

PRECISION OPTICS CORPORATION, INC.
Form 10-Q
February 17, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-10647

PRECISION OPTICS CORPORATION, INC.

(Exact name of registrant as specified in its charter)

Massachusetts **04-2795294**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

22 East Broadway, Gardner, Massachusetts 01440-3338

(Address of principal executive offices) (Zip Code)

(978) 630-1800

(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 No

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.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The number of shares outstanding of the issuer's common stock, par value \$0.01 per share, at February 13, 2015 was 6,344,806 shares.

PRECISION OPTICS CORPORATION, INC.

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PART I – FINANCIAL INFORMATION**Item 1. Financial Statements.****PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	December 31, 2014	June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 385,167	\$ 202,380
Accounts Receivable, net	687,443	531,049
Inventories, net	1,221,748	988,878
Prepaid Expenses	109,508	91,922
Total Current Assets	2,403,866	1,814,229
PROPERTY AND EQUIPMENT		
Machinery and Equipment	2,426,380	2,368,709
Leasehold Improvements	553,596	553,596
Furniture and Fixtures	148,303	148,303
Vehicles	19,674	19,674
	3,147,953	3,090,282
Less: Accumulated Depreciation	(3,084,610)	(3,075,722)
Net Property and Equipment	63,343	14,560
Patents, net	16,942	7,672
TOTAL ASSETS	\$2,484,151	\$1,836,461
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts Payable	\$988,868	\$715,192
Customer Advances	100,000	26,200
Accrued Employee Compensation	238,442	200,207
Accrued Professional Services	33,610	60,250
Accrued Warranty Expense	25,000	25,000
Other Accrued Liabilities	17,390	69,028
Total Current Liabilities	1,403,310	1,095,877

STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock, \$0.01 par value - Authorized - 50,000,000 shares; Issued and Outstanding – 6,262,584 shares at December 31, 2014 and 4,455,134 shares at June 30, 2014	62,626	44,551
Additional Paid-in Capital	43,086,594	42,146,750
Accumulated Deficit	(42,068,379)	(41,450,717)
Total Stockholders' Equity (Deficit)	1,080,841	740,584
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	 \$2,484,151	 \$1,836,461

The accompanying notes are an integral part of these consolidated interim financial statements.

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND SIX MONTHS ENDED****DECEMBER 31, 2014 AND 2013****(UNAUDITED)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Revenues	\$976,548	\$1,007,717	\$1,807,262	\$1,915,143
Cost of Goods Sold	814,036	802,301	1,532,612	1,449,493
Gross Profit	162,512	205,416	274,650	465,650
Research and Development Expenses, net	138,893	92,142	215,605	227,055
Selling, General and Administrative Expenses	346,770	366,874	693,917	702,916
Gain on Sale of Assets	(1,928)	(1,147)	(17,210)	(1,147)
Total Operating Expenses	483,735	457,869	892,312	928,824
Net Loss	(321,223)	(252,453)	(617,662)	(463,174)
Loss Per Share:				
Basic	\$(0.05)	\$(0.06)	\$(0.10)	\$(0.10)
Diluted	\$(0.05)	\$(0.06)	\$(0.10)	\$(0.10)
Weighted Average Common Shares Outstanding:				
Basic	6,262,584	4,455,134	6,195,793	4,455,134
Diluted	6,262,584	4,455,134	6,195,793	4,455,134

The accompanying notes are an integral part of these consolidated interim financial statements.

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED****DECEMBER 31, 2014 AND 2013****(UNAUDITED)**

	Six Months Ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$(617,662)	\$(463,174)
Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities -		
Depreciation and Amortization	8,888	13,375
Gain on Sale of Assets	(17,210)	(1,147)
Stock-based Compensation Expense	40,125	67,216
Non-cash Consulting Expense	18,000	-
Changes in Operating Assets and Liabilities -		
Accounts Receivable, net	(156,394)	(240,051)
Inventories	(232,870)	124,722
Prepaid Expenses	(17,586)	(14,749)
Accounts Payable	233,736	100,860
Customer Advances	73,800	(30,979)
Accrued Expenses	6,972	(5,695)
Net Cash Used In Operating Activities	(660,201)	(449,622)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additional Patent Costs	(9,270)	(8,524)
Purchases of Property and Equipment	(57,671)	-
Proceeds from Sale of Assets	17,210	1,147
Net Cash Used In Investing Activities	(49,731)	(7,377)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gross Proceeds from July 2014 Private Placement of Common Stock	980,291	-
Private Placement Expenses Incurred and Paid as of December 31, 2014	(87,572)	-
Net Cash Provided by Financing Activities	892,719	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	182,787	(456,999)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	202,380	1,034,587
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$385,167	\$577,588

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for Income Taxes	\$912	\$912
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SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:

Issuance of 90,298 Shares of Common Stock to Consultants	\$65,015	\$-
Private Placement Expenses Incurred But Not Yet Paid as of December 31, 2014	\$39,940	\$-

The accompanying notes are an integral part of these consolidated interim financial statements.

