

Inrad Optics, Inc.
Form 10-Q
August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **JUNE 30, 2015**

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 **0-11668**

INRAD OPTICS, INC.
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of incorporation)

22-2003247

Edgar Filing: Inrad Optics, Inc. - Form 10-Q

or organization) (I.R.S. Employer Identification Number)

181 Legrand Avenue, Northvale, NJ 07647

(Address of principal executive offices)

(Zip Code)

(201) 767-1910

(Registrant's telephone number, including area code)

(Former name, former address and formal fiscal year, if changed since last report)

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 definition of "large accelerated filer, accelerated filer and smaller reporting company" in Rule 12b-2 of the exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant's common stock outstanding, \$0.01 par value, as of August 14, 2015 was 12,733,208

INRAD OPTICS, INC AND SUBSIDIARIES

INDEX

Part I. CONDENSED FINANCIAL INFORMATION

Item 1.	<u>Condensed Consolidated Financial Statements:</u>	2
	<u>Condensed consolidated balance sheets as of June 30, 2015 (unaudited) and December 31, 2014</u>	2
	<u>Condensed consolidated statements of operations for the three and six months ended June 30, 2015 and 2014 (unaudited)</u>	3
	<u>Condensed consolidated statements of cash flows for the six months ended June 30, 2015 and 2014 (unaudited)</u>	4
	<u>Notes to condensed consolidated financial statements (unaudited)</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	15
Item 4.	<u>Controls and Procedures</u>	15
Part II.	<u>OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	16
Item 1A.	<u>Risk Factors</u>	16
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	16
Item 3.	<u>Defaults upon Senior Securities</u>	16
Item 4.	<u>Mine Safety Disclosures</u>	16
Item 5.	<u>Other Information</u>	16
Item 6.	<u>Exhibits</u>	16
	<u>Signatures</u>	17

INRAD OPTICS, INC AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 771,107	\$ 1,003,254
Accounts receivable (net of allowance for doubtful accounts of \$15,000 in 2015 and 2014)	1,356,280	1,126,655
Inventories, net	2,985,829	2,686,721
Other current assets	175,830	142,576
Total current assets	5,289,046	4,959,206
Plant and equipment:		
Plant and equipment, at cost	15,768,838	1,5741,243
Less: Accumulated depreciation and amortization	(14,421,877)	(14,172,811)
Total plant and equipment	1,346,961	1,568,432
Precious Metals	553,925	553,925
Intangible Assets, net	240,915	280,196
Other Assets	34,656	34,656
Total Assets	\$ 7,465,503	\$ 7,396,415
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of other long term notes	\$ 164,100	\$ 164,100
Accounts payable and accrued liabilities	1,299,059	1,017,755
Customer advances	139,132	170,166
Total current liabilities	1,602,291	1,352,021
Related Party Convertible Notes Payable	2,500,000	2,500,000
Other Long Term Notes, net of current portion	467,880	548,747
Total liabilities	4,570,171	4,400,768
Commitments		
Shareholders' Equity:		
Common stock: \$.01 par value; 60,000,000 authorized shares; 12,737,808 Shares issued at June 30, 2015 and 12,354,093 issued at December 31, 2014	127,380	123,543

Edgar Filing: Inrad Optics, Inc. - Form 10-Q

Capital in excess of par value	18,526,133	18,437,405
Accumulated deficit	(15,743,231)	(15,550,351)
	2,910,282	3,010,597
Less - Common stock in treasury, at cost (4,600 shares)	(14,950)	(14,950)
Total shareholders' equity	2,895,332	2,995,647
Total Liabilities and Shareholders' Equity	\$7,465,503	\$7,396,415

See Notes to Condensed Consolidated Financial Statements (Unaudited)

