PRECISION OPTICS CORPORATION, INC.
Form 424B3
February 20, 2019
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Registration No. 333-229119

PROSPECTUS

PRECISION OPTICS CORPORATION, INC.

OFFERING UP TO 3,670,675 SHARES OF COMMON STOCK

This prospectus relates to the sale or other disposition of up to 3,670,675 shares of our common stock by selling stockholders. We are not selling any securities in this offering and therefore, we will not receive any proceeds from this offering or the sale or other disposition of common stock by the selling stockholders. All costs associated with this registration will be borne by us. Our common stock is quoted on the OTCQB under the symbol “PEYE.” On February 19, 2019, the last reported sale price of our common stock on the OTCQB was $1.32 per share.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE

SECURITIES ONLY IF YOU CAN AFFORD A COMPLETE LOSS.

SEE “RISK FACTORS” BEGINNING ON PAGE 4.

You should rely only on the information provided in this prospectus or any supplement to this prospectus and information incorporated by reference. We have not authorized anyone else to provide you with different information. Neither the delivery of this prospectus nor any distribution of the shares of common stock pursuant to this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 20, 2019.

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PRECISION OPTICS CORPORATION, INC.

PROSPECTUS SUMMARY

The following information is a summary of the prospectus and it does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus carefully, including the financial statements and the notes relating to the financial statements.

ABOUT US

We incorporated in Massachusetts in December 1982 and have been publicly-owned since November 1990. References to our Company contained herein include our two wholly-owned subsidiaries, Precise Medical, Inc. and Wood's Precision Optics Corporation, Limited, except where the context otherwise requires. Our fiscal year end is June 30. Our principal executive offices are located at 22 East Broadway, Gardner, Massachusetts 01440-3338. Our telephone number is (978) 630-1800. Our website is www.poci.com. Information contained on our website does not constitute part of this prospectus.

We have been a developer and manufacturer of advanced optical instruments since 1982. Today, the vast majority of our business is the design and manufacture of high-quality medical devices and approximately 17% of our business in fiscal year 2018 is the design and manufacture of military and industrial products. Our medical instrumentation line includes traditional endoscopes and endocouplers as well as other custom imaging and illumination products for use in minimally invasive surgical procedures. Much of our recent development efforts have been targeted at the development of next generation endoscopes. For the last ten years, we have funded internal research and development programs to develop next generation capabilities for designing and manufacturing 3D endoscopes and very small Microprecision™ lenses, anticipating future requirements as the surgical community continues to demand smaller and more enhanced imaging systems for minimally invasive surgery. Our unique proprietary technology in the areas of micro optical lenses and prisms, micro medical fiber and CMOS based cameras, and custom design of medical grade instruments, combined with recent developments in the areas of 3D displays and proprietary illumination techniques, has allowed us to begin commercialization of related product and service offerings to a widening group of customers addressing various medical device, defense and aerospace applications. We believe that new products based on these technologies provide enhanced optical and imaging qualities for many uses including existing surgical procedures and development of new procedures enabled by the small size and image quality of our camera modules.

SUMMARY FINANCIAL DATA

Because this is only a summary of our financial information, it does not contain all of the financial information that may be important to you. Therefore, you should carefully read all of the information in this prospectus and any prospectus supplement, including the financial statements and their explanatory notes and the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," before making a decision to invest in our common stock. The information contained in the following summary is derived from our unaudited consolidated financial statements for the quarters ended September 30, 2018 and 2017, and our audited consolidated financial statements for the fiscal years ended June 30, 2018 and 2017.

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	Quarter Ended September 30		Fiscal Year ended June 30	
	2018	2017	2018	2017
	(unaudited)		(audited)	
Revenues	$1,559,458	$1,028,746	$4,038,048	$3,154,547
Cost of Goods Sold	1,096,951	642,004	2,556,130	2,380,823
Gross Profit	462,507	386,742	1,481,918	773,724
Research and Development Expenses, net	100,798	118,427	456,377	464,162
Selling, General and Administrative Expenses	660,489	296,584	1,374,160	1,313,478
Gain on Sale of Assets	–	–	–	(1,515)
Total Operating Expenses	761,287	415,011	1,830,537	1,776,125
Interest expense	(505)	(516)	(1,859)	(3,144)
Provision for income taxes	–	–	912	912
Net Loss	$(299,285)	$(28,785)	$(351,390)	$(1,006,457)
Loss per share:				
Basic and Diluted	$(0.03)	$(0.00)	$(0.04)	$(0.12)
Weighted average common shares outstanding:				
Basic and Diluted	10,261,269	9,108,423	9,826,151	8,343,235

THE OFFERING

Common stock outstanding as of December 31, 2018 (1)	11,897,139 shares
Common stock to be registered	3,670,675
Use of proceeds	We will not receive any proceeds from the sale or other disposition of common stock by the selling stockholders.
Stock symbol	PEYE

(1) This number includes the 1,600,000 shares of common stock issued in the 2018 private placement described below in the section entitled "*The Transactions*."

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THE TRANSACTIONS

Private Placement of Common Stock October 2018

On October 16, 2018, we entered into agreements with accredited investors for the sale and purchase of 1,600,000 shares of our common stock, $0.01 par value, at a per unit price of $1.25 per share. We received $2,000,000 in gross proceeds from the offering. We intend to use the net proceeds from this placement for general working capital purposes.

In conjunction with the placement, we also entered into a registration rights agreement with the investors, whereby we are obligated to file a registration statement with the Securities Exchange Commission on or before 90 calendar days after October 16, 2018 to register the resale by the investors of the 1,600,000 shares of the common stock purchased in the placement.

The selling stockholders who participated in the October 2018 private placement are as follows:

Name	**Common Shares Purchased in the October 2018 Offering**	**Aggregate Purchase Price**
Brian L. Pessin	160,000	$200,000
Sandra F. Pessin	530,000	$662,500
Saxony 1999 Dynastic Trust	160,000	$200,000
Edwin A. Levy	160,000	$200,000
Stavros George Vizirgianakis	590,000	$737,500
TOTAL	**1,600,000**	**$2,000,000**

PAST TRANSACTIONS BEING RE-REGISTERED IN PART

Pursuant to registration rights agreements we entered into concurrent with our October 2015 and November 2016 private placement, we agreed to register shares for holders of our common stock whose beneficial ownership exceeds 10% of our issued and outstanding common stock. We have re-registered shares of common stock held by Dolphin Offshore Partners, L.P. as part of these agreements.

Private Placement of Common Stock and Warrants November 2016

On November 22, 2016, we entered into agreements with accredited investors for the sale and purchase of 1,333,334 units with each unit consisting of one share of our common stock, $0.01 par value, and one warrant to purchase one-half of one share of our common stock, at a purchase price of $0.60 per unit. We received $780,000 in gross cash proceeds from the offering and settled an outstanding accounts payable balance with a consultant in the amount of $20,000 by issuing units. We used the net proceeds from this placement for general working capital purposes. The warrants were all exercised for $0.01 per share on or before October 16, 2017.

In conjunction with the offering, we also entered into a registration rights agreement with the investors, whereby we were obligated to file a registration statement with the Securities Exchange Commission on or before 90 calendar days after November 22, 2016 to register the resale by the investors of the 1,333,334 shares and warrant shares purchased in the offering. The registration statement was filed with the Securities and Exchange Commission on February 3, 2017 and became effective on March 2, 2017.

The selling stockholders who participated in the November 2016 private placement are as follows:

Name	Common Shares Purchased in the November 2016 Offering	Shares Issued Upon Exercise of the November 2016 Warrants	Aggregate Purchase Price
Dolphin Offshore Partners, L.P.*	916,667*	458,334*	$550,000
Hershey Strategic Capital, L.P.	125,000	62,500	$75,000
MHW Partners, L.P.	156,667	78,333	$94,000
Vesselin M. Mihaylov	10,000	5,000	$6,000
ProActive Capital Resources Group, LLC	33,333	16,667	$20,000
Joseph A. Schueller	50,000	25,000	$30,000
Arnold Schumsky	41,667	20,833	$25,000
TOTAL	**1,333,334**	**666,667**	**$800,000**

* Represents shares being re-registered.

Private Placement of Common Stock October 2015

On October 19, 2015, we entered into agreements with institutional and accredited investors for the sale and purchase of 1,044,776 shares of our common stock, $0.01 par value, at a purchase price of $0.67 per share. We received $700,000 in gross proceeds from the offering. We used the net proceeds from this placement for general working capital purposes.

In conjunction with the placement, we also entered into a registration rights agreement with investors, whereby we were obligated to file a registration statement with the Securities Exchange Commission on or before 90 days after October 19, 2015 to register the resale by the investors of the 1,044,776 shares of the common stock purchased in the placement. Certain directors participated in the October 2015 offering and purchased an aggregate of 102,238 shares of common stock at an aggregate purchase price of $68,500.

The selling shareholders who participated in the October 2015 offering are as follows:

Name	Common Shares Purchased in the	Aggregate Purchase

	October 2015 Offering	**Price**
Kenneth S. Schwartz	14,925	$10,000
Ralph Weil Revocable Trust, Ralph Weil & Karen Weil Trustees	50,000	$33,500
Proactive Capital Resources Group, LLC	14,925	$10,000
MHW Partners, L.P.	87,313	$58,500
Joseph A. Schueller	50,000	$33,500
Dolphin Offshore Partners, L.P.*	695,674*	$466,100
Hershey Strategic Capital, L.P.	37,313	$25,000
Tamas Gonda, MD	37,313	$25,000
Lewis Schneider	37,313	$25,000
Christopher Lahiji	20,000	$13,400
TOTAL	**1,044,776**	**$700,000**

* Represents shares being re-registered.

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RISK FACTORS

Risks Related to Our Business

An investment in our common stock involves a high degree of risk. Before making an investment decision, you should give careful consideration to the following risk factors, in addition to the other information included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 filed with the Securities and Exchange Commission on September 27, 2018. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected and you may lose some or all of your investment.

We have a history of losses, we may continue to incur losses and we may never achieve profitability; and we may need to raise additional funds.

During the years ended June 30, 2018 and 2017, we incurred net losses of $351,390 and $1,006,457, respectively. Our accumulated deficit at June 30, 2018 amounted to $45,022,122. We had working capital of $481,876 and $479,604 as of June 30, 2018 and 2017, respectively. During the year ended June 30, 2018, net cash provided by operating activities amounted to $100,657. During the quarter ended September 30, 2018, we had a net loss of $299,285 for the quarter. Our accumulated deficit at September 30, 2018 amounted to $45,321,407. We had working capital of $487,388 at September 30, 2018. We may continue incurring losses for the foreseeable future and may never achieve sustained profitability. We must generate sufficient cash flow or raise additional capital to pursue our product development initiatives, penetrate markets for the sale of our products and continue to conduct operations. We cannot provide any assurance that we will raise additional capital. We believe that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations, strategic alliances, or other means. We may not raise enough capital to meet our needs and we may have to raise additional capital in the future. If we are unable to secure additional capital, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash in amounts sufficient to sustain operations and meet our obligations. These measures could cause significant delays in our efforts to further commercialize our products and complete development projects and manufacturing services for our customers, which are critical to the realization of our business plan and to our future operations.

As of December 31, 2018, we may have to pursue additional funding for our operations if we do not maintain adequate sales revenues.

For the year ended June 30, 2018, net cash provided by operating activities was $100,657, and our net loss for the year was $351,390. As of June 30, 2018, we had $402,738 in cash and cash equivalents, $769,923 of accounts receivable and $1,932,844 of current liabilities, including $857,842 of customer advances paid against open purchase orders from our customers. For the quarter ended September 30, 2018, net cash used in operating activities was $6,430, and our net loss for the quarter was $299,285. As of September 30, 2018, we had $351,314 in cash and cash equivalents, $655,720 of accounts receivable and $1,691,131 of current liabilities, including $400,704 of customer advance paid against open purchase orders from our customers. We received $2,000,000 gross proceeds in the October 2018 private placement. However, if we do not maintain adequate sales revenue, we may not have sufficient cash to continue operations without obtaining additional funding for operations in the future. We may have to pursue several options to manage cash flow and raise capital including issuing debt, equity or entering into a strategic alliance. The sale of additional equity or convertible debt securities would result in additional dilution to our stockholders, and debt financing, if available, may involve restrictive covenants that could restrict our operations or finances. Financing may not be available in amounts or on terms acceptable to us, if at all. If we cannot raise funds on acceptable terms or achieve positive cash flow, we may not be able to continue to conduct operations, develop new products, grow market share, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which would negatively impact our business, operating results and financial condition.

We rely on a small number of customers who may not consistently purchase our products in the future and if we lose any one of these customers, our revenues may decline.

In the fiscal year ended June 30, 2018, our two largest customers represented approximately 16%, and 14%, respectively, of our total revenues. In the fiscal year ended June 30, 2017, our three largest customers represented approximately 11%, 10%, and 10%, respectively, of our total revenues. No other customer accounted for more than 10% of our revenues during those periods. At June 30, 2018, our four largest customer account receivable balances were 22%, 16%, 13%, and 13%, respectively, of total accounts receivable. At June 30, 2017, our five largest account receivable balances were 16%, 15%, 12%, 12%, and 11%, respectively, of the total accounts receivable.

In the future, a small number of customers may continue to represent a significant portion of our total revenues in any given period. These customers may not consistently purchase our products at a particular rate over any subsequent period. A loss of any of these customers could adversely affect our revenues.

We could suffer unrecoverable losses on our customers' accounts receivable, which would adversely affect our financial results.

