

Inrad Optics, Inc.  
Form 10-Q  
May 16, 2016

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 **MARCH 31, 2016**

**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  
or organization)

**22-2003247**  
(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):

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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, May 12, 2016 was 13,151,944**

INRAD OPTICS, INC. AND SUBSIDIARIES

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$511,984	\$673,685
Accounts receivable (net of allowance for doubtful accounts of \$15,000 in 2016 and 2015)	1,351,103	1,345,197
Inventories, net	2,899,474	2,995,365
Other current assets	182,883	143,293
<b>Total Current Assets</b>	<b>4,945,444</b>	<b>5,157,540</b>
<b>Plant and Equipment:</b>		
Plant and equipment, at cost	14,503,849	14,493,611
Less: Accumulated depreciation and amortization	(13,461,343)	(13,364,216 )
<b>Total plant and equipment</b>	<b>1,042,506</b>	<b>1,129,395</b>
Precious Metals	553,925	553,925
Intangible Assets, net	181,992	201,633
Other Assets	32,496	32,496
<b>Total Assets</b>	<b>\$6,756,363</b>	<b>\$7,074,989</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Current portion of other long term notes	\$170,500	\$170,500
Accounts payable and accrued liabilities	1,148,967	1,035,487
Customer advances	374,220	368,068
<b>Total Current Liabilities</b>	<b>1,693,687</b>	<b>1,574,055</b>
Related Party Convertible Notes Payable	2,500,000	2,500,000
Other Long Term Notes, net of current portion	336,873	378,906
<b>Total Liabilities</b>	<b>4,530,560</b>	<b>4,452,961</b>
<b>Commitments</b>		
<b>Shareholders' Equity:</b>		
Common stock: \$.01 par value; 60,000,000 authorized shares; 12,737,808 shares issued at March 31, 2016 and December 31, 2015	127,380	127,380
Capital in excess of par value	18,544,846	18,538,884
Accumulated deficit	(16,431,473)	(16,029,286 )
	2,240,753	2,636,978

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Less - Common stock in treasury, at cost (4,600 shares)	(14,950 )	(14,950 )
Total Shareholders' Equity	2,225,803	2,622,028
Total Liabilities and Shareholders' Equity	\$6,756,363	\$7,074,989

See Notes to Condensed Consolidated Financial Statements (Unaudited)

**INRAD OPTICS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2016	2015
Total revenue	\$2,348,106	\$2,530,225
Cost and expenses:		
Cost of goods sold	2,073,655	1,838,442
Selling, general and administrative expenses	634,035	629,257
	2,707,690	2,467,699
(Loss) income from operations	(359,584 )	62,526
Other expense:		
Interest expense—net	(42,603 )	(44,655 )
	(42,603 )	(44,655 )
(Loss) income before income taxes	(402,187 )	17,871
Income tax (provision) benefit	—	—
Net (loss) income	\$(402,187 )	17,871
Net (loss) income per common share — basic	\$(0.03 )	\$0.00
Net (loss) income per common share — diluted	\$(0.03 )	\$0.00
Weighted average shares outstanding — basic	12,733,208	12,349,493
Weighted average shares outstanding — diluted	12,733,208	12,403,321

See Notes to Condensed Consolidated Financial Statements (Unaudited)



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

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$(402,187)	\$17,871
<b>Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:</b>		
Depreciation and amortization	116,768	144,611
Stock based compensation	5,962	6,480
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(5,906 )	(31,272 )
Inventories, net	95,891	(246,506 )
Other current assets	(39,590 )	(39,782 )
Accounts payable and accrued liabilities	113,480	265,771
Customer advances	6,152	(62,538 )
Total adjustments and changes	292,757	36,764
<b>Net cash (used in) provided by operating activities</b>	<b>(109,430)</b>	<b>54,635</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(10,238 )	(15,296 )
<b>Net cash used in investing activities</b>	<b>(10,238 )</b>	<b>(15,296 )</b>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable-other	(42,033 )	(40,258 )
<b>Net cash used in financing activities</b>	<b>(42,033 )</b>	<b>(40,258 )</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(161,701)</b>	<b>(919 )</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>673,685</b>	<b>1,003,254</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$511,984</b>	<b>\$1,002,335</b>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$5,594	\$44,880
Income taxes paid	\$800	\$—

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, 2015.