INRAD OPTICS, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Total revenue	\$ 2,765,365	\$ 2,227,546	\$ 5,295,590	\$ 4,131,926
Cost and expenses:				
Cost of goods sold	2,231,330	2,307,000	4,069,771	4,288,678
Restructuring costs	—	61,951	—	120,616
Selling, general and administrative expenses	700,496	844,581	1,329,753	1,603,686
	2,931,826	3,213,532	5,399,524	6,012,980
Loss from operations	(166,461)	(985,986)	(103,934)	(1,881,054)
Other expense:				
Interest expense—net	(44,518)	(45,308)	(88,946)	(90,183)
Gain on sale of plant and equipment	—	—	—	65,074
	(44,518)	(45,308)	(88,946)	(25,109)
Net loss before income taxes	(210,979)	(1,031,294)	(192,880)	(1,906,163)
Income tax (provision) benefit	—	—	—	—
Net loss	\$ (210,979)	\$ (1,031,294)	\$ (192,880)	(1,906,163)
Net loss per common share— basic and diluted	\$ (0.02)	\$ (0.08)	\$ (0.02)	\$ (0.16)
Weighted average shares outstanding— basic and diluted	12,733,208	12,349,490	12,459,126	12,133,666

See Notes to Condensed Consolidated Financial Statements (Unaudited)

INRAD OPTICS, INC AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net (loss)	\$(192,880)	\$(1,906,163)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation and amortization	288,347	295,721
401K common stock contribution	79,536	71,255
Gain on sale of plant and equipment	—	(65,074)
Stock based compensation	13,028	57,964
Changes in operating assets and liabilities:		
Accounts receivable	(229,625)	115,915
Inventories, net	(299,108)	212,137
Other current assets	(33,254)	41,172
Accounts payable and accrued liabilities	281,305	(48,427)
Customer advances	(31,034)	104,586
Total adjustments and changes	69,195	785,249
Net cash (used in) operating activities	(123,685)	(1,120,914)
Cash flows from investing activities:		
Capital expenditures	(27,595)	(362,848)
Purchase of precious metal tools	—	(8,716)
Proceeds from sale of plant and equipment	—	78,380
Net cash (used in) investing activities	(27,595)	(293,184)
Cash flows from financing activities:		
Principal payments on notes payable-other	(80,867)	(77,529)
Net cash (used in) financing activities	(80,867)	(77,529)
Net (decrease) in cash and cash equivalents	(232,147)	(1,491,627)
Cash and cash equivalents at beginning of period	1,003,254	2,451,263
Cash and cash equivalents at end of period	\$771,107	\$959,636
Supplemental Disclosure of Cash Flow Information:		

Edgar Filing: Inrad Optics, Inc. - Form 10-Q

Interest paid	\$89,385	\$55,000
Income taxes paid	\$1,800	\$2,000

See Notes to Condensed Consolidated Financial Statements (Unaudited)

INRAD OPTICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Inrad Optics, Inc. and its subsidiaries (collectively, the “Company”). All significant intercompany balances and transactions have been eliminated.

The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were issued.

Management Estimates

These unaudited condensed consolidated financial statements and related disclosures have been prepared in conformity with U.S. GAAP which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported in those financial statements. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including

the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Inventories

Inventories are stated at the lower of cost (first-in-first-out basis) or market. The Company records a reserve for slow moving inventory as a charge against earnings for all products identified as surplus, slow-moving or discontinued. Excess work-in-process costs are charged against earnings whenever estimated costs-of-completion exceed unbilled revenues.

Inventories are comprised of the following and are shown net of inventory reserves, in thousands:

	June 30, 2015 (Unaudited)	December 31, 2014
Raw materials	\$ 1,031	\$ 1,049
Work in process, including manufactured parts and components	1,236	956
Finished goods	719	682
	\$ 2,986	\$ 2,687

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statements carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

For the three and six months ended June 30, 2015 and 2014 the Company did not record a current provision for either state or federal income tax due to the losses incurred for both income tax and financial reporting purposes or the availability of net operating loss carry-forwards to offset against federal and state income tax.