At June 30, 2018, our four largest customer account receivable balances were 22%, 16%, 13%, and 13%, respectively, of total accounts receivable. While we believe we have a varied customer base and have experienced strong collections in the past, we may experience changes in our customer base, including reductions in purchasing commitments, which could also have a material adverse effect on our revenues and liquidity. Additionally, our customers could become unable or unwilling to pay amounts owed to us. During fiscal 2018, we recorded a $227,500 reserve against accounts receivable amounts owed to us by one customer that has not been able to pay us for design services we provided. We have not purchased insurance on our accounts receivable balances. Large uncollectible accounts receivable balances could have a material adverse effect on our financial condition.

We rely heavily upon the talents of our Chief Executive Officer, the loss of whom could damage our business.

Our performance depends, to a large extent, on a small number of key scientific, technical, managerial and marketing personnel. In particular, we believe our success is highly dependent upon the services and reputation of our Chief Executive Officer, Dr. Joseph N. Forkey. The loss of Dr. Forkey's services could damage our business. Dr. Forkey provides highly valuable contributions to our capabilities in optical instrument development, in management of new technology and in potentially significant longer-term Company initiatives.

We must continue to be able to attract employees with the scientific and technical skills that our business requires and if we are unable to attract and retain such individuals, our business could be severely damaged.

Our ability to attract employees with a high degree of scientific and technical talent is crucial to the success of our business. There is intense competition for the services of such persons and we cannot guarantee that we will be able to attract and retain individuals possessing the necessary qualifications. If we cannot attract such individuals, we may not be able to perform the necessary design services for our customers or produce our products causing damage to our business or an inability to meet customer demand or increase revenues.

We are subject to a high degree of regulatory oversight and, if we do not continue to receive the necessary regulatory approvals, our revenues may decline.

The FDA has granted us clearance to manufacture and market the medical products we currently sell in the United States. However, prior FDA approval may be required before we can market additional medical products that we may develop in the future. We may also seek to sell current or future medical products in a manner that requires us to obtain FDA permission to market such products. We may also require the regulatory approval or license of other federal, state or local agencies or comparable agencies in other countries.

We may lose the FDA's permission to manufacture and market our current products or may not obtain the necessary regulatory permission, approvals or licenses for the manufacturing or marketing of any of our future products. Also, we cannot predict the impact on our business of FDA regulations or determinations arising from future legislation or administrative action. If we lose the FDA's permission to manufacture and market our current products or we do not obtain regulatory permission to manufacture and market our future products, our revenues may decline and our business may be harmed.

We face risks inherent in product development and production under fixed-price purchase orders and these purchase orders may not be profitable over time.

A portion of our business has been devoted to research, development and production under fixed-price purchase orders. For our purposes, a fixed-price purchase order is any purchase order under which we will provide products or services for a fixed-price over an extended period of time, usually six months or longer. Fixed-price purchase orders represented approximately 25% to 50% of our total revenues during the last several years. We expect that revenues from fixed-price purchase orders will continue to represent a significant portion of our total revenues in future fiscal years.

Because they involve performance over time, we cannot predict with certainty the expenses involved in meeting our obligations under fixed-price purchase orders. Therefore, we can never be sure at the time we enter into any single fixed-price purchase order that such purchase order will be profitable for us.

We primarily perform engineering and manufacturing services for our customers who could decide to use another vendor for these services in the future.

A significant portion of our revenues are derived from engineering and manufacturing services that we perform to design and fabricate medical device products or sub-assemblies of medical device products for our customers who in turn sell the products to the end users. Our customers typically own the proprietary rights to and control commercial distribution of the final products. Therefore, in many of these cases we do not own the proprietary rights to the medical device products that we manufacture or that our sub-assemblies are made a part of. Our customers could decide to use other suppliers for these services based on cost, quality, delivery time, production capacities, competitive and regulatory considerations or other factors. Thus, revenues from our customers and the products and services we provide them are subject to significant fluctuation on a product to product basis from period to period.

Third parties may infringe on our intellectual property and, as a result, we could incur significant expense in protecting our patents or not have sufficient resources to protect them.

We utilize a number of licensed patents that are important to our business. In July 2011, we entered into an asset purchase agreement with Intuitive Surgical Operations, Inc., in which we received $2.5 million in connection with the sale of certain intellectual property. Pursuant to the agreement, we agreed to assign to Intuitive Surgical all of the issued and non-expired patents and pending patent applications we held at the time of the agreement and, in return, Intuitive Surgical agreed to grant to us a royalty-free, worldwide license to these patents in fields outside of medical robotics.

Although we are not currently aware of any past or present infringements of our patents, we plan, jointly with Intuitive Surgical, to protect these patents from infringement and obtain additional patents whenever feasible. To this end, we have obtained confidentiality agreements from our employees and consultants and others who have access to the design of our products and other proprietary information. Protecting and obtaining patents, however, is both time consuming and expensive. We therefore may not have the resources necessary to assert all potential patent infringement claims or pursue all patents that might be available to us. If our competitors or other third parties infringe on our patents, our business may be harmed.

Third parties may claim that we have infringed on their patents and, as a result, we could be prohibited from using all or part of any technology used in our products.

Should third parties claim a proprietary right to all or part of any technology that we use in our products, such a claim, regardless of its merit, could involve us in costly litigation. If successful, such a claim could also result in us being unable to freely use the technology that was the subject of the claim, or sell products embodying such technology. If we engage in litigation, our expenses may increase and our business may be harmed. If we are prohibited from using a particular technology in our products, our revenues may decline and our business may be harmed.

We depend on the availability of certain key supplies and services that are available from only a few sources and if we experience difficulty with a supplier, we may have difficulty finding alternative sources of these supplies or services.

We require certain key supplies to develop and manufacture our products, particularly our precision grade optical glass, which is available from only a few sources, each of which is located outside of the United States. Additionally, we rely on outside vendors to grind and polish certain of our lenses and other optical components, such as prisms and windows. We also rely on a limited number of suppliers for specialized CMOS sensors and the electronic wiring of those sensors. Based upon our ordering experience to date, we believe the materials and services required for the production of our products are currently available in sufficient quantities to meet our needs. Our requirements are small relative to the total supply, and we are not currently encountering problems with availability. However, this does not mean that we will continue to have timely access to adequate supplies of essential materials and services in the future or that supplies of these materials and services will be available on satisfactory terms when the need arises. Our business could be severely damaged if we become unable to procure these essential materials and services in adequate quantities and at acceptable prices.

From time to time, subcontractors may produce some of our products for us, and our business is subject to the risk that these subcontractors fail to make timely delivery. Our products and services are also used as components of the products and services of other manufacturers. We are therefore subject to the risk that manufacturers who integrate our products or services into their own products or services are unable to acquire essential supplies and services from third parties in a timely fashion. If this occurs, we may not be able to deliver our products on a timely basis and our revenues may decline.

Our customers may claim that the products we sold them were defective and if our insurance is not sufficient to cover such a claim, we would be liable for the excess.

Like any manufacturer, we are and always have been exposed to liability claims resulting from the use of our products. We maintain product liability insurance to cover us in the event of liability claims, and as of September 22, 2018, no such claims have been asserted or threatened against us. However, our insurance may not be sufficient to cover all possible future product liabilities.

We would be liable if our business operations harmed the environment and a failure to maintain compliance with environmental laws could severely damage our business.

Our operations are subject to a variety of federal, state and local laws and regulations relating to the protection of the environment. From time to time, we use hazardous materials in our operations. Although we believe that we are in compliance with all applicable environmental laws and regulations, our business could be severely damaged by any failure to maintain such compliance.

Our quarterly financial results vary quarter to quarter and depend on many factors. As a result, we cannot predict with a high degree of certainty our operating results in any particular fiscal quarter.

Our quarterly operating results may vary significantly depending upon factors such as:

- the timing of completion of significant customer orders;
- the timing and amount of our research and development expenditures;
- the costs of initial product production in connection with new products;
- the timing of new product introductions—both by us and by our competitors;
- the timing and level of market acceptance of new products or enhanced versions of our existing products;
- our ability to retain existing customers and customers' continued demand for our products and services;
- our customers' inventory levels, and levels of demand for our customers' products and services; and
- competitive pricing pressures.

We may not be able to grow or sustain revenues or achieve or maintain profitability on a quarterly or annual basis and levels of revenue and/or profitability may vary from one such period to another.

Some of our competitors are large, well-financed companies who have research and marketing capabilities that are superior to ours.

The industries in which we operate are highly competitive. Many of our existing and potential competitors have greater financial resources and manufacturing capabilities, more established and larger marketing and sales organizations and larger technical staffs than we have. Other companies, some with greater experience in the optics, semiconductor or medical products industries, are seeking to produce products and services that compete with our products and services.

RISKS RELATED TO OUR STOCK

Trading in our common stock is limited and the price of our common stock may be subject to substantial volatility.

Our common stock is quoted on OTCQB, the OTC market tier for companies that report to the SEC, under the symbol PEYE. We expect our common stock to continue to be quoted on the OTCQB for the foreseeable future. Broker-dealers may decline to trade in OTCQB stocks given the market for such securities is often limited, the stocks are more volatile and the risk to investors is greater. These factors may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of their shares. This could cause our stock price to decline.

Additionally, the price of our common stock may be volatile as a result of a number of factors, including, but not limited to, the following:

- our ability to successfully conceive and to develop new products and services to enhance the performance characteristics and methods of manufacture of existing products;
- our ability to retain existing customers and customers’ continued demand for our products and services;
- the timing of our research and development expenditures and of new product introductions;
- the timing and level of acceptance of new products or enhanced versions of our existing products; and
- price and volume fluctuations in the stock market at large which do not relate to our operating performance.

“Penny stock” rules may make buying or selling our securities difficult which may make our stock less liquid and make it harder for investors to buy and sell our securities.

Trading in our securities is subject to the SEC’s “penny stock” rule and we anticipate that trading in our securities will continue to be subject to the penny stock rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser’s written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by these requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our securities and consequently adversely affect the market price for our securities.

We are contractually obligated to issue shares in the future, diluting your interest in us.

As of June 30, 2018, there were 1,055,700 shares of our common stock issuable upon exercise of stock options outstanding, at a weighted average exercise price of $0.76 per share. As of June 30, 2018, a total of 789,898 shares of our common stock are reserved for issuance under our 2011 Equity Incentive Plan. In August 2018 the Board of

Directors authorized compensation agreements with our Chief Executive Officer including the issuance of 300,000 common shares and granting of stock options to purchase 350,000 shares of our common stock at $0.73 per share subject to vesting conditions, and with our Chief Financial Officer including the granting of stock options to purchase 100,000 shares of our common stock at $0.70 per share subject to vesting conditions. Moreover, we expect to issue additional shares and options to purchase shares of our common stock to compensate employees, consultants and directors, and we may issue additional shares to raise capital. Any such issuances will have the effect of further diluting the interest of the holders of our securities.

RISKS RELATED TO THE OFFERING

The market price of our common stock may be volatile, and the value of stockholders' investment could decline significantly.

The trading price for our common stock has been, and we expect it to continue to be, volatile. The price at which our common stock trades depends upon a number of factors, including our historical and anticipated operating results, our financial situation, announcements of new products by us or our competitors, our ability or inability to raise the additional capital we may need and the terms on which we raise it, and general market and economic conditions. Some of these factors are beyond our control. Broad market fluctuations may lower the market price of our common stock and affect the volume of trading in our stock, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure you that the market price of our shares of common stock will not fall in the future.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the reasons described in our "*Risk Factors*" section. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made. We do not intend to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results or to changes in our expectations, except as required by law.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by certain selling stockholders. We will not receive any proceeds from the sale or other disposition of common stock by the selling stockholders.

SELLING SECURITY HOLDERS

Based upon information available to us as of December 31, 2018 the following table sets forth the names of the selling stockholders, the number of shares owned, the number of shares registered by this registration statement and the number and percent of outstanding shares that the selling stockholders will own, assuming all of the shares are sold. The information provided in the table and discussions below has been obtained from the selling stockholders. The selling stockholders may have sold, transferred or otherwise disposed of, or may sell, transfer or otherwise dispose of, at any time or from time to time since the date on which it provided the information regarding the shares beneficially owned, all or a portion of the shares of common stock beneficially owned in transactions exempt from the registration requirements of the Securities Act of 1933. As used in this prospectus, “selling stockholder” includes donees, pledgees, transferees or other successors-in-interest selling shares received from the named selling stockholder as a gift, pledge, distribution or other transfer.

Beneficial ownership is determined in accordance with Rule 13d-3(d) promulgated by the Commission under the Securities Exchange Act of 1934. Unless otherwise noted, each person or entity identified possesses sole voting and investment power with respect to the shares, subject to community property laws where applicable.

Name of Selling Security Holder	Beneficial Ownership Before Offering (1), (3)	Percentage of Outstanding Shares Owned Prior to Offering (2)	Number of Shares Offered (3)	Number of Shares Beneficially Owned After Offering (3)	Percentage of Shares Owned After Offering (2), (3)
Brian L. Pessin (4)	160,000	1.34%	160,000	0	0%
Sandra F. Pessin (5)	763,334	6.42%	530,000	233,334	1.96%
Saxony 1999 Dynastic Trust (6)	160,000	1.34%	160,000	0	0%
Edwin A. Levy (7)	160,000	1.34%	160,000	0	0%
Stavros George Vizirgiankis (8)	590,000	4.96%	590,000	0	0%
Dolphin Offshore Partners L.P. (9)	2,070,675	17.40%	2,070,675	0	0%
TOTAL			**3,670,675**		

* Percentage of shares owned does not exceed one percent.

(1) The column includes common stock beneficially owned under Rule 13(d)-3 of the Exchange Act, including shares being registered by this prospectus and shares that may be acquired upon exercise of warrants or options.

(2) Based on 11,897,139 shares outstanding as of December 31, 2018. We calculated the percentages based on the actual number of shares outstanding, not including shares issuable upon exercise of warrants or options.

