729			**263,729**
BALANCE AT JUNE 30, 2009	7,526,430	$ 7,526	$ 1,733,460	$ 67,458,745	$ (56,232,503)	$ (528,586)	$ 12,438,642

See notes to consolidated financial statements

ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30,	**2009**	**2008**	**2007**
Cash Flows from Operating Activities:			
Net income (loss)	$(12,965,036)	$(15,059,643)	$5,914,603
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	784,347	582,511	590,846
Goodwill Impairment	9,525,550	9,574,655	0
Compensation expense related to stock options	263,729	246,757	162,576
Gain on sale of available for sale securities	0	0	(75,000)
Change in accrued post-retirement benefits	(59,179)	0	0
(Gain)/Loss on sale of assets	(91,871)	28,421	0
Loss on Ocular Telehealth Management, LLC	65,387	88,206	87,852
Change in operating assets and liabilities:			
Accounts receivable, net	142,620	939,655	(656,830)
Inventory, net	1,282,669	(694,250)	(638,454)
Other current and long-term assets	(727,306)	207,680	84,917
Accounts payable and accrued expenses	90,755	1,149,517	312,135
Net cash provided by (used in) operating activities	**(1,688,335)**	**(2,936,491)**	**5,782,645**
Cash Flows from Investing Activities:			
Proceeds from the sale of available for sale securities	0	0	75,000
Collection on note receivable	100,000	0	0
Investment in Ocular Telehealth Management, LLC	(42,000)	(69,000)	(31,000)
Purchase of fixed assets	(223,186)	(613,158)	(259,705)
Purchase of certain assets of Biocode Hycel France, S.A.	(323,975)	0	0
Purchase of JAS Diagnostics, net of cash acquired	0	(1,324,706)	0
Net cash (used in) investing activities	**(489,161)**	**(2,006,864)**	**(215,705)**
Cash Flows from Financing Activities:			
Principal payments on term loans	(501,745)	(150,200)	(245,188)
Issuance of common stock private placement	1,029,000	0	0
Issuance of common stock stock options	0	7,462	183,146
Net cash (used in) provided by financing activities	**527,255**	**(142,738)**	**(62,042)**
Effect of exchange rate changes on cash and cash equivalents	(248,170)	(84,913)	(5,146)
Net increase (decrease) in cash and cash equivalents	**(1,898,411)**	**(5,171,006)**	**5,499,752**
Cash and cash equivalents, beginning of period	3,708,456	8,879,462	3,379,710
Cash and cash equivalents, end of period	**$ 1,810,045**	**$ 3,708,456**	**$8,879,462**

See notes to consolidated financial statements

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ESCALON MEDICAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30,	**2009**	**2008**	**2007**
Supplemental Schedule of Cash Flow Information:			
Interest paid	**$ 25,325**	**$ 11,827**	**$ 25,217**
Income taxes refund (paid)	**$ 0**	**$ (114,174)**	**$ 98,412**
Issuance of long-term debt for JAS acquisition	**$ 0**	**$ 752,623**	**$ 0**
(Decrease)/increase in unrealized appreciation on available for sale securities	**$ 0**	**$ 0**	**$ (50,220)**
Sale of Equipment			
Note receivable for equipment	$ 100,000		
Net book value of equipment sold	(8,129)		
Gain of sale of equipment	(91,871)		
Cash received for equipment	$		
Acquistion of Biocode Hycel France, S.A.			
Working capital other than cash	$ 3,944,102		
Fixed assets	50,442		
Intangibles and other assets	2,194,471		
Long term debt	(5,865,040)		
Cash paid to acquire certain assets Biocode Hycel France, S.A	$ 323,975		

See notes to consolidated financial statements

Escalon Medical Corp. and Subsidiaries
Notes to Consolidated Financial Statements

1. Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred recurring operating losses and negative cash flows from operating activities and the debt payments related to the Biocode Hycel acquisition will commence in the coming year. These conditions raise substantial doubt about the Company s ability to continue as a going concern. If the Company is unsuccessful in its efforts to raise additional capital in the near term, the Company may be required to significantly reduce its research, development, and administrative activities, including further reduction of its employee base. The 2009 financial statements do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our continuance as a going concern is dependent on our future profitability and on the on-going support of our shareholders, affiliates and creditors. In order to mitigate the going concern issues, we are actively pursuing business partnerships, managing our continuing operations, and seeking capital funding on an ongoing basis via the issuance of securities and private placements.

We believe that our existing cash and cash flow from operations will be sufficient to fund our activities throughout fiscal 2010. However, we have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Further, our operating plan may change, and we may need additional funds to meet operational needs and capital requirements for product development and commercialization sooner than planned. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in Risk Factors.

If we do proceed with raising funds in the future, we may be required to raise those funds through public or private financings, strategic relationships or other arrangements. The sale of additional equity and debt securities may result in additional dilution to our stockholders. Additional financing may not be available in amounts or on terms acceptable to us or at all.

2. Organization and Description of Business and Business Conditions

Escalon Medical Corp. (Escalon or the Company) is a Pennsylvania corporation initially incorporated in California in 1987, and reincorporated in Pennsylvania in November 2001. Within this document, the Company collectively shall mean Escalon and its wholly owned subsidiaries: Sonomed, Inc. (Sonomed), Escalon Vascular Access, Inc. (Vascular), Escalon Medical Europe GmbH (EME), Escalon Digital Vision, Inc. (EMI), Escalon Pharmaceutical, Inc. (Pharmaceutical), Escalon Holdings, Inc. (EHI), Escalon IP Holdings, Inc., Escalon Vascular IP Holdings, Inc., Sonomed IP Holdings, Inc., Drew Scientific Holdings, Inc., and Drew Scientific Group, Plc (Drew) and its subsidiaries. All intercompany accounts and transactions have been eliminated.

The Company operates in the healthcare market specializing in the development, manufacture, marketing and distribution of medical devices and pharmaceuticals in the areas of ophthalmology, diabetes, hematology and vascular access. The Company and its products are subject to regulation and inspection by the United States Food and Drug Administration (the FDA). The FDA requires extensive testing of new products prior to sale and has jurisdiction over the safety, efficacy and manufacture of products, as well as product labeling and marketing. The Company s Internet address is www.escalonmed.com.

3. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of reporting cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and highly liquid investments with original maturities of 90 days or less to be cash and cash equivalents.

Fair Value of Financial Instruments

The On July 1, 2008, the Company adopted Financial Accounting Standards No. 157 *Fair Value Measurement* (SFAS 157) for financial assets and liabilities. The carrying amounts for cash and cash equivalents, accounts receivable, line of credit, accounts payable and accrued liabilities approximate their fair value because of their short-term maturity. The carrying amounts of long-term debt approximate fair value since the Company s interest rates approximate current interest rates. While we believe the carrying value of the assets and liabilities is reasonable, considerable judgment is used to develop estimates of fair value; thus the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

Revenue Recognition

The Company recognizes revenue from the sale of its products at the time of shipment, when title and risk of loss transfer. The Company provides products to its distributors at agreed wholesale prices and to the balance of its customers at set retail prices. Distributors can receive discounts for accepting high volume shipments. The discounts are reflected immediately in the net invoice price, which is the basis for revenue recognition. No further material discounts or sales incentives are given.

The Company s considerations for recognizing revenue upon shipment of product to a distributor are based on the following:

Persuasive evidence that an arrangement (purchase order and sales invoice) exists between a willing buyer (distributor) and the Company that outlines the terms of the sale (company information, quantity of goods, purchase price and payment terms). The buyer (distributor) does not have a right of return.

Shipping terms are ex-factory shipping point. At this point the buyer (distributor) takes title to the goods and is responsible for all risks and rewards of ownership, including insuring the goods as necessary.

The Company s price to the buyer (distributor) is fixed and determinable as specifically outlined on the sales invoice. The sales arrangement does not have customer cancellation or termination clauses.

The buyer (distributor) places a purchase order with the Company; the terms of the sale are cash, COD or credit. Customer credit is determined based on the Company s policy and procedures

related to the buyer s (distributor s) creditworthiness. Based on this determination, the Company believes that collectibility is reasonably assured.

With respect to additional consideration related to the sale of Silicone Oil by Bausch & Lomb and the licensing of the Company s intellectual laser technology, revenue is recognized upon notification from the other parties of amount earned or upon receipt of royalty payments.

Provision has been made for estimated sales returns based on historical experience.

Shipping and Handling Revenues and Costs

Shipping and handling revenues are included in product revenue and the related costs are included in cost of goods sold.

