

PRECISION OPTICS CORPORATION, INC.

Form S-1

October 09, 2014

As filed with the Securities and Exchange Commission on October 9, 2014

Registration Statement No. 333-\_\_\_\_\_

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

PRECISION OPTICS CORPORATION, INC.

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of  
incorporation

or organization)

3845

(Primary Standard Industrial  
Classification

Code Number)

04-2795294

(I.R.S. Employer Identification  
Number)

Precision Optics Corporation, Inc.

22 East Broadway  
Gardner, MA 01440  
(978) 630-1800

(Address and telephone number of registrant's principal executive offices)

Dr. Joseph N. Forkey

Precision Optics Corporation, Inc.  
22 East Broadway  
Gardner, MA 01440  
(978) 630-1800

(Name, address, and telephone of  
agent for service)

Copies of communications to:

**Amy M. Trombly, Esq.**

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Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered (1)</b>	<b>Proposed Maximum Offering Price Per Unit (2)</b>	<b>Proposed Maximum Aggregate Offering Price (2)</b>	<b>Amount of Registration Fee</b>

Common Stock, par value \$0.01, to be sold by existing stockholders	1,717,152	\$0.75	\$1,287,864.00	\$149.65
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Pursuant to Rule 416(a) of the Securities Act of 1933, as amended, this registration statement shall be deemed to (1) cover additional securities that may be offered or issued to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457 of the Securities Act. The price per share and aggregate offering prices for the shares registered hereby are calculated on the basis of \$0.75, which is the average of the high and low prices of the registrant's common stock as reported on the OTCQB on October 6, 2014.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

## **PROSPECTUS**

### **PRECISION OPTICS CORPORATION, INC.**

#### **OFFERING UP TO 1,717,152 SHARES OF COMMON STOCK**

This prospectus relates to the sale or other disposition of up to 1,717,152 shares of our common stock by selling stockholders. We are not selling any securities in this offering and therefore will not receive any proceeds from this offering. All costs associated with this registration will be borne by us. Our common stock is quoted on the OTCQB under the symbol "PEYE." On October 7, 2014, the last reported sale price of our common stock on the OTCQB was \$0.87 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 3.**

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.

Subject to completion, the date of this prospectus is October 9, 2014.

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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 website is [www.poci.com](http://www.poci.com). Information contained on our website does not constitute part of this prospectus.

We have been developing and manufacturing advanced optical instruments since 1982. Today, the vast majority of our business is the design and manufacture of high-quality medical devices and approximately 10% of our business 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 these areas, combined with recent developments in the areas of 3D displays and millimeter sized image sensors, has allowed us to begin commercialization of these technologies. We believe that new products based on these technologies provide enhanced imaging for existing surgical procedures and can enable development of many new procedures.

### **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 audited financial statements for the fiscal years ended June 30, 2014 and 2013.

	2014	2013
Revenues	\$3,651,181	\$2,519,743
Cost of Goods Sold	2,850,386	1,865,315
Gross profit	800,795	654,428
Research and Development Expenses, net	471,106	630,294
Selling, General and Administrative Expenses	1,503,443	1,261,141
Gain on Sale of Assets	(14,028 )	(4,498 )
Total operating expenses	1,960,521	1,886,937
Operating loss	(1,159,726)	(1,232,509)
Non-cash provision for Claims for Liquidated Damages	–	(629,000 )
Other Income	–	76,149
Interest Expense	–	(1,408 )
Income (Loss) before provision for income taxes	(1,159,726)	(1,786,768)
Provision for Income Taxes	912	912
Net Income (loss)	\$(1,160,638)	\$(1,787,680)



**THE OFFERING**

Common stock outstanding as of October 1, 2014	6,262,584 shares
Common stock to be registered	1,717,152 shares
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

**THE TRANSACTION**

On July 1 through July 7, 2014, we closed agreements with institutional and accredited investors for the sale and purchase of 1,717,152 shares of our common stock, \$0.01 par value at a purchase price of \$0.60 per share. We received \$1,030,291 in gross proceeds from the offering. We anticipate using the net proceeds from this placement for general working capital.

In conjunction with the placement, 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 forty-five calendar days after July 1, 2014 to register the resale by the investors of the 1,717,152 shares of the common stock purchased in the placement. Subsequently, the parties agreed to extend the date by which we are obligated to register the resale of the shares by the investors.

The selling stockholders who participated in the July 2014 offering are as follows:

Selling Stockholder	Common shares purchased in the July 2014 Offering	Consideration paid for common stock and in the July 2014 Offering
Arnold Schumsky	83,334	\$ 50,000
Bird Asset Management, LP	83,334	\$ 50,000
Stuart L. Sternberg	166,667	\$ 100,000
MHW Partners, LP	125,000	\$ 75,000

Garret Herman	12,035	\$ 7,221
Pamela O'Connor	40,115	\$ 24,069
F & M18 Investment Partnership	40,000	\$ 24,000
Hershey Strategic Capital, LP	1,166,667	\$ 700,000
TOTAL	1,717,152	\$ 1,030,291

***Material Relationships between the Selling Stockholders and Our Company***

We have or have had the following material relationships with selling stockholders or an affiliate of a selling stockholder:

*5% Holders*

At the time of the July 2014 private placement described above, Mr. Arnold Schumsky was a beneficial owner of more than 5% of our common stock. He has been an investor in our Company for many years and has been known to us as a 5% holder since 2007.

At the time of the July 2014 private placement described above, MHW Partners, LP was a beneficial owner of more than 5% of our common stock. MHW Partners, LP has been known to us as a 5% holder since 2012. Mr. Peter 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, LP.

At the time of the July 2014 private placement described above, Hershey Strategic Capital, LP was not a beneficial owner of more than 5% of our common stock. However, on July 1, 2014, as a result of this offering Hershey Strategic Capital became a 5% holder of our common stock and is as of the date of this filing.

*Directors*

Hershey Strategic Capital, LP is a selling stockholder. Pursuant to the sale and purchase agreement for this offering between the Company and accredited investors reported on our current report on Form 8-K filed July 7, 2014, we are required to appoint two qualified individuals named by Hershey Strategic Capital LP to our Board of Directors. Those individuals shall serve for three years or until their resignation or proper removal, whichever is earlier. Mr. Peter Woodward is the founder and manager of MHW Partners, LP, who is a selling stockholder. On July 9, 2014, Mr. Woodward was appointed to our Board of Directors by Hershey Strategic Management, LP, in connection with the sale and purchase agreement between the Company and accredited investors.

**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 this prospectus and our annual report on Form 10-K for the fiscal year ended June 30, 2014 filed with the SEC on September 29, 2014. 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 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, 2014, our three largest customers represented approximately 21%, 21% and 14%, respectively, of our total revenues. In the fiscal year ended June 30, 2013, our two largest customers represented approximately 54% and 13%, respectively, of our total revenues. No other customer accounted for more than 10% of our revenues during those periods. At June 30, 2014, receivables from our three largest customers were 30%, 17% 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, 2014, receivables from our three largest customers were 30%, 17% and 11%, respectively, of the 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. We have not purchased insurance on our accounts receivable balances.

***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 related to biophysics and biomedical instrumentation.

***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 produce our products and our business could be damaged.

***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 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 market our current products or may not obtain the necessary regulatory permission, approvals or licenses for the 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 market our current products or we do not obtain regulatory permission to 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.

***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. 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 that 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 October 1, 2014, 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” rules and it is anticipated 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, 2014, there were 409,087 shares of our common stock issuable upon exercise of stock options outstanding, at a weighted average exercise price of \$4.49 per share. As of June 30, 2014, a total of 117,200 shares and 27,198 shares, respectively, of our common stock, are reserved for issuance under our 2011 and 2006 Equity Incentive Plans. As of June 30, 2014, there are also warrants outstanding for the issuance of an aggregate of an additional 2,983,752 shares of our common stock, at a weighted average exercise price of \$1.25 per share. 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.

## **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 proceeds from the sale or other disposition of shares of common stock being sold by our selling stockholders.

## **SELLING SECURITY HOLDERS**

Based upon information available to us as of October 1, 2014, 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 discussion 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 the holder 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	Ownership Before Offering (1)	Percentage of Outstanding Shares Owned Prior to Offering (2)	Number of Shares Offered	Number of Shares Owned After Offering (1)(3)	Percentage of Shares Owned After Offering (3)
Arnold Schumsky (4)	326,251	5.1%	83,334	242,917	3.8%
Bird Asset Management, LP (5)	83,334	1.3%	83,334	0	0
Stuart Sternberg (6)	166,667	2.7%	166,667	0	0
MHW Partners, LP (7)	502,780	7.8%	125,000	377,780	5.9%
Garret Herman (8)	12,035	*	12,035	0	0
Pamela O'Connor (9)	229,006	3.6%	40,115	188,891	3.0%
F&M18 Investment Partnership (10)	40,000	1.0%	40,000	0	0
Hershey Strategic Capital, LP (11)	1,166,667	18.6%	1,166,667	0	0

\* Percentage of shares owned does not exceed one percent.

(1) The column includes common stock beneficially owned, including shares being registered by this registration statement and shares that may be acquired upon exercise of warrants.

(2) Based on 6,262,584 shares outstanding as of October 1, 2014.

These numbers assume the selling stockholders sell all of their shares being registered in this registration statement (3) and they do not sell any of the other common stock or warrants they own on October 1, 2014 that are not included in this registration statement.

We relied, in part, on a Schedule 13D filed with the SEC on June 6, 2007 by Arnold Schumsky for this information. Arnold Schumsky has sole voting and investment power over the shares. Mr. Schumsky beneficially owns a total of 326,251 shares of common stock. His ownership consists of (i) 213,764 shares of common stock owned and (ii) 112,487 shares that may be acquired upon the exercise of outstanding warrants. However, the aggregate number of shares of common stock into which 58,334 warrants of the total warrants held by Mr.

(4) Schumsky are exercisable, and which Mr. Schumsky has the right to acquire, is limited to the number of shares of common stock that, together with all other shares of common stock beneficially owned by Mr. Schumsky, does not exceed 4.999% of the total outstanding shares of common stock. Accordingly, 58,334 warrants are not currently exercisable into common stock until the actual shares of common stock held by Mr. Schumsky is less than 4.999% of the total outstanding shares of our common stock. Mr. Schumsky may waive this 4.999% restriction with 61 days' notice to us.

(5)

Bird Asset Management, LP owns 83,334 shares of common stock. As managing Member of Bird Asset Management, LP, Mr. Michael Early has voting and investment power over the shares.

(6) Stuart Sternberg owns 166,667 shares of common stock and has sole voting and investment power over the shares.

(7) We relied, in part, on a Schedule 13G jointly filed with the SEC on July 24, 2014 by MHW Partners, L.P., MHW Capital, LLC, MHW Capital Management, LLC 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. Pursuant to the transaction described above, Mr. Woodward was appointed to our Board on July 9, 2014. At the time of the July 2014 private placement, MHW Partners, LP was a beneficial owner of more than 5% of our common stock.

MHW Partners, L.P. beneficially owns 502,780 shares of common stock. Its ownership consists of (i) 347,223 shares of common stock, and 155,557 shares that may be acquired upon the exercise of outstanding warrants. However, the aggregate number of shares of common stock into which such warrants are exercisable, and which MHW Partners, L.P. has the right to acquire, 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 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.

(8) Garrett Herman beneficially owns 12,035 shares of common stock and has sole voting and investment power over the shares.

