

Inrad Optics, Inc.
Form 10-Q
August 15, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended _____ **JUNE 30,**
2016 _____

OR

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

For the transition period from _____ to _____

Commission file number **0-11668**

INRAD OPTICS, INC.

(Exact name of registrant as specified in its charter)

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New Jersey

(State or other jurisdiction of incorporation
or organization)

22-2003247

(I.R.S.
Employer
Identification
Number)

181 Legrand Avenue, Northvale, NJ 07647

(Address of principal executive offices)
(Zip Code)

(201) 767-1910

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

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

Yes No

The number of shares of the registrant's common stock outstanding, \$0.01 par value, as of August 15, 2016 was 13,151,944

INRAD OPTICS, INC AND SUBSIDIARIES

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

| | June 30, 2016 (Unaudited) | December 31, 2015 (Audited) |
|---|---------------------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$872,250 | \$673,685 |
| Accounts receivable (net of allowance for doubtful accounts of \$15,000 in 2016 and 2015) | 1,081,046 | 1,345,197 |
| Inventories, net | 2,596,179 | 2,995,365 |
| Other current assets | 178,180 | 143,293 |
| Total current assets | 4,727,655 | 5,157,540 |
| Plant and equipment: | | |
| Plant and equipment, at cost | 14,519,999 | 14,493,611 |
| Less: Accumulated depreciation and amortization | (13,556,115) | (13,364,216) |
| Total plant and equipment | 963,884 | 1,129,395 |
| Precious Metals | 553,925 | 553,925 |
| Intangible Assets, net | 162,351 | 201,633 |
| Other Assets | 61,662 | 32,496 |
| Total Assets | \$6,469,477 | \$7,074,989 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Current portion of other long term notes | \$170,500 | \$170,500 |
| Accounts payable and accrued liabilities | 808,734 | 1,035,487 |
| Customer advances | 430,630 | 368,068 |
| Total current liabilities | 1,409,864 | 1,574,055 |
| Related Party Convertible Notes Payable | 2,500,000 | 2,500,000 |
| Other Long Term Notes, net of current portion | 294,401 | 378,906 |
| Total liabilities | 4,204,265 | 4,452,961 |
| Commitments | | |
| Shareholders' Equity: | | |
| Common stock: \$.01 par value; 60,000,000 authorized shares; 13,156,544 Shares issued at June 30, 2016 and 12,737,808 issued at December 31, 2015 | 131,567 | 127,380 |
| Capital in excess of par value | 18,685,450 | 18,538,884 |

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| | | |
|---|--------------------|--------------------|
| Accumulated deficit | (16,536,855) | (16,029,286) |
| | 2,280,162 | 2,636,978 |
| Less - Common stock in treasury, at cost (4,600 shares) | (14,950) | (14,950) |
| Total shareholders' equity | 2,265,212 | 2,622,028 |
| Total Liabilities and Shareholders' Equity | \$6,469,477 | \$7,074,989 |

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|--------------|---------------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Total revenue | \$2,641,331 | \$2,765,365 | \$4,989,437 | \$5,295,590 |
| Cost and expenses: | | | | |
| Cost of goods sold | 2,062,664 | 2,231,330 | 4,136,319 | 4,069,771 |
| Selling, general and administrative expenses | 641,895 | 700,496 | 1,275,930 | 1,329,753 |
| | 2,704,559 | 2,931,826 | 5,412,249 | 5,399,524 |
| Loss from operations | (63,228) | (166,461) | (422,812) | (103,934) |
| Other expense: | | | | |
| Interest expense—net | (42,154) | (44,518) | (84,757) | (88,946) |
| | (42,154) | (44,518) | (84,757) | (88,946) |
| Net loss before income taxes | (105,382) | (210,979) | (507,569) | (192,880) |
| Income tax (provision) benefit | — | — | — | — |
| Net loss | \$(105,382) | \$(210,979) | \$(507,569) | (192,880) |
| Net loss per common share—basic and diluted | \$(0.01) | \$(0.02) | \$(0.04) | \$(0.02) |
| Weighted average shares outstanding—basic and diluted | 12,942,576 | 12,733,208 | 12,793,027 | 12,459,126 |

