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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares outstanding of issuer's common stock, par value \$.01 per share, at April 30, 2002 was 10,503,908 shares.

Transitional Small Business Disclosure Format (check one):

Yes No

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION:

Item 1 Consolidated Financial Statements

Consolidated Balance Sheets - March 31, 2002 and June 30, 2001 (unaudited)

Consolidated Statements of Operations - Quarter Ended March 31, 2002 and March 31, 2001 (unaudited)
Nine Months Ended March 31, 2002 and March 31, 2001 (unaudited)

Consolidated Statements of Cash Flows - Nine Months Ended March 31, 2002 and March 31, 2001 (unaudited)

Notes to Consolidated Financial Statements

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II. OTHER INFORMATION

Items 1-5 Not Applicable

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits None

(b) Reports on Form 8-K

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	<u>ASSETS</u>	
	March 31, 2002	June 30, 2001
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,730,662	\$ 10,530,298
Accounts Receivable, Net	190,902	1,003,496
Inventories	1,115,036	1,524,119
Refundable Income Taxes	13,849	
Prepaid Expenses	143,226	109,760
Total Current Assets	8,193,675	13,167,673
PROPERTY AND EQUIPMENT		
Less: Accumulated Depreciation	(3,985,999)	(3,600,380)
Net Property and Equipment	2,011,711	5,785,667
OTHER ASSETS		
	278,304	266,671
TOTAL ASSETS	\$ 10,483,690	\$ 19,220,011
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 131,608	\$ 584,786
Accrued Payroll	79,514	103,392
Accrued Professional Services	70,406	69,051
Accrued Bonuses	26,250	15,000
Accrued Income Taxes		912
Accrued Vacation	103,761	119,143
Accrued Warranty Expense	50,000	50,000
Current Portion of Accrued Restructuring Expense	101,623	
Current Portion of Capital Lease Obligation	42,188	51,695
Other Accrued Liabilities	50,909	68,077
Total Current Liabilities	656,259	1,062,056
ACCRUED RESTRUCTURING EXPENSE		
NONCURRENT	353,250	
CAPITAL LEASE OBLIGATION AND OTHER		
STOCKHOLDERS' EQUITY	27,109	68,703
Common Stock, \$.01 par value		
Authorized 20,000,000 shares		
Issued and Outstanding 10,503,908 shares at March 31, 2002 and June 30, 2001	105,039	105,039
Additional Paid-in Capital	27,682,657	27,682,657

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Accumulated Deficit	(18,340,624)	(9,698,444)
Total Stockholders Equity	9,447,072	18,089,252
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 10,483,690	\$ 19,220,011

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED

MARCH 31, 2002 AND MARCH 31, 2001

(UNAUDITED)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (8,642,180)	\$ (2,402,833)
Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities		
Depreciation and Amortization	432,744	624,477
Provision for Asset Impairment and Restructuring	4,112,628	
Provision for Inventory Write-down	540,000	
Non-Cash Stock Option Compensation	(22,126)	
Changes in Assets and Liabilities		
Accounts Receivable	812,594	(114,344)
Inventories	(130,917)	(204,771)
Refundable Income Taxes	(13,849)	
Prepaid Expenses	(33,466)	(169,763)
Accounts Payable	(453,178)	(12,271)
Accrued Restructuring Expense	(213,377)	
Accrued Expenses	(44,735)	63,972
Net Cash Used In Operating Activities	(3,655,862)	(2,215,533)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(72,858)	(3,328,961)
Increase in Other Assets	(41,941)	(25,948)
Net Cash Used in Investing Activities	(114,799)	(3,354,909)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Capital Lease Obligation and Other	(28,975)	(83,746)
Net Proceeds from litigation settlement		2,368,485
Net Costs From Private Placement of Common Stock		(16,921)
Proceeds from Exercise of Options and Warrants		232,210
Net Cash (Used In) Provided By Financing Activities	(28,975)	2,500,028
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,799,636)	(3,070,414)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,530,298	15,128,750
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,730,662	\$ 12,058,336

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for

Interest	\$	7,384	\$	9,640
Income Taxes	\$	14,761	\$	912

5

PRECISION OPTICS CORPORATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These 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 2002. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company's financial statements for the period ended June 30, 2001 together with the auditors' report filed under cover of the Company's 2001 Annual Report on Form 10-KSB.

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. For the nine months ended March 31, 2002 and 2001, the effect of stock options and warrants was antidilutive; therefore, they were not included in the computation of diluted loss per share. The number of shares that were excluded from the computation, as their effect would be antidilutive were 1,231,698 and 1,217,598 for the nine months ended March 31, 2002 and 2001, respectively.

2. INVENTORIES

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

	March 31, 2002	June 30, 2001
Raw Materials	\$ 585,747	\$ 777,269
Work-In-Process	276,281	462,517
Finished Goods and Components	253,008	284,333
Total Inventories	\$ 1,115,036	\$ 1,524,119

As a result of these actions, the Company recorded a non-recurring pretax charge to earnings of \$668,250 in the second quarter ended December 31, 2001, consisting of (1) a non-cash element of \$482,000 representing the present value of future lease payments related to idle space in the Company's Optical Thin Films Technology Center, and (2) \$186,250 representing employee severance costs.