In evaluating the Company's ability to recover deferred tax assets in future periods, management considers the available positive and negative factors, including the Company's recent operating results, the existence of cumulative losses and near term forecasts of future taxable income consistent with the plans and estimates that management uses to manage the underlying business. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company over the three-year period ended December 31, 2014. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

On the basis of this evaluation as of June 30, 2015, the Company's management concluded that it is more likely than not that the Company will not be able to realize any portion of the benefit on the net deferred tax balance of \$4,685,000 and therefore the Company continues to maintain a valuation allowance for the full amount of the net deferred tax balance.

When sufficient positive evidence exists, the Company's income tax expense will be charged with the increase or decrease in its valuation allowance. An increase or reversal of the Company's valuation allowance could have a significant negative or positive impact on the Company's future earnings.

Net (Loss) Income per Common Share

Basic net (loss) income per common share is computed by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted net (loss) income per common share is computed by dividing net (loss) income by the weighted average number of common shares and common stock equivalents outstanding, calculated on the treasury stock method for options, stock grants and warrants using the average market

prices during the period, including potential common shares issuable upon conversion of outstanding convertible notes, except if the effect on the per share amounts is anti-dilutive.

For the three months and six months ended June 30, 2015, all common stock equivalents were excluded from the computation of diluted net loss per share because their effect is anti-dilutive. This included 2,500,000 common shares and 1,875,000 warrants issuable upon conversion of outstanding related party convertible notes in each respective period, in addition to 829,710 common stock options and grants, in each respective period.

For the three and six months ended June 30, 2014, all common stock equivalents were excluded from the computation of diluted net loss per share because their effect is anti-dilutive. This included 2,500,000 common shares and 1,875,000 warrants issuable upon conversion of outstanding related party convertible notes in each respective period, in addition to 923,651 common stock options and grants, in each respective period.

Stock-Based Compensation

Stock-based compensation expense is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options granted using the Black-Scholes option pricing model. The fair value of restricted stock units granted is based on the closing market price of the Company's common stock on the date of the grant. The fair value of these awards, adjusted for estimated forfeitures, is amortized over the requisite service period of the award, which is generally the vesting period.

Recently Adopted Accounting Standards

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) (“ASU 2015-03”). ASU 2015-03 was issued to simplify the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by these amendments. This guidance should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this amendment is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) (“ASU 2015-01”). ASU 2015-01 changed the requirements for reporting extraordinary and unusual items in the income statement. The update eliminates the concept of extraordinary items. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. A reporting entity may apply the amendments prospectively or retrospectively to all periods presented in the financial statements. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this newly issued guidance is not expected to have an impact to our consolidated financial statements.

In August 2014, the Financial Accounting Standards Board (the “FASB”) issued authoritative accounting guidance related to management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Management’s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. This guidance is effective for public and non-public entities for annual periods ending after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The Company is currently assessing the expected impact, if any, that this Accounting Standards Update will have on its consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued an Accounting Standards Update (“ASU”) which supersedes virtually all existing revenue recognition guidance under U.S. GAAP. The update’s core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim periods within those periods). Early adoption is permitted to the original effective date of December 15, 2016, (including interim periods within those periods). The Company is currently assessing the potential impact of adoption

on its consolidated financial statements.

NOTE 2 – EQUITY COMPENSATION PROGRAM AND STOCK BASED COMPENSATION

a) Stock Option Expense

The Company's results of operations for the three months ended June 30, 2015 and 2014 include stock-based compensation expense for stock option grants totaling \$6,548 and \$24,425, respectively. Such amounts have been included in the accompanying Condensed Consolidated Statements of Operations within cost of goods sold in the amount of \$1,216 (\$11,000 for 2014), and selling, general and administrative expenses in the amount of \$5,332 (\$13,425 for 2014).