Pamela F. O'Connor beneficially owns 229,006 shares of common stock. Her ownership consists of (i) 151,227 (9) shares of common stock and (ii) 77,779 shares of common stock that may be acquired upon the exercise of outstanding warrants. Ms. O'Connor has sole voting and investment control over the shares she owns.

F&M18 Investment Partnership owns 40,000 shares of common stock. John J. Moroney is the general partner of (10) F&M18 Investment Partnership and as such has voting and investment control over the shares held by F&M18 Investment Partnership.

Hershey Strategic Capital, LP owns 1,166,667 shares of our common stock. Adam Hershey is the Managing (11) Member of Hershey Strategic Capital, LP, and as such has voting an investment control over the shares held by Hershey Strategic Capital, LP.

## 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, 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 vast majority of our business is the design and manufacture of high-quality medical devices and approximately 10% of our business 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 these areas, combined with recent developments in the areas of 3D displays and millimeter sized image sensors, has allowed us to begin commercialization of these technologies. We believe that new products based on these technologies provide enhanced imaging for existing surgical procedures and can enable development of many new procedures.

#### **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](http://www.poci.com). Information contained on our website does not constitute part of this prospectus.

## **Principal Products and Services**

**Our Current Core Business:** 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 (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. While we have manufactured Microprecision™ components for the last few years, we only recently received production orders for endoscopes and camera assemblies that use our Microprecision™ technology.

**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.

## 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 and micro medical cameras, as well as 3D endoscopes currently represent competitive advantages for us in the minimally invasive surgical device market.

## Market Opportunities

Microprecision™ lenses and Micro Medical Cameras: While other approaches exist for the manufacture of camera lenses, we believe that no lens on the market today has the combination of low cost, small size, range of optical specifications and high image quality required for many medical applications that our lenses have. 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 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: 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. However, we believe the use of 3D endoscopes in hand-held, non-robotic systems has been limited in the past by the high cost of good quality 3D display systems. Recently, the cost of high quality 3D display systems has dropped dramatically, driven by demand in the consumer market. Now, low cost, high quality 3D display systems, such as 3D televisions, are newly available in the market, which we believe enables the development of 3D hand-held endoscopy and creates a new market opportunity for our 3D endoscopes. To take advantage of this developing market, we have designed and built a high definition 3D endoscope for use in hand-held 3D endoscopy systems.

## **Sales and Marketing**

We market our 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, 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. In the future, we may establish or use additional production facilities overseas to produce key components for our business, such as lenses. Since the 1990s, we have maintained a Hong Kong subsidiary to support business and quality control activities as required throughout Asia. We believe that the cost savings from such overseas production may be essential to our ability 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. Research and development expenses are incurred on our own proprietary products and technology such as Microprecision™ optics, micro medical cameras and 3D endoscopes, as well as on certain custom projects on behalf of our customers. Accordingly, we expect to continue to seek to obtain product-related design and development contracts with customers and to invest our own funds in research and development. For the years ended June 30, 2014 and 2013, research and development expenses, net amounted to \$471,106 and \$630,294, respectively. For the years ended June 30, 2014 and 2013, research and development expenses were net of reimbursement from customers of related costs of \$45,997 and \$87,496, 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. For optical thin film coatings, the basic raw materials we utilize are metals and dielectric compounds, which we obtain from a variety of chemical suppliers. Certain of the thin film coatings utilized in our products are currently procured from an outside supplier, but most thin film coatings are produced in-house. We believe that our demand for these raw materials and thin film coating services is small relative to the total supply and that the materials and services required for the production of our products are currently available in sufficient production quantities and will remain available for at least the next twelve months.

## 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 thirteen United States patents, and have five 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: 7 issued, 1 pending
- 3-D endoscopes: 3 issued, 2 pending
- Microprecision™ lenses and micro medical cameras: 2 issued, 2 pending
- Military products: 1 issued

The patents contained in our current patent portfolio have expiration dates ranging from October 2015 to August 2026. 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 and micro medical cameras and to aggressively pursue patent protection for such developments.

## Employees

As of October 1, 2014, we had 39 employees, 37 of which were full-time employees. There were 25 employees in manufacturing, 5 in engineering/research and development, 1 in sales and marketing and 8 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 2014 and 2013 were as follows:

	Year Ended	
	June 30	
	2014	2013
Customer A	21 %	13 %
Customer B	21	54
Customer C	14	1
All others	44	32
	100%	100 %

No other customer accounted for more than 10% of our revenues in fiscal years 2014 and 2013. At June 30, 2014, receivables from our three largest customers were 30%, 17% and 11%, respectively, of total accounts receivable.

## **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](http://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 prospectus.

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 two facilities in Gardner, Massachusetts. The main Gardner facility is leased from a corporation owned by Mr. Richard Forkey, who resigned from our board of directors on July 9, 2014, but continues to be involved with our Company as the Founder and Director Emeritus. The lease terminated in December 1999 and we are currently a tenant-at-will, paying rent of \$9,000 per month. We rent the other Gardner facility on a month-to-month basis. We also rent office space in Hong Kong for sales, marketing and supplier quality control and liaison activities related to our Hong Kong subsidiary.



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 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, other than as set forth above.

## 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. Our common stock was quoted on the OTCBB until February 23, 2011. The following table sets forth the high and low bid prices for our common stock for each quarter during the last two fiscal years 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, 2013		
First Quarter ended September 30, 2012	\$1.50	\$0.85
Second Quarter ended December 31, 2012	\$1.19	\$0.80
Third Quarter ended March 31, 2013	\$0.90	\$0.44
Fourth Quarter ended June 30, 2013	\$0.86	\$0.25

For the Fiscal Year Ended June 30, 2014

First Quarter ended September 30, 2013	\$1.09	\$0.33
Second Quarter ended December 31, 2013	\$0.95	\$0.40
Third Quarter ended March 31, 2014	\$1.05	\$0.70
Fourth Quarter ended June 30, 2014	\$1.00	\$0.71
For the Fiscal Year Ended June 30, 2015		
First Quarter ended September 30, 2014	\$0.95	\$0.72
Second Quarter ended December 31, 2014 (through October 7, 2014)	\$0.87	\$0.75

## Holders

As of October 1, 2014, we had approximately 100 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 expansion of our business.

## Recent Sales of Unregistered Securities

On July 1 through July 7, 2014, we closed agreements with institutional and accredited investors for the sale and purchase of 1,717,152 shares of our common stock, \$0.01 par value at a purchase price of \$0.60 per share. We received \$1,030,291 in gross proceeds from the offering. We anticipate using the net proceeds from this placement for general working capital purposes. Of this amount, \$50,000 was received in June 2014 and the remainder was received in July 2014.

In conjunction with the placement, 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 forty-five calendar days after July 1, 2014 to register the resale by the investors of the 1,717,152 shares of the common stock purchased in the placement. Subsequent to the execution of the agreement, the parties agreed to extend the time period by which we are obligated to file a registration statement with the Securities Exchange Commission.

On July 22, 2014, we issued 78,000 restricted shares of our common stock to Mr. Jeff DiRubio as compensation for services rendered to us.

On July 22, 2014, we issued 12,298 restricted shares of our common stock to Mr. Kevin Dahill as compensation for services rendered to us.

We relied on the Section 4(a)(2) exemption from securities registration under the federal securities laws for transactions not involving any public offering. No advertising or general solicitation was employed in offering the securities. The securities were issued to accredited investors. The securities were offered for investment purposes only and not for the purpose of resale or distribution, and the transfers thereof was appropriately restricted by us.

### Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information about our equity compensation plans as of June 30, 2014.

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	201,287	\$ 7.72	27,198
Equity compensation plans not approved by security holders	207,800	\$ 1.20	117,200

Total	409,087	\$	4.41	144,398
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*2006 Equity Incentive Plan*

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

*2011 Equity Incentive Plan*

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

## **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 Registration Statement on Form S-1. 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.

### **Overview**

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 10% of our business 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 these areas, combined with recent developments in the areas of 3D displays and millimeter sized image sensors, has allowed us to begin commercialization of these technologies. We believe that new products based on these technologies provide enhanced imaging for existing surgical procedures and can enable development of many new procedures.

We are registered to the ISO 9001:2008 and ISO 13485:2003 Quality Standards and comply with the FDA Good Manufacturing Practices and the European Union Medical Device Directive for CE marking of our medical products. Our internet website is [www.poci.com](http://www.poci.com). Information on our website is not intended to be integrated into this prospectus.

The areas in which we do business are highly competitive and include both foreign and domestic competitors. Many of our competitors are larger and have substantially greater resources than we do. Furthermore, other domestic or foreign companies, some with greater financial resources than we have, may seek to produce products or services that compete with ours. We routinely outsource specialized production efforts as required to obtain the most cost effective production. Over the years, we have achieved extensive experience collaborating with other optical specialists worldwide and since the 1990s, we have maintained a Hong Kong subsidiary to support business and quality control activities as required throughout Asia.

We believe that competition for sales of our medical products and services, which have been principally sold to original equipment manufacturer, or OEM, customers, is based on performance and other technical features, as well as other factors, such as scheduling and reliability, in addition to competitive price.

We believe that our future success depends to a large degree on our ability to continue to conceive and to develop new optical products and services to enhance the performance characteristics and methods of manufacture of existing products. Accordingly, we expect to continue seeking and obtaining 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<sup>TM</sup> optics, micro medical cameras and 3D endoscopes.

### Critical Accounting Policies and Estimates

Our critical accounting policies are included in the Notes to our Financial Statements contained in this Registration Statement of Form S-1.

### Results of Operations for the Fiscal Year Ended June 30, 2014 as Compared to the Fiscal Year Ended June 30, 2013

Total revenues for fiscal year 2014 were \$3,651,181, an increase of \$1,131,438, or 44.9%, from revenues for fiscal year 2013 of \$2,519,743. The increase in revenues for fiscal year 2014 as compared to the prior year was due to higher unit volume sales of endocouplers, endoscopes, micro optics and initial sales of scanning otoscopes and 120 degree fiber scopes, which was partially offset by lower unit volume sales of the advanced surgical visualization system used in spinal surgery.

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

	Year Ended		June 30	
	2014	2013		
Customer A	21 %	13 %		
Customer B	21	54		
Customer C	14	1		
All others	44	32		
	100%	100 %		



No other customer accounted for more than 10% of our revenues in fiscal years 2014 and 2013.

Gross profit for fiscal year 2014 of \$800,795 reflected an increase of \$146,367 as compared to gross profit for fiscal year 2013 of \$654,428. Gross profit as a percentage of revenues for fiscal year 2014 was 21.9% as compared to gross profit as a percentage of revenues for fiscal year 2013 of 26.0%. The decrease in our gross profit percentage was due primarily to less favorable product mix and certain nonrecurring manufacturing startup expenses related to the introduction of new products, which was partially offset by higher overall unit sales volume.

Research and development expenses, net were \$471,106 for fiscal year 2014 as compared to \$630,294 for fiscal year 2013. The decrease of \$159,188, or 25.3%, for fiscal year 2014 as compared to the prior year was due primarily to lower spending on research and development related efforts. Research and development expenses depend on our assessment of new product opportunities and available resources. Research and development expenses were net of reimbursement from customers of related costs of \$45,997 during fiscal year 2014 and \$87,496 during fiscal year 2013.