Inventories

Raw materials, work in process and finished goods are recorded at lower of cost (first-in, first-out) or market. The composition of inventories is as follows:

	June 30,	
	2009	**2008**
Raw materials	$ 7,222,070	$ 6,024,784
Work in process	822,446	759,619
Finished goods	2,512,202	2,353,581
	10,556,718	**9,137,984**
Valuation allowance	(725,796)	(467,824)
Total inventory	**$ 9,830,922**	**$ 8,670,160**

Valuation allowance activity for the years ended June 30, 2009 and 2008 was as follows:

	June 30,	
	2009	**2008**
Balance, July 1	**$ 467,824**	**$ 301,555**
Provision for valuation allowance	267,832	172,670
Write-off s	(9,860)	(6,401)
Balance, June 30	**$ 725,796**	**$ 467,824**

Accounts Receivable

Accounts receivable are recorded at net realizable value. The Company performs ongoing credit evaluations of customers financial condition and does not require collateral for accounts receivable arising in the normal course of business. The Company maintains allowances for potential credit losses based on the Company s historical trends, specific customer issues and current economic trends. Accounts are written off when they are determined to be uncollectible based on management s assessment of individual accounts. Credit losses, when realized, have been within the range of management s expectations. Allowance for doubtful accounts activity for the years ended June 30, 2009 and 2008 was as follows:

	June 30,	
	2009	2008
Balance, July 1	**$ 473,187**	**$ 566,878**
Provision for bad debts	178,255	153,168
Write-off s	(10,133)	(246,859)
Balance, June 30	**$ 641,309**	**$ 473,187**

Property and Equipment

Property and equipment is recorded at cost. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or lease term. Depreciation on property and equipment is recorded using the straight-line method over the estimated economic useful life of the related assets. Estimated useful lives are generally 3 to 5 years for computer equipment and software, 5 to 7 years for furniture and fixtures and 5 to 10 years for production and test equipment. Depreciation and amortization expense for the years ended June 30, 2009, 2008 and 2007 was $784,347, $582,511 and $590,846, respectively.

Property and equipment consist of the following at:

	June 30,	
	2009	2008
Equipment	$ 2,946,677	$ 2,751,972
Furniture and Fixtures	62,846	62,846
Leasehold Improvements	33,922	121,702
	3,043,445	**2,936,520**
Less: Accumulated depreciation and amortization	(2,150,479)	(1,857,681)
	$ 892,966	**$ 1,078,839**

Long-lived Assets

Long-lived assets and certain identifiable intangibles to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An asset s value is impaired if management s estimate of the aggregate future cash flows, undiscounted and without interest charges, to be generated by the asset are less than the carrying value of the asset. Such cash flows consider factors such as expected future operating income and historical trends, as well as the effects of demand and competition. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the asset over the fair value of the asset. Such estimates require the use of judgment and numerous subjective assumptions, which if actual experience varies, could result in material differences in the requirements for impairment charges.

Intangible Assets

The Company follows Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets, which discontinues the amortization of goodwill and identifiable intangible assets that have indefinite lives. In accordance with SFAS 142, these assets are tested for impairment on an annual basis. See footnote 4 for details on goodwill impairment charge related to Drew and Sonomed.

Accrued Warranties

The Company provides a limited one year warranty against manufacturer s defects on its products sold to customers. The Company s standard warranties require the Company to repair or replace, at the

Company s discretion, defective parts during such warranty period. The Company accrues for its product warranty liabilities based on estimates of costs to be incurred during the warranty period, based on historical repair information for warranty costs.

Business Combinations

The Company allocates the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. When acquisitions are deemed material by management, the Company engages independent third-party appraisal firms to assist in determining the fair values of assets acquired and liabilities assumed. Such a valuation requires management to make significant estimates and assumption, especially with respect to intangible assets.

Stock-Based Compensation

Effective July 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. Under this transition method, stock based compensation expense for the year ended June 30, 2007 included compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of July 1, 2006, based on the grant date fair value estimate in accordance with the original provisions of SFAS 123. 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 applied 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. Since all options issued prior to July 1, 2006 were accelerated, and therefore fully vested, there was no compensation expense recorded in fiscal year 2007 related to these options.

Stock-based compensation expense for all share-based payment awards granted after July 1, 2006 is based on the grant date fair value estimate in accordance with the provisions of SFAS 123(R). As of June 30, 2009, 2008 and 2007 there was $363,244, $266,348 and $127,052, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements under the plans. The cost is expected to be recognized over a weighted average period of four years.

The Company has followed the guidelines of SFAS 123(r) to establish the valuation of its stock options. The fair value of these equity awards was estimated at the date of grant using these Black-Scholes option pricing method. The estimated fair value of the equity awards is amortized to compensation expense over the options vesting period. For the purposes of applying SFAS 123(r), the estimated per share value of the options granted during the fiscal years ended June 30, 2009, 2008 and 2007 was $2.21, $3.05 and $2.65, respectively. The fair value was estimated using the following assumptions: dividend yield of 0.0%; volatility ranging between 0.60 and 2.51; risk free interest ranging between 3.30% and 4.5%; and expected life of 10 years. The volatility assumption is based on volatility seen in the Company s stock over the last five years. This assumption was made according to the guidance of SFAS 123. There is no reason to believe that future volatility will compare to historic volatility.

The Company measures compensation expense for its non-employee stock-based compensation under the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with* S*elling, Goods or Services* . The fair value of the options issued is used to measure the transaction, as this is more reliable than the fair value of the services received. Fair value is measured as the value of the Company s common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty s performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital.

Research and Development

All research and development costs are charged to operations as incurred.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising expense for the years ended June 30, 2009, 2008 and 2007 was $121,087, $173,054, and $134,811, respectively.

Net Income (loss) Per Share

Earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the year. All outstanding stock options and warrants are considered potential common stock. The dilutive effect, if any, of stock options and warrants is calculated using the treasury stock method.

A reconciliation of the denominator of the basic and diluted earnings per share for the three years ended June 30, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
Basic weighted average shares outstanding	7,137,541	6,389,008	6,374,929
Effect of dilutive securities Stock options and warrants	0	0	59,346
Diluted weighted average shares outstanding	**7,137,541**	**6,389,008**	**6,434,275**

For the years ended June 30, 2009 and 2008 the impact of all dilutive securities were omitted from the diluted earnings per share calculation as they reduce the loss per share (anti-dilutive). As of June 30, 2009 and 2008 there were 270,000 and 120,000 warrants issued to purchase shares of Escalon common stock were outstanding, respectively (see note 7). These warrants were excluded from the calculation of diluted earnings per share as the exercise price of the warrants exceeded the average share price of the Company s common stock making the warrants anti-dilutive.

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 carry forwards. 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. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The Company has adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which provides a comprehensive model for the recognition, measurement, and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return. Under FIN 48, a company can recognize the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. The Company has elected to recognize interest expense and penalties related to uncertain tax positions as a component of its provision for income taxes.

Comprehensive Income

The Company reports comprehensive income in accordance with the provision of SFAS No.130, Reporting Comprehensive Income, which establishes standards for reporting comprehensive income and its component in financial statements. Comprehensive income, as defined, includes all changes in equity during a period from non-owner sources.

Foreign Currency Translation

The Company translates the assets and liabilities of international subsidiaries into U.S. dollars at the current rates of exchange in effect as of each balance sheet date. Revenues and expenses are translated using average rates in effect during the period. Gains and losses from translation adjustments are included in accumulated other comprehensive income on the consolidated balance sheet. Foreign currency transaction gains or losses are recognized in current operations and have not been significant to the Company s operating results in any period. In addition, the effect of foreign currency rate changes on cash and cash equivalents has not been significant in any period.

Subsequent Events

The Company has evaluated subsequent events through October 13, 2009, which is the date the financial statements were available to be issued.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development and restructuring costs. In addition, under SFAS 141(R), changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is not permitted. The effect of SFAS 141(R) on our consolidated financial statements will be dependent on the nature and terms of any business combinations that we consummate on or after July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. We do not expect the adoption of SFAS 160 to have a significant impact on our consolidated financial statements unless a future transaction results in a noncontrolling interest in a subsidiary.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits a company to choose to measure many financial instruments and other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing a company with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and, accordingly, we adopted the provisions of this Statement on July 1, 2008. We are currently evaluating the impact of The adoption of SFAS No. 159 did not have a material impact on the financial statements on our consolidated financial statements. However, we do not expect the effect to be significant.