The Company's results of operations for the six months ended June 30, 2015 and 2014 include stock-based compensation expense for stock option grants totaling \$13,028 and \$56,752, respectively. Such amounts have been included in the accompanying Condensed Consolidated Statements of Operations within cost of goods sold in the amount of \$2,364 (\$27,190 for 2014), and selling, general and administrative expenses in the amount of \$10,664 (\$29,562 for 2014).

As of June 30, 2015 and 2014, there were \$38,469 and \$67,629 of unrecognized compensation cost, net of estimated forfeitures, related to non-vested stock options, which are expected to be recognized over a weighted average period of approximately 1.4 years and 1.2 years, respectively.

There were 133,000 and 103,000 stock options granted during the six months ended June 30, 2015 and 2014. The following range of weighted-average assumptions were used to determine the fair value of stock option grants during the six months ended June 30, 2015 and 2014:

	Six Months Ended June 30,			
	2015		2014	
Expected Dividend yield	—	%	—	%
Expected Volatility	122	-127 %	116	%
Risk-free interest rate	2.0	%	1.9	%
Expected term	10	years	10	years

b) **Stock Option Activity**

The following table represents stock options granted, exercised and forfeited during the six month period ended June 30, 2015:

Stock Options	Number of Options	Weighted Average Exercise Price per Option	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	877,817	\$.93	5.1	\$ —
Granted	133,000	.20		

Edgar Filing: Inrad Optics, Inc. - Form 10-Q

Exercised	—	—		
Expired/Forfeited	(181,107)	1.08		
Outstanding at June 30, 2015	829,710	\$.78	5.3	\$ 20,113

The following table represents non-vested stock options granted, vested and forfeited for the six months ended June 30, 2015.

	Options	Weighted-Average Grant-Date Fair Value (\$)
Non-vested - January 1, 2015	150,059	0.27
Granted	133,000	\$ 0.19
Vested	(49,330)	\$ 0.26
Forfeited	(16,667)	\$ 0.23
Non-vested – June 30, 2015	217,062	\$ 0.22

The total fair value of options vested during the six months ended June 30, 2015 and 2014 was \$13,036 and \$65,993, respectively.

c) Restricted Stock Unit Awards

There were no grants of restricted stock units granted under the 2010 Equity Compensation Program during the six months ended June 30, 2015 and 2014.

The Company's results of operations for the six months ended June 30, 2015 and 2014 include stock-based compensation expense for restricted stock unit grants totaling \$0 and \$1,212, respectively, and such amounts have been included in the accompanying Consolidated Statements of Operations within selling, general and administrative expenses.

NOTE 3 – STOCKHOLDERS' EQUITY

In April 2015, the Company issued an additional 383,715 common shares to the Inrad Optics 401k plan as a match to employee contributions for 2014.

NOTE 4 – RELATED PARTY TRANSACTIONS

On July 29, 2014, the maturity dates of a \$1,500,000 Subordinated Convertible Promissory Note to Clarex Limited (“Clarex”) and a \$1,000,000 Subordinated Convertible Promissory Note to an affiliate of Clarex were each extended to April 1, 2017 from April 1, 2015. The notes bear interest at 6%. Interest accrues yearly and is payable on maturity. Unpaid interest, along with principal, may be converted into securities of the Company as follows: the notes are convertible in the aggregate into 1,500,000 units and 1,000,000 units, respectively, with each unit consisting of one share of common stock and one warrant. Each warrant allows the holder to acquire 0.75 shares of common stock at a price of \$1.35 per share. As part of the agreement, the expiration dates of the warrants were extended from April 1, 2018 to April 1, 2020. The Company is currently paying interest of \$37,500 quarterly.

NOTE 5 – OTHER LONG TERM NOTES

On July 26, 2012, the Company entered into a term loan agreement in the amount of \$750,000 with Valley National Bank, Wayne, NJ. The loan is payable in equal monthly installments over five years beginning in August 2012 and bears an interest rate of 4.35% annually. The loan is secured with a security interest in equipment. The Company also has a note payable to the U.S. Small Business Administration which bears interest at the rate of 4.0% and is due in 2032.