Selling, general and administrative expenses increased by \$242,302, or 19.2 %, to \$1,503,443 for fiscal year 2014 as compared to \$1,261,141 for fiscal year 2013. The increase for fiscal year 2014 was primarily due to higher legal, consulting, stock-based compensation, and selling expenses.

The gain on sale of assets and other in fiscal years 2014 and 2013 of \$14,028 and \$4,498, respectively, represents primarily the sale of previously written off assets for proceeds of \$14,028 and \$4,498, respectively.

In December 2012, we settled \$106,149 of accounts payable with a vendor for a negotiated payment of \$30,000, and recorded a gain of \$76,149. The gain is included within other income in the accompanying consolidated statements of operations for fiscal year 2013.

The income tax provisions in fiscal years 2014 and 2013 represent the minimum statutory state income tax liability.

## **Liquidity and Capital Resources**

We believe the following technology areas continue to represent significant opportunities for our future sales growth:



Microprecision<sup>TM</sup> optical elements and micro medical camera assemblies with sizes on the order of 1 mm and smaller, that enable the introduction of imaging capabilities in locations in the body previously inaccessible and, when coupled with the latest in small complementary metal-oxide-semiconductor (CMOS) technology, enable production of single-use endoscopes that eliminate the risks associated with re-sterilization of existing endoscopes; and next generation handheld 3D endoscopes that provide high definition 3D images for use in minimally invasive surgery.

We compete in a highly technical, very competitive and in most cases, price driven segment of the medical instrument marketplace where products can take years to develop and introduce to distributors and end users. Furthermore, research and development, manufacturing, marketing and distribution activities are strictly regulated by the U.S. Food and Drug Administration, or FDA, International Organization for Standardization, or ISO and other regulatory bodies that, while intended to enhance the ultimate quality and functionality of products produced, can contribute to the significant cost and time needed to maintain existing products, and to develop and introduce product enhancements and new product innovations.

We have traditionally funded working capital needs through product sales, management of working capital components of our business, and by cash received from public and private offerings of our common stock, warrants to purchase shares of our common stock or convertible notes. We have incurred quarter to quarter operating losses during our efforts to develop current products including Microprecision<sup>TM</sup> optical elements, micro medical camera assemblies and 3D endoscopes. Our management expects that such operating losses will continue until sales increase to breakeven and profitable levels. Our management also believes that the opportunities represented by these products have the potential to generate sales increases to achieve breakeven and profitable results.

Until we achieve breakeven and profitable results, we will be required to pursue several options to manage cash flow and raise capital, including issuing debt or equity or entering into a strategic alliance. The sale of additional equity or convertible debt securities would result in additional dilution to our current 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.

During the year ended June 30, 2014, we incurred a net loss from operations of \$1,159,726 and used cash in operating activities of \$886,031. As of June 30, 2014, cash and cash equivalents were \$202,380, accounts receivable were \$531,049, and current liabilities were \$1,095,877. As of June 30, 2013, cash and cash equivalents were \$1,034,587, accounts receivable were \$278,700, and current liabilities were \$592,886.

On July 1 through July 7, 2014, we closed agreements with institutional and accredited investors for the sale and purchase of 1,717,152 shares of the Company's common stock at a purchase price of \$0.60 per share. We received

\$1,030,291 in gross proceeds from the offering. We anticipate using the net proceeds from this placement for general working capital purposes. Of this amount, \$50,000 was received in June 2014 and the remainder was received in July 2014.

Capital equipment expenditures during fiscal year 2014 and fiscal year 2013 were \$1,680 and \$11,061, respectively. Future capital equipment expenditures will be dependent upon future sales and success of on-going research and development efforts.

Contractual cash commitments for the fiscal years subsequent to June 30, 2014 are summarized as follows:

	2015	2016	Thereafter	Total
Operating Leases	\$13,178	\$776	\$ 776	\$14,730

We have contractual cash commitments related to open purchase orders as of June 30, 2014 of approximately \$221,000.

### **Trends and Uncertainties That May Affect Future Results**

We are excited about the continued development, commercialization, and market acceptance of our new products and technical innovations based upon our unique proprietary technology. For the year ended June 30, 2014, approximately 75% of our sales were made to our top six customers. Of these, two are large, international, medical device companies who have been our customers for many years. Both of these customers continue to purchase products that we developed over five years ago, and both now purchase our new products that were developed and launched into production more recently. The other four top customers purchase products that we developed in just the last couple years, and which rely heavily on our unique, proprietary Microprecision™ lens technology and optical visualization system expertise.

In April 2012, we accepted an order from one of these new customers to purchase endoscopes for a total purchase amount of \$1,032,000. We have now completed pre-production activities and recently began production shipments against this order, which relies heavily on our proprietary Microprecision™ technology. During the last year, we have supplied engineering and manufacturing services to another of these new customers, who is developing next generation otoscope devices used for the treatment of ears. We have delivered pre-production otoscopes, which have performed well during testing by our customer. We continue to sell engineering and manufacturing services to this customer and expect to ultimately manufacture this product when it is released to production in the next 9 to 12 months. Also during the last year, we provided two of our largest customers with new optical lenses and prisms with small sizes, enabled by our proprietary Microprecision™ technology.

We continue to work with new customers to lay the groundwork for future products. During fiscal 2014, we provided design and engineering services to a major consumer and professional electronics and camera manufacturer to develop a new 3D adapter for use with ophthalmologic microscopes for use in eye treatments. Utilizing our extensive

experience and proprietary design approaches for 3D visualization, we have delivered pre-production units that our customer demonstrated to leaders in the ophthalmologic community with very positive response. We received an initial order for production units of this device in July 2014 and are beginning production now.

During fiscal 2014, we began work with two additional customers and continued work with an existing customer to provide design and engineering services for devices that are enabled by our Microprecision<sup>TM</sup> lenses and proprietary technology for the design and manufacture of small cameras for use in medical applications. For one of these projects, we have begun high volume production. The other two are expected to begin production in the next 12 months.

We have also focused recent operational efforts on sales and marketing activities 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 handheld 3D endoscopy. We continue to attend trade shows to announce our new technology, most recently at the Medical Design & Manufacturing East show in New York City in June 2014. During fiscal year 2014, we advertised, for the first time, through a business-to-business e-commerce platform. Photonics Online, [www.photonicsonline.com](http://www.photonicsonline.com), has a target audience of optical engineering design and manufacturing professionals and has over 34,000 subscribers to their monthly email newsletter. Because of the increased awareness of our new technology generated by our presence at trade shows, advertising on Photonics Online and direct email messages to our own customer database that we have built over the last 30 years, we have more than doubled the rate that we received requests for quotes during fiscal year 2014. As we begin fiscal year 2015, we are continuing to build on recent successes in this area by continuing the activities summarized above while adding additional advertising through a second business-to-business e-commerce platform, Med Device Online, [www.meddeviceonline.com](http://www.meddeviceonline.com), which targets technical professionals working in the medical device industry.

Due to the introductory stage of many of our new products and the unpredictable timing of orders from customers, it is difficult to predict with certainty the detailed rate of future revenue growth. As summarized above, we have received significant new orders for a number of new products, which rely on our Microprecision™ lens technology and associated capabilities. We believe these orders will help to increase our revenues in future quarters. Also, we expect that current discussions with existing and new potential customers could lead to increases in our revenues. To continue to support orders for new products as well as ongoing and future discussions, we intend to continue to develop and commercialize new products and technical innovations, including:

- new components and instruments utilizing our patented Microprecision™ lens technology for optical components and micro medical camera assemblies with sizes on the order of 1 millimeter and smaller; and
- new 3D imaging technology for use in handheld 3D endoscopes, and for 3D monitor-based visualization through surgical microscopes.

Over the past few years, we have implemented significant changes in new product and technology development by shifting the emphasis of research and development efforts from developing underlying technologies to commercializing the applications of these new technologies. These efforts have already been realized to some degree in the area of Microprecision™ lenses with ongoing shipments now in place, including shipments against orders for micro medical camera assemblies. While most of our current orders for Microprecision™ lenses support medical applications, we are now beginning to explore additional applications including those in the defense and surveillance markets.

We have also developed and manufactured prototypes of a new 3D endoscope with high definition quality imaging and 10 mm diameter for use in general laparoscopic surgery. This next generation 3D endoscope has been evaluated by a number of medical professionals and has been received enthusiastically. We believe that with the advent of commercially available high quality flat panel 3D displays, handheld 3D endoscopy represents an opportunity for sales growth for our Company. In addition, the technology we have developed for 3D endoscopy can also be used for 3D monitor-based visualization through surgical microscopes.

### **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 public accountant 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 and Executive Officers

Set forth below is certain information with respect to the individuals who are our directors and executive officers as of October 1, 2014.

<b>Name</b>	<b>Age</b>	<b>Position(s) or Office(s) Held</b>
Joseph N. Forkey	46	Chairman of the Board of Directors, Chief Executive Officer, President and Treasurer
Jack P. Dreimiller	66	Senior Vice President, Finance and Chief Financial Officer
Donald A. Major	53	Executive Vice President for Corporate Development and Director
Richard E. Forkey	74	Director Emeritus*
Richard B. Miles	71	Director
Joel R. Pitlor	71	Director
Kenneth S. Schwartz	69	Director**
Peter H. Woodward	41	Chairman of the Board of Directors**

\* Director until July 9, 2014, on which date he became Director Emeritus

\*\*Appointed July 9, 2014

**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. As of August 31, 2014, our Class I director is Richard E. Forkey. Our Class II directors are Joel R. Pitlor and Donald A. Major. Our Class III directors are Joseph N. Forkey and Richard Miles. Due to their recent appointments, Peter Woodward and Kenneth Schwartz have not been added to classes yet.

**Biographies and Qualifications of Our Executive Officers and Directors.** The biographies of our executive officers and 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 an executive officer and/or director of our Company are as follows:

*Dr. Joseph N. Forkey*

Dr. Joseph N. Forkey, son of Richard E. Forkey, has served as Chairman of our Board of Directors, 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 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.

*Jack P. Dreimiller*

Mr. Jack P. Dreimiller has served as our Senior Vice President, Finance and Chief Financial Officer since August 15, 2008. Prior to that time, he served as our Senior Vice President, Finance and Chief Financial Officer from April 1992 until June 2005, and as an independent consultant to our Company from June 2005 to December 2005. Since June 2005, he has served as an independent consultant serving various roles as financial/accounting executive, including interim Chief Financial Officer, for a number of companies. Mr. Dreimiller is a Certified Public Accountant (inactive) and holds a BS in Business Administration from the University of Buffalo. He has over twenty-five years of experience in various senior financial management positions, including audit and consulting experience with an international accounting firm, and Controller and VP Finance experience with both small firms and multi-national corporations.

***Donald A. Major***

Effective February 9, 2012, our Board of Directors appointed Mr. Donald A. Major as our Executive Vice President for Corporate Development, in addition to his ongoing role as a member of our Board of Directors. He has served as a member of our Board since 2005. Mr. Major is co-founder & Chief Manager of Window2Decor, LLC, a start-up e-commerce retailer of window coverings and complimentary home accent products, and has been employed as an independent consultant since October 2007, providing companies with interim management, turnaround, restructuring and reorganization 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. He earned his B.A. in Accounting in 1984 from Michigan State University. He is a Certified Public Accountant (inactive) and has experience in the field of public accounting and in financial officer positions in publicly held and start-up medical device companies. Mr. Major is a valuable member of our Board due to his depth of operating, financial, accounting, management, and corporate efficiency experience.

