

PRECISION OPTICS CORPORATION, INC.
Form 10-Q
May 15, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

or

o 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 12, 2017 was 8,872,916 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)**

	March 31, 2017	June 30, 2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 158,589	\$ 50,059
Accounts Receivable, net	533,922	750,380
Inventories, net	1,123,222	1,133,451
Prepaid Expenses	102,354	88,129
Total Current Assets	1,918,087	2,022,019
PROPERTY AND EQUIPMENT		
Machinery and Equipment	2,507,190	2,479,471
Leasehold Improvements	553,596	553,596
Furniture and Fixtures	148,303	148,303
Vehicles	—	19,674
	3,209,089	3,201,044
Less: Accumulated Depreciation and Amortization	(3,128,084)	(3,122,849)
Net Fixed Assets	81,005	78,195
Patents, net	28,722	22,874
TOTAL ASSETS	\$2,027,814	\$2,123,088
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current Portion of Capital Lease Obligation	\$8,254	\$7,857
Accounts Payable	924,413	1,151,561
Customer Advances	69,421	—
Accrued Employee Compensation	155,700	238,381
Accrued Professional Services	42,000	65,550
Accrued Warranty Expense	25,000	25,000

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Other Accrued Liabilities	28,200	15,612
Total Current Liabilities	1,252,988	1,503,961
Capital Lease Obligation, net of current portion	25,714	31,955
STOCKHOLDERS' EQUITY		
Common Stock, \$0.01 par value - Authorized - 50,000,000 shares; Issued and Outstanding – 8,872,916 shares at March 31, 2017 and 7,539,582 shares at June 30, 2016	88,729	75,396
Additional Paid-in Capital	45,093,514	44,176,051
Accumulated Deficit	(44,433,131)	(43,664,275)
Total Stockholders' Equity	749,112	587,172
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,027,814	\$2,123,088

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 NINE MONTHS ENDED****MARCH 31, 2017 AND 2016****(UNAUDITED)**

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Revenues	\$983,186	\$1,140,825	\$2,434,324	\$2,954,024
Cost of Goods Sold	705,062	867,292	1,840,742	2,331,131
Gross Profit	278,124	273,533	593,582	622,893
Research and Development Expenses, net	122,313	118,285	358,520	377,199
Selling, General and Administrative Expenses	318,581	407,406	1,003,590	1,179,520
Gain on Sale of Assets	—	(8,480)	(1,515)	(26,948)
Total Operating Expenses	440,894	517,211	1,360,595	1,529,771
Operating Loss	(162,770)	(243,678)	(767,013)	(906,878)
Interest Expense	(583)	(469)	(1,843)	(469)
Other Income	—	22,050	—	22,050
Net Loss	\$(163,353)	\$(222,097)	\$(768,856)	\$(885,297)
Loss Per Share:				
Basic	\$(0.02)	\$(0.03)	\$(0.09)	\$(0.13)
Diluted	\$(0.02)	\$(0.03)	\$(0.09)	\$(0.13)
Weighted Average Common Shares Outstanding:				
Basic	8,872,916	7,484,197	8,167,320	7,033,090
Diluted	8,872,916	7,484,197	8,167,320	7,033,090

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 NINE MONTHS ENDED****MARCH 31, 2017 AND 2016****(UNAUDITED)**

	Nine Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$(768,856)	\$(885,297)
Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities -		
Depreciation and Amortization	24,909	18,352
Gain on Sale of Assets	(1,515)	(26,948)
Stock-based Compensation Expense	154,743	194,133
Non-cash Consulting Expense	13,500	55,050
Non-cash Gain on Settlement of Liabilities by Issuing Common Stock	-	(22,050)
Changes in Operating Assets and Liabilities -		
Accounts Receivable, net	216,458	(19,934)
Inventories, net	10,229	19,954
Prepaid Expenses	(14,225)	(35,012)
Accounts Payable	(229,445)	113,272
Customer Advances	69,421	(95,790)
Accrued Liabilities	(107,143)	(65,943)
Net Cash Used In Operating Activities	(631,924)	(750,213)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additional Patent Costs	(5,848)	(4,230)
Purchases of Property and Equipment	(27,719)	(4,554)
Proceeds from Sale of Assets	1,515	26,948
Net Cash Provided By (Used In) Investing Activities	(32,052)	18,164
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of Capital Lease Obligation	(5,844)	(2,094)
Gross Proceeds from Private Placement of Common Stock	780,000	700,000
Private Placement Expenses Paid as of March 31	(1,650)	(34,639)
Net Cash Provided by Financing Activities	772,506	663,267
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	108,530	(68,782)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	50,059	241,051