In February 2008, the FASB issued FSP FAS No. 157-2, Effective Date of FASB Statement No. 157 (FSP FAS No. 157-2), that partially deferred the effective date of SFAS No. 157 for one year for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Company adopted FSP FAS No. 157-2 on January 1, 2009. See Note 15 *Fair Value Measurements* for additional disclosures required under FSP FAS No. 157-2 for non-financial assets and liabilities recognized or disclosed at fair value in the statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. 142-3 will improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FSP No. 141R, and other U.S. generally accepted accounting principles. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company has adopted this standard as of January 1, 2009. The impact of adopting FSP No. 142-3 is expected to be immaterial to the Company s Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4), which provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements,* when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 will be effective for interim reporting periods after June 15, 2009. FSP FAS 157-4 does not require disclosures in earlier periods presented for comparative purposes at initial adoption, and, in periods after initial adoption, comparative disclosures are only required for periods ending after initial adoption. The adoption of FSP FAS 157-4 is not expected to have a material impact on the financial condition or results of operations of the Company.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (APB) 28-1 (FSP FAS No. 107-1 and APB No. 28-1), *Interim Disclosures about Fair Value of Financial Instruments*, which amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and requires disclosures about the fair value of financial instruments for interim reporting periods of publically traded companies as well as in annual financial statements. FSP FAS No. 107-1 and APB No. 28-1 also amends APB Opinion, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS No. 107-1 and APB No. 28-1 are effective for interim reporting periods ending after June 15, 2009. FSP FAS No. 107-1 and APB No. 28-1 do not require disclosures for earlier periods presented for comparative purposes at initial adoption, and, in periods after initial adoption, comparative disclosures are only required for periods ending after initial adoption.

In May 2009, the FASB issued FSP FAS No. 165, *Subsequent Events*, which formalizes the recognition and non-recognition of subsequent events and the disclosure requirements not addressed in other generally accepted accounting guidance. This statement is effective for the Company s financial statements beginning with the annual period ended on June 30, 2009. The adoption of SFAS No. 165 will not have an impact on the financial condition or results of operations of the Company.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which changes the determination of when a variable interest entity (VIE) should be consolidated. Under SFAS No. 167, the determination of whether to consolidate a VIE is based on the power to direct the activities of the VIE that most significantly impact the VIE s economic performance together with either the obligation to absorb losses or the right to receive benefits that could be significant to the VIE, as well as the VIE s purpose and design. This statement is effective for fiscal years beginning after November 15, 2009. We believe the adoption of this pronouncement will not have a material impact on our Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 states that the FASB Accounting Standards Codification will become the source of authoritative U.S. GAAP recognized by the FASB. Once effective, the Codification s content will carry the same level of authority, effectively superseding SFAS No. 162. The GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and non-authoritative. This statement will be effective for the Company s financial statements beginning with the interim period ending September 30, 2009. The adoption of SFAS No. 168 will not impact the financial condition or results of operations of the Company.

4. Intangible Assets

Goodwill, Trademarks and Trade Names

Goodwill, trademarks and trade names represent intangible assets obtained from EOI, Endologix, Sonomed and Drew acquisitions. Goodwill represents the excess of purchase price over the fair value of net assets acquired.

The Company adopted SFAS 142 effective July 1, 2001. Under SFAS 142, goodwill and identified intangible assets that have indefinite lives are no longer amortized but reviewed for impairment annually or more frequently if certain indicators arise.

In accordance with SFAS 142, effective July 1, 2001, the Company discontinued the amortization of goodwill and identifiable intangible assets that have indefinite lives. Intangible assets that have finite lives continue to be amortized over their estimated useful lives. Management has evaluated the carrying value of goodwill and its identifiable intangible assets that have indefinite lives during each of the fiscal years subsequent to July 1, 2001, utilizing discounted cash flows of the respective business units. After evaluating the discounted cash flow of each of its respective business units, management concluded that the carrying value of goodwill and identifiable intangible assets at Sonomed and Drew exceeded their fair values at June 30, 2009 and 2008, respectively, and therefore were impaired. In accordance with SFAS 142, these intangible assets will continue to be assessed on an annual basis, and impairment, if any, would be recorded as a charge against income from operations.

SFAS No. 142 makes use of the concept of reporting units. All acquisitions must be assigned to a reporting segment or unit. Reporting units have been defined under the standards to be the same as or one level below an operating segment, as defined in SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information* (SFAS No. 131).

The Company tests goodwill for possible impairment on an annual basis and at any other time events occur or circumstances indicate that the carrying amount of goodwill may be impaired.

Goodwill Impairment-Sonomed

During the last six months of the fiscal year ended June 30, 2009 Sonomed experienced a significant decrease in demand for its product offering. The Company believes that this decrease in volume is related to the global economic downturn and the effect it has had on the ability of Sonomed s traditional customer base to add additional or upgraded capital equipment at this time. These troubling economic conditions have also lead to increased sales discounts to Sonomed s distributors in order to entice end users to purchase or to compete with toughening competition.. These uncertainties in the market along with increased competition from existing competitors and emerging technologies have made it difficult for Sonomed to project future revenue and cash flow. The effect these conditions had on fiscal 2009 s actual performance as compared to budgeted performance was significant with actual profitability approximately 65% lower than anticipated. The Company believes that these negative sales and profitability trends will continue for the foreseeable future and thus will have a significant negative effect on Sonomed s estimated future operating results and cash flow. Sonomed reduced its work force by 13% during the fourth quarter of the year ended June 30, 2009 in response to these uncertainties. Sonomed projected that these events will negatively affect the evaluation of the future operating results and cash flows of Sonomed.

The Company tests goodwill for possible impairment on an annual basis and at any other time events occur or circumstances indicate that the carrying amount of goodwill may be impaired.

The first step of the SFAS No. 142 impairment analysis consists of a comparison of the fair value of the reporting segment with its carrying amount, including the goodwill. The fair value was determined based on the income approach, which estimates the fair value based on the future discounted cash flows. Under the income approach, the Company assumed, with respect to Sonomed, a forecasted cash flow period of five years, long-term annual growth rates of 3% and a discount rate of 19%.

Based on the annual income approach analysis that was separately performed for each operating segment, it was determined that in the Sonomed segment the carrying amount of the goodwill was in excess of its respective fair value. As such, the Company was required to perform the second step analysis for Sonomed in order to determine the amount of the goodwill impairment. The second step analysis consisted of comparing the implied fair value of the goodwill with the carrying amount of the goodwill, with an impairment charge resulting from any excess of the carrying value of the goodwill over the implied fair value of the goodwill. Based on the second step analysis, the Company concluded that all $9,525,550 of the goodwill recorded at Sonomed was impaired. As a result, the Company recorded a non-cash goodwill impairment charge to operations totaling $9,525,550 for the year ended June 30, 2009.

The determination as to whether a write-down of goodwill is necessary involves significant judgment based on short-term and long-term projections of the Company. The assumptions supporting the estimated future cash flows of the reporting segment, including profit margins, long-term forecasts, discount rates and terminal growth rates, reflect the Company s best estimates.

Goodwill Impairment-Drew

Drew encountered a series of events during the third and fourth quarters of the fiscal year ended June 30, 2008 that had a material effect on the valuation of our goodwill related to the purchase of Drew. These events include a development delay of Drew s DS-360 instrument that Drew had previously anticipated would be completed by the fourth quarter of the fiscal year ending June 30, 2008, and a contract dispute with Point Care Technologies (PCT) that has delayed the development of Drew s 2280 HT HIV instrument (see footnote 8 Commitments and Contingencies in the notes to the financial statements in the Company s Form 10-K annual report for the fiscal year ended June 30, 2008).

The development of Drew s proposed new diabetes instrument, the DS-360, is indefinitely delayed because of difficulties related to the final phase of its development. The DS-360 is to be Drew s next generation diabetes instrument, which is a key line of business for Drew. The uncertainty of the DS-360 s completion combined with the continued aging of Drew s existing diabetes instrument offerings has had a negative impact on Drew s estimated future operating results and cash flow. Drew, in consultation with independent consultants, continues to evaluate the development status of the DS-360 project. Until the evaluation is completed, Drew cannot estimate the timing of the 510(k) application submission for the instrument to the FDA or whether the submission will be made.