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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

(Unaudited)

| | Six Months Ended | |
|---|-------------------------|-------------------|
| | June 30, | |
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net (loss) | \$(507,569) | \$(192,880) |
| Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 231,181 | 288,347 |
| 401K common stock contribution | 135,193 | 79,536 |
| Stock based compensation | 15,560 | 13,028 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 264,151 | (229,625) |
| Inventories, net | 399,186 | (299,108) |
| Other current assets | (34,887) | (33,254) |
| Other assets | (19,166) | - |
| Accounts payable and accrued liabilities | (226,753) | 281,305 |
| Customer advances | 62,562 | (31,034) |
| Total adjustments and changes | 827,027 | 69,195 |
| Net cash provided by (used in) operating activities | 319,458 | (123,685) |
| Cash flows from investing activities: | | |
| Capital expenditures | (26,388) | (27,595) |
| Capitalized license fees | (10,000) | - |
| Net cash (used in) investing activities | (36,388) | (27,595) |
| Cash flows from financing activities: | | |
| Principal payments on notes payable-other | (84,505) | (80,867) |
| Net cash (used in) financing activities | (84,505) | (80,867) |
| Net Increase (decrease) in cash and cash equivalents | 198,565 | (232,147) |
| Cash and cash equivalents at beginning of period | 673,685 | 1,003,254 |
| Cash and cash equivalents at end of period | \$872,250 | \$771,107 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid | \$84,504 | \$89,385 |

| | | |
|-------------------|-------|---------|
| Income taxes paid | \$800 | \$1,800 |
|-------------------|-------|---------|

See Notes to Condensed Consolidated Financial Statements (Unaudited)

INRAD OPTICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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

Management Estimates

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

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

Inventories

Inventories are stated at the lower of cost (first-in-first-out basis) 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:

| | June 30, | December 31, |
|--|-----------------|-----------------|
| | 2016 | 2015 |
| | (Unaudited) | |
| Raw materials | \$ 982 | \$ 1,110 |
| Work in process, including manufactured parts and components | 1,023 | 1,224 |
| Finished goods | 591 | 661 |
| | \$ 2,596 | \$ 2,995 |

Income Taxes

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

For the three and six months ended June 30, 2016 and 2015 the Company did not record a current provision for either state or federal income tax due to the losses incurred for both income tax and financial reporting purposes or the availability of net operating loss carry-forwards to offset against federal and state income tax.

In evaluating the Company's ability to recover deferred tax assets in future periods, management considers the available positive and negative factors, including the Company's recent operating results, the existence of cumulative losses and near term forecasts of future taxable income consistent with the plans and estimates that management uses to manage the underlying business. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company over the three-year period ended December 31, 2015. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

On the basis of this evaluation as of June 30, 2016, the Company's management concluded that it is more likely than not that the Company will not be able to realize any portion of the benefit on the net deferred tax balance of \$4,877,000 and therefore the Company continues to maintain a valuation allowance for the full amount of the net deferred tax balance.

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

Net (Loss) Income per Common Share

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

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

For the three months and six months ended June 30, 2016, all common stock equivalents were excluded from the computation of diluted net loss per share because their effect is anti-dilutive. This included 2,500,000 common shares and 1,875,000 common shares from warrants issuable upon conversion of outstanding related party convertible notes in each respective period, in addition to 800,614 common stock options and grants, in each respective period.

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

Stock-Based Compensation

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

Recently Adopted Accounting Standards

In May 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-12 “Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), which amends the guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. ASU 2016-12 clarifies that, for a contract to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP. In addition, ASU 2016-12 clarifies how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard’s contract criteria. The Company is currently evaluating the impact the adoption of ASU 2016-12 will have on its consolidated financial statements

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

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

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

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”, which changes how entities measure certain equity investments and how entities present changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk. We are currently assessing the impact the adoption of ASU 2016-01 will

have on our consolidated financial statements. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Subtopic 740-10). The amendments in this update require deferred tax liabilities and assets be classified as noncurrent regardless of the classification of the underlying assets and liabilities. For public companies, the amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016. Earlier application is permitted. We expect the adoption of this guidance will not have a material impact on our financial statements.