(3) These numbers assume the selling stockholders sell all of their shares being registered by this prospectus, including shares that may be acquired upon exercise of warrants and shares pursuant to anti-dilution provisions of warrants, and they do not sell any of the other common stock they own on December 31, 2018 that is not included in this registration statement.

(4) Brian L. Pessin beneficially owns 160,000 shares of common stock acquired in the October 2018 transaction.

(5) Sandra F. Pessin beneficially owns 763,334 shares of common stock, 233,334 of which were acquired in the August 22, 2017 private placement and 530,000 of which were acquired in the October 2018 transaction. We relied, in part, on a Schedule 13D jointly filed with the SEC on October 26, 2018 by Norman H. Pessin and Sandra F. Pessin for this information.

(6) Saxony 1999 Dynastic Trust beneficially owns 160,000 shares of common stock acquired in the October 2018 transaction.

(7) Edwin A. Levy beneficially owns 160,000 shares of common stock acquired in the October 2018 transaction.

(8) Stavros George Vizirgiankis owns 590,000 shares of common stock acquired in the October 2018 transaction.

Dolphin Offshore Partners, L.P., Dolphin Mgmt. Services, Inc. and Peter E. Salas each may be deemed to beneficially own an aggregate of 2,070,675 shares of common stock. Their ownership consists of (i) 1,612,341 shares of commons stock of which 916,667 shares of common stock were acquired in the November 22, 2016 private placement and 695,674 were acquired in the October 19, 2015 private placement, and (ii) 458,334 shares of common stock that were acquired upon the exercise of warrants acquired in the November 22, 2016 private placement. Dolphin Offshore Partners, L.P., a Delaware limited partnership, is an investment manager. Dolphin Mgmt. Services, Inc., a Delaware corporation, is the managing general partner of Dolphin Offshore Partners, L.P.

(9) Peter E. Salas is the President, sole shareholder and controlling person of Dolphin Mgmt. Services, Inc. Peter Salas is a U.S. citizen. Dolphin Offshore Partners, L.P., Dolphin Mgmt. Services, Inc. and Peter E. Salas each may be deemed to have shared power to vote or direct the vote, and dispose or direct the disposition, of all such shares of common stock. We relied, in part, on the Schedule 13D filed jointly by Dolphin Offshore Partners, L.P., Dolphin Mgmt. Services, Inc. and Peter E. Salas on December 27, 2016 for this information. At the time of the November 22, 2016 private placement, Dolphin Offshore Partners L.P. was a beneficial owner of more than 5% of our common stock. At the time of the October 19, 2015 private placement, Dolphin Offshore Partners L.P. became a beneficial owner of more than 5% of our common stock.

PLAN OF DISTRIBUTION

The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales effected after the date the registration statement, of which this prospectus is a part, is declared effective by the SEC;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and

- any other method permitted by applicable law.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, or the Securities Act, amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, who may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers who may in turn sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling stockholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering.

The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act, provided that they meet the criteria and conform to the requirements of that rule.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be "underwriters" within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are "underwriters" within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, to the extent applicable we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

We have agreed with the selling stockholders to keep the registration statement, of which this prospectus constitutes a part, effective until the earlier of (1) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (2) the date on which the shares may be sold without restriction pursuant to Rule 144 of the Securities Act.

DESCRIPTION OF SECURITIES TO BE REGISTERED

The following description of our capital stock and provisions of our Articles of Organization, as amended, and Bylaws, each as amended, is only a summary. You should also refer to our Articles of Organization, as amended, a copy of which is incorporated by reference as an exhibit to the registration statement, of which this prospectus is a part, and our Bylaws, a copy of which is incorporated by reference as an exhibit to the registration statement of which this prospectus is a part.

Common Stock

We are authorized to issue up to a total of 50,000,000 shares of common stock, par value $0.01 per share. Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of our stockholders. Holders of our common stock have no rights under our Articles of Organization, as amended, or our Bylaws regarding dividends unless and until dividends are declared by the board of directors, nor do they have any rights under our Articles of Organization, as amended, or our Bylaws regarding preemption rights. Each outstanding share of common stock is, and all shares of common stock to be issued in this offering, when they are paid for will be, fully paid and non-assessable.

INTERESTS OF NAMED EXPERTS AND COUNSEL

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the securities being registered was employed for such purpose on a contingency basis, or had, or is to receive, in connection with this offering, a substantial interest, direct or indirect, in us or any of our subsidiaries, nor was any such person connected with us or any of our subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

INFORMATION ABOUT THE COMPANY

DESCRIPTION OF BUSINESS

Overview

We have been developing and manufacturing advanced optical instruments since 1982. Today, the majority of our business is the design and manufacture of high-quality medical devices and approximately 17% of our revenue in fiscal year 2018 is from the design and manufacture of military and industrial products. Our medical instrumentation line includes traditional endoscopes and endocouplers as well as other custom imaging and illumination products for use in minimally invasive surgical procedures. Much of our recent development efforts have been targeted at the development of next generation endoscopes. Over the last ten years, we have funded internal research and development programs to develop next generation capabilities for designing and manufacturing 3D endoscopes and very small Microprecision™ lenses, anticipating future requirements as the surgical community continues to demand smaller and more enhanced imaging systems for minimally invasive surgery. Our unique proprietary technology in these areas, combined with recent developments in the areas of 3D displays and millimeter sized CMOS image sensors, has allowed us to begin commercialization of these technologies. Thus, over 30% of our revenues in each of the fiscal years 2016, 2017 and 2018 were derived from engineering and design services we performed for our customers to incorporate our technologies and capabilities into their medical device products. We believe that new products based on these technologies provide enhanced imaging for existing surgical procedures which help to enable development of many new medical device products and related medical procedures. Over 50% of our total revenues in fiscal years 2016, 2017 and 2018 were derived from the assembly and manufacture of endoscopic medical devises, sub-assemblies and optical components ordered by our customers and usually developed from the engineering and design services we perform for them. We expect sales revenue increases to come from the orders from our customers to manufacture the products we help them engineer and design.

We believe that our future success depends, to a large degree, on our ability to develop new optical products and services to enhance the performance characteristics and methods of manufacture of existing products. Accordingly, we expect to continue to seek and obtain product-related design and development contracts with customers and to selectively invest our own funds on research and development, particularly in the areas of Microprecision™ optics, micro medical cameras, illumination, and 3D endoscopes.

During the fiscal year ended June 30, 2018, approximately 66% of our sales were made to eight customers. Of these, four are large, international, medical device or defense contracting companies who have been our customers for many years. Two of these customers continue to purchase products that we developed over five years ago, and the other two are purchasing products that were developed and launched into production by us more recently. The other four top customers have engaged our engineering services or purchase products that we developed in recent years. Seven of these eight customers' revenues are for projects which rely heavily on our unique, proprietary Microprecision™ lens technology and optical visualization system expertise.

Current sales and marketing activities are intended to broaden awareness of the benefits of our new technology platforms, which we believe are ready for general application to medical device projects requiring surgery-grade visualization from sub-millimeter sized devices and 3D endoscopy. We market directly to established medical device companies primarily in the United States that we believe could benefit from our advanced endoscopy visualization systems. Through this direct marketing, referrals, attendance at trade shows and a presence in online professional association websites, we have expanded our on-going pipeline of projects to significant medical device companies as well as well-funded emerging technology companies. We expect our customer pipeline to continue to expand as development projects transition to production orders and new customer projects enter the development phase.

History

We incorporated in Massachusetts in December 1982 and have been publicly-owned since November 1990. References to our Company contained herein include our two wholly-owned subsidiaries, Precise Medical, Inc. and Wood's Precision Optics Corporation, Limited, except where the context otherwise requires. Our website is www.poci.com. Information contained on our website does not constitute part of this report.

Principal Products and Services

<u>Our Current Core Business:</u> Since 1982, we have manufactured medical products such as endoscopes and endocouplers. We have developed and sold endoscopes incorporating various optical technologies including our proprietary Lenslock™ technology, for use in a variety of minimally invasive surgical and diagnostic procedures. Today, we produce endoscopes for various applications, which are CE marked and therefore certified for sale throughout the

European Economic Area. Since 1985, we have developed, manufactured and sold a proprietary product line of endocouplers. We also design and manufacture custom optical medical devices to satisfy our customers' specific requirements. In addition to medical devices, we also manufacture and sell components and assemblies specially designed for industrial and military use.

Microprecision™ Lenses and Micro Medical Cameras: While the size of endoscopes has gradually decreased over time, the widespread use of very small endoscopes, with diameters of one millimeter or smaller, has been limited, in part, we believe, by the inability of traditional lens fabrication methods to support these smaller sizes with good image quality and acceptable manufacturing costs. We believe our Microprecision™ optics technology provides a solution to this problem. Combined with recent advances by other companies in complementary metal-oxide-semiconductor, or CMOS, image sensor fabrication techniques, our Microprecision™ lenses and proprietary manufacturing techniques enable the manufacture of micro medical cameras at low prices and with sizes on the order of one millimeter or less, characteristics that make them well suited to medical applications.

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In June 2015, we announced a partnership with OmniVision Technologies, Inc., and Fujikura, Ltd., in which we jointly developed a CMOS based camera module with a diameter of 1.6 mm and 400 x 400 pixel resolution, representing superior image quality for camera modules of its size. In June 2017, OmniVision Technologies, Inc. announced our collaboration with them in the development of an even smaller, high-quality optical solution based on a newly developed OmniVision image sensor integrated with our Microprecsion™ lenses. This solution enables even smaller diameter endoscopes for use in medical procedures.

We are currently engaged in development projects with numerous customers to design and produce even smaller CMOS based camera modules together with customized illumination using various technologies to match the needs of the medical device endoscopes. We are also currently designing disposable versions of our camera modules and assemblies designed for single-use and reduced risk of contamination from repeated use. We believe these on-going improvements are significant to the continued evolution and acceptance of our Microprecision™ technology platform.

We have been engaged by various customers for an increasing amount of development work relating to the design of endoscopes and camera assemblies that utilize our Microprecision™ technology. We have now received two production orders exceeding $1 each from two customers for their custom designed products, and we believe in the future we will receive follow-on orders from these customers as well as production orders from other customers currently in our engineering and design pipeline.

3D Endoscopes: Our 3D endoscopes provide next generation optical imaging for minimally invasive surgical procedures that utilize hand-held rigid endoscopes by using the brain's natural ability to perceive depth, which is the third dimension, by viewing one's environment through two eyes. Utilizing our proprietary technology to provide independent images to right and left eyes, surgeons can view the operative field with 3D perception.

Market Opportunities

Microprecision™ Lenses and Micro Medical Cameras: While other approaches exist for the manufacture of camera lenses, we design custom camera module assemblies with the combined objectives of low cost, small size, range of optical specifications and high image quality desired by our customer's device specifications. By enabling the production of millimeter sized and smaller cameras with low manufacturing costs, we believe our Microprecision™ technology opens the possibility to replace existing re-sterilizable endoscopes with a single-use alternative. Also, the small size of our Microprecision™ lenses and micro medical cameras combined with our proprietary illumination techniques can provide visualization for existing procedures that are currently performed blind or with sub-optimal imaging, and we believe can facilitate the development of new surgical procedures that are currently impractical without sub-millimeter visualization instrumentation.

3D Endoscopes and Robotic Surgery Systems: 3D endoscopes have been used for many years as part of robotic surgery systems partly because the market price of robotic surgery systems is high enough to support the cost of a high quality custom 3D display. Competition amongst medical device companies, many of which are our customers for other products, in the area of 3D robotic surgery systems is increasing, and various companies are now pursuing less expensive, procedure specific robotic systems. We believe our experience and expertise in 3D endoscopes for medical applications could be a benefit to various companies in this area that could provide us with new product development and manufacturing opportunities.

Competition and Markets

We sell our products in a highly competitive market and we compete for business with both foreign and domestic manufacturers. Many of our current competitors are larger than us and have substantially greater resources than we do. In addition, there is an ongoing risk that other domestic or foreign companies who do not currently service or manufacture products for our target markets, some with greater experience in the optics industry and greater financial resources than we have, may seek to produce products or services that compete directly with ours.

While our resources are substantially more limited than those of some of our competitors, we believe that we can compete successfully in this market on the basis of product quality, price, delivery and innovation. Our success will depend, in part, on our ability to maintain a technological advantage over our competitors. To this end, we intend to continue to aggressively support and augment our internal engineering, research and development resources and to aggressively pursue patent protection for existing and new technology. We believe that our unique technical capabilities in the areas of Microprecision™ optics, micro medical cameras and illumination, as well as 3D endoscopes currently represent competitive advantages for us in the minimally invasive surgical device market.

Sales and Marketing

We market our engineering design and manufacturing services relating to 3D endoscopes, Microprecision™ optical components and micro medical cameras by leveraging our existing relationships with major medical device companies – many of whom are current customers. We intend to make our existing and future technologies available to our customers for use in their current and newly developed minimally invasive surgical products and to eventually develop and market our own proprietary products, which incorporate these new technologies. In addition to direct sales channels through our existing customer relationships and referrals, we also develop new sales opportunities through our website, email mailings and attendance at market specific tradeshows.

International Business

We have had negligible direct export sales to date. However, our medical products have received the CE mark certification, which permits sales into the European Economic Area and which benefits our customers as they market their products manufactured by us or containing our sub-assemblies into markets outside the United States. In the future, we may establish or use additional production facilities overseas to produce key components for our business, such as lenses. From the 1990s through approximately 2014, we maintained a physical presence in Asia to support business and quality control activities throughout the region as needed. We continue to acquire various optical components from overseas to meet the needs of custom device designs. We believe that the availability of specialized components and cost savings from various overseas production resources is essential to our ability to deliver complex and unique device designs and to compete on a price basis in the medical products area particularly and to our profitability generally.