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:

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	<b>March 31, 2016</b> (Unaudited)	December 31, 2015
Raw materials	\$ 1,096	\$ 1,110
Work in process, including manufactured parts and components	1,158	1,224
Finished goods	645	661
	<b>\$ 2,899</b>	<b>\$ 2,995</b>

## 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 months ended March 31, 2016 and 2015, the Company did not record a current provision for either state or federal income tax due to 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. The cumulative loss incurred by the Company in the three-year period ended December 31, 2015 and the three month period ended March 31, 2016 was considered a significant piece of objective negative evidence. 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 March 31, 2016, 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 \$4,831,000, 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 Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) 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 ended March 31, 2016, 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 addition to 842,304 common stock options and grants.

For the three months ended March 31, 2015, there were a total of 53,828 common stock equivalents related to outstanding stock options which were included in the computation of diluted net income per share because they were dilutive. There were 2,500,000 common shares and 1,875,000 warrants issuable upon conversion of outstanding related party convertible notes which were excluded from the computation of diluted net loss per share because their effect is anti-dilutive.

## 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.

New Accounting Guidance

In April 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.” The amendments clarify two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The update is effective for annual periods beginning after December 15, 2017 including interim reporting periods therein. The Company is currently evaluating the impact the adoption of ASU 2016-10 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payments, including income tax consequences, application of award forfeitures to expense, classification on the statement of cash flows, and classification of awards as either equity or liabilities. This guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the effect that this guidance will have on its financial statements and related footnote disclosures.

In February 2016, the FASB created Topic 842 and issued ASU 2016-02, Leases. The guidance in this update supersedes Topic 840, Leases. This ASU requires lessees to recognize a right-of-use assets and a lease liability, initially measured at the present value of the lease payments on the balance sheet. For public companies, the amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its financial statements and disclosure.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”, which changes how entities measure certain equity investments and how entities present changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk. We are currently assessing the impact the adoption of ASU 2016-01 will have on our consolidated financial statements. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Subtopic 740-10). The amendments in this update require deferred tax liabilities and assets be classified as noncurrent regardless of the classification of the underlying assets and liabilities. For public companies, the amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016. Earlier application is permitted. We expect the adoption of this guidance will not have a material impact on our 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 March 31, 2016 and 2015 include stock-based compensation expense for stock option grants totaling \$5,962 and \$6,480, respectively. Such amounts have been included in the accompanying Condensed Consolidated Statements of Operations within cost of goods sold in the amount of \$1,578 (\$1,148 for 2015), and selling, general and administrative expenses in the amount of \$4,384 (\$5,332 for 2015).

As of March 31, 2016 and 2015, there were \$74,854 and \$45,015 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 1.7 years and 1.5 years, respectively.

There were 163,500 and 133,000 stock options granted during the three months ended March 31, 2016 and 2015. The following range of weighted-average assumptions were used to determine the fair value of stock option grants during the three months ended March 31, 2016 and 2015:

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	<b>Three Months Ended</b>			
	March 31,			
	<b>2016</b>		<b>2015</b>	
Expected Dividend Yield	0	%	0	%
Expected Volatility	128	%	122-127	%
Risk-free Interest Rate	2.07	%	1.96	%
Expected Term		10 years		10 years

b) **Stock Option Activity**

The following table represents stock options granted, exercised and forfeited during the three month period ended March 31, 2016:

Stock Options	Number of Options	Weighted Average Exercise Price per Option	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2016	699,604	\$ .71	4.9	\$ 32,230
Granted	163,500	.35		
Exercised	—	—		
Expired/Forfeited	(20,800 )	1.20		
Outstanding at March 31, 2016	842,304	\$ .69	5.3	\$ 50,928
Exercisable at March 31, 2016	562,471	\$ .80	4.7	\$ 14,222

The following table represents non-vested stock options granted, vested and forfeited for the three months ended March 31, 2016.