***Richard E. Forkey***

Mr. Richard E. Forkey currently serves as 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.

***Richard B. Miles***

Professor Richard B. Miles was appointed to our Board of Directors in November 2005. He has been a member of the faculty at Princeton University since 1972, and serves as the Director of the Applied Physics Group in Princeton University's Mechanical and Aerospace Engineering Department. 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.



***Joel R. Pitlor***

Mr. Joel R. Pitlor has served as a member of our Board of Directors since June 1990. Since 1979, he has held the position of president of J.R. Pitlor, a management consulting firm which he founded that provides strategic business planning for executive officers. Mr. Pitlor has provided business planning consultation to us since 1983. Mr. Pitlor is a valuable member of our Board due to his depth of operating, strategic, financial planning, and management experience. Additionally, Mr. Pitlor has a detailed knowledge of the history of our Company having advised senior management for over 25 years.

***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 the Director of the Radiology Residency Program at Brookhaven Memorial Hospital Medical Center. 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 has served on the Board of Directors at ARKS Radiology Management, Inc. since June 1999 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 currently serves as the Chairman of the Board and member of the Audit Committee for Cartesian, Inc. and 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.

**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.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and persons who own more than 10% of a registered class of our securities to file reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission on Forms 3 (Initial Statement of Beneficial Ownership), 4 (Statement of Changes of Beneficial Ownership of Securities) and 5 (Annual Statement of Beneficial Ownership of Securities). Officers, directors and greater than 10% beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of reports provided to us by our officers and directors, we believe that, during the fiscal year ended June 30, 2014, no person required to file reports under Section 16(a) of the Securities Exchange Act of 1934 failed to file such reports on a timely basis during such fiscal year.

## **Code of Ethics**

We previously adopted a Corporate Code of Ethics and Conduct that applies to all employees, officers and directors of our Company, including our principal executive officer, principal financial officer and principal accounting officer or controller, or persons performing similar functions, a copy of which was filed as Exhibit 14.1 to our annual report on Form 10-K for the Fiscal Year Ended June 30, 2008 with the Securities and Exchange Commission on September 28, 2008. A copy of our Corporate Code of Ethics and Conduct can be obtained free of charge by contacting our Secretary, c/o Precision Optics Corporation, Inc., 22 East Broadway, Gardner, Massachusetts 01440.

## **Procedure for Nominating Directors**

There have been no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

The Board of Directors will consider candidates for director positions that are recommended by any of our stockholders. Any such recommendation should be provided to our Secretary. Recommendations should be submitted to us in writing addressed to our Secretary, c/o Precision Optics Corporation, Inc., 22 East Broadway, Gardner, Massachusetts 01440. The recommendation should include the following information: name of candidate; address, phone and fax number of candidate; a statement signed by the candidate certifying that the candidate wishes to be considered for nomination to our Board of Directors and stating why the candidate believes that he or she would be a valuable addition to our Board of Directors; a summary of the candidate's work experience for the prior five years and the number of shares of our stock beneficially owned by the candidate.

The Board will evaluate the recommended candidate and shall determine whether or not to proceed with the candidate in accordance with our procedures. We reserve the right to change our procedures at any time to comply with the requirements of applicable laws.

### **Committees of the Board of Directors**

The Board of Directors has the responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The Board's primary responsibility is to oversee management of our Company and, in so doing, serve the best interests of our Company and our stockholders.

Our Board of Directors has the ability to establish, or disband, such committees as necessary or appropriate to serve the needs of our Company. In February 2012, our Board of Directors made the determination to restructure and unanimously voted to disband its committees, including its Audit Committee. Our full Board of Directors performs all of the functions normally designated to an audit committee, compensation committee and nominating committee.

### **Audit Committee and Audit Committee Financial Expert**

As of February 2012, the Board of Directors no longer has a separately designated audit committee. Now, the functions of the audit committee are conducted by the entire Board, whose members are named above. We do not currently have an "audit committee financial expert," as defined in Item 407(d)(5)(ii) of Regulation S-K.

Mr. Major, whom formerly served as Chair of the Audit Committee and was determined by the Board to qualify as an audit committee financial expert, no longer meets the criteria set forth in Item 407(d)(5) of Regulation S-K as he is employed by our Company as an executive officer and therefore is not "independent" as independence for audit committee members is defined in the NASDAQ Listing Rules. We believe that each member of our Board is

financially literate and possesses sufficient experience, both professionally and by virtue of his service on our Board, to be fully capable of discharging his duties as a member of our Board performing audit committee functions. However, the Board believes that Mr. Major's professional background and services assist the Board when additional financial expertise is warranted.

## EXECUTIVE COMPENSATION

### Executive and Director Compensation

#### *Summary Compensation*

The following table sets forth all compensation for our fiscal years ended June 30, 2014 and 2013 awarded to, earned by, or paid to our Principal Executive Officer and our most highly compensated employee, both 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 Compensation Table for the Fiscal Years Ended June 30, 2014 and 2013

Name and Principal Position (a)	Year June 30, (b)	Salary (\$)(c)	Bonus (\$)(d)	Stock Awards (\$)(e)	Option Awards (\$)(f) (1)	Total (\$)(j)
Joseph N. Forkey <i>Chairman of the Board of Directors, Chief Executive Officer, President and Treasurer</i>	2014	120,000	0	0	0	120,000
	2013	120,000	0	0		120,000
Richard G. Cyr <i>Optical Shop Manager</i>	2014	170,874	500 (1)	0	0	171,374
	2013	129,439	1,000(1)	0	0	130,439

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

**Employment Contracts and Termination of Employment Arrangements**

We have no employment contracts, other than the compensation agreement with Dr. Joseph N. Forkey disclosed below, in place with any Named Executive Officer. We have no 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.

**Outstanding Equity Awards at Fiscal Year-End Table for the Fiscal Year Ended June 30, 2014**

The following table shows grants of options outstanding on June 30, 2014, the last day of our fiscal year, to each of the Named Executive Officers named in the Summary Compensation Table.

**Option Awards**

Name	Number of securities underlying unexercised options exercisable (#)		Number of securities underlying unexercised options unexercisable (#)		Option exercise price (\$)	Option expiration date
Joseph N. Forkey	600	(1)	0		13.75	05/09/2016
	11,208	(2)	0		13.75	06/13/2015
	22,416	(3)	0		20.75	06/13/2015
	150,000	(4)	0		1.20	(1) 03/02/2022
Richard G. Cyr	10,200	(5)	0		13.75	05/09/2016
	40,000	(6)	0		0.27	07/14/2021

(1) The options were granted on May 9, 2006 and vested immediately.

(2) The options were granted on June 13, 2005; 25% of such options vested immediately; 25% of such options vested May 9, 2007; 25% vested on May 9, 2008; and the remaining 25% of such options vested on May 9, 2009.

The options we granted on June 13, 2005; upon the date of grant, 30% of the options, or 6,725 shares, vested (3) immediately. The remaining 70% of the options, or 15,691 shares, vested upon achievement of performance milestones.

(4)

The options were granted on March 2, 2012; the options vested in increments of 25,000 shares on the first day of each quarter, beginning on January 1, 2013, until all shares were fully vested.

(5) The options were granted on May 9, 2006 and vested immediately.

(6) The options were granted on July 14, 2011; 13,333 shares vested on October 15, 2011, 13,333 vested on July 15, 2012 and the remaining shares vested on July 15, 2013.

### ***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 2014 and 2013. No employer matching contributions were made to the plan in fiscal years 2014 and 2013.

### **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 Chairman of the Board of Directors, Chief Executive Officer, President and Treasurer, as his compensation is reflected in the Summary Compensation Table. During the fiscal year ended June 30, 2014, our Board of Directors determined that Dr. Joseph N. Forkey and Mr. Richard E. Forkey were our employee directors and, therefore, would not earn any fees related to service on our Board.

**Director Compensation Table for the Fiscal Year Ended June 30, 2014**

Name of Director	Fees		All other compensation (\$)	Total (\$)
	earned or paid in cash (\$)(1)	Option awards (\$)(2) (3)		
Richard E. Forkey (4)	0	0	361 (5)	361
Donald A. Major (6)	1,250 (7)	29,700(8)	30,078 (7)	34,028
Richard B. Miles	1,250	2,700	0	3,950
Joel R. Pitlor	1,000	2,700	0	3,700

(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. As our Board has determined that Dr. Joseph N. Forkey and Mr. Richard E. Forkey are employees of our Company, Dr. Forkey and Mr. Forkey do not earn any fees related to service on our Board of Directors.

(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, 2014 set forth in this Registration Statement on Form S-1. These amounts do not represent the actual amounts paid to or realized by the directors during the fiscal year ended June 30, 2014.

(3) On January 2, 2014, we granted Messrs. Major, Miles, and Pitlor options to purchase 3,000 shares of our common stock. These options were fully vested as of the date of grant, have an exercise price of \$0.90 and expire on January 2, 2024.

(4) Mr. Forkey served as our Chief Executive Officer until February 8, 2011 and as a Director until July 9, 2014. Mr. Forkey now serves as our founder and Director Emeritus.

(5) Mr. Forkey's compensation consisted of \$361 earned as salary compensation for his services in the executive position of Advisor to the Chief Executive Officer. As previously disclosed in our current report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2012, on July 25, 2012, our Board of Directors approved an arrangement with Mr. Forkey to cancel Mr. Forkey's life insurance policy, on which we had been paying the policy premiums. The timing of the cancellation of the policy was based upon mutual agreement between us and Mr. Forkey. As the one-time payment of \$40,000 has not been made to date, it is not included in Mr. Forkey's FY 2014 compensation.

- (6) Mr. Donald A. Major was appointed to serve as our Executive Vice President for Corporate Development on February 9, 2012, in addition to his continued service as a member of our Board of Directors.

Mr. Major's compensation consisted of: (a) \$1,250 earned a compensation for his services as a member of our (7) Board of Directors; and (b) \$30,078 earned as salary compensation for his services as our Executive Vice President for Corporate Development.

On September 23, 2014, we granted Mr. Major an option to purchase 30,000 shares of our common stock as (8) compensation for services rendered to us as Executive Vice President of Corporate Development. The option expires September 23, 2024 and the exercise price is \$0.90 per share.

### **Narrative to Director Compensation Table**

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.

On February 9, 2012, our Board of Directors made the determination to also award each non-employee director an annual grant of 3,000 options, fully vested upon issuance, to be issued on the first business day of January of each year going forth. On January 2, 2014, in accordance with such resolution, we granted Messrs. Major, Miles, and Pitlor options to purchase 3,000 shares of our common stock. These options were fully vested as of the date of grant, have an exercise price of \$0.90 and expire on January 2, 2024.