Research and Development

We believe that our future success depends, to a large degree, on our ability to continue to conceive and develop new optical products and technologies to enhance the performance characteristics and methods of manufacture of existing and new products. Although development work on behalf of customers is almost entirely performed under revenue generating contracts and customer purchase orders, research and development expenses are incurred on our own proprietary products and technology, such as Microprecision™ optics, micro medical cameras and 3D endoscopes. Accordingly, we treat engineering expenses not consumed in customer contracted development and our investment of funds and resources in internal product and intellectual property development as research and development expense in the accompanying statement of operations. For the years ended June 30, 2018 and 2017, research and development expenses were $456,377 and $464,162, respectively.

Raw Materials and Principal Suppliers

A key raw material component for our products is precision grade optical glass, which we obtain from a few suppliers, principally SCHOTT North America, Inc. and Ohara Corporation.

We obtain CMOS sensors used in our development of endoscope products for our customers from various suppliers including OmniVision Technologies, Inc., and AWAIBA Lda. We believe that while the number of sources of supply is limited for the CMOS sensors with the specifications used in medical device endoscopes we develop, the manufacturing capacities of those suppliers is adequate to meet our demand in the next twelve months. Likewise, a limited number of suppliers provide CMOS electronic cabling services for the smallest sensors, such as FujiKura, Ltd. and NET USA, Inc., and High Speed Interconnects. However, we believe our demand for these services is relatively small compared to these companies' and others' capacities for CMOS sensor electronic cabling services.

Patents and Trademarks

We rely, in part, upon patents, trade secrets and proprietary knowledge as well as personnel policies and employee confidentiality agreements concerning inventions and other creative efforts to develop and maintain our competitive position. We plan to file for patents, copyrights and trademarks in the United States and in other appropriate countries to protect our intellectual property rights to the greatest extent practicable. We currently hold rights to various United States patents, and have patent applications pending, including applications for our new generation of micro medical cameras and 3D endoscopes. Our current patent portfolio includes patents, rights to patents and patent applications that cover various aspects of our technology in the following areas:

- Medical devices:
- 3-D endoscopes:
- Microprecision™ lenses and micro medical cameras:
- Military products:

The patents contained in our current patent portfolio have various expiration dates through May 2036. We are not aware of any infringements of these patents. While we believe that our pending applications relate to patentable devices or concepts, these patents may not ultimately be issued and we may not be able to successfully defend these patents or effectively limit the development of competitive products and services.

In July 2011, we entered into an asset purchase agreement with Intuitive Surgical Operations, Inc., in which we received $2.5 million in connection with the sale of certain intellectual property. Pursuant to the agreement, we agreed to assign to Intuitive Surgical all of the issued and non-expired patents and pending patent applications that we held on the date of the agreement, and in return, Intuitive Surgical agreed to grant to us a royalty-free, worldwide license to these patents in fields outside of medical robotics.

We intend to continue to innovate and extend our technological capabilities in the areas of 3-D endoscopy Microprecision™ optics, micro medical cameras, and related illumination techniques, and to aggressively pursue patent protection for such developments.

Employees

As of June 30, 2018, we had 30 employees, 26 of which were full-time employees. There were 20 employees in manufacturing, 6 in engineering/research and development and 4 in finance and administration. We are not a party to any collective bargaining agreements. We believe our relations with our employees are very good.

Customers

Revenues from our largest customers, as a percentage of total revenues, for fiscal years 2018 and 2017 were as follows:

	2018	2017
Customer A	16	5
Customer B	14	10
Customer C	8	10
Customer D	4	11
All Others	58	64
	100 %	100 %

No other customer accounted for more than 10% of our revenues in fiscal years 2018 and 2017. At June 30, 2018, our four largest customer account receivable balances were 22%, 16%, 13%, and 13%, respectively, of total accounts receivable. At June 30, 2017, our five largest account receivable balances were 16%, 15%, 12%, 12%, and 11% of the total accounts receivable. No other accounts accounted for more than 10% of accounts receivable at June 30, 2018 or 2017.

Environmental Matters

Our operations are subject to a variety of federal, state and local laws and regulations relating to the discharge of materials into the environment or otherwise relative to the protection of the environment. From time to time, we use a small amount of hazardous materials in our operations. We believe that we currently comply with all applicable environmental laws and regulations and intend to do our best efforts to remain in compliance.

Government Regulations

Domestic Regulation. We currently develop, manufacture and sell several medical products, the marketing of which is subject to governmental regulation in the United States. Medical devices are regulated in the United States by the Food and Drug Administration, or FDA, and, in some cases, by certain state agencies. The FDA regulates the research, testing, manufacture, safety, effectiveness, labeling, promotion and distribution of medical devices in the United States. Generally, medical devices require clearance or approval prior to commercial distribution. Additionally, certain material changes to, and changes in, intended uses of, medical devices are also subject to FDA review and clearance or approval. Non-compliance with applicable requirements can result in failure of the FDA to grant pre-market clearance or approval, withdrawal or suspension of approval, suspension of production, or the imposition of various other penalties.

We previously notified the FDA of our intent to market our endoscopes, image couplers, beamsplitters, adapters and video ophthalmoscopes, and the FDA has determined that we may market such devices, subject to the general control provisions of the Food, Drug and Cosmetic Act. We obtained this FDA permission without the need to undergo a lengthy and expensive approval process due to the FDA's determination that such devices met the regulatory standard of being substantially equivalent to existing FDA-approved devices.

In the future, we plan to market additional medical devices that may require the FDA's permission to market such products. We may also develop additional products or seek to sell some of our current or future medical products in a manner that requires us to obtain the permission of the FDA to market such products, as well as the regulatory approval or license of other federal, state and local agencies or similar agencies in other countries. The FDA has authority to conduct detailed inspections of manufacturing plants in order to assure that "good manufacturing practices" are being followed in the manufacture of medical devices, to require periodic reporting of product defects to the FDA and to prohibit the sale of devices, which do not comply with law.

Foreign Requirements. Sales of medical device products outside the United States are subject to foreign regulatory requirements that may vary from country to country. Our failure to comply with foreign regulatory requirements would jeopardize our ability to market and sell our products in foreign jurisdictions. The regulatory environment in the European Union member countries of the European Economic Area for medical device products differs from that in the United States. Medical devices sold in the European Economic Area must bear the Conformité Européenne, or CE mark. Devices are classified by manufacturers according to the risks they represent, with a classification of Class III representing the highest risk devices and Class I representing the lowest risk devices. Once a device has been classified, the manufacturer can follow one of a series of conformity assessment routes, typically through a registered quality system, and demonstrate compliance to a "European Notified Body." The CE mark may then be applied to the device. Maintenance of the system is ensured through annual on-site audits by the notified body and a post-market surveillance system requiring the manufacturer to submit serious complaints to the appropriate governmental authority. All of our medical products are manufactured in conformity with the CE mark requirements.

Available Information

Our website is www.poci.com. We make available on our website, free of charge, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission, or SEC. Our website and the information contained therein or connected thereto are not intended to be incorporated into this report.

You may also read and copy any materials we file with the SEC at the SEC's Public Reference Room, located at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

DESCRIPTION OF PROPERTY

We conduct our domestic operations at three facilities in Gardner, Massachusetts. The main Gardner facility is leased from a corporation owned by Mr. Richard E. Forkey, who resigned from our board of directors on July 9, 2014. We are currently a tenant-at-will, paying rent of $9,000 per month. We rent two other smaller Gardner facilities on a month-to-month basis.

We believe these facilities are adequate for our current operations and are adequately covered by insurance. Significant increases in production or the addition of significant equipment additions or manufacturing capabilities in connection with the production of our line of endoscopes and other products may, however, require improvements to existing facilities or the acquisition or lease of additional facilities. We may establish production facilities domestically or overseas to produce key assemblies or components, such as lenses, for our products. Overseas facilities may subject us to the political and economic risks associated with overseas operations. The loss of or inability to establish or maintain such additional domestic or overseas facilities could materially adversely affect our competitive position and profitability.

LEGAL PROCEEDINGS

Our Company, on occasion, may also be involved in other legal matters arising in the ordinary course of our business. While management believes that such matters are currently insignificant, matters arising in the ordinary course of business for which we are or could become involved in litigation may have a material adverse effect on our business, financial condition or results of operations. We are not aware of any pending or threatened litigation against us or our officers and directors in their capacity as such that could have a material impact on our operations or finances.

MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is quoted on OTCQB, the OTC market tier for companies that report to the SEC, under the symbol PEYE. The following table sets forth the high and low bid prices for our common stock for each quarter during the last two fiscal years and the first quarter of the current fiscal year as quoted on OTCQB. Such OTC market quotations reflect inter-dealer prices, without retail markup, markdown or commissions and may not necessarily represent actual transactions.

	High	**Low**
For the Fiscal Year Ended June 30, 2017		
First Quarter ended September 30, 2016	$0.70	$0.48
Second Quarter ended December 31, 2016	$0.70	$0.46
Third Quarter ended March 31, 2017	$0.60	$0.40
Fourth Quarter ended June 30, 2017	$0.65	$0.40
For the Fiscal Year Ended June 30, 2018		
First Quarter ended September 30, 2017	$0.60	$0.40
Second Quarter ended December 31, 2017	$0.64	$0.40
Third Quarter ended March 31, 2018	$0.55	$0.41
Fourth Quarter ended June 30, 2018	$0.55	$0.48
For the Fiscal Year Ending June 30, 2019		
First Quarter ended September 30, 2018	$1.85	$0.53

Holders

As of September 26, 2018, we had approximately 73 holders of record of our common stock. Holders of record include nominees who may hold shares on behalf of multiple owners.

Dividends

We have not declared any dividends during the last two fiscal years. At present, we intend to retain our earnings, if any, to finance research and development and the expansion of our business.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information about our equity compensation plans as of June 30, 2018.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	122,598	$ 0.57	–
Equity compensation plans not approved by security holders	933,102	$ 0.79	789,898
Total	1,055,700	$ 0.76	789,898

2006 Equity Incentive Plan

On November 28, 2006, our stockholders approved the Precision Optics Corporation, Inc. 2006 Equity Incentive Plan, referred to as the 2006 Plan, which succeeded the Precision Optics Corporation, Inc. Amended and Restated 1997 Equity Incentive Plan, referred to as the 1997 Plan. No further awards have been or will be granted under the 1997 Plan. The 2006 Plan allowed for the granting of stock options to selected employees, directors and other persons who provide services to us or our affiliates. No further awards will be granted under the 2006 Plan.

2011 Equity Incentive Plan

The Precision Optics Corporation, Inc. 2011 Equity Incentive Plan, referred to as the 2011 Plan, was adopted by our Board of Directors on October 13, 2011. The 2011 Plan allows for the granting of stock options to selected employees, directors and other persons who provide services to us or our affiliates.

On April 16, 2015, the Board of Directors approved an amendment to the 2011 Equity Incentive Plan which increased the maximum number of shares of our common stock that may be awarded under the Plan from 325,000 to 1,825,000, an increase of 1,500,000 shares. In connection therewith, on April 20, 2015, we filed a registration statement on Form S-8 to register the 1,500,000 shares of common stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Financial Statements and Notes thereto, and other financial information included elsewhere in this prospectus. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains descriptions of our expectations regarding future trends affecting our business. The following discussion sets forth certain factors we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

Critical Accounting Policies and Estimates

Our critical accounting policies are included in the Notes to our Financial Statements.

Results of Operations for the Quarter Ended September 30, 2018 as Compared to the Quarter Ended September 30, 2017

Our total revenues for the quarter ended September 30, 2018, were $1,559,458, as compared to $1,028,746 for the same period in the prior year, an increase of $530,712, or 51.6%. Revenues increased during the quarter ended September 30, 2018 compared to the same quarter of the prior year in the engineering services and production categories by 22% and 72%, respectively. The majority of our revenues are derived from engineering design and manufacturing services related to products marketed or under development by our OEM customers. Therefore, our revenues are subject to fluctuations on a product by product basis from period to period.

The number and type of engineering service revenue projects have been consistent over the past quarters and when comparing the current quarter ended September 30, 2018 to the same quarter of the prior fiscal year. Projects range in type and include CMOS, Microprecision™, 3D and robotic visualization and illumination systems, and we continue to believe that these engineering projects represent our pipeline of additional production revenues as certain customer products progress through development and into commercialization. Engineering service revenue increased during the quarter ended September 30, 2018 when compared to the same quarter of the prior year due primarily to a decrease caused by one project transitioning to production revenue during fiscal year 2018, which was offset by a larger increase in engineering service revenue from one new 3D robotic project in the quarter ended September 30, 2018.

The 72% increase in production revenue during the quarter ended September 30, 2018 when compared to the same quarter of the prior year is due primarily to an increase in the number of production projects and the recent transition of engineering projects to production. The decreases in two production project revenues during the current quarter are considered to be normal fluctuations in orders from two on-going customers, and were offset by larger increases from two production projects that recently transitioned from engineering to production orders. Those products represent a fiberscope incorporating our Microprecision™ technology and an ENT scanning device incorporating CMOS and Microprecision™ technologies. Revenues during the quarter ended September 30, 2018 were further increased compared to the same quarter of the prior fiscal year by an increase in number of production projects from nineteen to twenty-six in the quarter ended September 30, 2018.

Gross profit for the quarter ended September 30, 2018 was $462,507, compared to $386,742 for the same period in the prior year, reflecting an increase of $75,765 or 19.7%. Gross profit for the quarter ended September 30, 2018 as a percentage of our revenues was 29.7%, a decrease from the gross profit percentage of 37.6% for the same period in the prior year. Quarterly gross profit and gross profit percentage depend on a number of factors, including overall sales volume, facility utilization, product sales mix, and the costs of engineering services and initial production in connection with new products. Although the higher level of revenues during the quarter ended September 30, 2018 when compared to the same quarter of the prior year absorbed a greater amount of fixed manufacturing costs thereby increasing realized gross margin, two projects during the quarter encountered cost over-runs that resulted in the decreased gross margin as a percentage of sales during the current quarter. The two projects represent 25% of total revenues for the quarter, one being a production project impacting the current period gross margin percentage by an estimated 4.8% and one engineering service project impacting the current gross margin percentage by an estimated 3.3%. The cost over-runs in each of these cases resulted from design challenges and issues we are addressing and that we believe will only cause a temporary decrease in realized gross margins. The remainder of our production and engineering jobs resulted in margins within our targeted range with reasonably expected fluctuations.