	<b>Options</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Non-vested - January 1, 2016	206,662	\$0.21
Granted	163,500	\$0.34
Vested	(90,329)	\$0.23
Forfeited	-	-
Non-vested – March 31, 2016	279,833	\$0.28

## NOTE 3 – STOCKHOLDERS’ EQUITY

In May 2016, a total of 418,736 common shares were issued to the Inrad Optics 401k plan as a match to employee contributions for the year ended December 31, 2015.

## 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. As of March 31, 2016, the Company had accrued interest in the amount of \$70,000 associated with these notes.

## 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:

	March 31, 2016	December 31, 2015
	(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	\$216	\$ 256
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.	\$291	\$ 294
	507	550
Less current portion	(171)	(171)
Long-term debt, excluding current portion	\$336	\$ 379

**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 are 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, 2015, as filed with the Securities and Exchange Commission on March 30, 2016. 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, 2015. 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, 2015.

Results of Operations

Inrad Optics, Inc. operates a manufacturing facility in Northvale, New Jersey. The Company'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 crystal based devices and associated instrumentation. The majority of crystals, crystal components and laser devices that the Company manufactures are used in laser systems, defense EO systems, medical lasers and R&D applications by engineers within corporations, universities and national laboratories.

## Revenue

Sales for the three months ended March 31, 2016 were approximately \$2,348,000, a decrease of 7%, from approximately \$2,530,000 for the three months ended March 30, 2015. Sales to the defense/aerospace market and the laser device/instrumentation market decreased year over year by approximately 22.4% and 21.5%, respectively. This was partially offset by increased sales to the process control and metrology market, in addition to increased sales to the university and national lab market which increased by 7.3% and 38.1%, respectively.

The decrease in defense market sales is mainly attributable to reduced shipments to two large defense contractors partially offset by increased sales to another defense customer. Shipments in the laser device/instrumentation market decreased overall but was not primarily attributable to a single customer.

Process control and metrology sales to one large customer increased by approximately 70% in the three months ended March 31, 2016 compared the three months ended March 31, 2015. One customer in the university and national lab market accounted for most of the increased sales in the first quarter of 2015 compared to 2014.

In the three months ended March 31, 2016, two customers, each represented 10% or more of total sales. In 2015 there was one customer who represented 10% or more of sales.

The Company's top five customers represented 40.3% of total sales in the three month period ended March 31, 2016, compared to 46.6% in the same period in 2015. Two of the same customers were included in the top five for each of the three month periods ended March 31, 2016 and 2015, respectively.

Orders booked during the first three months of 2016 totaled \$2,550,000 compared with \$2,536,000 in the same period last year.

Order backlog at March 31, 2016 and 2015 was \$5,426,000 and \$6,512,000, respectively.

## Cost of Goods Sold

For the three months ended March 31, 2016, cost of goods sold was \$2,074,000 compared to \$1,838,000 in the same quarter in 2015, an increase of approximately \$236,000 or 13%.

The overall sales mix consisted of products with a higher cost of material and labor components which contributed to the increase in the cost of goods sold for the three months ended March 31, 2016, as compared to the same quarter last year.

Material costs increased by approximately 6% in the three months ended March 31, 2016 compared to the same period last year as a result of the change in product mix. As a percentage of sales for the three months ended March 31, 2016, material costs increased by 1.5 % compared with the same period in 2015.

Manufacturing salaries, wages and related fringe benefits increased by 5.3% for the three months ended March 31, 2016 from the comparable period last year.



In addition, cost of goods sold in the three months ended March 31, 2015 were favorably impacted by a favorable overhead variance associated with higher production levels in the period as compared to the current period this year.