NOTE 2- EQUITY COMPENSATION PROGRAM AND STOCK BASED COMPENSATION

a) Stock Option Expense

The Company's results of operations for the three months ended June 30, 2016 and 2015 include stock-based compensation expense for stock option grants totaling \$9,598 and \$6,548, respectively. Such amounts have been included in the accompanying Condensed Consolidated Statements of Operations within cost of goods sold in the amount of \$2,305 (\$1,216 for 2015), and selling, general and administrative expenses in the amount of \$7,293 (\$5,332 for 2015).

The Company's results of operations for the six months ended June 30, 2016 and 2015 include stock-based compensation expense for stock option grants totaling \$15,560 and \$13,028, respectively. Such amounts have been included in the accompanying Condensed Consolidated Statements of Operations within cost of goods sold in the amount of \$3,883 (\$2,364 for 2015), and selling, general and administrative expenses in the amount of \$11,677 (\$10,664 for 2015).

As of June 30, 2016 and 2015, there were \$65,256 and \$38,469 of unrecognized compensation cost, net of estimated forfeitures, related to non-vested stock options, which are expected to be recognized over a weighted average period of approximately 1.6 years and 1.4 years, respectively.

There were 163,500 and 133,000 stock options granted during the six months ended June 30, 2016 and 2015, respectively. The following range of weighted-average assumptions were used to determine the fair value of stock option grants during the six months ended June 30, 2016 and 2015:

| | Six Months Ended | | | |
|-------------------------|------------------|---|----------|---|
| | June 30, | | 2015 | |
| | 2016 | | 2015 | |
| Expected Dividend yield | — | % | — | % |
| Expected Volatility | 128 | % | 122-127 | % |
| Risk-free interest rate | 2.1 | % | 2.0 | % |
| Expected term | 10 years | | 10 years | |

b) **Stock Option Activity**

The following table represents stock options granted, exercised and forfeited during the six month period ended June 30, 2016:

| Stock Options | Number of Options | Weighted Average Exercise Price per Option | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|--------------------------------|-------------------|--|---|---------------------------|
| Outstanding at January 1, 2016 | 699,604 | \$.71 | 4.9 | \$ 32,230 |
| Granted | 163,500 | .35 | | |
| Exercised | — | — | | |
| Expired/Forfeited | (62,490) | 1.04 | | |
| Outstanding at June 30, 2016 | 800,614 | \$.61 | 5.3 | \$ 21,193 |

The following table represents non-vested stock options granted, vested and forfeited for the six months ended June 30, 2016.

| | Options | Weighted-Average Grant-Date Fair Value (\$) |
|------------------------------|-----------|--|
| Non-vested - January 1, 2016 | 206,662 | .21 |
| Granted | 163,500 | .34 |
| Vested | (90,329) | .23 |
| Forfeited | (3,333) | .18 |
| Non-vested – June 30, 2016 | 276,500 | .28 |

c) Restricted Stock Unit Awards

There were no restricted stock units granted under the 2010 Equity Compensation Program during the six months ended June 30, 2016 and 2015.

NOTE 3- STOCKHOLDERS' EQUITY

In May 2016, the Company issued an additional 418,736 common shares to the Inrad Optics 401k plan as a match to employee contributions for 2015.

NOTE 4 – RELATED PARTY TRANSACTIONS

On June 9, 2016, the maturity dates of a \$1,500,000 Subordinated Convertible Promissory Note to Clarex Limited (“Clarex”) and a \$1,000,000 Subordinated Convertible Promissory Note to an affiliate of Clarex were each extended to April 1, 2019 from April 1, 2017. The notes bear interest at 6%. Interest accrues yearly and is payable on maturity. Unpaid interest, along with principal, may be converted into securities of the Company as follows: the notes are convertible in the aggregate into 1,500,000 units and 1,000,000 units, respectively, with each unit consisting of one share of common stock and one warrant. Each warrant allows the holder to acquire 0.75 shares of common stock at a price of \$1.35 per share. As part of the agreement, the expiration dates of the warrants were extended from April 1, 2020 to April 1, 2022. As of June 30, 2016, the Company had accrued interest in the amount of \$37,500 associated with these notes.