Also, Drew had anticipated that the joint development project it had undertaken with PCT of Drew s 2280 HT HIV instrument would be completed during the fiscal year ended June 30, 2008. In December 2008 Drew settled a contract dispute with PCT relating to this project (see footnote 8 Commitments and Contingencies in the Company s Form 10-K annual report for the fiscal year ended June 30, 2008 for details on the dispute). As part of the settlement, dated November 3, 2008 Drew and PCT are no longer jointly developing the 2280 HT HIV instrument and Drew is unable to estimate when or if the 2280 HT HIV instrument will be completed. Drew undertook the development effort at considerable cost because it believed that the 2280 HT HIV instrument had significant potential in monitoring the status of HIV patients. The uncertainty whether the 2280 HT HIV will be completed has had a negative impact on Drew s estimated future operating results and cash flow.

Because of these developments and the continued diminished operating results of Drew s aging legacy projects, the Company reduced its work force during the fourth quarter of the year ended June 30,

2008 by 23 positions and restructured certain management responsibilities. These events negatively affected the evaluation by the Company of the future operating results and cash flows of Drew.

The Company tests goodwill for possible impairment on an annual basis and at any other time events occur or circumstances indicate that the carrying amount of goodwill may be impaired.

The first step of the SFAS No. 142 impairment analysis consists of a comparison of the fair value of the reporting segment with its carrying amount, including the goodwill. The fair value was determined based on the income approach, which estimates the fair value based on the future discounted cash flows. Under the income approach, the Company assumed, with respect to Drew, a forecasted cash flow period of five years, long-term annual growth rates of 5% and a discount rate of 14%.

Based on the annual income approach analysis that was separately performed for each operating segment, it was determined that in the Drew segment the carrying amount of the goodwill was in excess of its respective fair value. As such, the Company was required to perform the second step analysis for Drew in order to determine the amount of the goodwill impairment. The second step analysis consisted of comparing the implied fair value of the goodwill with the carrying amount of the goodwill, with an impairment charge resulting from any excess of the carrying value of the goodwill over the implied fair value of the goodwill. Based on the second step analysis, the Company concluded that all $9,574,655 of the goodwill recorded at Drew was impaired. As a result, the Company recorded a non-cash goodwill impairment charge to operations totaling $9,574,655 for the year ended June 30, 2008.

The determination as to whether a write-down of goodwill is necessary involves significant judgment based on short-term and long-term projections of the Company. The assumptions supporting the estimated future cash flows of the reporting segment, including profit margins, long-term forecasts, discount rates and terminal growth rates, reflect the Company s best estimates.

The following table presents unamortized intangible assets by business segment as of June 30, 2009 and 2008:

	2009 Net Carrying Amount	**2008 Net Carrying Amount**
Goodwill		
Sonomed	$ 0	$ 9,525,550
JAS	93,181	93,181
Vascular	941,218	941,218
Medical/Trek/EMI	1,030,837	1,030,837
Total	**$ 2,065,236**	**$ 11,590,786**

	2009 Net Carrying Amount	**2008 Net Carrying Amount**
Trademarks and tradenames		
Sonomed	$ 601,806	$ 601,806
JAS	$ 89,000	$ 89,000
Medical/Trek/EMI	3,200	3,200
Total	**$ 694,006**	**$ 694,006**

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Patents

It is the Company s practice to seek patent protection on processes and products in various countries. Patent application costs are capitalized and amortized over their estimated useful lives, not exceeding 17 years, on a straight-line basis from the date the related patents are issued. Costs associated with patents no longer being pursued are expensed. Accumulated patent amortization was $203,607 and $57,167 at June 30, 2009 and 2008, respectively. Amortization expense for the years ended June 30, 2009, 2008 and 2007 was $149,205, $89,123 and $98,404, respectively.

Amortization expense, relating entirely to patents, is estimated to be approximately $282,000 for 2010 thru 2013 and $233,000 for 2014.

Covenant Not to Compete and Customer List

The Company recorded the value of a covenant not to compete and a customer lists as intangible assets as part of the acquisitions of MRP, JAS and Biocode Hycel (see note 11). The valuation was based on the fair market value of these assets at the time of acquisition. These assets are amortized over their estimate useful lives, between 5 and 15 years, on a straight-line basis from the date of acquisition. Accumulated amortization was $449,395 and $212,756 at June 30, 2009 and 2008, respectively. Amortization expense for the years ended June 30, 2009, 2008 and 2007 was $190,073, $96,647 and $93,213, respectively.

Amortization expense, relating entirely to covenant not to compete and the customer list is estimated to be approximately $190,000 each for the years 2010 thru 2011 and $144,000 for the years 2012-2014.

The following table presents amortized intangible assets by business segment as of June 30, 2009:

	Gross Carrying Amount	Impairment	Adjusted Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized Intangible Assets					
Patents					
Medical/Trek/EMI	$ 254,851	$	$ 254,851	$(133,333)	$ 121,518
Biocode	$1,772,928		$1,772,928	$ (70,274)	$1,702,654
Total	**$2,027,779**	**$ 0**	**$2,027,779**	**$(203,607)**	**$1,824,172**
Covenant Not To Compete/					
Customer List					
JAS	$1,461,397	$	$1,461,397	$ (97,426)	$1,363,971
Biocode	425,668		425,668	(42,566)	383,102
EMI	442,969		442,969	(309,403)	133,566
Total	**$2,330,034**	**$ 0**	**$2,330,034**	**$(449,395)**	**$1,880,639**

The following table presents amortized intangible assets by business segment as of June 30, 2008:

	Gross Carrying Amount	Impairment	Adjusted Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized Intangible Assets					
Patents					
Medical/Trek/EMI	$ 215,050	$	$ 215,050	$ (57,167)	$ 157,883
Total	**$ 215,050**	**$**	**$ 215,050**	**$ (57,167)**	**$ 157,883**
Covenant Not To Compete/ Customer List					
JAS	$1,461,397	$	$1,461,397	$ 0	$1,461,397
EMI	$ 442,969	$	$ 442,969	$(212,756)	$ 230,213
Total	**$1,904,366**	**$**	**$1,904,366**	**$(212,756)**	**$1,691,610**

5. Accrued Expenses

The following table presents accrued expenses:

	June 30, 2009	June 30, 2008
Accrued compensation	$ 953,390	$ 1,531,886
Warranty accruals	164,820	255,740
Legal accruals	0	464,338
Other accruals, principally inventory purchases	1,801,330	643,956
Total accrued expenses	**$ 2,919,540**	**$ 2,895,920**

Accrued compensation as of June 30, 2009 and 2008 primarily relates to payroll, bonus and vacation accruals, and payroll tax liabilities.

6. Long-Term Debt

On December 31, 2008 Drew acquired certain assets of Biocode Hycel for $5,922,000 (4,200,000) plus acquisition costs of approximately $129,000. The sales price was payable in cash of approximately $324,000 (approximately 231,000 euros) and $5,865,040 in debt from Drew. The seller provided financing is collateralized by certain assets of Biocode Hycel Certain assets of Biocode Hycel are being vertically integrated into the Company s clinical diagnostics business that includes Drew Scientific and JAS Diagnostics. The seller-provided financing, which is guaranteed by the Company, requires payment over four years as follows:

the first interest-only payment is due in December of 2009 at an annual interest rate of 7%;

thereafter, every nine months, an interest payment is due at an annual interest rate of 7%;

18 months after the closing date a principal payment of Euro 800,000 is due;

30 months after the closing date a principal payment of Euro 1,000,000 is due;

36 months after the closing date a principal payment of Euro 1,000,000 is due; and

48 months after the closing date a principal payment of Euro 1,375,000 is due.

The payment amount in United States Dollars will be determined on the payment due date, based upon the then current exchange rate between the United States Dollar and the Euro.

On May 29, 2008 Drew issued a note payable in the amount of $752,623 related to the purchase of JAS Diagnostics, Inc. The note is collatorialized by JAS common stock and guaranteed by the Company. Principal is payable in six quarterly installments of $124,437 plus interest at the prime rate (3.5% on June 30, 2009) as published by the Bank of America.

