Inrad Optics, Inc.
Form 10-Q
May 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **MARCH 31, 2018**

OR

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

For the transition period from ___________________ to ___________________

Commission file number **0-11668**

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

New Jersey	**22-2003247**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

181 Legrand Avenue, Northvale, NJ 07647
(Address of principal executive offices)
(Zip Code)

(201) 767-1910
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer, accelerated filer, smaller reporting company" and "emerging growth company" in Rule 12b-2 of the exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of the registrant's common stock outstanding, $0.01 par value, as of May 3, 2018 was 13,516,600

INRAD OPTICS, INC AND SUBSIDIARIES

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INRAD OPTICS, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$492,795	$799,953
Accounts receivable (net of allowance for doubtful accounts of $15,000 in 2018 and 2017)	1,532,200	1,034,398
Inventories, net	2,828,117	3,196,001
Other current assets	157,649	127,900
Total current assets	5,010,761	5,158,252
Plant and equipment:		
Plant and equipment, at cost	14,740,428	14,726,638
Less: Accumulated depreciation and amortization	(14,074,212)	(14,013,850)
Total plant and equipment	666,216	712,788
Precious Metals	562,347	563,760
Intangible Assets, net	57,532	70,219
Other Assets	37,486	37,486
Total Assets	$6,334,342	$6,542,505
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of other long term notes	$12,486	$12,486
Accounts payable and accrued liabilities	1,090,683	1,217,157
Contract liabilities	513,900	869,677
Total current liabilities	1,617,069	2,099,320
Related Party Convertible Notes Payable	2,500,000	2,500,000
Other Long Term Notes, net of current portion	254,628	257,738
Total liabilities	4,371,697	4,857,058
Commitments		
Shareholders' Equity:		
Common stock: $.01 par value; 60,000,000 authorized shares; 13,521,200 shares issued at March 31, 2018 and 13,521,200 shares issued at December 31, 2017	135,213	135,213
Capital in excess of par value	18,895,121	18,882,086

Accumulated deficit	(17,052,739)	(17,316,902)
	1,977,595	1,700,397
Less - Common stock in treasury, at cost (4,600 shares)	(14,950)	(14,950)
Total shareholders' equity	1,962,645	1,685,447
Total Liabilities and Shareholders' Equity	$6,334,342	$6,542,505

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31, 2018	2017
Total revenue	$ 3,302,429	$ 2,164,320
Cost and expenses:		
Cost of goods sold	2,452,205	1,875,187
Selling, general and administrative expenses	543,999	539,840
	2,996,204	2,415,027
Income (loss) from operations	306,225	(250,707)
Other expense:		
Interest expense—net	(39,774)	(40,722)
Loss on exchange of precious metals	(2,288)	—
	(42,062)	(40,722)
Income (loss) before income taxes	264,163	(291,429)
Income tax (provision) benefit	—	—
Net income (loss)	$ 264,163	(291,429)
Net income (loss) per common share — basic	$ 0.02	$ (0.02)
Net income (loss) per common share — diluted	$ 0.02	$ (0.02)
Weighted average shares outstanding— basic	13,516,600	13,151,944
Weighted average shares outstanding— diluted	16,533,296	13,151,944

See Notes to Condensed Consolidated Financial Statements (Unaudited)

INRAD OPTICS, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$264,163	$(291,429)
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Depreciation and amortization	73,049	101,740
Loss on exchange of precious metals	2,288	—
Stock based compensation	13,035	14,985
Changes in operating assets and liabilities:		
Accounts receivable	(497,802)	136,744
Inventories, net	367,884	(339,077)
Other current assets	(29,749)	(24,793)
Accounts payable and accrued liabilities	(126,474)	163,799
Customer advances	(355,777)	84,656
Total adjustments and changes	(553,546)	138,054
Net cash (used in) operating activities	(289,383)	(153,375)
Cash flows from investing activities:		
Capital expenditures	(13,790)	(9,436)
Purchase of precious metals	(875)	—
Net cash (used in) investing activities	(14,665)	(9,436)
Cash flows from financing activities:		
Principal payments on notes payable-other	(3,110)	(43,913)
Net cash (used in) financing activities	(3,110)	(43,913)
Net (decrease) in cash and cash equivalents	(307,158)	(206,724)
Cash and cash equivalents at beginning of period	799,953	973,333
Cash and cash equivalents at end of period	$492,795	$766,609
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$40,156	$41,213
Income taxes paid	$—	$—