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CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 158,589	\$ 172,269
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Income Taxes	\$ 912	\$ 912
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Issuance of Common Stock to Consultants	\$-	\$48,300
Acquisition of Manufacturing Equipment Under Capital Lease	\$-	\$43,790
Offering Costs Included in Accounts Payable	\$22,296	\$-

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 third quarter and nine months of the Company’s fiscal year 2017. 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, 2016, together with the Report of Independent Registered Public Accounting Firm filed under cover of the Company’s 2016 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 28, 2016.

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

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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 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 nine months ended March 31, 2017 and 2016, 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 loss per share for the three and nine months ended March 31, 2017 and 2016:

	Three Months Ended March 31		Nine Months Ended March 31	
	2017	2016	2017	2016
Net Income (Loss) – Basic and Diluted	\$(163,353)	\$(222,097)	\$(768,856)	\$(885,297)
Basic Weighted Average Shares Outstanding	8,872,916	7,484,197	8,167,320	7,033,090
Potentially Dilutive Securities	–	–	–	–
Diluted Weighted Average Shares Outstanding	8,872,916	7,484,197	8,167,320	7,033,090
Loss Per Share				
Basic	\$(0.02)	\$(0.03)	\$(0.09)	\$(0.13)
Diluted	\$(0.02)	\$(0.03)	\$(0.09)	\$(0.13)

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 5,152,547 and 4,168,000 for the three months ended March 31, 2017 and 2016, respectively, and approximately 5,152,547 and 4,168,000 for the nine months ended March 31, 2017 and 2016, 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:

	March 31, 2017	June 30, 2016
Raw Materials	\$592,210	\$520,490
Work-In-Progress	323,875	383,889
Finished Goods	207,137	229,072
Total Inventories	\$1,123,222	\$1,133,451

3. CAPITAL LEASE OBLIGATION

The Company entered into a five-year capital lease obligation in January 2016 for the acquisition of manufacturing equipment totaling \$51,252. At March 31, 2017, future minimum lease payments under the capital lease obligation are as follows:

Fiscal Year Ending June 30:	Amount
2017	\$2,563
2018	10,250
2019	10,250

2020	10,250
2021	5,126
Total minimum payments	38,439
Less: amount representing interest	4,471
Present value of minimum lease payments	33,968
Less: current portion	8,254
	\$25,714

4. STOCK-BASED COMPENSATION

Stock-based compensation costs recognized during the quarters ended March 31, 2017 and 2016 amounted to \$44,310 and \$51,705 respectively, and the costs were included in the accompanying consolidated statements of operations in: selling, general and administrative expenses (2017 - \$28,949; 2016 \$33,721), research and development expenses (2017 - \$6,692, 2016 - \$9,316) and cost of goods sold (2017 - \$8,669; 2016 - \$8,668). Stock-based compensation costs recognized during the nine month periods ended March 31, 2017 and 2016 amounted to \$154,743 and \$194,133, respectively, and were included in the accompanying consolidated statements of operations in: selling, general and administrative expenses (2017 - \$106,035; 2016 - \$94,099), research and development expenses (2017 - \$22,701, 2016 - \$48,023) and cost of goods sold (2017 - \$26,007, 2016 - \$52,011). No compensation has been capitalized because such amounts would have been immaterial.

The following tables summarize stock option activity for the nine months ended March 31, 2017:

	Options Outstanding		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life
Outstanding at June 30, 2016	1,136,000	\$ 0.79	7.74 years
Cancellations	(4,600)	\$ 2.65	
Outstanding at March 31, 2017	1,131,400	\$ 0.78	7.25 years

Information related to the stock options outstanding as of March 31, 2017 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
\$ 0.27	40,000	4.29	\$ 0.27	40,000	\$ 0.27
\$ 0.48	60,000	9.00	\$ 0.48	40,000	\$ 0.48
\$ 0.50	80,000	9.23	\$ 0.50	35,000	\$