The schedule below presents principal amortization for the next two years under each of the Company s loan agreements as of June 30, 2009:

Year Ending June 30,	**Total**
2010	$ 1,374,711
2011	1,404,800
2012	1,404,800
2013	1,931,600
Total	**6,115,911**
Current portion of long-term debt	1,374,711
Long-term portion	**$ 4,741,200**

7. Capital Stock Transactions

Stock Option Plans

As of June 30, 2009, Escalon had in effect five employee stock option plans which provide for incentive and non-qualified stock options. After accounting for shares issued upon exercise of options, a total of 1,281,152 shares of the Company s common stock remain available for issuance as of June 30, 2009. Under the terms of the plans, options may not be granted for less than the fair market value of the Common Stock at the date of grant. Vesting generally occurs ratably over five years and the options are exercisable over a period no longer than 10 years after the grant date. As of June 30, 2009, options to purchase 1,039,077 shares of the Company s common stock were outstanding of which 886,944 where exercisable and 129,575 shares were reserved for future grants**.**

The following is a summary of Escalon s stock option activity and related information for the fiscal years ended June 30, 2009, 2008 and 2007:

	2009		2008		2007	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	884,577	$ 5.13	752,535	$ 5.53	808,185	$ 5.73
Granted	154,500	$ 2.21	135,500	$ 3.05	117,000	$ 2.65
Exercised		$	(2,458)	$ 3.02	(42,000)	$ 2.00
Forfeited		$	(1,000)	$ 3.05	(130,650)	$ 5.52
Outstanding at the end of the year	1,039,077	$ 4.70	884,577	$ 5.27	752,535	$ 5.53
Exercisable at the end of the year	886,944		779,519		697,727	
Weighted average fair value of options granted during the year		$ 2.21		$ 3.05		$ 2.65

The following table summarizes information about stock options outstanding as of June 30, 2009:

Range of Exercise Prices	Number Outstanding at June, 30 2009	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at June 30, 2009	Weighted Average Exercise Price
$1.45 to $2.12	119,756	1.25	$1.88	119,756	$1.88
$2.37 to $2.77	419,942	8.27	$2.62	267,809	$2.65
$4.97 to $5.59	73,000	6.28	$5.05	73,000	$5.05
$6.19 to $6.19	168,250	5.08	$6.19	168,250	$6.19
$6.94 to $8.06	258,129	5.47	$7.41	258,129	$7.41

Total	1,039,077	886,944

Compensation expense related to stock options for the years ended June 30, 2009, 2008 and 2007 was $263,729, $246,757 and $162,576, respectively.

Sale of Common Stock and Warrants

On November 20, 2008, the Company completed a $1,100,000 private placement of common stock and common stock purchase warrants to accredited investors. The Company sold 1,000,000 shares of common stock at $1.10 per share. The investors also received warrants to purchase an additional 150,000 shares of common stock at an exercise price of $1.21 per share, which expire in 5 years. The warrants have a fair value of $132,114. The fair value of the warrants was estimated at the date of agreement using the Black-Scholes pricing method. The net proceeds to the Company from the offering, after fees and expenses, were $1,029,000 have been allocated among common stock and warrants based on their relative fair values. As the result of the private placement, the Company had 7,413,930 shares of common stock outstanding, not including the shares issuable upon the exercise of the warrants.

The shares were offered in reliance on an exemption from the registration requirements of the Securities Act of 1933 (the Securities Act). The shares may not be offered or sold in the United States absent an effective registration statement or an applicable exemption from the registration requirements of the Securities Act and applicable state securities laws.

On March 17, 2004, the Company completed a $10,400,000 private placement of common stock and common stock purchase warrants to accredited and institutional investors. The Company sold 800,000 shares of its common stock at $13.00 per share. The investors also received warrants to purchase an additional 120,000 shares of common stock at an exercise price of $15.60 per share. The warrants expired on September 13, 2009. The securities were sold pursuant to the exemptions from registration of Rule 506 of Regulation D and Section 4(2) under the Securities Act of 1933. The Company has subsequently filed a registration statement with the Securities and Exchange Commission, declared effective on April 20, 2004, to register for resale by the holders all of the common stock issued in conjunction with this private placement and common stock purchasable upon exercise of the warrants.

The net proceeds to the Company from the offering, after costs associated with the offering, of $9,787,918, have been allocated among common stock and warrants based on their relative fair values. The Company used the Black-Sholes pricing model to determine the fair value of the warrants to be $1,601,346.

8. Income Taxes

The provision for income taxes for the years ended June 30, 2009, 2008 and 2007 consists of the following:

	2009	2008	2007
Current income tax provision			
Federal	$	$	$
State		$ 134,990	51,054
		134,990	51,054
Deferred income tax provision			
Federal	(2,328,919)	130,565	1,704,463
State	(546,290)	30,626	399,812
Change in valuation allowance	2,875,209	(161,191)	(2,104,275)
Income tax expense	$	$ 134,990	$ 51,054

Income taxes as a percentage of income for the years ended June 30, 2009, 2008 and 2007 differ from statutory federal income tax rate due to the following:

	2009	2008	2007
Statutory federal income tax rate	-34.0%	34.0%	-34.0%
Change in valuation allowance	34.0%	-34.0%	34.0%
State income taxes, net of federal tax impact			
Other			
Effective income tax rate	0.0%	0.0%	0.0%

As of June 30, 2009, the Company had deferred income tax assets of $13,321,549. The deferred income tax assets have been reduced by a full valuation allowance. The valuation allowance is based on uncertainty with respect to the ultimate realization of net operating loss carryforwards.

The components of the net deferred tax income tax assets and liabilities as of June 30, 2009 and 2008 are as follows:

	2008	2008
Deferred income tax assets:		
Net operating loss carryforward	$ 10,872,291	$ 10,964,351
Accrued bonus		188,411
Executive post retirement costs	349,459	369,580
General business credit	450,199	450,199
Allowance for doubtful accounts	218,045	160,884
Accrued vacation	167,154	174,003
Inventory reserve	236,219	159,060
Accelerated depreciation	808	3,782
Warranty reserve	56,039	26,432
Accelerated amortization on goodwill and other intangible assets	971,335	
Total deferred income tax assets	13,321,549	12,496,702
Valuation allowance	(13,321,549)	(10,446,340)
		2,050,362
Deferred income tax liabilities:		
Accelerated amortization on goodwill and other intangible assets		(2,050,362)
Total deferred income tax liabilities		(2,050,362)
	$	$

As of June 30, 2009, the Company has a valuation allowance of $13,321,549, which primarily relates to the federal net operating loss carryforwards. The valuation allowance is a result of management evaluating its estimates of the net operating losses available to the Company as they relate to the results of operations of acquired businesses subsequent to their being acquired by the Company. The Company evaluates a variety of factors in determining the amount of the valuation allowance, including the Company s earnings history, the number of years the Company s operating loss and tax credits can be carried forward, the existence of taxable temporary differences, and near term earnings expectations. Future reversal of the valuation allowance will be recognized either when the benefit is realized or when it has been determined that it is more likely than not that the benefit will be realized through future earnings. Any tax benefits related to stock options that may be recognized in the future through reduction of the associated valuation allowance will be recorded as additional paid-in capital. The Company has available federal and state net operating loss carry forwards of approximately $31,114,000 and $3,059,000, respectively, of which $11,232,000 and $2,082,000, respectively, will expire over the next ten years, and $19,882,000 and $977,000, respectively, will expire in years eleven through twenty. Approximately $7,586,000 of federal net operating losses expired June 30, 2009. Not included in the $31,121,000 federal net operating loss is approximately $8.2 million federal NOL carry forward at June 30, 2009 which represents amounts that were transferred to the Company as a result of the acquisition of Drew. Use of this transferred NOL could be limited under Section 382 and can only be used against future Drew taxable

income. Any tax benefit realized from such use would first reduce acquired goodwill.

The Company continues to monitor the realization of its deferred tax assets based on changes in circumstances, for example, recurring periods of income for tax purposes following historical periods of cumulative losses or changes in tax laws or regulations. The Company s income tax provision and management s assessment of the realizability of the Company s deferred tax assets involve significant judgments and estimates. If taxable income expectations change, in the near term the Company may be

required to reduce the valuation allowance which would result in a material benefit to the Company s results of operations in the period in which the benefit is determined by the Company.

Effective July 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainties in Income Taxes (FIN 48), an interpretation of FASB Statement No. 109 (SFAS 109). FIN 48 prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest, penalties, disclosure and transition. Implementation of FIN 48 did not result in a cumulative effect adjustment to retained earnings. With few exceptions, the Company is no longer subject to audits by tax authorities for tax years prior to 2005. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss amount. At June 30, 2009, the Company did not have any significant unrecognized tax benefits.

The Company has provided what it believes to be an appropriate amount of tax for items that involve interpretation to the tax law. However, events may occur in the future that will cause the Company to reevaluate the current provision and may result in an adjustment to the liability for taxes.