Other Long Term Notes consist of the following:

	June 30, 2015	December 31, 2014
	(in thousands)	
Term Note Payable, payable in equal monthly installments of \$13,953 and bearing an interest rate of 4.35% and expiring in July 2017	\$ 333	\$ 408
U.S. Small Business Administration term note payable in equal monthly installments of \$1,922 and bearing an interest rate of 4.0% and expiring in April 2032.	\$ 299	\$ 305
	632	713
Less current portion	(164)	(164)
Long-term debt, excluding current portion	\$ 468	\$ 549

NOTE 6 – RESTRUCTURING COSTS

The Company completed the transfer of the Sarasota operations to the Northvale, New Jersey facility and the Florida facility was closed as of March 31, 2014.

Restructuring charges of \$62,000 and \$121,000 were expensed in the three and six months ended June 30, 2014, respectively. In addition, cash expenditures related to the consolidation were \$247,000 and \$371,000 for the three months and six months ended June 30, 2014, respectively. The consolidation of the operation was completed by December 31, 2014 and there were no restructuring charges in the six months ended June 30, 2015.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS **2. OF OPERATIONS**

Caution Regarding Forward Looking Statements

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The Company wishes to insure that any forward-looking statements are accompanied by meaningful cautionary statements in order to comply with the terms of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. The events described in the forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of the Company's plans or strategies, projected or anticipated benefits of acquisitions made by the Company, projections involving anticipated revenues, earnings, or other aspects of the Company's operating results. The words "may", "will", "expect", "believe", "anticipate", "project", "plan", "intend", "estimate", and "continue", and their opposites and similar expressions

intended to identify forward-looking statements. The Company cautions you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks, and other influences, many of which are beyond the Company's control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect the Company's results include, but are not limited to, the risks and uncertainties discussed in Items 1A, 7 and 7A of the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on April 13, 2015. Any one or more of these uncertainties, risks, and other influences could materially affect the Company's results of operations and whether forward-looking statements made by the Company ultimately prove to be accurate. Readers are further cautioned that the Company's financial results can vary from quarter to quarter, and the financial results for any period may not necessarily be indicative of future results. The foregoing is not intended to be an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by the Company. The Company's actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward looking statements, whether from new information, future events, or otherwise.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 of the accompanying consolidated financial statements and further discussed in our annual financial statements included in our annual report on Form 10-K for the year ended December 31, 2014. In preparing our condensed consolidated financial statements, we made estimates and judgments that affect the results of our operations and the value of assets and liabilities we report. These include estimates used in evaluating intangibles for impairment such as market multiples used in determining the fair value of reporting units, discount rates applicable in determining net present values of future cash flows, projections of future sales, earnings and cash flow and capital expenditures. It also includes estimates about the amount and timing of future taxable income in determining the Company's valuation allowance for deferred income tax assets. Our actual results may differ from these estimates under different assumptions or conditions.

For additional information regarding our critical accounting policies and estimates, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report filed with the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2014.

Results of Operations

Inrad Optics, Inc.'s business falls into two main categories: Optical Components and Laser System Devices/Instrumentation.

The Optical Components category is focused on custom optics manufacturing. The Company specializes in high-end precision components. It develops, manufactures and delivers precision custom optics and thin film optical coating services through its Custom and Metal Optics operations. Glass, metal, and crystal substrates are processed using modern manufacturing equipment, complex processes and techniques to manufacture components, deposit optical thin films, and assemble sub-components used in advanced photonic systems. The majority of custom optical components and optical coating services supplied are used in inspection, process control systems, defense and aerospace electro-optical systems, laser system applications, industrial scanners, and medical system applications.