Gross profit for the three months March 31, 2016 was \$274,000 or 11.7 % of sales compared to \$692,000 or 27.3 % in the same quarter last year.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses (“SG&A” expenses) in the three months ended March 31, 2016 amounted to \$634,000 or 27.0% of sales. This compared to \$629,000 or 24.9% of sales for the same periods in 2015.

SG&A salaries and wages and related fringe benefits increased by 2.6%, compared with the same period in 2015.

For the three months ended March 31, 2016, SG&A expenses excluding salary and wages, decreased by 1.82% compared to the same period in 2015.

#### (Loss) Income from Operations

The Company had an operating loss of \$360,000 for the three months ended March 31, 2016 compared with an operating gain of \$63,000 in the three months ended March 31, 2015. The operating loss in 2016 primarily reflects the impact of lower sales and an overall sales mix consisting of products with lower margins.

#### Other Income and Expense

Interest expense for the three months ended March 31, 2016 was \$43,000 compared to \$45,000 in the same period in 2015 as there was no significant change in the Company’s borrowings.

#### 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 months ended March 31, 2016 the Company did not record a current provision for either state or federal income tax due to 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. The cumulative loss incurred by the Company in the three-year period ended December 31, 2015 and the three month period ended March 31, 2016 was considered a significant piece of objective negative evidence. 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 \$4,831,000 and therefore the Company maintains a valuation allowance for the full amount of the net deferred tax balance.

Net (Loss) Income

The Company had net loss of \$ (402,000) for the three months ended March 31, 2016 compared to a net income of \$18,000 for the same period last year reflecting lower sales and higher costs in the three months ended March 31, 2016 compared to the three months ended March 31, 2015.



## 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 recent years has been for financing operating losses, for payment of accrued and current interest on convertible debt, for servicing of long term debt and for capital expenditures.

As of March 31, 2016 and December 31, 2015, the Company had cash and cash equivalents of \$512,000 and \$674,000, 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 new 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 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. As of March 31, 2016, the Company had accrued interest in the amount of \$70,000 associated with these notes.

The following table summarizes net cash provided by (used in) operating, investing and financing activities for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2016 2015 (In thousands)	
Net cash provided by (used in) operating activities	\$(110)	\$54
Net cash (used in) investing activities	(10 )	(15 )
Net cash (used in) financing activities	(42 )	(40 )
Net increase (decrease) in cash and cash equivalents	\$(162)	\$(1 )

Net cash used by operating activities was \$110,000 for the three months ended March 31, 2016 compared to net cash provided by operations of \$54,000 in the same period last year.

The decrease in net cash provided by operating activities in the three months ended March 31, 2016 compared to net cash provided by operating activities in 2015 resulted primarily from the Company's decreased sales and profitability for the quarter.

Net cash used in investing activities was \$10,000 during the three months ended March 31, 2016 compared to \$15,000 in the same period last year. Capital expenditures for the three months ended March 31, 2016 and 2015 were \$10,000

and \$15,000, respectively. The expenditures in 2016 and 2015 were for miscellaneous operating equipment. Net cash used in financing activities was \$42,000 and \$40,000 during the three months ended March 31, 2016 and 2015, respectively, related to required principal payments on other long term notes.

Overall, the Company had a net decrease in cash and cash equivalents of \$162,000 in the three months ended March 31, 2016 compared with a net decrease of \$1,000 for the comparable period last year.

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 is 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 have evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of March 31, 2016 (the "Evaluation Date") and based on such evaluation 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**

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.\*\*

101.INS XBRL Instance Document\*

101.SCHXBRL Taxonomy Extension Schema\*

101.CALXBRL Taxonomy Extension Calculation Linkbase\*

101.DEF XBRL Taxonomy Extension Definition Linkbase\*

101.LAB XBRL Taxonomy Extension Label Linkbase\*

101.PRE XBRL Taxonomy Extension Presentation Linkbase\*

\* Filed herewith

\*\*Furnished 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: May 16, 2016