NOTE 5 – OTHER LONG TERM NOTES

Other Long Term Notes consist of the following:

| | June 30, 2016 (in thousands) | December 31, 2015 |
|--|---------------------------------------|-------------------------|
| Term Note Payable, payable in equal monthly installments of \$13,953 and bearing an interest rate of 4.35% and expiring in July 2017 | \$ 177 | \$ 256 |
| U.S. Small Business Administration term note payable in equal monthly installments of \$1,922 and bearing an interest rate of 4.0% and expiring in April 2032. | 288 | 294 |
| | 465 | 550 |
| Less current portion | (171) | (171) |
| Long-term debt, excluding current portion | \$ 294 | \$ 379 |

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

Caution Regarding Forward Looking Statements

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The Company wishes to insure that any forward-looking statements are accompanied by meaningful cautionary statements in order to comply with the terms of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. The events described in the forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of the Company's plans or strategies, projected or anticipated benefits of acquisitions made by the Company, projections involving anticipated revenues, earnings, or other aspects of the Company's operating results. The words "may", "will", "expect", "believe", "anticipate", "project", "plan", "intend", "estimate", and "continue", and their opposites and similar expressions are intended to identify forward-looking statements. The Company cautions you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks, and other influences, many of which are beyond the Company's control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect the Company's results include, but are not limited to, the risks and uncertainties discussed in Items 1A, 7 and 7A of the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on March 30, 2016. Any one or more of these uncertainties, risks, and other influences could materially affect the Company's results of operations and whether forward-looking statements made by the Company ultimately prove to be accurate. Readers are further cautioned that the Company's financial results can vary from quarter to quarter, and the financial results for any period may not necessarily be indicative of future results. The foregoing is not intended to be an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by the Company. The Company's actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward looking statements, whether from new information, future events, or otherwise.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 of the accompanying consolidated financial statements and further discussed in our annual financial statements included in our annual report on Form 10-K for the year ended December 31, 2015. In preparing our condensed consolidated financial statements, we made estimates and judgments that affect the results of our operations and the value of assets and liabilities we report. These include estimates used in evaluating intangibles for impairment such as market multiples used in determining the fair value of reporting units, discount rates applicable in determining net present values of future cash flows, projections of future sales, earnings and cash flow and capital expenditures. It also includes estimates about the amount and timing of future taxable income in determining the Company's valuation allowance for deferred income tax assets. Our actual results may differ from these estimates under different assumptions or conditions.

For additional information regarding our critical accounting policies and estimates, see the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report filed with the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2015.

Results of Operations

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

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

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

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

Revenue

Sales for the three months ended June 30, 2016 decreased 4.5% to \$2,641,000 from \$2,765,000 for the comparable period last year. For the six months ended June 30, 2016, sales were \$4,989,000, a decrease of 5.8%, compared to \$5,296,000 for the six months ended June 30, 2015.

Sales to customers in the defense/aerospace market increased by 27.1% for the three months ended June 30, 2016 compared to the same period last year, offsetting a significant decrease in defense sales in the first quarter of 2016. The second quarter sales increase in this market resulted from a significant increase in shipments to two large defense contractors and direct sales to the U.S. government. As a result, sales for the six months ended June 30, 2016 in the defense/aerospace market were up 0.2% compared to the same period last year.

Sales to customers in the process control and metrology market decreased by 29.1% and 14.7% for the three and six months ended June 30, 2016, respectively, compared to the same periods last year. This was mainly attributable to the fulfillment of a large order from a major customer in this market, in 2015, for which the company does not expect a follow-on order until the latter part of 2016.

Sales in the laser systems and related products market decreased by 26.4% and 14.2% for the three and six months ended June 30, 2016, as compared to the same periods last year and was primarily due to reduced sales to one large OEM customer.

The university and national lab market is the smallest market the Company serves. Sales in this market increased by 46.6% and 38.2% in the three and six months ended June 30, 2016, respectively, compared to the same periods last year. Sales increases to one large national lab were primarily attributable for the overall increase.

