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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x 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	**22-2003247**
(State or other jurisdiction of incorporation	

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 x 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 x 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 x

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

Yes ¨ No x

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

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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

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)

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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:

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

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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			