4. PROVISION FOR INVENTORY WRITE-DOWN

As a result of the business conditions noted above, the Company determined that certain inventories of DWDM filters and filter test instrumentation may not be sold within the Company's business cycle or the products' life cycle. Consequently, the Company recorded, in cost of goods sold, a provision for excess and obsolete inventory of approximately \$540,000 in the quarter ended September 30, 2001.

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial

Condition and Results of Operations

Important Factors Regarding Forward-Looking Statements

When used in this discussion, the words "believes", "anticipates", "intends to", and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. These risks and uncertainties, many of which are not within the Company's control, include, but are not limited to, uncertainty of future demand for the Company's products; the uncertainty and timing of the successful development of the Company's new products; the risks associated with obtaining the required regulatory approvals to market the Company's medical products; the risks associated with reliance on a few key customers; the Company's ability to attract and retain personnel with the necessary scientific and technical skills; the timing and completion of significant orders; the timing and amount of the Company's research and development expenditures; the timing and level of market acceptance and demand for customers' products for which the Company supplies components; the level of market acceptance of competitors' products; the ability of the Company to control costs associated with performance under fixed price contracts; the performance and reliability of the Company's vendors; the continued availability to the Company of essential supplies, materials and services; and the Company's ability to maintain the listing of its common stock on the Nasdaq SmallCap Market. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revision to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Liquidity and Capital Resources

For the nine months ended March 31, 2002, the Company's cash and cash equivalents decreased by approximately \$3,800,000 to \$6,731,000. The decrease in cash and cash equivalents was due to cash used by operating activities of approximately \$3,656,000, capital expenditures of approximately \$73,000, repayment of debt of approximately \$29,000, and an increase in other assets (primarily patents) of approximately \$42,000.

The Company intends to continue devoting resources to internally-funded research and development spending on both new products and the improvement of existing products, albeit at a lower rate than in recent periods. The Company also intends to devote resources to the marketing and product support of its medical and optical thin films product lines. The Company anticipates that the result of these efforts will translate into increased revenues and profits when market conditions improve.

The Company considers its cash and cash equivalents to be sufficient to support working capital and investment needs for at least the next twelve months.

Results of Operations

Total revenues for the quarter and nine months ended March 31, 2002 decreased by \$775,088 or 68.4% and \$1,627,511 or 58.1%, respectively, from the same periods in the prior year.

The revenue decrease from the prior year for the third quarter was due primarily to lower sales of medical products (down 59%). For the quarter ended March 31, 2002, medical sales were lower due primarily to significantly lower shipments of stereo endoscopes and related products, and non-medical sales were lower due primarily to lower sales of Dense Wavelength Division Multiplexing (DWDM) filters and filter test equipment.

The revenue decrease from the prior year for the nine months ended March 31, 2002 was due to lower sales of medical products (down 59%), and lower sales of non-medical products (down 54%). For the nine months ended March 31, 2002, medical sales were lower due primarily to lower sales of stereo endoscopes and related products. Non-medical sales were lower due primarily to lower sales of DWDM filters. DWDM filter sales represented 9% of total revenues during the nine months ended March 31, 2002 compared to 15.5% for the corresponding period of the prior year (representing a reduction in filter sales of approximately 75%).

Revenues from the Company's four largest customers were approximately 21%, 14%, 10% and 10%, respectively, of total revenues for the nine months ended March 31, 2002. Revenues from the Company's largest customer were approximately 48% of total revenues for the nine months ended March 31, 2001. No other customers accounted for more than 10% of the Company's revenues during those periods.

Gross profit for the quarter and nine months ended March 31, 2002 was negative and reflected an unfavorable change of approximately \$321,000 and \$1,967,000, respectively, compared to the quarter and nine months ended March 31, 2001. Gross profit as a percentage of revenues decreased from 18.8% in the quarter ended March 31, 2001 to a negative 29.9% in the current quarter, and decreased from 25.1% in the nine months ended March 31, 2001 to a negative 107.9% in the nine months ended March 31, 2002. The unfavorable change in gross profit was due primarily to (1) a provision for excess and obsolete inventories of DWDM filters and DWDM filter test instrumentation of approximately \$540,000 recorded in the quarter ended September 30, 2001; and (2) the significant reduction in sales of higher margin stereo endoscopes and related products and the lower overall sales volume of other products.

Research and development expenses decreased by approximately \$375,000, or 42.7%, for the quarter ended March 31, 2002, and by approximately \$300,000, or 13.5%, for the nine months ended March 31, 2002 compared to the corresponding periods of the prior year. The decrease in the current year was due to fewer resources being devoted to the development of DWDM filters used in telecommunication systems, as reflected in reductions of staff.

Selling, general and administrative expenses decreased by approximately \$76,000, or 12.1%, for the quarter ended March 31, 2002 and by approximately \$27,000, or 1.8%, for the nine months ended March 31, 2002 compared to the corresponding periods of the prior year. The

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For the quarter ended March 31, 2002, research and development expenses were approximately \$503,000, down 42.7% from \$879,000 for the quarter ended March 31, 2001. It is anticipated that the quarterly level of R&D expenses for the balance of fiscal year 2002 and for the foreseeable future will be substantially lower than last year.