9. Commitments and Contingencies

Commitments

The Company leases its manufacturing, research and corporate office facilities and certain equipment under non-cancelable operating lease arrangements. The future amounts to be paid under these arrangements as of June 30, 2009 are as follows:

Year Ending June 30,	**Lease Obligations**
2010	$ 946,602
2011	967,814
2012	978,179
2013	989,522
2014	535,251
Thereafter	498,701
Total	**$ 4,916,069**

Rent expense charged to operations during the years ended June 30, 2009, 2008 and 2007 was approximately $855,000, $782,000 and $866,000, respectively.

Contingencies

Royalty Agreement: Clinical Diagnostics Solutions

Drew and Clinical Diagnostics Solutions, Inc. (CDS) entered into a Private Label Manufacturing Agreement dated April 1, 2002 for the right to sell formulations or products of CDS including reagents, controls and calibrators (CDS products) on a private label basis. The agreement term is 15 years and automatically renews year-to-year thereafter. Drew is obligated to pay CDS a royalty of 7.5% on all sales of CDS products produced from Drew s United Kingdom facility.

Other Legal Proceedings

The Company, from time to time is involved in various legal proceedings and disputes that arise in the normal course of business. These matters have included intellectual property disputes, contract disputes, employment disputes and other matters. The Company does not believe that the resolution of any of these matters has had or is likely to have a material adverse impact on the Company s business, financial condition or results of operations.

10. Retirement and Post-Retirement Plans

The Company adopted a 401(k) retirement plan effective January 1, 1994. The Company s employees become eligible for the plan commencing on the date of employment. Company contributions are discretionary, and no Company contributions have been made since the plan s inception.

On January 14, 2000, Escalon acquired Sonomed. Sonomed adopted a 401(k) retirement plan effective on January 1, 1993. This plan has continued subsequent to the acquisition and is available only to Sonomed employees. The Company s contribution for the fiscal years ended June 30, 2009, 2008 and 2007 was $35,788, $36,699, and $36,702, respectively.

On July 23, 2004, the Company acquired Drew. Drew adopted a 401(k) retirement plan effective on July 1, 1995. This plan has continued subsequent to the acquisition and is available only to Drew s United States employees. Company contributions are discretionary, and no contributions have been made since Drew was acquired by the Company. Drew also has two defined contribution retirement plans which were effective November 24, 2002 and February 1, 1992. These plans have continued subsequent to the acquisition and are available only to Drew s United Kingdom Employees. Drew contributions for the fiscal years ended June 30, 2009, 2008 and 2007 was $28,766, $31,242 and $29,794, respectively.

On June 23, 2005, the Company entered into a Supplemental Executive Retirement Benefit Agreement with its Chairman and Chief Executive Officer. The agreement provides for the payment of supplemental retirement benefits to the covered executive in the event of his termination of services with the Company under the following circumstances.

If the covered executive retires at age 65 or older, the Company would be obligated to pay the executive $8,000 per month for life, with payments commencing the month after retirement. If the covered executive 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.

If the covered executive 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 the covered executive were to become 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 the covered executive 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 the covered executive and his beneficiaries in the aggregate.

If the covered executive s employment with the Company is terminated by the Company, or if the executive terminates his employment with the Company for good reason, as defined in the agreement, the Company would be obligated to pay the executive $8,000 per month for life. If the covered executive 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 the covered executive and his beneficiaries in the aggregate.

$1,028,000 and $1,087,000 was accrued at June 30, 2009 and 2008, respectively, which represents the present value of the supplemental retirement benefits awarded.

11. Other Revenue

Bio-Rad Laboratories, Inc. Royalty

The royalty received from Bio-Rad Laboratories, Inc. (Bio-Rad) relates to a certain non-exclusive Eighth Amendment to an OEM Agreement (OEM Agreement) between the Company s Drew subsidiary and Bio-Rad, dated July 19, 1994. Bio-Rad pays a royalty based on sales of certain of Drew s products in certain geographic regions.

The material terms of the OEM Agreement, provided:

Drew receives an agreed royalty per test;

Royalty payments will be made depending on the volume of tests provided by Bio-Rad. If less than 3,750 tests per month are provided by Bio-Rad, Bio-Rad will calculate the number of tests used on a quarterly basis in arrears and pay Drew within 45 days of the end of the quarter. If more than 3,750 tests per month are provided by Bio-Rad, Bio-Rad will pay an estimated monthly royalty and within 45 days of the end of the quarter will make final settlement upon the actual number of tests.

While the agreement, as amended by the Eighth Amendment, expired on May 15, 2005, the parties have continued to operate under the terms of the expired agreement pending negotiation of a potential extension and/or revision.

Intralase: Licensing of Laser Technology

In 1997, Intralase and the Company entered into an agreement under which Intralase became the exclusive licensee of certain patents, technology and intellectual property owned by Escalon Medical. This agreement was amended and restated in October 2000. Disputes arose between the parties culminating in litigation between the parties.

As part of the settlement agreement, on February 27, 2007 the Company transferred to Intralase its ownership of all patents and intellectual property formerly licensed to Intralase by the Company, and the license agreement was terminated. In addition, the settlement payment from Intralase satisfies all outstanding past, current and future royalties owed or alleged to be owed by Intralase to the Company.

The following table presents other revenue received by the Company for the years ended June 30, 2009, 2008 and 2007:

	2009	2008	2007
Royalty Income:			
Bio-Rad royalty	$ 132,807	$ 222,075	$ 242,826
IntraLase royalty	0	0	1,102,216
Intralase settlement royalty	0	0	9,600,000
Total	**$ 132,807**	**$ 222,075**	**$ 10,945,042**

12. Acquisition of Biocode Hycel and JAS Diagnostics, Inc.

Biocode Hycel Acquisition

On December 31, 2008 Drew acquired certain assets of Biocode Hycel for approximately $5,900,000 (4,200,000 euros) plus acquisition costs of approximately $300,000. The sales price was payable in cash of approximately $325,000 (approximately 231,000 euros) and $5,875,000 in debt from Drew. Certain assets of Biocode Hycel are being vertically integrated into the Company s clinical diagnostics business that includes Drew Scientific and JAS Diagnostics. The seller-provided financing, which is guaranteed by the Company, requires payment over four years as follows:

the first interest-only payment is due in December of 2009 at an annual interest rate of 7%;

thereafter, every nine months, an interest payment is due at an annual interest rate of 7%;

18 months after the closing date a principal payment of Euro 800,000 is due;

30 months after the closing date a principal payment of Euro 1,000,000 is due;

36 months after the closing date a principal payment of Euro 1,000,000 is due; and

48 months after the closing date a principal payment of Euro 1,375,000 is due.

The payment amount in United States Dollars will be determined on the payment due date, based upon the then current exchange rate between the United States Dollar and the Euro.

After evaluating the Biocode Hycel transaction, the Company concluded that the assets purchased lacked certain key components necessary to categorize the transaction as a purchase of a business as defined by EITF 98-3 These key missing components included:

Employees essential to continue to conduct normal operations were not transferred to Biocode Hycel. Key employees remained with the Seller to continue to operate the remaining components of their company. These key missing skills include chemists with hematology background, quality control personnel, senior management and administrative personnel.

Access to customers that would buy the outputs of the transferred set is limited. Since the Company only purchased certain assets of the Seller , both the Company and the Seller will attempt to sell outputs to the same customers. The customers of the Seller bought both hematology products (now the out put of Biocode Hycel) and biochemistry products still produced by the Seller. It will take time for the customers to adjust to this new arrangement.

Business processes essential to conducting normal operations were not fully transferred. The manufacturing, accounting and administrative processes of the Seller commingled all of the various out puts that the seller produced. Because of this limited transfer no discrete processes were in place to manage and account for the activities of the transferred set. These accounting and administrative functions need to be implemented from scratch. This process includes the Seller and Biocode working closely to bifurcate the transferred set from the elements retained by the Seller . Other critical senior management, accounting and administrative functions not included in the transferred set are currently being performed outside of the transferred set by employees of Biocode s parent until these functions can be put in place.

The Company has concluded that the cost, time frame and level of effort required to implement the missing elements taken as a whole are more than minor, therefore, the transaction constituted the purchase of certain assets and not the purchase of a business.

The following table summarizes the purchase price allocation of estimated fair values of assets acquired as of December 31, 2008, the date of acquisition.