The Laser System Devices/Instrumentation category includes the growth and fabrication of crystalline materials with electro-optic (EO) and non-linear optical properties for use in both standard and custom products. This category also includes the manufactured crystal based devices and associated instrumentation. The majority of crystals, crystal components and laser devices manufactured are used in laser systems, defense EO systems, medical lasers and R&D applications by engineers within corporations, universities and national laboratories.

The Company operates a manufacturing facility in Northvale, New Jersey and has its corporate offices in the same location.

Revenue

Sales for the three months ended June 30, 2015 increased 24.1% to \$2,765,000 from \$2,228,000 for the comparable three months last year. For the six months ended June 30, 2015, sales were \$5,296,000, an increase of 28.2%, compared to \$4,132,000 for the six months ended June 30, 2014. By business category, sales of Optical Components increased by 35.9% while sales of Laser Devices/Instrumentation products increased by 26.1% for the six months ended June 30, 2015 compared with the prior year.

Sales to customers in the process control and metrology market increased by 82.8% and 39.8% for the second quarter and six months ended June 30, 2015 compared to the same periods last year and was mainly attributable to increased shipments to established customers, in addition to significant growth in new accounts.

Sales to customers in the defense market decreased by 8.2% from the second quarter of 2015 but were up by 52.5% for the six months ended June 30, 2015. The year-to-date increase was primarily due to increased order levels from two large defense contractors offset by a decline in shipments to another large defense contractor in the second quarter of 2015 compared to the respective periods in 2014.

Sales in the laser systems and related products market decreased by 33.4% for the second quarter of 2015 vs the second quarter of 2014. Sales to for the six months ended June 30, 2015 decreased 6.5% compared to the six months ended June 30, 2014.

Although the university and national lab market is the company's smallest market it had a sales increase of 1.4% and 43.6% in the three and six months ended June 30, 2015 compared to the same periods last year.

In the six months ended June 30, 2015, the Company had one major customer representing more than 10% of total sales compared with two major customers in the six months ended June 30, 2014.

The Company's top five customers represented 43.3% of total sales in the six month period ended June 30, 2015, compared to 46.7% in the same period in 2014. However, sales for the top five customers group were up 20.4% from the comparable period last year.

Orders booked during the first six months of 2015 were \$5.1 million compared to \$5.4 million in the comparable period last year.

Order backlog increased to \$6.3 million at June 30, 2015, compared to \$5.6 million at June 30, 2014.

Cost of Goods Sold

For the three months ended June 30, 2015, cost of goods sold was \$2,231,000 compared to \$2,369,000 in the same quarter in 2014, a decrease of \$138,000 or 5.8%. For the six months ended June 30, 2015, cost of goods sold were \$4,070,000, down by \$340,000 or 7.7% compared to \$4,409,000 in the same period in 2014.

Cost of goods sold in the three and six months ended June 30, 2014 include \$62,000 and \$121,000, respectively, of restructuring costs related to the relocation of the Florida operations as discussed in Note 6 to the Condensed Consolidated Financial Statements.

For the three months ended June 30, 2015, manufacturing salaries and wages and related fringe benefits were relatively unchanged from the three months ended June 30, 2014 despite the increased sales volume in 2015. For the six months ended June 30, 2015, manufacturing salaries and wages and related fringe benefits decreased by 3.3% or approximately \$77,000 from the six months ended June 30, 2014. The decrease in 2015 primarily reflects cost savings resulting from the Company's consolidation of the Florida operations in the Northvale facility which was completed in March of 2014.

Excluding one-time restructuring costs in 2014, manufacturing expenses decreased by approximately 31.6% and 35% in the second quarter and six months ended June 30, 2015 versus the three and six months ended June 30, 2014. The reduction was mainly due to cost savings from the consolidation of the Company's Florida operations, as noted above.