### **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 October 1, 2014 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 that are currently exercisable or exercisable within 60 days after October 1, 2014. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

### 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 Beneficially Owned (2)
	Shares Owned	Shares – Rights to Acquire	Total Number	
Austin W. Marxe (3)(4) c/o Special Situations Funds 527 Madison Avenue, Suite 2600 New York, NY 10022	1,269,213	1,208,647	2,477,860	33.2%
David M. Greenhouse (3) c/o Special Situations Funds 527 Madison Avenue, Suite 2600 New York, NY 10022	1,269,213	1,208,443	2,477,656	33.2%
Adam C. Stettner (3)  c/o Special Situations Funds 527 Madison Avenue, Suite 2600 New York, NY 10022	1,269,213	1,208,443	2,477,656	33.2%
Arnold Schumsky (5) 145 East 27th Street New York, New York 10016	213,764	112,487	326,251	5.1%
MHW Partners, L.P. (6)  150 East 52 <sup>nd</sup> Street  30 <sup>th</sup> Fl.  New York, New York 10022	347,223	155,557	502,780	7.8%
DAFNA Capital Management LLC (7) 10990 Wilshire Boulevard, Suite 1400 Los Angeles, CA 90024	384,193	272,223	556,416	8.5%
Alpha Capital Anstalt (8) 150 Central Park South New York, New York 10019	277,778	194,445	472,223	7.3%
Hershey Strategic Capital, LP (9)  888 7 <sup>th</sup> Ave., 17 <sup>th</sup> Floor	1,166,667	0	1,166,667	18.6%

New York, New York 10019

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 sixty days, sole voting and investment power. Amounts listed have been adjusted, if necessary, to reflect a 1-for-25 (1) reverse split, effective December 11, 2008. 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.

As of September 23, 2014, there were 6,262,584 shares of our common stock issued and outstanding. Percentages (2) 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.

(3) We relied, in part, on a Schedule 13D/A jointly filed with the SEC on June 10, 2014 by Austin W. Marx, David M. Greenhouse and Adam C. Stettner for this information.

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Messrs. Marx and Greenhouse and Stettner are the controlling principals of AWM Investment Company, Inc., the general partner of and investment adviser to Special Situations Cayman Fund, L.P. AWM Investment Company also serves as the general partner of MGP Advisers Limited Partnership, the general partner of Special Situations Fund III QP, L.P. Messrs. Marx Greenhouse and Stettner are also members of MG Advisers L.L.C., the general partner of Special Situations Private Equity Fund, L.P. AWM Investment Company serves as the investment adviser to Special Situations Fund III QP and Special Situations Private Equity Fund.

Special Situations Cayman Fund owns 1 share of common stock. Special Situations Fund III QP owns 934,212 shares of common stock; 3,630,000 warrants to purchase 215,332 shares of common stock, expiring May 11, 2017; warrants to purchase 427,779 shares of common stock, expiring September 28, 2017; and warrants to purchase 175,000 shares of common stock, expiring February 12, 2016. Special Situations Private Equity Fund owns 335,000 shares of common stock; 3,630,000 warrants to purchase 215,332 shares of common stock, expiring May 11, 2017; and warrants to purchase 175,000 shares of common stock, expiring February 12, 2016. Messrs. Marx, Greenhouse and Stettner share the power to vote and direct the disposition of all shares of common stock owned by Special Situations Cayman Fund, Special Situations Fund III QP, and Special Situations Private Equity Fund.

Messrs. Marx and Greenhouse are deemed to beneficially own a total of 1,269,213 shares of common stock; 7,230,000 warrants to purchase an aggregate of 430,664 shares of common stock, expiring May 11, 2017; warrants to purchase 427,779 shares of common stock, expiring September 28, 2017; and warrants to purchase 350,000 shares of common stock, expiring February 12, 2016. However, the aggregate number of shares of common stock into which 427,779 warrants of the total warrants held by Special Situations Fund III QP are exercisable, and which Messrs. Marx and Greenhouse have 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 Messrs. Marx and Greenhouse, does not exceed 4.999% of the total outstanding shares of common stock. Accordingly, the 427,779 warrants expiring September 28, 2017 are not currently exercisable into common stock until the actual shares of common stock held by Messrs. Marx and Greenhouse is less than 4.999% of the total outstanding shares of common stock. Special Situations Fund III QP may waive this 4.999% restriction with 61 days' notice to us.

- (4) Mr. Marx holds an additional 204 shares of common stock that may be acquired by Mr. Marx as an individual upon the exercise of outstanding stock options.

- We relied, in part, on a Schedule 13D filed with the SEC on June 6, 2007 by Arnold Schumsky for this information. Mr. Schumsky beneficially owns a total of 326,251 shares of common stock. His ownership consists of (i) 213,764 shares of common stock owned of record by Mr. Schumsky, and (ii) 112,487 shares that may be acquired upon the exercise of outstanding warrants. However, the aggregate number of shares of common stock into which 58,334 warrants of the total warrants held by Mr. Schumsky are exercisable, and which Mr. Schumsky
- (5) 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 Mr. Schumsky, does not exceed 4.999% of the total outstanding shares of common stock. Accordingly, 58,334 warrants are not currently exercisable into common stock until the actual shares of common stock held by Mr. Schumsky is less than 4.999% of the total outstanding shares of common stock. Mr. Schumsky may waive this 4.999% restriction with 61 days' notice to us.

- (6)

We relied, in part, on a Schedule 13D jointly filed with the SEC on July 24, 2014 by MHW Partners, L.P., MHW Capital, LLC, MHW Capital Management, LLC and a form 3 filed by Peter H. Woodward on July 16, 2014 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.

MHW Partners, L.P. beneficially owns 347,223 shares of common stock, and 155,557 shares that may be acquired upon the exercise of outstanding warrants. However, the aggregate number of shares of common stock into which such warrants 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 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 a Schedule 13G jointly filed with the SEC on February 13, 2014 by DAFNA Capital Management, LLC, Nathan Fischel and Fariba Ghodsian for this information.

DAFNA Capital Management, LLC is a Delaware limited liability company. DAFNA Capital Management is the investment adviser of DAFNA LifeScience Market Neutral, Ltd., DAFNA LifeScience Select, Ltd., and DAFNA LifeScience, Ltd. DAFNA Capital Management, in its capacity as investment adviser to DAFNA LifeScience Market Neutral, DAFNA LifeScience Select, and DAFNA LifeScience, may be deemed to be the beneficial owner of the shares owned by DAFNA LifeScience Market Neutral, DAFNA LifeScience Select, and DAFNA LifeScience, as in its capacity as investment adviser it has the power to dispose, direct the disposition of, and vote the shares of the issuer owned by DAFNA LifeScience Market Neutral, DAFNA LifeScience Select, and DAFNA LifeScience. Nathan Fischel and Fariba Ghodsian are part-owners of DAFNA Capital Management and managing members of DAFNA Capital Management. As controlling persons of DAFNA Capital Management, Drs. Fischel and Ghodsian may each respectively be deemed to beneficially own the shares owned by DAFNA LifeScience Market Neutral, DAFNA LifeScience Select, and DAFNA LifeScience. Pursuant to Rule 13d-4, Drs. Fischel and Ghodsian disclaim beneficial ownership of the securities.

DAFNA Capital Management beneficially owns 384,193 shares of common stock, in the aggregate. DAFNA Capital Management holds common stock purchase warrants exercisable into 272,223 shares of common stock, in the aggregate. DAFNA LifeScience Market Neutral owns 77,778 shares of common stock and 54,445 shares that be acquired upon the exercise of outstanding warrants. DAFNA LifeScience Select owns 200,000 shares of common stock and 140,000 shares that be acquired upon the exercise of outstanding warrants. DAFNA LifeScience owns 111,111 shares of common stock and 77,778 shares that be acquired upon the exercise of outstanding warrants. However, the aggregate number of shares of common stock into which such warrants are exercisable, and which DAFNA Capital Management 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 DAFNA Capital Management, does not exceed 4.999% of the total outstanding shares of common stock. Accordingly, such warrants are not currently exercisable into common stock until the actual shares of common stock held by DAFNA Capital Management is less than 4.999% of the total outstanding shares of common stock. DAFNA LifeScience Market Neutral, DAFNA LifeScience Select, and DAFNA LifeScience may waive this 4.999% restriction with 61 days' notice to us.

Alpha Capital Anstalt beneficially owns 277,778 shares of common stock and 194,445 shares that may be acquired upon the exercise of outstanding warrants. However, the aggregate number of shares of common stock into which such warrants are exercisable, and which Alpha Capital Anstalt 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 Alpha Capital Anstalt, does not exceed 4.999% of the total outstanding shares of common stock. Accordingly, such warrants are not currently exercisable into common stock until the actual shares of common stock held by Alpha Capital Anstalt is less than 4.999% of the total outstanding shares of common stock. Alpha Capital Anstalt may waive this 4.999% restriction with 61 days' notice to us.

We relied, in part, on the Schedule 13D filed by Hershey Strategic Capital, LP on July 11, 2014 for this information. Hershey Strategic Capital, LP beneficially owns 1,166,667 shares of common stock. Hershey Strategic Capital, LP is managed by Adam Hershey.

**Officers and Directors**

Name and address of beneficial owner (1)	Nature of beneficial ownership	Amount of beneficial ownership (2)			Percent of Shares Beneficially Owned (3)
		Shares Owned	Shares – Rights to Acquire	Total Number	
Joseph N. Forkey (4)	Former Chairman of the Board of Directors, Chief Executive Officer, President and Treasurer	33,620	199,781	233,401	3.6%
Jack P. Dreimiller (5)	Senior Vice President and Chief Financial Officer	583	15,000	15,583	*
Donald A. Major (6)	Executive Vice President for Corporate Development and Director	35,778	85,445	121,223	1.9%
Richard E. Forkey (7)	Advisor to the Chief Executive Officer and Director	212,993	49,333	262,326	4.2%
Richard B. Miles (8)	Director	15,112	23,379	38,491	1.0
Joel R. Pitlor (9)	Director	205,395	25,978	231,373	3.7%
Richard G. Cyr (10)	Optical Shop Manager	0	50,200	50,200	1.0
Peter H. Woodward (11)	Director and Chairman	347,223	155,557	502,780	7.8%
Kenneth S. Schwartz	Director	0	0	0	*
All directors and executive officers as a group		850,704	559,116	1,408,820	20.6%

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

- (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 sixty days, sole voting and investment power.

(3) As of October 1, 2014, we had 6,262,584 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 23, 2014 pursuant to options, warrants, conversion privileges or other rights.

(4) Dr. Forkey is Director and serves as our Chief Executive Officer, President and Treasurer. Dr. Forkey's beneficial ownership consists of (a) 33,620 shares of common stock held in joint ownership with his wife, Heather Forkey, with whom he shares voting and dispositive control, (b) 15,557 shares of common stock that may be acquired upon the exercise of outstanding warrants, and (c) 184,224 shares of common stock that may be acquired upon the exercise of outstanding stock options.

(5) Mr. Dreimiller is our Senior Vice President and Chief Financial Officer. Mr. Dreimiller's beneficial ownership consists of (a) 583 shares of common stock, and (b) 15,000 shares of common stock that may be acquired upon the exercise of outstanding stock options.

(6) Mr. Major is our Executive Vice President for Corporate Development and a member of our Board of Directors. Mr. Major's beneficial ownership consists of (a) 35,778 shares of common stock, (b) 19,445 shares of common stock that may be acquired upon the exercise of outstanding warrants and (c) 66,000 shares of common stock that may be acquired upon the exercise of outstanding stock options.

(7) Mr. Forkey is 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 (a) 212,993 shares of common stock, (b) 19,445 shares of common stock that may be acquired upon the exercise of outstanding warrants, and (c) 29,888 shares of common stock that may be acquired upon the exercise of outstanding stock options.

(8) Mr. Miles is a member of our Board of Directors. Mr. Miles' beneficial ownership consists of (a) 15,112 shares of common stock, (b) 7,779 shares that may be acquired upon the exercise of outstanding warrants, and (c) 15,600 shares of common stock that may be acquired upon the exercise of outstanding stock options.