Research and development expenses were $100,798 for the quarter ended September 30, 2018, compared to $118,427 for the same period in the prior year, a decrease of $17,629 or 14.9%. The vast majority of our engineering, research and development activities are consumed in revenue generating engagements with our customers for the development of their products. In-house research and development and certain internal functions not directly related to customer engagements are classified as research and development expenses.

Selling, general and administrative expenses were $660,489 for the quarter ended September 30, 2018, compared to $296,584 for the same period in the prior year, an increase of $363,905, or 122.7%. The increase in the quarter ended September 30, 2018, compared to the same quarter of the prior fiscal year was primarily due to increased non-cash stock based compensation expense of $329,877 relating to stock option and common stock awards. Operating expenses were further increased during the quarter ended September 30, 2018 when compared to the same quarter of the prior fiscal year by increased compensation costs for additional engineering personnel, and existing personnel salaries and sales commissions, which were partially offset by a reduction in bad debt expense related to one isolated customer in the prior year. Excluding total non-cash stock based compensation expense of $342,984 recognized in cost of goods sold and selling, general and administrative expenses during the quarter ended September 30, 2018, non GAAP net income would have been $43,699 in the quarter ended September 30, 2018.

No income tax provision was recorded in the quarters ended September 30, 2018 and 2017 because of the losses generated in those periods.

Results of Operations for the Fiscal Year Ended June 30, 2018 as Compared to the Fiscal Year Ended June 30, 2017

Total revenues for fiscal year 2018 were $4,038,048, an increase of $883,501, or 28.0%, from revenues for fiscal year 2017 of $3,154,547. During the fiscal year ended June 30, 2018 revenues increased in the production category by 54.8% and decreased in the engineering services category by 6.7%. Production revenues increased primarily due to the addition of a defense industry optical sub-assembly, an increase in sales to a long-standing customer for a traditional fiber scope, and sales relating to two engineering projects converted to production during fiscal year 2018. The 6.7% decline in engineering revenues during the fiscal year 2018 is considered to be the result of normal engineering project fluctuations. Engineering revenues in fiscal year 2018 are represented by decreased revenues from certain customers as development projects transition through phases or into production, as well as increased revenues to certain other customers for new or advancing development projects. The number of engineering projects we worked on in fiscal year 2018 was similar to the number of engineering projects worked on in fiscal year 2017. The engineering projects range in type including CMOS, Microprecision™, 3D and robotic visualization and illumination systems. We believe the quality of the engineering projects continues to provide the opportunity for production purchase orders from these customers as the product advance to clinical evaluation and commercialization.

Revenues from our largest customers, as a percentage of total revenues, were as follows:

	Year Ended June 30,	
	2018	2017
Customer A	16	5
Customer B	14	10
Customer C	8	10
Customer D	4	11
All Others	58	64
	100%	100 %

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No other customer accounted for more than 10% of our revenues in fiscal years 2018 and 2017.

Gross profit for fiscal year 2018 of $1,481,918, reflected an increase of $708,194, or 91.5%, as compared to gross profit for fiscal year 2017 of $773,724. Gross profit, as a percentage of revenues for fiscal year 2018, was 36.7% as compared to gross profit, as a percentage of revenues for fiscal year 2017, of 24.5%. The increase in gross margin dollars in fiscal year 2018 was due primarily to increased sales revenue compared to fiscal 2017 and increased operational efficiencies in production. The increase in gross margin percentage realized in fiscal year 2018 compared to fiscal year 2017 reflects increased manufacturing efficiencies on traditional and new technology products, continued utilization of engineering resources in revenue generating projects, and greater absorption of fixed manufacturing expenses due to higher sales levels in fiscal year 2018 compared to fiscal year 2017.

Our gross profit margins depend on a number of factors, including overall sales volume, the mix of products sold and services performed and the costs of initial production in connection with new products, technologies and manufacturing techniques. We believe that as we have gained experience in developing and manufacturing products based on the new Microprecision™ and CMOS technologies, we have become more efficient in estimating and executing engineering service contracts and manufacturing activities, causing margins to rise. As a result of the care taken to manage our custom development projects, we experienced efficient transition from engineering to production in three significant projects during the latter portion of fiscal year 2018. In each of these three projects we have successfully delivered products to our customers on time, meeting specifications and within budget. This efficient operational performance has contributed to the increased gross profit percentage in fiscal year 2018, and we believe that as overall revenues increase beyond breakeven the absorption of fixed manufacturing costs may also cause gross profit percentages to increase from their current levels.

Research and development expenses were $456,377 for fiscal year 2018 as compared to $464,162 for fiscal year 2017. The decrease of $7,785, or 1.7%, in fiscal year 2018 compared to fiscal year 2017 was due primarily to the continued high utilization of our engineering resources in revenue generating activities for our customers. As a result of increases in engineering service revenue, a greater portion of our fixed engineering cost is included in cost of goods sold.

Selling, general and administrative expenses increased by $60,682, or 4.6%, to $1,374,160 for fiscal year 2018 as compared to $1,313,478 for fiscal year 2017, resulting primarily from a $227,500 provision to bad debt expense during fiscal year 2018 relating to amounts receivable from one specific customer, offset by a reduction in consulting expense in fiscal year 2018, a $180,771 reduction in stock based compensation relating to stock options and stock issued for consulting services, and reduced wages resulting from the retirement of a sales person in January 2017 and a temporarily vacated administrative position which has since been filled.

The gain on sale of assets in fiscal year 2017 of $1,515 represents the sale of previously written off assets for proceeds of $1,515.

The income tax provisions in fiscal years 2018 and 2017 represent the minimum statutory state income tax liability.

Liquidity and Capital Resources

We have sustained recurring net losses for several years. During the quarter ended September 30, 2018, we incurred a net loss of $299,780 and used cash in operating activities of $6,430. As of September 30, 2018, cash and cash equivalents were $351,314, accounts receivable were $655,720, and current liabilities were $1,691,131, including $400,704 of customer advance paid against open purchase orders from our customers. We incurred a net loss of $28,785 during the quarter ended September 30, 2017 and used cash in operating activities of $131,646. We incurred net losses of $351,390 and $1,006,457 during the fiscal years ended June 30, 2018 and 2017, respectively, and generated cash from operating activities of $100,657 and used cash in operating activities of $667,434 during the same fiscal periods, respectively. Our working capital consisted of $487,388 as of September 30, 2018.

We have traditionally funded working capital needs through product sales, management of working capital components of our business, cash received from public and private offerings of our common stock, warrants to purchase shares of our common stock or convertible notes, and by customer advances paid against purchase orders by our customers and recorded in the current liabilities section of the accompanying financial statements. We have incurred year to year and quarter to quarter operating losses during our efforts to develop current products including Microprecision™ optical elements, micro medical camera assemblies and 3D endoscopes. Our management believes that the opportunities represented by these products have the potential to generate sales increases to achieve breakeven and profitable results.

The sale of additional equity or convertible debt securities, if converted into common stock, would result in additional dilution our current stockholders, and debt financing, if available, may involve restrictive covenants that could restrict our operations or finances and encumber our assets. Financing may not be available in amounts or on terms acceptable to us, if at all. If we are unable to secure additional capital, enter into a strategic alliance, raise funds on acceptable terms or achieve sustained positive cash from operations, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash, and we may not be able to continue to develop new products, grow market share, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which could negatively impact our business, operating results and financial condition, or impact our ability to continue to conduct operations.

As reported on Form 8-K filed on October 18, 2018, we received $2,000,000 on October 16, 2018 from the sale of 1,600,000 shares of our common stock at $1.25 per share, which we intend to use for general working capital purposes. Proceeds from this stock offering, combined with our recently improved financial performance, significantly enhances our working capital position and financial condition. Critical to our ability to maintain our financial condition is achieving a level of quarterly revenues at or greater than the levels achieved during the most recent two fiscal quarters. A return to lower revenue levels experienced in recent fiscal years could result in the use of our cash and working capital and an overall decline in our financial condition.

Capital equipment expenditures during the quarters ended September 30, 2018 and 2017 were $42,809 and $0, respectively. Future capital equipment expenditures will be dependent upon the type and amount of future sales revenue and the needs of on-going research and development efforts.

Contractual cash commitments for the fiscal years subsequent to June 30, 2018 are summarized as follows:

	Fiscal 2018	Thereafter	Total
Capital lease for equipment, including interest	$10,250	$ 15,376	$25,626

We have contractual cash commitments related to open purchase orders as of September 30, 2018 of approximately $545,000, including a $21,378 commitment remaining under a five-year capital lease obligation for the acquisition of equipment (see Note 3. Capital Lease Obligation). We have no other contractual cash commitments since leased facilities are currently on a month-to-month basis.

Material Trends and Uncertainties

Although our sales revenues and financial performance from a cash flow basis have improved over the last two fiscal quarters, we have sustained recurring net losses for several years. If we do not maintain the improved level of financial performance, specifically breakeven cash flow and profitable results, we may be required to pursue several options to manage cash flow and raise capital, including issuing debt or equity or entering into a strategic alliance. If we do not at least sustain the improved level of financial performance and are then unable to secure additional capital or enter into a strategic alliance on acceptable terms, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash. We may not be able to continue to develop new products, grow market share, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which could negatively impact our business, operating results and financial condition, or impact our ability to continue to conduct operations.

Sales of our traditional endoscope products we have manufactured for our customers for years are continuing, and we have three new engineering projects that have transitioned to manufacturing orders during fiscal 2018. Additionally, we have an on-going pipeline of revenue generating engineering development projects with existing and new customers that are currently consuming the capacity of our engineering department. Engineering development projects are selected by us as those we believe have the greatest potential to transition into follow-on manufacturing orders as our customers introduce their products to market.

Our capabilities to design and manufacture entire endoscope instruments and sub-assemblies, but specifically those utilizing CMOS, 3D, and our Microprecision™ lens and camera module technologies, is the basis for our increased level of revenue generating engineering projects. We have developed expertise, intellectual property, and unique know-how in the area of micro sized camera modules comprising micro optical lens and prism elements, CMOS sensors, 3D visualization, fiber optics, and various forms of illumination that are increasingly in demand with medical device companies. We believe our capabilities in this area make endoscope products available to our customers in small sizes with high resolution and at low prices not available in the past. We also believe our technologies and know-how can lead to products meeting these criteria and they are also designed to be disposable, which is also in demand by medical device companies to mitigate the risks of operating room cross contamination.

Our future success in capitalizing on the demand for our design and manufacturing capabilities requires us to continue to provide engineering services valued by our customers, and to efficiently manufacture those products when orders are received from our customers. Our ability to continue to provide engineering and manufacturing services is dependent on us to continue to manage our cash flow and to raise the necessary amount of cash to fund our operating losses until sustained breakeven revenues and positive cash flow from operations are achieved.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with our independent registered public accounting firm in regards to accounting and financial disclosure.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Identification of Directors

Set forth below is certain information with respect to the individuals who are our directors as of December 31, 2018.

Name	Age	Position(s) or Office(s) Held
Joseph N. Forkey	50	Chief Executive Officer, President, Treasurer and Director
Andrew J. Miclot	62	Director
Richard B. Miles	75	Director
Kenneth S. Schwartz	73	Director
Peter H. Woodward	45	Chairman of the Board of Directors

Board Composition. Our Board of Directors is divided into three classes that are as nearly equal in number as possible, with each class serving for a staggered term of office. Only one class is elected each year. Each director serves a three-year term and until his or her successor has been duly elected and qualified. Our Board currently consists of five directors. Our Class I directors are Peter H. Woodward and Kenneth S. Schwartz. Our Class II director is Andrew J. Miclot. Our Class III directors are Joseph N. Forkey and Richard Miles.

Biographies and Qualifications of Our Directors. The biographies of our directors and certain information regarding each director's experience, attributes, skills and/or qualifications that led to the conclusion that the individual should be serving as a director of our Company are as follows:

Dr. Joseph N. Forkey

Dr. Joseph N. Forkey, son of Richard E. Forkey, has served as our Chief Executive Officer, President and Treasurer since February 8, 2011. Dr. Forkey has been a member of our Board of Directors since 2006. He served as our Chairman of our Board of Directors from February 2011 to July 2014. He served as our Executive Vice President and Chief Scientific Officer from April 2006 to February 2011, and held the position of our Chief Scientist from September 2003 to April 2006. Since joining us, he has been involved in general technical and management activities of our Company, as well as investigations of opportunities that leverage our newly developed technologies. Dr. Forkey holds B.A. degrees in Mathematics and Physics from Cornell University, and a Ph.D. in Mechanical and Aerospace Engineering from Princeton University. Prior to joining us, Dr. Forkey spent seven years at the University of Pennsylvania Medical School as a postdoctoral fellow and research staff member. Dr. Forkey is a valuable member of our Board due to his depth of scientific, operating, strategic, transactional, and senior management experience in our industry. Additionally, Dr. Forkey has held positions of increasing responsibility at our Company and holds an intimate knowledge of our Company due to his longevity in the industry and with us.