In the six months ended June 30, 2016 and June 30, 2015, the Company had sales representing more than 10% to one major customer in each period. For the six months ended June 30, 2016, this customer was in the defense/aeronautic market. In the comparable period last year, this customer was in the process control and metrology market.

The Company's top five customers represented 35.9% of total sales in the six month period ended June 30, 2016, compared to 43.3% in the same period in 2015. Sales for the top five customer group were down 19.9% from the comparable period last year.

Orders booked during the first six months of 2016 were \$4.9 million compared to \$5.1 million in the comparable period last year.

Order backlog was \$5.1 million at June 30, 2016, compared to \$6.3 million at June 30, 2015.

Cost of Goods Sold

Cost of goods sold was \$2,063,000 and \$2,231,000 for the three months ended June 30, 2016 and 2015, respectively. This represented a decrease of \$169,000 or 7.6%. For the six months ended June 30, 2016, cost of goods sold were \$4,136,000, up by \$67,000 or 1.6% compared to \$4,070,000 in the same period in 2015.

Material costs as a percentage of sales for the three and six months ended June 30, 2016 decreased as compared to the same period in 2015, primarily as a result of a change in sales mix to products with a lower percentage of material costs.

For the three months ended June 30, 2016, manufacturing salaries and wages and related fringe benefits decreased by approximately 9.2% or by \$107,000 from the comparable period in 2015. For the six months ended June 30, 2016, manufacturing salaries and wages and related fringe benefits decreased by approximately 2.2% or \$49,000 from the six months ended June 30, 2015.

Manufacturing expenses decreased by approximately 3.4% and 3.7% in the second quarter and six months ended June 30, 2016 versus the three and six months ended June 30, 2015.

Gross profit for the three months ended June 30, 2016 was \$579,000 or 21.9% of sales compared to \$534,000 or 19.3% of sales in the same quarter last year. Gross profit for the six months ended June 30, 2016 and 2015 were \$853,000 or 17.1% and \$1,226,000 or 23.1% of sales, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (“SG&A” expenses) in the three and six months ended June 30, 2016 amounted to \$642,000 or 24.3% of sales and 1,276,000 or 25.6% of sales, respectively. This compared to \$700,000 or 25.3% of sales and \$1,330,000 or 25.1% of sales, respectively, for the same periods in 2015.

For the three and six months ended June 30, 2016, SG&A salary, wages and fringe benefits decreased by approximately \$45,000 or 12.1% and \$40,000 or 5.5%, respectively, reflecting lower head count levels compared to the same periods in 2015.

SG&A expenses excluding salary, wages and fringe benefits decreased by approximately \$13,000 or 4.3% and \$10,000 or 1.9% in the three and six months ended June 30, 2016 versus the three and six months ended June 30, 2015 mainly due to lower consulting fees, sales travel and trade show expenses.

Loss from Operations

The Company had a loss from operations of \$63,228 in the three months ended June 30, 2016 compared with an operating loss of \$166,461 in the three months ended June 30, 2015. For the six months ended June 30, 2016, the Company had an operating loss of \$422,812 compared with an operating loss of \$103,934 in the same period last year.

Other Income and Expense

Net interest expense for the three months ended June 30, 2016 was \$43,000 compared to \$45,000 in the same period in 2015. Net interest expense for the six months ended June 30, 2015 was \$85,000 compared to \$89,000 in the same period in 2015.

Income Taxes

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

For the three and six months ended June 30, 2016 and 2015, the Company did not record a current provision for either state or federal income tax due to the losses incurred for both income tax and financial reporting purposes or the availability of net operating loss carry-forwards to offset against federal and state income tax.

In evaluating the Company's ability to recover deferred tax assets in future periods, management considers the available positive and negative factors, including the Company's recent operating results, the existence of cumulative losses and near term forecasts of future taxable income consistent with the plans and estimates that management uses to manage the underlying business. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company over the three-year period ended December 31, 2015 and the six month period ended June 30, 2016. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

As a result, the Company's management concluded that it is more likely than not that the Company will not be able to realize any portion of the benefit on the net deferred tax balance of \$4,877,000 and therefore the Company maintains a valuation allowance for the full amount of the net deferred tax balance.