(9) Mr. Pitlor is a member of our Board of Directors. Mr. Pitlor's beneficial ownership consists of (a) 205,395 shares of common stock, (b) 10,000 shares that may be acquired upon the exercise of outstanding warrants, and (c) 15,978 shares of common stock that may be acquired upon the exercise of outstanding stock options.

Mr. Cyr is our Optics Laboratory Manager and is considered a “named executive officer” as defined in Item (10)402(a)(3) of Regulation S-K. Mr. Cyr beneficially owns 50,200 shares of common stock which may be acquired upon the exercise of outstanding stock options.

Mr. Peter Woodward is the Chairman of our Board. 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 July 2, 2014, MHW Partners purchased 125,000 shares of (11) common stock. On September 28, 2012, MHW Partners purchased 222,223 shares of our common stock, and warrants to purchase up to 155,557 shares of our common stock at an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, and an expiration date of September 28, 2017.



## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Certain Relationships and Related Transactions

We lease our main facility in Gardner, Massachusetts from Equity Assets, Inc., a company wholly-owned by Mr. Richard E. Forkey, a former member of our Board of Directors and our former President, Chief Executive Officer, and Treasurer. 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 2014 and 2013.

On September 28, 2012, we closed on agreements with investors for the sale and purchase of units consisting of an aggregate of (i) 2,777,795 shares of our common stock, and (ii) warrants to purchase an aggregate of 1,944,475 shares of common stock, at a per unit price of \$0.90. Each unit consisted of one share of common stock and 70% warrant coverage. The warrants have an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, expire five years from September 28, 2012, and are exercisable in whole or in part, at any time prior to expiration. We received \$2.5 million in gross proceeds from the offering.

Certain of our directors and officers participated in the offering on the same terms as the other investors and purchased a total aggregate amount of approximately \$80,000 of units in the offering, in such amounts as follows:

Name of Purchaser	Company Affiliation	Securities Purchased in Offering		Unit Price	Subscription Amount
		Shares of Common Stock	Warrants		
Forkey, Richard E.	Director	27,778	19,445	\$0.90	\$25,000.20
Joseph N. Forkey and Heather C. Forkey JTTE	Chairman of the Board, Chief Executive Officer, President, and Treasurer	22,223	15,557	\$0.90	\$20,000.70
Major, Donald A.	Executive Vice President for Corporate Development and Director	27,778	19,445	\$0.90	\$25,000.20
Miles, Richard	Director	11,112	7,779	\$0.90	\$10,000.80

On February 12, 2013, we entered into a settlement agreement with one of our directors and stockholders, Joel Pitlor (the "Pitlor Settlement Agreement"). Under the terms of the Pitlor Settlement Agreement, we issued 10,000 shares of our common stock and warrants to purchase 10,000 shares of our common stock as payment in full of any amounts due to Mr. Pitlor under the registration rights agreement we entered into with Mr. Pitlor, and other parties, on February 1, 2007. The warrants issued in connection with the Pitlor Settlement Agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in

part, at any time prior to expiration. We valued the securities issued to Mr. Pitlor at \$17,000.

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

*Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P.*

On June 25, 2008, we entered into a purchase agreement, as amended on December 11, 2008, with Special Situations Fund III QP, L.P., Special Situations Private Equity Fund, L.P., and other accredited investors pursuant to which we sold a total of \$600,000 of 10% Senior Secured Convertible Notes, referred to as the “Notes,” that are convertible into a total of 480,000 shares of our common stock at a conversion rate of \$1.25. We also issued warrants to purchase a total of 316,800 shares of our common stock at an exercise price of \$1.75 per share, referred to as the “Warrants.” Interest accrued on the Notes at a rate of 10% per year and was payable in cash upon the earlier of conversion or maturity of the Notes. The original maturity of the Notes was June 25, 2010 and the original expiration date of the Warrants was June 25, 2015, subject to extension. By mutual agreement with us, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. agreed to amend its Notes on December 11, 2008, June 25, 2010, July 26, 2010, September 15, 2010, October 15, 2010, November 15, 2010, November 30, 2010, December 1, 2010, December 3, 2010, December 17, 2010, January 10, 2011, January 24, 2011, February 7, 2011, February 25, 2011, March 11, 2011, March 31, 2011, April 14, 2011, April 29, 2011, May 13, 2011, June 3, 2011, June 28, 2011, July 6, 2011, July 20, 2011, July 25, 2011, July 27, 2011, August 31, 2011, September 30, 2011, and October 31, 2011 to extend the “Stated Maturity Date” of the Notes. At the time of each of the amendments of the Notes, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. owned over 5% of our common stock. Pursuant to the terms of the settlement agreement entered into with Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. on February 12, 2013 (as discussed in further detail below), the expiration date of the Warrants held by Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. was amended from June 25, 2015 to May 11, 2017. The exercise price of the Warrants may be adjusted downward in the event we issue shares of common stock or securities convertible into common stock at a price lower than the exercise price of the Warrants at the time of issuance. On December 15, 2011, we repaid Special Situations Fund III QP, L.P. a principal repayment of \$275,000 and accrued interest of \$95,486, for a total payment of \$370,486. On December 15, 2011, we repaid Special Situations Private Equity Fund, L.P. a principal repayment of \$275,000 and accrued interest of \$95,486, for a total payment of \$370,486. The Notes held by Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. have been satisfied in full and the obligations thereunder have been terminated. We registered the shares and the shares underlying the Warrants purchased by Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. in the June 2008 private placement in a registration statement that is currently effective.

In our private placement of common stock and warrants on September 28, 2012, Special Situations Fund III QP, L.P. purchased 611,112 shares of our common stock, and warrants to purchase up to 427,779 shares of our common stock at an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, and an expiration date of September 28, 2017. At the time of the transaction, Special Situations Fund III QP, L.P. owned 5% or more of our common stock. We registered the shares and the shares underlying the warrants purchased by Special Situations Fund III QP, L.P. in the September 2012 private placement in a registration statement that is currently effective.

On February 12, 2013, we entered into a settlement agreement with Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. Under the terms of the settlement agreement, we agreed to: (a) issue an aggregate of (i) 350,000 shares of our common stock, and (ii) warrants to purchase an aggregate of 350,000 shares of our common stock, and (b) amend the expiration date of the warrants issued to Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. in conjunction with our June 25, 2008 private placement (the "2008 Warrants"), as payment in full of the alleged damages sought by Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. The expiration date of the 2008 Warrants was amended from June 25, 2015 to May 11, 2017. The warrants issued in connection with the settlement agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. We valued the securities issued to Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. at \$595,000. At the time of the transaction, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. owned more than 5% of our common stock.

*Arnold Schumsky*

On June 25, 2008, we entered into a purchase agreement, as amended on December 11, 2008, with Mr. Arnold Schumsky and other accredited investors pursuant to which we sold a total of \$600,000 of 10% Senior Secured Convertible Notes, referred to as the "Notes," that are convertible into a total of 480,000 shares of our common stock at a conversion rate of \$1.25. We also issued warrants to purchase a total of 316,800 shares of our common stock at an exercise price of \$1.75 per share, referred to as the "Warrants." Interest accrued on the Notes at a rate of 10% per year and was payable in cash upon the earlier of conversion or maturity of the Notes. The original maturity of the Notes was June 25, 2010 and the original expiration date of the Warrants was June 25, 2015, subject to extension. By mutual agreement with us, Mr. Schumsky agreed to amend his Note on December 11, 2008, June 25, 2010, July 26, 2010, September 15, 2010, October 15, 2010, November 15, 2010, November 30, 2010, December 1, 2010, December 3, 2010, December 17, 2010, January 10, 2011, January 24, 2011, February 7, 2011, February 25, 2011, March 11, 2011, March 31, 2011, April 15, 2011, April 29, 2011, May 13, 2011, June 3, 2011, June 28, 2011, July 6, 2011, July 20, 2011, July 25, 2011, July 27, 2011, August 31, 2011, September 30, 2011, October 31, 2011, December 15, 2011, and January 31, 2012 to extend the "Stated Maturity Date." On March 31, 2012, Mr. Schumsky further amended his Note to extend the "Stated Maturity Date" of the principal to July 31, 2012 and to modify the Note such that all accrued and unpaid interest on the Note up to and including March 31, 2012 shall be due on or before April 13, 2012, on the condition that we issue to him a warrant for 5,000 shares of common stock with an exercise price of \$1.20 per share and a term of three years. On April 13, 2012, we repaid Mr. Schumsky a payment of the accrued interest of \$18,819, and such payment included all accrued and unpaid interest on the Note up to and including March 31, 2012. On May 8, 2012, we issued Mr. Schumsky the warrant according to the terms described in the amended Note. On July 31,

2012, Mr. Schumsky further amended his Note to extend the “Stated Maturity Date” of the principal to August 31, 2012. On August 31, 2012, Mr. Schumsky further amended his Note to extend the “Stated Maturity Date” of the principal to September 30, 2012. On September 28, 2012, we repaid Mr. Schumsky the outstanding and accrued interest of \$2,500 due under his Note and such payment satisfied its obligations in regards to the accrued interest due on the Note in full. On that same date, Mr. Schumsky presented the outstanding principal balance of the Note to us and agreed to exchange the \$50,000 principal balance of his Note for participation in our September 2012 private placement and was awarded units consisting of 55,555 shares of common stock and 38,889 warrants upon the same terms as the units sold in the September 2012 private placement. Accordingly, the Note held by Mr. Schumsky has been satisfied in full and the obligations thereunder have been terminated. At the time of each of the amendments and the 2012 transactions, Mr. Schumsky owned 5% or more of our common stock. We registered the shares and the shares underlying the Warrants purchased by Mr. Schumsky in the June 2008 private placement in a registration statement that is currently effective.

On September 28, 2012, Mr. Schumsky presented the outstanding principal balance of his Note to us and agreed to exchange the \$50,000 principal balance of his Note for participation in our September 2012 private placement. Mr. Schumsky was issued units consisting of 55,555 shares of common stock and warrants to purchase up to 38,889 shares of our common stock at an exercise price of \$1.25 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 September 28, 2012, Mr. Schumsky also purchased additional shares in the private placement consisting of 27,779 shares of our common stock, and warrants to purchase up to 19,445 shares of our common stock at an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, and an expiration date of September 28, 2017. At the time of the exchange and transaction, Mr. Schumsky owned 5% or more of our common stock. We registered the shares and the shares underlying the warrants purchased by Mr. Schumsky in the September 2012 private placement in a registration statement that is currently effective.

On February 12, 2013, we entered into a settlement agreement with Mr. Schumsky (the “Schumsky Settlement Agreement”). Under the terms of the Schumsky Settlement Agreement, we issued 10,000 shares of our common stock and warrants to purchase 10,000 shares of our common stock as payment in full of any amounts due to Mr. Schumsky under the registration rights agreement we entered into with Mr. Schumsky, and other parties, on February 1, 2007 and under the registration rights agreement we entered into with Mr. Schumsky, and other parties, on June 25, 2008. The warrants issued in connection with the Schumsky Settlement Agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. We valued the securities issued to Mr. Schumsky at \$17,000. At the time of the transaction, Mr. Schumsky owned 5% or more of our common stock.