Andrew Miclot

Mr. Miclot was appointed to our Board on March 2, 2016. Mr. Miclot has more than 30 years of leadership experience with medical device suppliers and brings substantial global industry knowledge to our Company. Since January 2018, Mr. Miclot has been the President, Vice Chairman and Director of WishBone Medical, Inc., a pediatric orthopedic company dedicated to the unmet needs of children suffering from orthopedic challenges. From October 2015 to January 2018, Mr. Miclot served as President, CEO and Director of Micro Machine Co., a supplier of medical products for the orthopedic and spinal industries. Prior to joining Micro Machine Co., from May 2013 to September 2014, Mr. Miclot was Executive Vice President of MicroTechnologies, Inc., a medical device supplier. Mr. Miclot was General Manager and Senior Vice President of ArthroCare Corporation from June 2009 to March 2013. From January 2008 to March 2009, Mr. Miclot was President, CEO and Director of Ascension Orthopedics, Inc. He was Vice President of Marketing for the orthopedic global business unit at Orthofix, Inc. from April 2007 to January 2008, and from March 1994 to April 2007, he served as Senior Vice President with Symmetry Medical Inc., a medical device supplier. Mr. Miclot has a BA degree in Speech and Hearing and a MA degree in Audiology from Indiana University and a MBA from the Lake Forest Graduate School of Management, earned in 1991.

Richard B. Miles

Professor Richard B. Miles was appointed to our Board of Directors in November 2005. He was a member of the Mechanical and Aerospace Engineering faculty at Princeton University from 1972 until 2013, at which time he retired from his Princeton academic appointment and became Professor Emeritus and Senior Scholar. From 1980 to 1996 he served as Chairman of Engineering Physics at Princeton. In 2017 he joined Texas A&M University and was appointed TEES Distinguished Research Professor of Aerospace Engineering. He is a member of the National Academy of Engineering, serves on the Board of Directors of the Hertz Foundation and the Board of Trustees of Pacific University, Oregon and is a Fellow of the Optical Society of America (OSA) and the American Institute Aeronautics and Astronautics (AIAA). Professor Miles is a valuable member of our Board due to his depth of scientific experience and familiarity with the field of our technologies, insight into the academic community, and familiarity with the latest developments and innovations in science and technology.

Kenneth S. Schwartz

Dr. Schwartz was appointed to our Board effective July 9, 2014 in connection with the sale and purchase agreement we entered into in July 2014. Dr. Schwartz is currently the Medical Director at New York Radiology Alliance, a position he has held since October 2010 and, since 2016, the Regional Medical Director of Radiology for Envision Health Services. He also serves as the Chairman of Radiology at Brookdale Hospital Medical Center, Brooklyn, New York. He was the founding and managing Partner of S and D Medical LLP, a 60-person radiology group providing radiology services to eleven hospitals and imaging centers in the New York metropolitan area, for over ten years until he sold the practice in 2010. He had served on the Board of Directors at ARKS Radiology Management, Inc. from June 1999-June 2015 and serves on the Board of Trustees at the Brookhaven Memorial Hospital Medical Center. Dr. Schwartz also served as the Adjunct Clinical Associate Professor in the Department of Medical Imaging at the New York Institute of Technology in the College of Osteopathic Medicine from July 2007 to July 2012. Dr. Schwartz earned a BS from Brooklyn College and a Medical Degree from Albert Einstein College of Medicine. He was a Diagnostic Radiology Resident at North Shore University Hospital in the Memorial Hospital-Sloan Kettering Cornell Cooperating Program.

Peter H. Woodward

Mr. Woodward was appointed to our Board effective July 9, 2014 and as chairman of the Board in connection with the sale and purchase agreement we entered into in July 2014. Mr. Woodward is the founder of MHW Capital Management, LLC, or MHW, a position he has held since September 2005. MHW specializes in large equity investments in public companies implementing operating strategies to significantly improve their profitability. From 1996 to 2005, Mr. Woodward was the Managing Director for Regan Fund Management, LLC. He served as the President and Chief Executive Officer and Director of Cartesian, Inc. from June 2015 to July 2018, and currently serves as Chairman of the Board and Chairman of the Audit Committee for TSS, Inc. Mr. Woodward holds a BA in economics from Colgate University and a Masters of International Affairs with a concentration in international economics and finance from Columbia University. He is also a Chartered Financial Analyst.

Richard E. Forkey

Mr. Richard E. Forkey currently serves as Founder and Director Emeritus. Effective February 8, 2011, Mr. Forkey resigned as Chief Executive Officer, President and Treasurer of our Company, and effective July 9, 2014, he resigned as Director. He had served as a Director and Chief Executive Officer since he founded our Company in 1982.

Identification of Executive Officers

Set forth below is certain information with respect to the individuals who are our executive officers as of December 31, 2018.

Name	**Age**	**Position(s) or Office(s) Held**
Joseph N. Forkey	50	Chief Executive Officer, President, Treasurer and Director
Donald A. Major	57	Chief Financial Officer and Secretary

Biographies and Qualifications of Our Executive Officers. The biographies of our executive officers and certain information regarding each officer's experience, attributes, skills and/or qualifications that led to the conclusion that the individual should be serving as an executive officer of our Company are as follows:

Dr. Joseph N. Forkey

For Dr. Forkey's full biography, please refer to the section entitled *"Biographies and Qualifications of Our Directors."*

Donald A. Major

Mr. Major served as a member of our Board from 2005 until June 2016, when he resigned as a Board member and assumed the role of our Chief Financial Officer. From February 2012 until June 2016, Mr. Major also served as our Executive Vice President for Corporate Development. Mr. Major is a Certified Public Accountant (inactive) and has experience in public accounting and in financial officer positions in publicly held and start-up medical device companies. Mr. Major has been an independent consultant since October 2007, providing companies with various management services as well as sourcing services for a private equity firm. From October 2006 to May 2007, he served as Vice President of Corporate Development of Advanced Duplication Services LLC. From February 2002 to late 2008, Mr. Major served as Vice President and Treasurer of Anderson Entertainment, LLC (formerly Digital Excellence LLC), which was owned by a private equity firm and sold to Advanced Duplication Services LLC. Prior to that time, Mr. Major served in various executive financial positions in public and closely held medical device companies such as Bioplasty, Inc, Uroplasty, Inc., Advanced Bio-Surfaces, Inc. and as an audit manager with Grant Thornton, Minneapolis. He earned his B.A. in Accounting in 1984 from Michigan State University.

Other Involvement in Certain Legal Proceedings

None of our directors or executive officers has been involved in any bankruptcy or criminal proceedings, nor have there been any judgments or injunctions brought against any of our directors or executive officers during the last ten years that we consider material to the evaluation of the ability and integrity of any director or executive officer.

EXECUTIVE COMPENSATION

Executive Compensation

Summary Executive Compensation

The following table sets forth all compensation for our fiscal years ended June 30, 2018 and 2017 awarded to, earned by, or paid to our Principal Executive Officer, our most highly compensated executive officer and our most highly compensated employee, all of which are referred to herein as the “Named Executive Officers.” No other executive officer earned over $100,000 in the last completed fiscal year.

Summary Executive Compensation Table for the Fiscal Years Ended June 30, 2018 and 2017

Name and Principal Position	Year June 30,	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($) (2)	All Other Compensation ($)	Total ($)
Joseph N. Forkey Director,	2018	120,000	0	0	0	0	120,000
Chief Executive Officer, President and Treasurer	2017	120,000	0	0	0	0	120,000
Donald A. Major	2018	159,843	0	0	0	0	159,843
Chief Financial Officer, Secretary	2017	160,183	0	0	0	0	160,183
Richard G. Cyr	2018	145,000	38,120(3)	0	0	0	183,120
Optics Laboratory Manager	2017	145,000	8,127 (3)	0	0	0	153,127

(1) Represents the aggregate grant date fair value of stock awards granted in the respective fiscal year as computed in accordance with FASB ASC Topic 718, Compensation — Stock Compensation. The fair value of each stock award is estimated on the date of grant using the Black-Scholes option valuation model. A discussion of the assumptions used in calculating the amounts in this column may be found in the Notes to our audited consolidated financial statements for the year ended June 30, 2018 set forth in this Annual Report on Form 10-K. These amounts do not represent the actual amounts paid to or realized by the directors during the fiscal year ended June 30, 2018.

(2) Represents the aggregate grant date fair value of stock option awards granted in the respective fiscal year as computed in accordance with FASB ASC Topic 718, Compensation — Stock Compensation. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. A discussion of the assumptions used in calculating the amounts in this column may be found in the Notes to our audited consolidated financial statements for the year ended June 30, 2018 set forth in this Annual Report on Form 10-K. These amounts do not represent the actual amounts paid to or realized by the directors during the fiscal year ended June 30, 2018.

(3) Represents a performance award for the respective fiscal year.

Employment Contracts

On July 27, 2018, our Board of Directors approved a new compensation agreement with our Chief Executive Officer, Joseph Forkey effective August 2, 2018. Pursuant to the agreement, we will pay Mr. Forkey a base salary of $200,000 per year beginning retroactively on July 1, 2018. On August 2, 2018, we also granted Mr. Forkey a stock option to purchase up to 350,000 shares of our common stock at an exercise price of $0.73 per share. The options vest as follows: (i) one–half of the options vest if we achieve revenues of $1.5 million or higher for two consecutive fiscal quarters, based on the reported revenues in our Form 10-Ks or 10-Qs; and (ii) one-half of the options vest if our common stock is trading at $1.00 per share or higher for fifteen consecutive trading days. In the event of a change of control all unvested options will vest. We will also grant Mr. Forkey 300,000 shares of common stock at a rate of 50,000 shares per fiscal quarter retroactively starting January 1, 2017 and through the quarter ended June 30, 2018. Such shares will be issued in three tranches of 100,000 shares each, on the date of signing the compensation agreement, on January 1, 2019, and on January 1, 2020.

In June 2016 we entered into a consulting agreement with Mr. Major to serve as our Chief Financial Officer from June 15, 2016 to June 30, 2017, with such term to renew automatically on a month to month basis thereafter unless terminated by either party with 30 days' notice. Mr. Major received compensation at a rate of $6,500 per month to work up to an estimated 40% full-time equivalent per month in his capacity as our Chief Financial Officer. If Mr. Major worked more than the 40% full-time equivalent in any given month, Mr. Major received additional compensation, up to a maximum amount of $16,000 in any given month. This consulting agreement was terminated pursuant to the new compensation agreement with Mr. Major made effective on August 1, 2018.

On July 27, 2018, our Board of Directors approved a new compensation agreement with our Chief Financial Officer and Secretary, Donald Major effective August 1, 2018 pursuant to which we will pay Mr. Major a base salary of $175,000 per year for a minimum 75% full-time commitment, and grant Mr. Major a stock option to purchase up to 100,000 shares of our common stock at an exercise price of $0.70 per share, the closing price of our common stock on August 2, 2018. The options vest as follows: 33,000 options vest three months following the grant date; 33,000 options vest three months following the end of the second consecutive quarter with Company quarterly revenues of $1,500,000 or greater, as reported in our Form 10-Q and / or 10-K filings; 34,000 options vest three months following the end of a second consecutive quarter with a Company gross margin percentage of 30% or greater, as reported in our Form 10-Q or 10-K filings. All options vest and become exercisable and Mr. Major will receive a severance payment equal to six weeks of base salary upon the effective date of an involuntary termination of Mr. Major as Chief Financial Officer for a reason other than cause or upon the effective date of a change in control of the Company.

Apart from the agreements described above, we have no other employment contracts in place with any Named Executive Officer or any compensatory plan or arrangement with respect to any Named Executive Officer where such plan or arrangement will result in payments to such Named Executive Officer upon or following his resignation, or other termination of employment with us and our subsidiaries, or as a result of a change-in-control of our Company or a change in the Named Executive Officers' responsibilities following a change-in-control.

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Outstanding Equity Awards at Fiscal Year-End Table for the Fiscal Year Ended June 30, 2018

The following table shows grants of options outstanding on June 30, 2018, the last day of our fiscal year, to each of the Named Executive Officers named in the Summary Executive Compensation Table.

Name	Number of securities underlying unexercised options exercisable		Number of securities underlying unexercised options unexercisable		Option exercise price ($)	Option expiration date
Joseph N. Forkey	150,000		0		1.20	03/02/2022
Donald A. Major	400		0		1.25	11/25/2018
	400		0		1.35	11/24/2019
	27,600		0		1.20	03/02/2022
	3,000		0		0.85	01/02/2023
	3,000		0		0.90	01/02/2024
	30,000		0		0.95	07/09/2024
	60,000		0		0.73	05/18/2025
	80,000		0		0.50	06/20/2026
Richard G. Cyr	40,000		0		0.27	07/14/2021
	15,000	(1)	10,000	(1)	0.73	05/18/2025

(1) The options were granted on May 18, 2015. 5,000 options vested on August 18, 2015 and 15,000 options vested on February 14, 2018. The remaining 10,000 options will vest in accordance with the achievement of specified performance criteria.

Profit Sharing and 401(k) Plan

We have a defined contribution 401(k) profit sharing plan. Employer profit sharing and matching contributions to the plan are discretionary. No employer profit sharing contributions were made to the plan in fiscal years 2018 and 2017. No employer matching contributions were made to the plan in fiscal years 2018 and 2017.

Director Compensation

The following table sets forth cash amounts and the value of other compensation paid to our directors, but does not include the compensation of Dr. Joseph N. Forkey, our Chief Executive Officer, President, and Treasurer, as his compensation is reflected in the Summary Executive Compensation Table. During the fiscal year ended June 30, 2018, our Board of Directors determined that Dr. Joseph N. Forkey was our employee director and, therefore, would not earn any fees related to service on our Board.

Director Compensation Table for the Fiscal Year Ended June 30, 2018

Name of Director	Fees earned or paid in cash ($)(1)	Total ($)
Richard E. Forkey (2)	0	0
Andrew J. Miclot	2,000	2,000
Richard B. Miles	2,000	2,000
Kenneth S. Schwartz	2,000	2,000
Peter H. Woodward	2,250	2,250

(1) Under our director compensation plan, each director receives $250 per board or committee meeting that the director attends. We also reimburse our directors for travel expenses.