See Notes to Condensed Consolidated Financial Statements (Unaudited)

INRAD OPTICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(**Unaudited**)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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

Management Estimates

These unaudited condensed consolidated financial statements and related disclosures have been prepared in conformity with U.S. GAAP which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported in those financial statements. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Accounts Receivable

Accounts receivable are carried at net realizable value, net of write-offs and allowances. The Company establishes an allowance for doubtful accounts based on estimates as to the collectability of accounts receivable. Management specifically analyzes past-due accounts receivable balances and, additionally, considers bad debt history, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Uncollectible accounts receivable are written-off when it is determined that the balance will not be collected. Reserves for uncollectible accounts receivable are recorded as part of selling, general and administrative expenses in the Consolidated Statements of Operations, and were approximately $15,000 at March 31, 2018.

Inventories

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

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

	March 30, 2018	**December 31, 2017**
	(Unaudited)	
Raw materials	$1,041	$ 1,174
Work in process, including manufactured parts and components	1,342	1,462
Finished goods	445	560
	$2,828	$ 3,196

Income Taxes

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

In evaluating the Company's ability to recover deferred tax assets in future periods, management considers the available positive and negative factors, including the Company's recent operating results, the existence of cumulative losses and near term forecasts of future taxable income consistent with the plans and estimates that management uses to manage the underlying business. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company over the three year period ended December 31, 2017. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

On the basis of this evaluation as of March 31, 2018, the Company's management concluded that it is more likely than not that the Company will not be able to realize any portion of the benefit on the net deferred tax balance of $3,448,000 and therefore the Company continues to maintain a valuation allowance for the full amount of the net deferred tax balance. When sufficient positive evidence exists, the Company's income tax expense will be charged with the increase or decrease in its valuation allowance. An increase or reversal of the Company's valuation allowance could have a significant negative or positive impact on the Company's future earnings.

For the three months ended March 31, 2018, the Company did not record a current provision for income taxes due to the availability of net operating loss carryforwards to offset taxable income for both federal and state tax purposes.

For the three months ended March 31, 2017, the Company did not record a current provision for either state tax or federal alternative minimum tax due to the losses incurred for both income tax and financial reporting purposes.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. The Tax Act eliminates alternative minimum taxes and lowers the U.S. federal corporate income tax from 34% to 21% effective January 1, 2018. At December 31, 2017, the Company remeasured its net deferred tax assets using the new Federal Tax Rate and posted a one-time reduction of $1,765,000 in deferred tax assets and $1,765,000 to the valuation allowance to reflect the lower realization rate to be applied commencing in 2018.

Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares and common stock equivalents outstanding, calculated on the treasury stock method for options, stock grants and warrants using the average market prices during the period, including potential common shares issuable upon conversion of outstanding convertible notes, except if the effect on the per share amounts is anti-dilutive.

For the three months ended March 31, 2018, a total of 14,941 stock options, 1,875,000 warrants issuable upon conversion of outstanding convertible notes and 84,375 warrants issuable on conversion of accrued interest on convertible notes were excluded from the computation of diluted net income per common share.

For the three months ended March 31, 2017, all common stock equivalents were excluded from the computation of diluted net loss per share because their effect is anti-dilutive. This included 2,500,000 common shares and 1,875,000 common shares from warrants issuable upon conversion of outstanding convertible notes, in addition to 901,341 common stock options.

A reconciliation of the shares used in the calculation of basic and diluted earnings (loss) per common share is as follows:

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Income(Loss) (Numerator)	Shares (Denominator)	Per Share Amount	Income(Loss) (Numerator)	Shares (Denominator)	Per Share Amount
Basic Income (Loss) Per Share:						
Net Income (Loss)	$264,163	13,516,600	$ 0.02	$(291,429)	13,151,944	$ (0.02)
Effect of dilutive securities:						
Convertible Notes	37,500	2,500,000		—	—	
Accrued Interest on Convertible Notes	—	112,500		—	—	
Warrants	—	—		—	—	
Stock Options	—	404,196		—	—	
Diluted Income (Loss) Per Share:						
Net Income (Loss)	$301,663	16,533,296	$ 0.02	$(291,429)	13,151,944	$ (0.02)

Stock-Based Compensation

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

Recently Adopted Accounting Standards