On July 1 through July 7, 2014, we closed agreements with institutional and accredited investors for the sale and purchase of 1,717,152 shares of our common stock, \$0.01 par value at a purchase price of \$0.60 per share. Pursuant to this transaction, Mr. Schumsky purchased 83,343 shares of our common stock. 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 forty-five calendar days after July 1, 2014 to register the resale by the investors of the 1,717,152 shares of the common stock purchased in the placement. At the time of the transaction, Mr. Schumsky owned 5% or more of our common stock. Subsequent to the agreement, the parties agreed to extend the time period by which we are obligated to file a registration statement with the Securities Exchange Commission.

*MHW Partners, LP*

On July 1 through July 7, 2014, we closed agreements with institutional and accredited investors for the sale and purchase of 1,717,152 shares of our common stock, \$0.01 par value at a purchase price of \$0.60 per share. Pursuant to this transaction, MHW Partners purchased 125,000 shares of our common stock. 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 forty-five calendar days after July 1, 2014 to register the resale by the investors of the 1,717,152 shares of the common stock purchased in the placement. Subsequent to the agreement, the parties agreed to extend the time period by which we are obligated to file a registration statement with the Securities Exchange Commission.

At the time of the transaction, MHW was a holder of more than 5% of our common stock. 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, LP. Mr. Woodward was subsequently appointed as Chairman of our Board of Directors on July 9, 2014.

**Director Independence**

During the fiscal year ended June 30, 2014, the Board of Directors determined that Messrs. Richard B. Miles and Joel R. Pitlor 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., Boulder, Colorado. Trombly Business Law, PC 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 Trombly Business Law, PC have any contingent based agreement with us or any other interest in or connection to us.

## **EXPERTS**

The June 30, 2013 and 2012 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.

## **PART II — INFORMATION NOT REQUIRED IN PROSPECTUS**

### **OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

The estimated costs of the issuance and distribution of the securities registered under this prospectus are denoted below. Please note that all amounts are estimates other than the Commission's registration fee.

	Amount to be paid
Approximate SEC registration fee	\$ 150
Transfer agent fees	\$50
Accounting fees and expenses	\$ 10,000
Legal fees and expenses	\$ 10,000
Miscellaneous (including EDGAR filing fees)	\$ 2,800
Total	\$23,000

We will pay all expenses of the offering listed above from cash on hand. No portion of these expenses will be borne by the selling stockholders.

### **INDEMNIFICATION OF DIRECTORS AND OFFICERS**

We are organized under the laws of the Commonwealth of Massachusetts. Our officers and directors are indemnified as provided by the Massachusetts Business Corporation Act as set forth in Chapter 156D of the General Laws of Massachusetts, our Articles of Organization, as amended, and our Bylaws.

Section 2.02(b)(4) of the Massachusetts Business Corporation Act (the "MBCA") provides that a corporation may, in its articles of organization, eliminate or limit a director's personal liability to the corporation for monetary damages for breaches of fiduciary duty, except in circumstances involving (1) a breach of the director's duty of loyalty to the corporation or its shareholders, (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) improper distributions, and (4) transactions from which the director derived an improper personal benefit.

Section 8.52 of the MBCA provides that we must indemnify a director who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he was a party because he was a director of our Company against reasonable expenses incurred by him in connection with the proceeding.

In addition, under Section 8.51 of the MBCA, we may indemnify a director against liability incurred in a proceeding if:

(i) he conducted himself in good faith; (ii) he reasonably believed that his conduct was in the best interests of our (10) Company or that his conduct was at least not opposed to the best interests of our Company; and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful; or

(2) he engaged in conduct for which he shall not be liable as provided in our Articles of Organization, as amended, which may limit personal liability of a director as provided in the General Laws of Massachusetts.

The termination of a proceeding by judgment, order, settlement, or conviction, or upon a plea of nolo contendere or its equivalent, is not, of itself, determinative that the director did not meet the relevant standard of conduct described in Section 8.51 of the MBCA.

Section 8.56 of the MBCA permits a corporation to indemnify an officer (1) under those circumstances in which the corporation would be allowed to indemnify a director and (2) if such officer is not a director of the corporation, to such further extent as the corporation chooses provided that the liability does not arise out of acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law. Section 8.56 of the MBCA further requires that a corporation indemnify an officer who was wholly successful on the merits or otherwise in the defense of any proceeding to which such officer was a party because he was a director of the corporation.

Prior to the final disposition of a proceeding involving a director or officer, Sections 8.53 and 8.56 of the MBCA allow us to pay for or reimburse reasonable expenses. As a condition, the director or officer must deliver a written undertaking to repay the funds if the individual is determined not to have met the relevant standard of conduct, which determination is made in the same manner as the determination of whether an individual is entitled to indemnification. This undertaking may be accepted without security and without regard to the individual's financial ability to make repayment. Another condition to advancement of expenses is that the individual submit a written affirmation of his or her good faith that he or she has met the standard of conduct necessary for indemnification (or that the matter involved conduct for which liability has been eliminated pursuant to the charter exculpation provision referred to above). Furthermore, Section 8.54 of the MBCA provides that a court may direct a corporation to indemnify a director or officer under certain circumstances.



Section 8.58 of the MBCA allows a corporation to obligate itself in advance of the act or omission giving rise to a proceeding to provide indemnification to a director or officer or to advance funds or reimburse expenses. Such a commitment may be made in the corporation's articles of organization or bylaws or in a resolution adopted or a contract approved by the board of directors or the shareholders.

Under Section 8.51(b) of the MBCA, a director's conduct with respect to an employee benefit plan for a purpose he reasonably believed to be in the interests of the participants in, and the beneficiaries of, the plan is conduct that satisfies the requirement that his conduct was at least not opposed to the best interests of the corporation. Unless ordered by a court as provided in the statute, we may not indemnify a director if his conduct did not satisfy the standards set forth above.

Our Articles of Organization, as amended, provide that our directors shall not be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that the exculpation from liabilities is not permitted under the MBCA, or Massachusetts Business Corporation Act, as in effect at the time such liability is determined. Our Bylaws provide that we shall indemnify our directors and officers (including persons who serve at our request as directors, officers, or trustees of another organization, or in any capacity with respect to any employee benefit plan) to the full extent permitted by the laws of the Commonwealth of Massachusetts against all liabilities and expenses, including amounts paid in satisfaction of judgments, in compromise, or as fines and penalties, and counsel fees, reasonably incurred by him or her in connection with the defense or disposition of any action, suit, or other proceeding, whether civil or criminal, in which he or she may be involved or with which he or she may be threatened while in office or thereafter, by reason of his or her being or having been such a director or officer, except with respect to any matter as to which he or she shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his or her action was in the best interest of our Company (any person serving another organization in one or more of the indicated capacities at the request of the corporation who shall have acted in good faith in the reasonable belief that his or her action was in the best interest of such other organization to be deemed as having acted in such manner with respect to the corporation), or, to the extent that such matter relates to service with respect to any employee benefit plan, in the best interests of the participants or beneficiaries of an employee benefit plan. In addition, we hold a Director and Officer Liability and Corporate Indemnification Policy.

## **RECENT SALES OF UNREGISTERED SECURITIES**

On September 28, 2012, we closed on agreements with investors for the sale and purchase of units consisting of an aggregate of (i) 2,777,795 shares of our common stock, and (ii) warrants to purchase an aggregate of 1,944,475 shares of common stock, at a per unit price of \$0.90. Each unit consisted of one share of common stock and 70% warrant coverage. The warrants have an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, will expire five years from September 28, 2012, and are exercisable in whole or in part, at any time prior to expiration. We received \$2.5 million in gross proceeds from the offering.

Certain of our directors and officers participated in the offering on the same terms as the other investors and purchased a total aggregate amount of approximately \$80,000 of units in the offering, in such amounts as follows:

Name of Purchaser	Company Affiliation	Securities Purchased in Offering		Unit Price	Subscription Amount
		Shares of Common Stock	Warrants		
Forkey, Richard E.	Director	27,778	19,445	\$0.90	\$25,000.20
Joseph N. Forkey and Heather C. Forkey	Chairman of the Board, Chief Executive Officer, President, and Treasurer	22,223	15,557	\$0.90	\$20,000.70
JTTEN					
Major, Donald A.	Executive Vice President for Corporate Development and Director	27,778	19,445	\$0.90	\$25,000.20
Miles, Richard	Director	11,112	7,779	\$0.90	\$10,000.80

In addition to the payment of certain cash fees upon the closing of the September 2012 offering, on September 28, 2012, we also issued a warrant to Loewen, Ondaatje, McCutcheon USA LTD, our exclusive placement agent for the offering. The warrant to purchase up to 194,446 shares of common stock was issued as part of its compensation and on similar terms to the warrants issued in the offering, except that the placement agent warrant has an exercise price of \$0.95 per share.

On May 8, 2012, we issued Arnold Schumsky a warrant to purchase an aggregate of 5,000 shares of common stock in exchange for Mr. Schumsky's agreement to further amend his remaining 10% Senior Secured Convertible Note to extend the "Stated Maturity Date" of the principal amount of the Note to July 31, 2012 and to modify the Note such that all accrued and unpaid interest on the Note up to and including March 31, 2012 shall be due on or before April 13, 2012. The warrants have an exercise price of \$1.20 per share and a term of three years.

With respect to the issuance of securities described above, we relied on the Section 4(2) exemption from securities registration under the federal securities laws for transactions not involving any public offering. No advertising or general solicitation was employed in offering the securities. The securities were issued to accredited investors. The securities were offered for investment purposes only and not for the purpose of resale or distribution, and the transfers thereof were appropriately restricted by us.

On February 12, 2013, we entered into a settlement agreement with two of our stockholders, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. (along with Special Situations Fund III QP, L.P., “Special Situations”). Under the terms of the settlement agreement, we agreed to: (a) issue an aggregate of (i) 350,000 shares of our common stock, and (ii) warrants to purchase an aggregate of 350,000 shares of our common stock (the “Securities”), and (b) amend the expiration date of the warrants issued to Special Situations in conjunction with our June 25, 2008 private placement (the “2008 Warrants”), as payment in full of the alleged damages sought by Special Situations. The expiration date of the 2008 Warrants shall be amended from June 25, 2015 to May 11, 2017. The new warrants to be issued in connection with the settlement agreement will have an exercise price of \$1.50 per share, subject to adjustment, will expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. We valued the securities issued to Special Situations at \$595,000.

On February 12, 2013, we entered into a settlement agreement with one of our directors and stockholders, Joel Pitlor (the “Pitlor Settlement Agreement”). Under the terms of the Pitlor Settlement Agreement, we agreed to issue 10,000 shares of our common stock and warrants to purchase 10,000 shares of our common stock as payment in full of any amounts due to Mr. Pitlor under the registration rights agreement we entered into with Mr. Pitlor, and other parties, on February 1, 2007. The warrants to be issued in connection with the Pitlor Settlement Agreement will have an exercise price of \$1.50 per share, subject to adjustment, will expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. We valued the securities issued to Mr. Pitlor at \$17,000.

On February 12, 2013, we also entered into a settlement agreement with one of our stockholders, Arnold Schumsky (the “Schumsky Settlement Agreement”). The terms of the Schumsky Settlement Agreement and the accompanying Form of Warrant are substantially similar to the terms of the Pitlor Settlement Agreement and the accompanying Form of Warrant. Under the terms of the Schumsky Settlement Agreement, we have agreed to issue 10,000 shares of our common stock and warrants to purchase 10,000 shares of our common stock as payment in full of any amounts due to Mr. Schumsky under the registration rights agreement we entered into with Mr. Schumsky, and other parties, on February 1, 2007 and under the registration rights agreement we entered into with Mr. Schumsky, and other parties, on June 25, 2008. The warrants to be issued in connection with the Schumsky Settlement Agreement will have an exercise price of \$1.50 per share, subject to adjustment, will expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. We valued the securities issued to Mr. Schumsky at \$17,000.