(2) Mr. Richard E. Forkey served as our Chief Executive Officer until February 8, 2011 and as a Director until July 9, 2014. He currently serves as the Founder and Director Emeritus. He receives no compensation for this position.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables set forth information regarding our common stock owned as of the close of business on December 31, 2018 by the following persons: (i) each person who is known by us to own beneficially more than 5% of our common stock, (ii) each of our directors who beneficially owns our common stock, (iii) each of our Named Executive Officers who beneficially own our common stock and (iv) all executive officers and directors, as a group, who beneficially own our common stock. The information on beneficial ownership in the table and footnotes thereto is based upon data furnished to us by, or on behalf of, the persons listed in the table.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of common stock subject to options held by that person or group that are currently exercisable or exercisable within 60 days after December 31, 2018. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person or group.

Stockholders Known by Us to Own Over 5% of Our Common Stock

Name and Address of Beneficial Owner	Amount of beneficial ownership (1)			Percent of	
	Shares Owned	Shares – Rights to Acquire	Total Number	Shares Beneficially Owned (2)	
Dolphin Offshore Partners LP (3) 4828 First Coast Highway, STE 5 Fernandina, FL 32034	2,070,625	0	2,070,625	17.4	%
Stuart L Sternberg (4) 85 Bellevue Ave Rye, NY 10580	1,091,355	0	1,091,355	9.2	%
Hershey Strategic Capital, LP (5) 888 7th Ave., 17th Floor New York, New York 10019	986,480	0	986,480	8.3	%
MHW Partners, L.P. (6) 150 East 52 nd Street 30th Fl. New York, New York 10022	674,013	90,000	764,013	6.4	%
Norman H. Pessin & Sandra F. Pessin (7) 500 5th Avenue, Suite 2240 New York, New York 10110	885,303	0	885,303	7.4	%

(1) Represents shares with respect to which each beneficial owner listed has or will have, upon acquisition of such shares upon exercise or conversion of options, warrants, conversion privileges or other rights exercisable within 60 sixty days, sole voting and investment power. For the purposes of this table, we have not assumed the limitations on exercise set forth in certain warrants, which limit the number of shares of common stock that the holder, together with all other shares of common stock beneficially owned by such person, does not exceed 4.999% of the total outstanding shares of common stock.

(2) As of December 31, 2018, there were 11,897,139 issued shares of our common stock issued and outstanding. Percentages are calculated on the basis of the amount of issued and outstanding common stock plus, for each person or group, any securities that such person or group has the right to acquire within 60 days pursuant to options, warrants, conversion privileges or other rights.

We relied, in part, on the Schedule 13D/A filed jointly by Dolphin Offshore Partners, L.P., Dolphin Mgmt. Services, Inc. and Peter E. Salas on October 13, 2017 and on the Schedule 13D/A filed jointly by Dolphin Offshore Partners, L.P., Dolphin Mgmt. Services, Inc. and Peter E. Salas on December 27, 2017 for this information.

(3)

Dolphin Offshore Partners, L.P., a Delaware limited partnership, is an investment manager. Dolphin Mgmt. Services, Inc., a Delaware corporation, is the managing general partner of Dolphin Offshore Partners, L.P. Peter E. Salas is the President, sole shareholder and controlling person of Dolphin Mgmt. Services, Inc. Peter Salas is a U.S. citizen.

Dolphin Offshore Partners, L.P., Dolphin Mgmt. Services, Inc. and Peter E. Salas each may be deemed to beneficially own an aggregate of 2,070,625 shares of common stock. Dolphin Offshore Partners, L.P., Dolphin Mgmt. Services, Inc. and Peter E. Salas each may be deemed to have shared power to vote or direct the vote, and dispose or direct the disposition, of all such shares of common stock.

We relied, in part, on the Schedule 13G and Form 3 jointly filed by Stuart Sternberg on November 25, 2015, and on a Form 4 filed with the SEC on January 26, 2016 by Stuart Sternberg for this information.

(4)

Stuart Sternberg beneficially owns 1,091,355 shares of common stock, of which 924,688 shares are held in street name.

We relied, in part, on the Schedule 13D/A jointly filed by Hershey Strategic Capital, LP, Hershey Management I, LLC and Hershey Strategic Capital GP, LLC on October 10, 2017 and on the Schedule 13D/A jointly filed by Hershey Strategic Capital, LP, Hershey Management I, LLC and Hershey Strategic Capital GP, LLC on December 1, 2016 for this information.

Hershey Management I, LLC, a Delaware limited liability company, is the investment advisor of Hershey Strategic Capital, LP, a Delaware limited partnership. Hershey Strategic Capital GP, LLC, a Delaware limited liability company, is the general partner of Hershey Strategic Capital, LP. Adam Hershey is the sole managing member of both Hershey Management I, LLC and Hershey Strategic Capital GP, LLC. As the investment advisor, Hershey Management I, LLC has the voting and dispositive power with respect to all of the shares of common stock owned by Hershey Strategic Capital, LP. On July 9, 2014, Richard E. Forkey resigned as a director and Hershey Strategic Capital, LP designated Peter H. Woodward and Dr. Kenneth S. Schwartz to our Board of Directors and such designees were so appointed.

(5)

Pursuant to the securities purchase agreement among us and several investors dated July 1, 2014, Hershey Strategic Capital, LP is entitled to designate two members of our Board of Directors, one of whom will be Chairman. If either of the directors designated by Hershey Strategic Capital, LP resigns from the Board of Directors before the third anniversary of the closing date of the transaction reflected in the purchase agreement, Hershey Strategic Capital, LP has the right to appoint an additional member of our Board of Directors, provided that funds and accounts managed Hershey Strategic Capital, LP at such time own more than one-half the number of shares purchased by Hershey Strategic Capital, LP in the transaction.

Hershey Strategic Capital, LP beneficially owns 986,480 shares of common stock. Hershey Strategic Capital, LP is managed by Adam Hershey, and in such capacity, Mr. Hershey holds the power to vote and direct the disposition of all shares of common stock owned by Hershey Strategic Capital, LP. Hershey Management I disclaims beneficial ownership in the shares.

(6) We relied, in part, on a Form 4 filed with the SEC on December 1, 2016 by Peter H. Woodward, on a Schedule 13D/A jointly filed with the SEC on November 3, 2015 by MHW Partners, L.P., MHW Capital, LLC, MHW Capital Management, LLC, and on a Form 4 filed with the SEC on October 26, 2015 by Peter H. Woodward for this information.

MHW Partners, L.P. is a Delaware limited partnership. MHW Capital, LLC is a Delaware limited liability company. MHW Capital Management, LLC is a Delaware limited liability company. MHW Capital, LLC is the general partner of MHW Partners, L.P. Mr. Woodward is the principal of MHW Capital Management, LLC and MHW Capital, LLC and in such capacity, Mr. Woodward holds the power to vote and direct the disposition of all shares of common stock owned by MHW Partners, L.P. MHW Partners, L.P., MHW Capital, LLC, MHW Capital Management, LLC and Mr. Woodward share the power to vote and direct the disposition of all shares of common stock owned by MHW Partners, L.P. Mr. Woodward is a citizen of the United States and our current Chairman of our Board of Directors.

MHW Partners, L.P. beneficially owns 674,013 shares of common stock, and 90,000 shares that may be acquired upon the exercise of outstanding stock options by Mr. Woodward. The options vested in three installments: one-third vested immediately on the date of grant; one-third vested on May 18, 2016; the remaining one-third vested on May 18, 2017. The options have an exercise price of $0.73 and expire on May 18, 2025. However, the aggregate number of shares of common stock into which such warrants and options are exercisable, and which MHW Partners, L.P. has the right to acquire beneficial ownership, is limited to the number of shares of common stock that, together with all other shares of common stock beneficially owned by MHW Partners, L.P., does not exceed 4.999% of the total outstanding shares of common stock. Accordingly, such warrants and options are not currently exercisable into common stock until the actual shares of common stock held by MHW Partners, L.P. is less than 4.999% of the total outstanding shares of common stock. MHW Partners, L.P. may waive this 4.999% restriction with 61 days' notice to us.

We relied, in part, on the Schedule 13D/A jointly filed by Norman H. Pessin and Sandra F. Pessin filed on October 26, 2018 for this information.

(7)

Norman H. Pessin beneficially owns 121,969 shares of common stock, and Sandra F. Pessin beneficially owns 763,334 shares of common stock. Each investor has sole voting and dispositive power with respect to the shares of common stock each directly owns.

Officers and Directors

		Amount of beneficial ownership (2)			**Percent of**
Name and address of beneficial owner (1)	**Nature of beneficial ownership**	**Shares Owned**	**Shares – Rights to Acquire**	**Total Number**	**Shares Beneficially Owned (3)**
Joseph N. Forkey (4)	Chief Executive Officer, President, Treasurer and Director	333,620	500,000	833,620	7.0%
Richard E. Forkey (5)	Director Emeritus	200,377	0	200,377	1.7%
Peter H. Woodward (6)	Chairman of the Board of Directors	674,013	90,000	764,013	6.4%
Richard B. Miles (7)	Director	15,112	74,400	89,512	*
Kenneth S. Schwartz (8)	Director	14,925	60,000	74,925	*
Andrew J. Miclot (9)	Director	0	60,000	60,000	*
Donald A. Major (10)	Chief Financial Officer, Secretary	125,778	306,000	431,778	3.6%
Richard G. Cyr (11)	Optics Laboratory Manager	0	55,000	55,000	*

All directors and executive officers as a group	**1,363,825**	**1,145,400**	**2,509,225**	**21.09%**

* Percentage of shares beneficially owned does not exceed one percent of issued and outstanding shares of stock.

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(1) Unless otherwise stated, the address of each beneficial owners listed on the table is c/o Precision Optics Corporation, Inc., 22 East Broadway, Gardner, MA 01440.

(2) Represents shares with respect to which each beneficial owner listed has or will have, upon acquisition of such shares upon exercise or conversion of options, warrants, conversion privileges or other rights exercisable within 60 sixty days, sole voting and investment power.

(3) As of December 31, 2018, we had 11,897,139 shares of our common stock issued and outstanding. Percentages are calculated on the basis of the amount of issued and outstanding common stock plus, for each person or group, any securities that such person or group has the right to acquire within 60 days of September 17, 2018 pursuant to options, warrants, conversion privileges or other rights.

(4) Dr. Forkey is a member of our Board of Directors and serves as our Chief Executive Officer, President and Treasurer. Dr. Forkey's beneficial ownership consists of (a) 333,620 shares of common stock held in joint ownership with his wife, Heather Forkey, with whom he shares voting and dispositive control, and (b) 500,000 shares of common stock that may be acquired upon the exercise of outstanding stock options.

(5) Mr. Forkey is our Director Emeritus. He served as our Chief Executive Officer until February 8, 2011, and Director until July 9, 2014. Mr. Forkey's beneficial ownership consists of 200,377 shares of common stock.

(6) Mr. Peter Woodward is the Chairman of our Board of Directors. Mr. Woodward is the managing member and general partner of MHW Partners and in such capacity, Mr. Woodward holds the power to vote and direct the disposition of all shares of common stock owned by MHW Partners. On September 28, 2012, MHW Partners purchased 222,223 shares of our common stock, and warrants to purchase up to 168,386 shares of our common stock at an exercise price of $1.11 per share, subject to adjustment and a call provision if certain market price targets are reached, and an expiration date of September 28, 2017. On July 2, 2014, MHW Partners purchased 125,000 shares of common stock. On October 19, 2015, MHW Partners purchased 100,000 shares of common stock. On November 22, 2016 MHW Partners purchased 156,667 shares of common stock, and warrants to purchase 78,333 shares of common stock at an exercise at a variable exercise price subject to the Companies achievement of certain performance criteria. Mr. Woodward exercised the 78,333 November 22, 2016 warrants on October 16, 2017 at $0.01 per share. Mr. Woodward's beneficial ownership consists of (a) 674,013 shares of common stock held through MHW Partners, L.P., and (b) 90,000 shares of common stock which may be acquired upon the exercise of outstanding stock options.

(7) Mr. Miles is a member of our Board of Directors. Mr. Miles' beneficial ownership consists of (a) 15,112 shares of common stock, and (b) 74,400 shares of common stock that may be acquired upon the exercise of outstanding stock options.

(8) Mr. Kenneth Schwartz is a member of our Board of Directors. Mr. Schwartz's beneficial ownership consists of (a) 14,925 shares of common stock, and (b) 60,000 shares that may be acquired upon the exercise of outstanding stock options.

(9) Mr. Andrew Miclot is a member of our Board of Directors. Mr. Miclot's beneficial ownership consists of 60,000 shares that may be acquired upon the exercise of outstanding stock options.

(10) Mr. Major is our Chief Financial Officer. Mr. Major's beneficial ownership consists of (a) 125,778 shares of common stock, and (b) 306,000 shares of common stock that may be acquired upon the exercise of outstanding

stock options.

(11) Mr. Cyr is our Optics Laboratory Manager and is considered a “named executive officer” as defined in Item 402(a)(3) of Regulation S-K. Mr. Cyr’s beneficial ownership consists of 55,000 shares of common stock that may be acquired upon the exercise of outstanding stock options.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain Relationships and Related Transactions

Since the beginning of the last fiscal year we had the following related party transactions.

Transactions with Officers and Directors

We lease our main facility in Gardner, Massachusetts from Equity Assets, Inc., a company wholly-owned by Mr. Richard E. Forkey, our Director Emeritus and our former Director and Chief Executive Officer until July 9, 2014. We are currently a tenant-at-will, paying rent of $9,000 per month, or an aggregate of $108,000 per year, for each of fiscal years 2018 and 2017.