Current Assets	$ 3,961,564
Fixed Assets	50,619
Patents and other intangible assets	2,198,596
Total	$ 6,210,779

JAS Diagnostics, Inc. Acquisition

On May 29, 2008 Drew acquired the stock of JAS Diagnostics, Inc. (JAS) for $2,100,000 less assumed liabilities of $127,975. The sales price was payable 33% in cash and 67% (see footnote 5) in debt from Drew to three of the JAS shareholders and 100% cash for the remaining two JAS shareholders. JAS provides design, development, validation and manufacturing services for vitro diagnostic chemistry reagents to there customers. The operating results of JAS are included as part of the Drew business segment as of May 30, 2008.

The Company accounted for the purchase under FAS 141. Under FAS 141, the Company paid a premium (i.e., goodwill) over the fair value of the net tangible and identified intangible assets acquired to obtain a leading edge technology platform in the digital imaging marketplace. The application of purchase accounting under FAS 141 requires that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill in the amount of $93,181. The allocation process requires an analysis of acquired fixed assets, contracts, customer lists and relationships, trademarks, patented technology, service markets, contractual commitments, legal contingencies and brand value to identify and record the fair value of all assets acquired and liabilities assumed.

The following table summarizes the purchase price allocation of estimated fair values of assets acquired and liabilities assumed as of the date of acquisition of JAS as of May 30, 2008.

Current assets	$ 420,981
Furniture and equipment	35,441
Trade Name	89,000
Customer list	1,461,397
Goodwill	93,181
Total assets acquired	2,100,000
Current liabilities	127,975
Net assets acquired	$ 1,972,025

13. Segment Reporting

The Company s operations are classified into five principal reporting segments for 2009, 2008 and 2007.

Table amounts in thousands:

Segment Statements of Operations (in thousands) - Twelve months ended June 30,

	Drew			Sonomed			Vascular		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Revenues, net:									
Product revenue	$ 18,085	$ 13,332	$ 11,627	$ 9,175	$ 9,367	$ 9,823	$ 3,868	$ 4,119	$ 3,467
Other revenue	133	222	243	$ 0					
Total revenue, net	**18,218**	**13,554**	**11,870**	**9,175**	**9,367**	**9,823**	**3,868**	**4,119**	**3,467**
Costs and expenses:									
Cost of goods sold	11,207	8,928	7,681	$ 4,974	5,029	4,976	1,450	1,538	1,393
Goodwill Impairment		9,575		$ 9,526					
Operating expenses	8,890	$ 8,032	7,830	4,332	4,603	3,779	1,998	2,237	2,108
Total costs and expenses	**20,097**	**26,535**	**15,511**	**18,831**	**9,632**	**8,755**	**3,448**	**3,775**	**3,501**
(Loss) income from operations	**(1,879)**	**(12,981)**	**(3,641)**	**(9,656)**	**(265)**	**1,068**	**420**	**344**	**(34)**
Other (expense) and income:									
Gain on sale of assets	92								
Equity in OTM									
Interest income									
Interest expense	(216)	(12)	(28)						
Total other (expense) and income	**(124)**	**(12)**	**(28)**	**0**	**0**	**0**	**0**	**0**	**0**
(Loss) income before taxes	**(2,003)**	**(12,993)**	**(3,669)**	**(9,656)**	**(265)**	**1,068**	**420**	**344**	**(34)**
Income taxes		0	0	0	26	37	0	0	1

Net (loss) income	**$ (2,003)**	**$ (12,993)**	**$ (3,669)**	**$ (9,656)**	**$ (291)**	**$ 1,031**	**$ 420**	**$ 344**	**$ (35)**

Segment Statements of Operations (in thousands) - Twelve months ended June 30,

	EMI			Medical/Trek			Total		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Revenues, net:									
Product revenue	$2,078	$1,762	$1,484	$ 1,262	$ 1,410	$ 1,492	**$ 34,468**	**$ 29,990**	**$27,893**
Other revenue				$ 0	0	10,702	**133**	**222**	**10,945**
Total revenue, net	**2,078**	**1,762**	**1,484**	**1,262**	**1,410**	**12,194**	**34,601**	**30,212**	**38,838**
Costs and expenses:									
Cost of goods sold	1,069	820	711	848	995	1,011	**19,548**	**17,310**	**15,772**
Goodwill Impairment							**9,526**	**9,575**	
Operating expenses	1,136	873	830	1,966	2,705	2,722	**18,321**	**18,450**	**17,269**
Total costs and expenses	**2,205**	**1,693**	**1,541**	**2,814**	**3,700**	**3,733**	**47,395**	**45,335**	**33,041**
(Loss) income from operations	**(127)**	**69**	**(57)**	**(1,552)**	**(2,290)**	**8,461**	**(12,794)**	**(15,123)**	**5,797**
Other (expense) and income:									
Gain on sale of assets					0	75	**92**		**75**
Equity in OTM				(65)	(88)	(88)	**(65)**	**(88)**	**(88)**
Interest income				19	299	208	**19**	**299**	**208**
Interest expense							**(216)**	**(12)**	**(28)**
Total other (expense) and income	**0**	**0**	**0**	**(46)**	**211**	**195**	**(170)**	**199**	**167**
(Loss) and income before taxes	**(127)**	**69**	**(57)**	**(1,598)**	**(2,079)**	**8,656**	**(12,964)**	**(14,924)**	**5,964**
Income taxes					109	14		**135**	**52**
Net (loss) income	**$ (127)**	**$ 69**	**$ (57)**	**$(1,598)**	**$(2,188)**	**$ 8,642**	**$(12,964)**	**$(15,059)**	**$ 5,912**

The Company operates in the healthcare market, specializing in the development manufacture and marketing of (1) ophthalmic medical devices and pharmaceuticals; (2) in-vitro diagnostic (IVD) instrumentation and consumables for use in human and veterinary hematology; and (3) vascular access devices. The business segments reported above are the segments for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and assessing performance. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies. For the purposes of this illustration, corporate expenses, which consist primarily of executive management and administrative support functions, are allocated across the business segments based upon a methodology that has been established by the Company, which includes a number of factors and estimates and that has been consistently applied across the business segments. These expenses are otherwise included in the Medical/Trek business unit.

During the fiscal year ended June 30, 2009, Drew derived its revenue from the sale of instrumentation and consumables for blood cell counting and blood analysis in the areas of diabetes, cardiovascular diseases and human and veterinary hematology. Sonomed derived its revenue from the sale of A-Scans, B-Scans and pachymeters. These products are used for diagnostic or biometric applications in ophthalmology. Vascular derived its revenue from the sale of PD Access and SmartNeedle monitors, needles and catheter products. These products are used by medical personnel to assist in gaining access to arteries and veins in difficult cases. Medical/Trek derived its revenue from the sale of ISPAN gas products and various disposable ophthalmic surgical products. EMI derived its revenue CFA digital imaging systems and related products.

No customer represented more than 10% of consolidated revenue during the years ended June 30, 2009, 2008 and 2007. Of the external revenue reported above, the following amounts were derived internationally during the years ended June 30:

	2009	2008	2007
Drew	$ 9,417,050	$ 6,587,050	$ 5,177,708
Sonomed	5,931,351	5,858,763	5,901,532
Vascular	121,999	130,177	126,854
EMI	42,300	53,700	8,900
Medical/Trek	23,954	31,864	40,400
	$ 15,536,654	**$ 12,661,554**	**$ 11,255,394**

14. Related-Party Transactions

Escalon and a member of the Company s Board of Directors are founding and equal members of Ocular Telehealth Management, LLC (OTM). OTM is a diagnostic telemedicine company providing remote examination, diagnosis and management of disorders affecting the human eye. OTM s initial solution focuses on the diagnosis of diabetic retinopathy by creating access and providing annual dilated retinal examinations for the diabetic population. OTM was founded to harness the latest advances in telecommunications, software and digital imaging in order to create greater access and a more successful disease management for populations that are susceptible to ocular disease. Through June 30, 2009, Escalon had invested $399,000 in OTM and owned 45% of OTM. The Company will provide administrative support functions to OTM. For the years ended 2009, 2008 and 2007 the Company recorded losses of $65,387, $88,206, and $87,852, respectively.

15. Fair Value Measurements

On July 1, 2008, the Company adopted Financial Accounting Standards No. 157 *Fair Value Measurement* (SFAS 157) for financial assets and liabilities. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. SFAS 157 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy established prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized into the following levels:

Level 1 Observable inputs such as quoted prices in active markets for identical assets or liabilities

Level 2 Directly or indirectly observable inputs for quoted and other than quoted prices for identical or similar assets and liabilities in active or non-active markets

Level 3 Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best available information available in the circumstances, including the entity s own data.