Gross profit for the three months ended June 30, 2015 was \$534,000 or 19.3% of sales compared to \$(141,000) or (6.3) % in the same quarter last year. Gross profit for the six months ended June 30, 2015 and 2014 were \$1,226,000 or 23.1% and \$(227,000) or (6.7%) of sales, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A" expenses) in the three and six months ended June 30, 2015 amounted to \$700,000 or 25.3% of sales and 1,330,000 or 25.1% of sales, respectively. This compared to \$845,000 or 37.9% of sales and \$1,604,000 or 38.8% of sales, respectively, for the same periods in 2014.

For the three and six months ended June 30, 2015 SG&A salary, wages and fringe benefits decreased by approximately \$118,000 and \$223,000, respectively, reflecting lower head count levels compared to the same periods in 2014 and partially reflects planned reductions from the consolidation of the Florida facility in Northvale in 2014.

Other SG&A expenses were unchanged for the three and six months ended June 30, 2015 compared to the three and six months ended June 30, 2014.

Loss from Operations

The Company had a loss from operations of \$166,000 in the three months ended June 30, 2015 compared with an operating loss of \$986,000 in the three months ended June 30, 2014. For the six months ended June 30, 2015, the Company had an operating loss of \$104,000 compared with an operating loss of \$1,881,000 in the same period last year. The decrease in the operating loss for the six months ended June 30, 2015 compared to the same period last year primarily reflects the significant increase in sales revenue, the more profitable product mix, and the impact of cost reductions from the consolidation of the Company's operations into the Northvale facility, as compared to the same period last year. The operating losses for the three and six months ended June 30, 2014 include \$62,000 and \$121,000, respectively, of restructuring costs related to the relocation and consolidation of the Florida operations into the Northvale facility.

Other Income and Expense

Interest expense for the three months ended June 30, 2015 was \$45,000 compared to \$45,000 in the same period in 2014. Interest expense for the six months ended June 30, 2014 was \$89,000 compared to \$90,000 in the same period in 2014.

In the six months ended June 30, 2014, the Company sold surplus machinery and recorded a gain of \$65,000.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statements carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

For the three and six months ended June 30, 2015 and 2014, the Company did not record a current provision for either state or federal income tax due to the losses incurred for both income tax and financial reporting purposes or the availability of net operating loss carry-forwards to offset against federal and state income tax.

In evaluating the Company's ability to recover deferred tax assets in future periods, management considers the available positive and negative factors, including the Company's recent operating results, the existence of cumulative losses and near term forecasts of future taxable income consistent with the plans and estimates that management uses to manage the underlying business. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company over the three-year period ended December 31, 2014. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

As a result, the Company's management concluded that it is more likely than not that the Company will not be able to realize any portion of the benefit on the net deferred tax balance of \$4,685,000 and therefore the Company maintains a valuation allowance for the full amount of the net deferred tax balance.

Net Income (Loss)

For the three and six months ended June 30, 2015, the Company had a net loss of \$211,000 and \$193,000, respectively, compared to a net loss of \$1,031,000 and \$1,906,000, respectively, for the same periods in 2014 reflecting higher sales, lower expenses and improved margins due to a more profitable product mix.

Liquidity and Capital Resources

The Company's primary source of liquidity is cash and cash equivalents and on-going collection of accounts receivable. The Company's major use of cash in the past two years has been for financing of operations, capital expenditures mainly related to the consolidation of the Florida facility, and repayment and servicing of outstanding debt.

As of June 30, 2015 and December 31, 2014, the Company had cash and cash equivalents of \$771,000 and \$1,003,000, respectively.

On July 26, 2012, the Company entered into a term loan agreement with Valley National Bank, Wayne, NJ, in the amount of \$750,000. The loan is secured with a security interest in equipment acquired by the Company in the amount of \$825,000 which enhances the Company's thin film coating capabilities. The loan is repayable in equal monthly installments over five years beginning in August 2012 and bears an annual interest rate of 4.35%.