PRECISION OPTICS CORPORATION, INC.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Operations

The accompanying consolidated financial statements include the accounts of Precision Optics Corporation, Inc. and its wholly-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

These consolidated financial statements have been prepared by the Company, without audit, and reflect normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results of the second quarter and six months of the Company's fiscal year 2015. These consolidated financial statements do not include all disclosures associated with annual consolidated financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company's consolidated financial statements for the year ended June 30, 2014 together with the Report of Independent Registered Public Accounting Firm filed under cover of the Company's 2014 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 29, 2014.

Use of Estimates

The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed 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. Actual results may differ from these estimates under different assumptions or conditions.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net income or net loss by the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per share is computed by dividing net

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income or net loss by the weighted average number of shares of common stock outstanding during the period, plus the number of potentially dilutive securities outstanding during the period such as stock options and warrants. For the three and six months ended December 31, 2014 and 2013, the effect of such securities was antidilutive and not included in the diluted calculation because of the net loss generated in these periods.

The following is the calculation of income (loss) per share for the three and six months ended December 31, 2014 and 2013:

	Three Months Ended December 31		Six Months Ended December 31	
	2014	2013	2014	2013
Net Income Loss – Basic and Diluted	\$ (321,223) \$ (252,453)		\$ (617,662) \$ (463,174)	
Basic Weighted Average Shares Outstanding	6,262,584	4,455,134	6,195,793	4,455,134
Potentially Dilutive Securities	–	–	–	–
Diluted Weighted Average Shares Outstanding	6,262,584	4,455,134	6,195,793	4,455,134
Loss Per Share				
Basic	\$ (0.05) \$ (0.06)		\$ (0.10) \$ (0.10)	
Diluted	\$ (0.05) \$ (0.06)		\$ (0.10) \$ (0.10)	

The number of shares issuable upon the exercise of outstanding stock options and warrants that were excluded from the computation as their effect was antidilutive was approximately 3,794,000 and 3,382,000 for the three months ended December 31, 2014 and 2013, respectively, and approximately 3,794,000 and 3,382,000 for the six months ended December 31, 2014 and 2013, respectively.

Income Taxes

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

In assessing the likelihood of utilization of existing deferred tax assets, management has considered historical results of operations and the current operating environment. Based on this evaluation, a full valuation reserve has been provided for the deferred tax assets.

2. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market and consisted of the following:

	December 31, 2014	June 30, 2014
Raw Materials	\$592,068	\$445,210
Work-In-Progress	425,292	385,601
Finished Goods	204,388	158,067
Total Inventories	\$1,221,748	\$988,878

3. STOCK-BASED COMPENSATION

Stock-based compensation costs recognized during the quarters ended December 31, 2014 and 2013 amounted to \$13,125 and \$33,608, respectively, and the costs were included in the accompanying consolidated statements of operations in: selling, general and administrative expenses (2014 - \$0; 2013 - \$32,050), research and development expenses (2014 - \$13,125, 2013 - \$550) and cost of goods sold (2014 - \$0; 2013 - \$1,008). Stock-based compensation costs recognized during the six month periods ended December 31, 2014 and 2013 amounted to \$40,125 and \$67,216, respectively, and were included in the accompanying consolidated statements of operations in: selling, general and administrative expenses (2014 - \$27,000; 2013 - \$64,100), research and development expenses (2014 - \$13,125, 2013 - \$1,100) and cost of goods sold (2014 - \$0, 2013 - \$2,016). No compensation has been capitalized because such amounts would have been immaterial.

The following tables summarize stock option activity for the six months ended December 31, 2014:

	Options Outstanding		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life
Outstanding at July 1, 2014	409,087	\$ 4.49	6.27 years
Grants	65,000	0.90	
Outstanding at December 31, 2014	474,087	\$ 3.93	6.29 years

Information related to the stock options outstanding as of December 31, 2014 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Exercisable Number of Shares	Exercisable Weighted-Average Exercise Price
\$ 1.20	207,800	7.17	\$ 1.20	207,800	\$ 1.20
\$ 0.90	65,000	9.53	0.90	41,667	0.90
\$ 0.90	9,000	9.01	0.90	9,000	0.90
\$ 0.85	9,000	8.01	0.85	9,000	