Certain financial instruments are carried at cost on the condensed consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other liabilities.

The Company determined that the fair value of the outstanding debt approximates their outstanding balances based on the remaining short term maturity of the note for JAS and the Biocode Hycel debt acquired in December 2008 and other Level 3 measurements. The Company determined the estimated fair value amounts by using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data as well as the risk of nonperformance related to the debt to develop estimates of fair value. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

ITEM 9A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material affect on our financial statements.

As of the end of the period covered by this Annual Report on Form 10-K, our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our internal control over financial reporting. This evaluation was conducted using the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, our management concluded that our internal control over financial reporting was effective as of June 30, 2009.

Pursuant to temporary rules of the Securities and Exchange Commission, our management s report on internal control over financial reporting is furnished with this Annual Report on Form 10-K and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed to be incorporated by reference in any filing under the Securities Act of 1933 or Securities Exchange Act of 1934.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding our internal control over financial reporting. Our management s report on internal control over financial reporting was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only our management s report on internal control over financial reporting in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter of 2009 that would have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Requirements of Section 404

Under the rules and regulations of the SEC, the Company is currently not required to comply fully with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 until the Company files its Annual Report on Form 10-K for the Company s fiscal year ending June 30, 2010, as long as the Company continues to meet the definition of a non-accelerated filer. In the Company s Annual Report on Form 10-K for the year ended June 30, 2009, the Company s management is required to provide an assessment as to the effectiveness of the Company s internal control over financial reporting, which assessment is deemed furnished to rather than filed with the SEC. In the Company s Annual Report on Form 10-K for the year ending June 30, 2010 and for each fiscal year thereafter, the Company s management will be required to provide an assessment as to the effectiveness of our internal control over financial reporting and the Company s independent registered public accounting firm will be required to provide an attestation as to the Company s management s assessment, which assessment and attestation will be filed with the SEC. The assessment and attestation processes required by Section 404 are relatively new to the Company. Accordingly, the Company may encounter problems or delays and additional expense in completing the Company s obligations and receiving an unqualified report on the Company s internal control over financial reporting by the Company s independent registered public accounting firm.

While the Company believes that we will be able to timely meet our obligations under Section 404 and that the Company s management will be able to certify as to the effectiveness of the Company s internal control over financial reporting, there is no assurance that the Company will do so. If the Company is unable to timely comply with Section 404, the Company s management is unable to certify as to the effectiveness of the Company s internal control over financial reporting or the Company s independent registered public accounting firm is unable to attest to that certification, the price of the Company s common stock may be adversely affected. Even if the Company timely meets the certification and attestation requirements of Section 404, it is possible that the Company s independent registered public accounting firm will advise the Company that they have identified significant deficiencies and/or material weaknesses.

ITEM 9B. OTHER INFORMATION

NONE

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Item 10 will be provided by incorporating the information required under such item by reference to the Company s Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal

year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

ITEM 11. EXECUTIVE COMPENSATION

Item 11 will be provided by incorporating the information required under such item by reference to the Company s Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Item 12 will be provided by incorporating the information required under such item by reference to the Company s Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Item 13 will be provided by incorporating the information required under such item by reference to the Company s Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Item 14 will be provided by incorporating the information required under such item by reference to the Company s Proxy Statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K annual report, or, alternatively, by amendment to this Form 10-K annual report under cover of Form 10-K/A no later than the end of such 120-day period.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed as Part of This Annual Report on Form 10-K:

(1) Financial Statements

The following consolidated financial statements of the Company and its subsidiaries are included in Part II, Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2009 and 2008

Consolidated Statements of Operations for the years ended June 30, 2009, 2008 and 2007

Consolidated Statements of Shareholders Equity and Comprehensive Loss for the years ended June 30, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended June 30, 2009, 2008 and 2007

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

All other schedules have been omitted because the required information is not applicable or the information is included in our Consolidated Financial Statements or the related Notes to Consolidated Financial Statements.

(3) EXHIBITS

The following is a list of exhibits filed as part of this Annual Report on Form 10-K, where so indicated by footnote, exhibits, which were previously filed, are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated parenthetically, followed by the footnote reference to the previous filing.

3.1	(a)	Restated Articles of Incorporation of Registrant. (8)
	(b)	Agreement and Plan of Merger dated as of September 28, 2001 between Escalon Pennsylvania, Inc. and Escalon Medical Corp. (8)
3.2		Bylaws of Registrant. (8)
4.1	(a)	Warrant Agreement between Registrant and U.S. Stock Transfer Corporation. (1)
	(b)	Amendment to Warrant Agreement between the Registrant and U.S. Stock Transfer Corporation. (2)
	(c)	Amendment to Warrant Agreement between the Registrant and American Stock Transfer Corporation. (3)
10.1		Employment Agreement between the Registrant and Richard J. DePiano dated May 12, 1998. (6)**
10.2		Non-Exclusive Distributorship Agreement between Registrant and Scott Medical Products dated October 12, 2000. (9)
10.4		Supply Agreement between the Registrant and Bausch & Lomb Surgical, Inc. dated August 13, 1999. (5)

10.7	Registrant s amended and restated 1999 Equity Incentive Plan. (13) **
10.8	Securities Purchase Agreement dated as of March 16, 2004 (the Securities Purchase Agreement) between the Company and the Purchasers signatory thereto. (14)
10.9	Registration Rights Agreement dated as of March 16, 2004 between the Company and the Purchasers signatory thereto. (14)
10.10	Form of Warrant to Purchase Common Stock issued to each Purchaser under the Securities Purchase Agreement. (14)
10.11	Manufacturing Supply and Distribution Agreement between Sonomed, Inc. and Ophthalmic Technologies, Inc. dated as of March 11, 2004. (15)
10.12	Supplemental Executive Retirement Benefit Agreement for Richard DePiano dated June 23, 2005. (16)**
10.13	Settlement Agreement with Intralase Corp, dated February 27, 2008.
21	Subsidiaries. (11)
23.1	Consent of Independent Registered Public Accounting Firm (*).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (*).
31.2	Certification of the Chief Financial Officer Section 302 of the Sarbanes Oxley Act of 2002 (*).
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (*).
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (*).

* Filed herewith.

** Management contract of compensatory plan.

(1) Filed as an exhibit to Pre-Effective Amendment No. 2 to the Company s Registration Statement on Form S-1 dated

November 9, 1993 (Registration No. 33-69360).

(2) Filed as an exhibit to the Company s Form 10-KSB for the year ended June 30, 1994.

(3) Filed as an exhibit to the Company s Form 10-KSB for the year ended June 30, 1995.

(5) Filed as an exhibit to the Company s Form 10-KSB for the year ended June 30, 1999.

(6) Filed as an exhibit to the Company s Form 8-K/A, dated March 31, 2000.

(7) Filed as an exhibit to the Company s Registration Statement on Form s-8 dated February 25, 2000 (Registration No. 333-31138).

(8) Filed as an exhibit to the Company s Proxy Statement on Schedule 14A, as filed by the Company with the SEC on September 21, 2001.

(9) Filed as an exhibit to the Company s Form 10-KSB for the year ended

June 30, 2001.

(13) Filed as an exhibit to the Company s Form 10-Q for the quarter ended December 31, 2003.

(14) Filed as an exhibit to the Company s Registration Statement on Form s_3 dated April 8, 2004 (Registration No. 333-114332).

(15) Filed as an exhibit to the Company s Form 10-Q for the quarter ended March 31, 2004.

(16) Filed as an exhibit to the Company s Form 8-K, dated June 23, 2005.

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 13, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By:	/s/ Richard J. DePiano Richard J. DePiano	Chairman and Chief Executive Officer (Principal Executive Officer) and Director	October 13, 2009
By:	/s/ Robert M. O Connor Robert M. O Connor	Chief Financial Officer (Principal Financial Officer)	October 13, 2009
By:	/s/ Anthony Coppola Anthony Coppola	Director	October 13, 2009
By:	/s/ Jay L. Federman Jay L. Federman	Director	October 13, 2009
By:	/s/ William L.G. Kwan William L.G. Kwan	Director	October 13, 2009
By:	/s/ Lisa Napolitano Lisa Napolitano	Director	October 13, 2009
By:	/s/ Fred Choate Fred Choate	Director	October 13, 2009