On July 29, 2014, the maturity dates of a \$1,500,000 Subordinated Convertible Promissory Note to Clarex Limited ("Clarex") and a \$1,000,000 Subordinated Convertible Promissory Note to an affiliate of Clarex were each extended to April 1, 2017 from April 1, 2015. The notes bear interest at 6%. Interest accrues yearly and is payable on maturity. Unpaid interest, along with principal, may be converted into securities of the Company as follows: the notes are convertible in the aggregate into 1,500,000 units and 1,000,000 units, respectively, with each unit consisting of one share of common stock and one warrant. Each warrant allows the holder to acquire 0.75 shares of common stock at a price of \$1.35 per share. As part of the agreement, the expiration dates of the warrants were extended from April 1, 2018 to April 1, 2020. The Company is currently paying interest of \$37,500 quarterly through the maturity date of the notes to satisfy the amounts of interest accruing in each quarter.

The following table summarizes net cash (used in) operating, investing and financing activities for the six months ended June 30, 2015 and 2014:

	Six Months Ended	
	June 30,	
	2015	2014
	(In thousands)	
Net cash (used in) operating activities	\$ (124)	\$ (1,121)
Net cash (used in) investing activities	(27)	(293)

Edgar Filing: Inrad Optics, Inc. - Form 10-Q

Net cash (used in) financing activities (81) (78)

Net (decrease) in cash and cash equivalents \$ (232) \$ (1,492)

Net cash used in operating activities was \$124,000 for the six months ended June 30, 2015 compared to \$1,121,000 in the same period last year.

The decrease in net cash used in operating activities in the six months ended June 30, 2015 compared to 2014 resulted primarily from the Company's improved sales and lower operating losses in the current period.

Net cash used in investing activities was \$27,000 during the six months ended June 30, 2015 compared to \$293,000 last year. Capital expenditures for the six months ended June 30, 2015 and 2014 were \$27,000 and \$363,000, respectively. The expenditures in 2015 were primarily for leasehold improvements and operating equipment. The expenditures in 2014 were primarily incurred to refurbish the Northvale operating facility for the relocation of the metal optics operation from Florida. The Company also sold surplus machinery during the six months ended June 30, 2014 for net proceeds of \$78,000.

Net cash used in financing activities was \$81,000 and \$78,000 during the six months ended June 30, 2015 and 2014, respectively, for required principal payments made on other long term notes.

Overall, the Company had a net decrease in cash and cash equivalents of \$232,000 in the six months ended June 30, 2015 compared with a net decrease of \$1,492,000 for the six months ended June 30, 2014.

The Company's management believe that existing cash resources and cash resources anticipated to be generated from future operating activities are sufficient to meet working capital requirements, anticipated capital expenditures, debt servicing payments and other contractual obligations over the next twelve months.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is a smaller reporting company and not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of June 30, 2015 (the "Evaluation Date"), have concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (2) is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

b. Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UNDER SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Edgar Filing: Inrad Optics, Inc. - Form 10-Q

11. An exhibit showing the computation of per-share earnings is omitted because the computation can be clearly determined from the material contained in this Quarterly Report on Form 10-Q.
- 31.1 Certificate of the Registrant's Chief Executive Officer, Amy Eskilson, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certificate of the Registrant's Chief Financial Officer, William J. Foote, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certificate of the Registrant's Chief Executive Officer, Amy Eskilson, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 32.2 Certificate of the Registrant's Chief Financial Officer, William J. Foote, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

The following financial information from Inrad Optics, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed
101 Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to the Condensed Consolidated Financial Statements.*

*

Filed herewith.

SIGNATURES

Pursuant to the requirements 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.

Inrad Optics, Inc.

By: /s/ Amy Eskilson
Amy Eskilson
President and Chief Executive Officer

By: /s/ William J. Foote
William J. Foote
Chief Financial Officer,
Secretary and Treasurer

Date: August 14, 2015