Net Income (Loss)

For the three and six months ended June 30, 2016, the Company had a net loss of \$105,000 and \$508,000 respectively, compared to a net loss of \$211,000 and \$193,000, respectively, for the same periods in 2015 primarily due to slightly lower sales.

Liquidity and Capital Resources

The Company's primary source of liquidity is cash and on-going collection of accounts receivable. The Company's major use of cash in recent years has been for financing operating losses, payment of accrued and current interest on convertible debt, servicing of long term debt and capital expenditures.

As of June 30, 2016 and December 31, 2015, the Company had cash and cash equivalents of \$872,000 and \$674,000, respectively.

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

On June 9, 2016, the maturity dates of a \$1,500,000 Subordinated Convertible Promissory Note to Clarex Limited ("Clarex") and a \$1,000,000 Subordinated Convertible Promissory Note to an affiliate of Clarex were each extended to April 1, 2019 from April 1, 2017. The notes bear interest at 6%. Interest accrues yearly and is payable on maturity. Unpaid interest, along with principal, may be converted into securities of the Company as follows: the notes are convertible in the aggregate into 1,500,000 units and 1,000,000 units, respectively, with each unit consisting of one share of common stock and one warrant. Each warrant allows the holder to acquire 0.75 shares of common stock at a price of \$1.35 per share. As part of the agreement, the expiration dates of the warrants were extended from April 1, 2020 to April 1, 2022. As of June 30, 2016, the Company had accrued interest in the amount of \$37,500 associated with these notes.

The following table summarizes net cash (used in) operating, investing and financing activities for the six months ended June 30, 2016 and 2015:

| | Six Months Ended | |
|--|-------------------------|-----------|
| | June 30, | |
| | 2016 | 2015 |
| | (In thousands) | |
| Net cash provided by (used in) operating activities | \$ 319 | \$ (124) |
| Net cash (used in) investing activities | (36) | (27) |
| Net cash (used in) financing activities | (85) | (81) |
| Net increase (decrease) in cash and cash equivalents | \$ 198 | \$ (232) |

Net cash provided by (used in) operating activities was \$319,000 for the six months ended June 30, 2016 compared to (\$124,000) in the same period last year.

The increase in net cash provided by operating activities in the six months ended June 30, 2016 resulted primarily from the Company's net decrease in working capital offset by increased operating losses as compared to the six months ended June 30, 2015.

Net cash used in investing activities was \$36,000 during the six months ended June 30, 2016 compared to \$27,000 last year. The expenditures in 2016 and 2015 were primarily for operating equipment and capitalized license fees. Net cash used in financing activities was \$85,000 and \$81,000 during the six months ended June 30, 2016 and 2015, respectively, related to principal payments made on other long term notes.

Overall, the Company had a net increase in cash and cash equivalents of \$198,000 in the six months ended June 30, 2016 compared with a net decrease of \$232,000 for the six months ended June 30, 2015.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of June 30, 2016 (the "Evaluation Date"), have concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (2) is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

b. Changes in Internal Controls over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable

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

None.

ITEM 3. DEFAULTS UNDER SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

11. An exhibit showing the computation of per-share earnings is omitted because the computation can be clearly determined from the material contained in this Quarterly Report on Form 10-Q.

31.1 Certificate of the Registrant's Chief Executive Officer, Amy Eskilson, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

31.2 Certificate of the Registrant's Chief Financial Officer, William J. Foote, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1 Certificate of the Registrant's Chief Executive Officer, Amy Eskilson, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

32.2 Certificate of the Registrant's Chief Financial Officer, William J. Foote, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

101.INSXBRL Instance Document*

101.SCHXBRL Taxonomy Extension Schema*

101.CALXBRL Taxonomy Extension Calculation Linkbase*

101.DEF XBRL Taxonomy Extension Definition Linkbase*

101.LABXBRL Taxonomy Extension Label Linkbase*

101.PREXBRL Taxonomy Extension Presentation Linkbase*

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Inrad Optics, Inc.

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

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

Date: August 15, 2016