Sale of Stock in November 2016

On November 22, 2016, we entered into agreements with accredited investors for the sale and purchase of 1,333,334 units with each unit consisting of one share of our common stock, $0.01 par value and one warrant to purchase one-half of one share of our common stock, at a purchase price of $0.60 per unit. We received $780,000 in gross cash proceeds from the offering and settled an outstanding accounts payable balance with a consultant in the amount of $20,000 by issuing units. We are using the net proceeds from this placement for general working capital purposes.

In conjunction with the 2016 placement, we also entered into a registration rights agreement with the investors, and in compliance with the terms of the agreement the registration statement was filed on February 3, 2017 and became effective on February 24, 2017.

The warrants issued in this offering vested on October 2, 2017 and were all exercised on or before October 16, 2017 at $0.01 per share and by payment to the Company of an aggregate of $6,667.

Pursuant to the above transaction, our Chairman of the Board Mr. Woodward, as principal of MHW Partners, L.P., purchased 156,667 shares of our common stock and 78,333 warrants to purchase common stock at an aggregate purchase price of $94,000.

In conjunction with the 2016 offering, certain anti-dilution provisions of the warrants issued in conjunction with our September 28, 2012 financing transaction were triggered. Our Chief Executive Officer, Dr. Forkey, our Chief Financial Officer, Mr. Major, and our director Richard B. Miles and our Chairman of the Board Mr. Woodward, as principal of MHW Partners, L.P. participated in the 2012 financing and held 2012 warrants. As a result of the 2016 offering, the warrant exercise price decreased from $1.06 to $0.95 and the number of existing September 28, 2012 warrants increased from 18,346 to 20,496 for Dr. Forkey, from 22,930 to 25,580 for Mr. Major, from 9,173 to 10,235 for Mr. Miles and 183,440 to 204,680 for Mr. Woodward, respectively. The warrants issued in conjunction with our September 28, 2012 financing transaction expired on September 28, 2017 without any being exercised.

Sale of Stock in August 2017

On August 22, 2017, we entered into agreements with accredited investors for the sale and purchase of 466,668 shares of our common stock, $0.01 par value at a purchase price of $0.45 per share. We received $210,000 in gross proceeds from the offering. We are using the net proceeds from this placement for general working capital purposes.

Concurrently with the 2017 placement, we entered into an agreement with an investor for the sale of 88,888 unregistered shares of our common stock for services provided to us at a price of $0.45 per share.

In conjunction with the 2017 offering, certain anti-dilution provisions of the warrants issued in conjunction with our September 28, 2012 financing transaction were triggered. Our Chief Executive Officer, Dr. Forkey, our Chief Financial Officer, Mr. Major, and our director Richard B. Miles and our Chairman of the Board Mr. Woodward, as principal of MHW Partners, L.P. participated in the 2012 financing and held 2012 warrants. As a result of the 2017 offering, the warrant exercise price decreased from $0.95 to $0.89 and the number of existing September 28, 2012 warrants increased from 20,496 to 21,849 for Dr. Forkey, from 25,580 to 27,304 for Mr. Major, from 10,235 to 10,925 for Mr. Miles and 204,680 to 218,479 for Mr. Woodward, respectively. The warrants issued in conjunction with our September 28, 2012 financing transaction expired on September 28, 2017 without any being exercised.

Sale of Stock in October 2018

On October 16, 2018, we entered into agreements with accredited investors for the sale and purchase of 1,600,000 shares of our common stock at a per unit price of $1.25 per share. We received $2,000,000 in gross proceeds from the offering. We intend to use the net proceeds from this placement for general working capital purposes.

In conjunction with the placement, we also entered into a registration rights agreement with the investors, whereby we are obligated to file a registration statement with the Securities Exchange Commission on or before 90 calendar days after October 16, 2018 to register the resale by the investors of the 1,600,000 shares of the common stock purchased in the placement.

Transactions with Stockholders Known by Us to Own 5% or More of Our Common Stock

Pursuant to the October 2015 placement described above, Hershey Strategic Capital, L.P. purchased 37,313 shares of our common stock at an aggregate purchase price of $25,000. At the time of the transaction, Hershey Strategic Capital was a beneficial owner of more than 5% of our outstanding common stock.

Pursuant to the November 2016 placement described above, Dolphin Offshore Partners LP purchased 916,667 shares of our common stock and warrants to purchase 458,334 shares of our common stock at an aggregate purchase price of $550,000, and Hershey Strategic Capital L.P. purchased 125,000 shares of our common stock and warrants to purchase 62,500 shares of our common stock at an aggregate purchase price of $75,000. Dolphin Offshore Partners and Hershey Strategic Capital were beneficial owners of more than 5% of our outstanding common stock at the time of the placement.

On or before October 16, 2017 Dolphin Offshore Partners LP and Hershey Strategic Capital L.P. exercised warrants received in the November 2016 placement for 458,334 and 62,500 shares, respectively, at $0.01 per share, or $4,583 and $625, respectively by payment to the Company. Dolphin Offshore Partners and Hershey Strategic Capital were beneficial owners of more than 5% of our outstanding common stock at the time the warrants were exercised.

DIRECTOR INDEPENDENCE

During the fiscal year ended June 30, 2018, the Board of Directors determined that Messrs. Richard B. Miles, and Andrew J. Miclot were “independent” as defined under the standards of independence set forth in the Nasdaq Listing Rules and the rules under the Securities Exchange Act of 1934.

LEGAL MATTERS

Certain legal matters in connection with the securities will be passed upon for us by the law firm of Trombly Business Law, P.C., 1314 Main Street, Suite 102, Louisville, CO 80027. Ms. Trombly, the principal of Trombly Business Law, P.C., will not receive a direct or indirect interest in our Company and has never been a promoter, underwriter, voting trustee, director, officer, or employee of our Company. Nor does Ms. Trombly have any contingent based agreement with us or any other interest in or connection to us.

EXPERTS

The June 30, 2018 and 2017 financial statements included in this prospectus have been audited by Stowe & Degon LLC, independent auditors, and have been included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. Stowe & Degon LLC, has no direct or indirect interest in us, nor were they a promoter or underwriter.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

We have been advised that, in the opinion of the Securities and Exchange Commission, indemnification for liabilities arising under the Securities Act is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities is asserted by one of our directors, officers, or controlling persons in connection with the securities being registered, we will, unless in the opinion of our legal counsel the matter has been settled by controlling precedent, submit the question of whether such indemnification is against public policy to a court of appropriate jurisdiction. We will then be governed by the court’s decision.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

FINANCIAL STATEMENTS

Index to Financial Statements

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	September 30, 2018	June 30, 2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$351,314	$402,738
Accounts Receivable, net	655,720	796,923
Inventories, net	1,113,618	1,144,068
Prepaid Expenses	57,867	70,991
Total Current Assets	2,178,519	2,414,720
PROPERTY AND EQUIPMENT		
Machinery and Equipment	2,553,207	2,511,638
Leasehold Improvements	554,836	553,596
Furniture and Fixtures	148,303	148,303
	3,256,346	3,213,537
Less: Accumulated Depreciation and Amortization	(3,171,007)	(3,164,051)
Net Fixed Assets	85,339	49,486
Patents, net	47,275	47,275
TOTAL ASSETS	$2,311,133	$2,511,481
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current Portion of Capital Lease Obligation	$9,111	$8,962
Accounts Payable	963,581	703,538
Customer Advances	400,704	857,842
Accrued Employee Compensation	197,765	238,590
Accrued Professional Services	94,970	98,000
Accrued Warranty Expense	25,000	25,000
Other Accrued Liabilities	–	912
Total Current Liabilities	1,691,131	1,932,844
Capital Lease Obligation, net of current portion	12,267	14,601
STOCKHOLDERS' EQUITY		
Common Stock, $0.01 par value - Authorized - 50,000,000 shares; Issued and Outstanding – 10,297,139 shares at September 30, 2018 and 10,197,139 shares at	102,972	101,972

June 30, 2018		
Additional Paid-in Capital	45,826,170	45,484,186
Accumulated Deficit	(45,321,407)	(45,022,122)
Total Stockholders' Equity	607,735	564,036
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,311,133	$2,511,481

The accompanying notes are an integral part of these consolidated interim financial statements.

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED

SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

	Three Months Ended September 30,	
	2018	2017
Revenues	$1,559,458	$1,028,746
Cost of Goods Sold	1,096,951	642,004
Gross Profit	462,507	386,742
Research and Development Expenses, net	100,798	118,427
Selling, General and Administrative Expenses	660,489	296,584
Total Operating Expenses	761,287	415,011
Operating Loss	(298,780)	(28,269)
Interest Expense	(505)	(516)
Net Loss	$(299,285)	$(28,785)
Loss Per Share:		
Basic	$(0.03)	$(0.00)
Diluted	$(0.03)	$(0.00)
Weighted Average Common Shares Outstanding:		
Basic	10,261,269	9,108,423
Diluted	10,261,269	9,108,423

The accompanying notes are an integral part of these consolidated interim financial statements.

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PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED

SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

	Three Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$(299,285)	$(28,785)
Adjustments to Reconcile Net Loss to Net Cash Provided From (Used In) Operating Activities -		
Depreciation and Amortization	6,956	8,750
Stock-based Compensation Expense	342,984	26,057
Non-cash Consulting Expense	–	(7,425)
Changes in Operating Assets and Liabilities -		
Accounts Receivable, net	141,203	(145,413)
Inventories, net	30,450	88,162
Prepaid Expenses	13,124	4,591
Accounts Payable	260,043	5,381
Customer Advances	(457,138)	(57,642)
Accrued Liabilities	(44,767)	(25,322)
Net Cash Used In Operating Activities	(6,430)	(131,646)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(42,809)	–
Net Cash Used In Investing Activities	(42,809)	–
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of Capital Lease Obligation	(2,185)	(2,046)
Gross Proceeds from Private Placement of Common Stock	–	210,001
Net Cash Provided From (Used In) Financing Activities	(2,185)	207,955
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(51,424)	76,309
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	402,738	118,405
CASH AND CASH EQUIVALENTS, END OF PERIOD	$351,314	$194,714

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:

Issuance of Common Stock in Settlement of Accounts Payable	$–	$40,000
Offering Costs Included in Accounts Payable	$–	$2,963

The accompanying notes are an integral part of these consolidated interim financial statements.

PRECISION OPTICS CORPORATION, INC.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Operations

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

These consolidated financial statements have been prepared by the Company, without audit, and reflect normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results of the first quarter of the Company's fiscal year 2019. These consolidated financial statements do not include all disclosures associated with annual consolidated financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company's consolidated financial statements for the year ended June 30, 2018, together with the Report of Independent Registered Public Accounting Firm filed under cover of the Company's 2018 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 27, 2018.

Use of Estimates

The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net income or net loss by the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per share is computed by dividing net income or net loss by the weighted average number of shares of common stock outstanding during the period, plus the number of potentially dilutive securities outstanding during the period such as stock options and warrants. For the three months ended September 30, 2018 and 2017, the effect of such securities was antidilutive and not included in the diluted calculation because of the net loss generated in these periods.

The following is the calculation of loss per share for the three months ended September 30, 2018 and 2017:

	Three Months Ended September 30,	
	2018	2017
Net Income (Loss) – Basic and Diluted	$(299,285)	$(28,785)
Basic and Diluted Weighted Average Shares Outstanding	10,261,269	9,108,423
Loss Per Share		
Basic	$(0.03)	$(0.00)
Diluted	$(0.03)	$(0.00)

The number of shares issuable upon the exercise of outstanding stock options and warrants that were excluded from the computation as their effect was antidilutive was approximately 1,493,200 and 1,745,067 for the three months ended September 30, 2018 and 2017, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the likelihood of utilization of existing deferred tax assets, management has considered historical results of operations and the current operating environment. Based on this evaluation, a full valuation reserve has been provided for the deferred tax assets.

Accounting Pronouncements Recently Adopted

On July 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers. Refer to Note 6 for further information.

2. INVENTORIES

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

	September 30, 2018	June 30, 2018
Raw Materials	$530,079	$500,908
Work-In-Progress	371,282	434,536
Finished Goods	212,257	208,624
Total Inventories	$1,113,618	$1,144,068

3. CAPITAL LEASE OBLIGATION

The Company entered into a five-year capital lease obligation in January 2016 for the acquisition of manufacturing equipment totaling $51,252. At September 30, 2018, future minimum lease payments under the capital lease obligation are as follows:

Fiscal Year Ending June 30:	**Amount**
2019	$7,688
2020	10,250
2021	5,126
Total minimum payments	23,064
Less: amount representing interest	1,686
Present value of minimum lease payments	21,378
Less: current portion	9,111
	$12,267

4. STOCK-BASED COMPENSATION

Stock Options

The measurement and recognition of compensation costs for all stock-based awards made to employees and the Board of Directors are based upon fair value over the requisite service period for awards expected to vest. The Company estimates the fair value of share-based awards on the date of grant using the Black-Scholes option-pricing model. The following table summarizes stock-based compensation expense resulting from outstanding stock options for the three months ended September 30, 2018 and 2017:

	Three Months Ended September 30,	
	2018	2017
Cost of Goods Sold	$–	$8,669
Research and Development Expenses	2,411	6,692
Selling, General and Administrative Expenses	130,573	10,696
Stock Based Compensation Expense	$132,984	$26,057

No compensation has been capitalized because such amounts would have been immaterial.

The following tables summarize stock option activity for the three months ended September 30, 2018:

	Options Outstanding		
	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Contractual Life**
Outstanding at June 30, 2018	1,055,700	$ 0.76	6.13 years
Granted	450,000		
Expired or Cancelled	(12,500)		
Outstanding at September 30, 2018	1,493,200	$ 0.75	7.07 years

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