With respect to the issuance of securities described above, we relied on the Section 4(2) exemption from securities registration under the federal securities laws for transactions not involving any public offering. No advertising or general solicitation was employed in offering the securities. The securities were issued to accredited investors. The

securities were offered for investment purposes only and not for the purpose of resale or distribution, and the transfers thereof were appropriately restricted by us.

On February 15, 2013, we issued 6,000 unregistered shares of our common stock to a consultant as consideration for consulting services, and such shares were valued at \$4,740.

With respect to the issuance of securities described above, we relied on the Section 4(2) exemption from securities registration under the federal securities laws for transactions not involving any public offering. No advertising or general solicitation was employed in offering the securities. The securities were issued to an accredited investor. The securities were offered for investment purposes only and not for the purpose of resale or distribution, and the transfer thereof was appropriately restricted by us.

On July 1 through July 7, 2014, we closed on agreements with institutional and accredited investors for the sale and purchase of 1,717,152 shares of the Company's common stock, \$0.01 par value at a purchase price of \$0.60 per share. We received \$1,030,291 in gross proceeds from the offering. We anticipates using the net proceeds from this placement for general working capital purposes. Of this amount, \$50,000 was received in June 2014 and the remainder was received in July 2014.

In conjunction with the placement, 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 forty-five calendar days after July 1, 2014 to register the resale by the Investors of the 1,717,152 shares of the common stock purchased in the placement. Subsequent to the execution of the agreement, the parties agreed to extend the time period by which we are obligated to file a registration statement with the Securities Exchange Commission.

On July 22, 2014, we issued 78,000 restricted shares of our common stock to Mr. Jeff DiRubio as compensation for services rendered to us.

On July 22, 2014, we issued 12,298 restricted shares of our common stock to Mr. Kevin Dahill as compensation for services rendered to us.

We relied on the Section 4(a)(2) exemption from securities registration under the federal securities laws for transactions not involving any public offering. No advertising or general solicitation was employed in offering the securities. The securities were issued to accredited investors. The securities were offered for investment purposes only and not for the purpose of resale or distribution, and the transfers thereof was appropriately restricted by us.

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## EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

### Exhibit Description

- 3.1 Articles of Organization of Precision Optics Corporation, Inc., as amended (included as Exhibit 3.1 to the Form SB-2 filed March 16, 2007 and incorporated herein by reference).
- 3.2 Bylaws of Precision Optics Corporation, Inc. (included as Exhibit 3.2 to the Form S-1 filed December 18, 2008 and incorporated herein by reference).
- 3.3 Articles of Amendment to the Articles of Organization of Precision Optics Corporation, Inc., dated November 25, 2008 and effective December 11, 2008 (included as Exhibit 3.1 to the Form 8-K filed December 11, 2008 and incorporated herein by reference).
- 3.4 Amended and Restated Bylaws of Precision Optics Corporation, Inc. (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed July 11, 2014 and incorporated herein by reference).
- 4.1 Registration Rights Agreement by and among the Company and each investor named therein, dated February 1, 2007 (included as Exhibit 4.1 to the Form 8-K filed February 2, 2007 and incorporated herein by reference).
- 4.2 Form of Warrant to Purchase Shares of Common Stock (included as Exhibit 4.2 to the Form 8-K filed February 2, 2007 and incorporated herein by reference).
- 4.3 Registration Rights Agreement by and among the Company and each investor named therein, dated June 25, 2008 (included as Exhibit 4.1 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).
- 4.4 Form of Warrant to Purchase Shares of Common Stock, dated June 25, 2008 (included as Exhibit 4.2 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).
- 4.5 Form of 10% Senior Secured Convertible Note, dated June 25, 2008 (included as Exhibit 4.3 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).
- 4.6 Form of Warrant to Purchase Shares of Common Stock, dated September 28, 2012 (included as Exhibit 4.1 to the Form 8-K filed October 2, 2012 and incorporated herein by reference).
- 4.7 Registration Rights Agreement by and among the Company and each investor named therein, dated September 28, 2012 (included as Exhibit 4.2 to the Form 8-K filed October 2, 2012 and incorporated herein by reference).
- 4.8 Warrant to Purchase Shares of Common Stock issued to Loewen, Ondaatje, McCutcheon USA LTD, dated September 28, 2012 (included as Exhibit 4.3 to the Form 8-K filed October 2, 2012 and incorporated herein by reference).
- 4.9 Form of Warrant to Purchase Shares of Common Stock (Special Situations Settlement), dated February 12, 2013 (included as Exhibit 4.1 to the Form 8-K filed February 13, 2013 and incorporated herein by reference).
- 4.10 Registration Rights Agreement by and among the Company, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P., dated February 12, 2013 (included as Exhibit 4.2 to the Form 8-K filed February 13, 2013 and incorporated herein by reference).
- 4.11 Form of Warrant to Purchase Shares of Common Stock (Pitlor and Schumsky Settlement), dated February 12, 2013 (included as Exhibit 4.3 to the Form 8-K filed February 13, 2013 and incorporated herein by reference).
- 5.1 Legal Opinion of Trombly Business Law, PC (to be filed by amendment).
- 10.1 Precision Optics Corporation, Inc. 1997 Incentive Plan, as amended and restated (included as Exhibit 10.1 to the Form 10-QSB filed November 13, 2003 and incorporated herein by reference).
- 10.2 Precision Optics Corporation, Inc. 2006 Equity Incentive Plan (included as Exhibit 99.1 to the Form 8-K filed December 4, 2006 and incorporated herein by reference).

- 10.3 Purchase Agreement by and among the Company and each investor named therein, dated February 1, 2007 (included as Exhibit 10.1 to the Form 8-K filed February 2, 2007 and incorporated herein by reference).
- 10.4 Form of Incentive Stock Option Certificate (included as Exhibit 10.1 to the Form 10-QSB filed February 14, 2007 and incorporated herein by reference).
- 10.5 Form of Nonstatutory Stock Option Certificate (included as Exhibit 10.2 to the Form 10-QSB filed February 14, 2007 and incorporated herein by reference).
- 10.6 Purchase Agreement by and among the Company and each investor named therein, dated June 25, 2008 (included as Exhibit 10.1 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).
- 10.7 Pledge and Security Agreement by and among the Company and each investor named therein, dated June 25, 2008 (included as Exhibit 10.2 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).
- 10.8 Consulting Agreement between the Company and Jack P. Dreimiller, dated August 15, 2008 (included as Exhibit 10.1 to the Form 8-K filed August 18, 2008 and incorporated herein by reference).
- 10.9 Side Letter Agreement between the Company and the investors signatory to the Purchase Agreement, dated November 25, 2008 (included as Exhibit 10.1 to the Form 8-K filed December 11, 2008 and incorporated herein by reference).
- 10.10 Side Letter Agreement between the Company and the holders signatory to the 10% Senior Secured Convertible Note, dated December 11, 2008 (included as Exhibit 10.15 to the Form S-1 filed December 18, 2008 and incorporated herein by reference).
- 10.11 Side Letter Agreement between the Company and the holders signatory to the 10% Senior Secured Convertible Note, dated April 2, 2009 (included as Exhibit 10.16 to the Form S-1/A filed April 6, 2009 and incorporated herein by reference).
- 10.12 Compensation Agreement with Richard E. Forkey, dated December 3, 2010 (included as Exhibit 10.11 to the Form 8-K filed December 6, 2010 and incorporated herein by reference).
- 10.13 Compensation Agreement with Joseph N. Forkey, dated December 3, 2010 (included as Exhibit 10.12 to the Form 8-K filed December 6, 2010 and incorporated herein by reference).
- 10.14 Compensation Agreement with Joel R. Pitlor, dated December 3, 2010 (included as Exhibit 10.13 to the Form 8-K filed December 6, 2010 and incorporated herein by reference).
- 10.15 Asset Purchase Agreement between the Company and Intuitive Surgical Operations, Inc., dated July 27, 2011 (included as Exhibit 10.1 to the Form 8-K filed August 3, 2011 and incorporated herein by reference).
- 10.16 Amendment to Pledge and Security Agreement by and among the Company and each investor named therein, dated July 27, 2011 (included as Exhibit 10.2 to the Form 8-K filed August 3, 2011 and incorporated herein by reference).
- 10.17 Demand Note in the amount of \$10,000, dated July 13, 2011, issued by the Company to Dr. Joseph N. Forkey (included as Exhibit 10.22 to the Form 10-K filed September 28, 2011, and incorporated herein by reference.)
- 10.18 Precision Optics Corporation, Inc. 2011 Equity Incentive Plan, dated October 13, 2011 (included as Exhibit 10.2 to Form S-8 filed October 14, 2011, and incorporated herein by reference.)
- 10.19 Precision Optics Corporation, Inc. 2011 Deferred Compensation Plan, dated October 13, 2011 (included as Exhibit 10.3 to Form S-8 filed October 14, 2011, and incorporated herein by reference.)
- 10.20 Side Letter Agreement to the Compensation Agreement with Richard E. Forkey, dated October 14, 2011 (included as Exhibit 10.4 to the Form 8-K filed October 19, 2011 and incorporated herein by reference).

- 10.21 Side Letter Agreement to the Compensation Agreement with Joseph N. Forkey, dated October 14, 2011 (included as Exhibit 10.5 to the Form 8-K filed October 19, 2011 and incorporated herein by reference).
- 10.22 Side Letter Agreement to the Compensation Agreement with Joel N. Pitlor, dated October 14, 2011 (included as Exhibit 10.6 to the Form 8-K filed October 19, 2011 and incorporated herein by reference).
- 10.23 Endorsement to 10% Senior Secured Convertible Note by the Company, dated October 31, 2011, and accepted by Special Situations Private Equity Fund, L.P. (included as Exhibit 10.2 to the Form 8-K filed November 3, 2011 and incorporated herein by reference).
- 10.24 Endorsement to 10% Senior Secured Convertible Note by the Company, dated October 31, 2011, and accepted by Special Situations Fund III QP, L.P. (included as Exhibit 10.3 to the Form 8-K filed November 3, 2011 and incorporated herein by reference).
- 10.25 Endorsement to 10% Senior Secured Convertible Note by the Company, dated July 31, 2012, and accepted by Arnold Schumsky (included as Exhibit 10.27 to the Form 10-K filed October 15, 2012, and incorporated herein by reference.)
- 10.26 Endorsement to 10% Senior Secured Convertible Note by the Company, dated August 31, 2012, and accepted by Arnold Schumsky (included as Exhibit 10.28 to the Form 10-K filed October 15, 2012, and incorporated herein by reference.)
- 10.27 Notice of Repayment of 10% Senior Secured Convertible Note in Full by the Company, dated September 28, 2012, and accepted by Arnold Schumsky (included as Exhibit 10.29 to the Form 10-K filed October 15, 2012, and incorporated herein by reference.)
- 10.28 Purchase Agreement by and among the Company and each investor named therein, dated September 28, 2012 (included as Exhibit 10.1 to the Form 8-K filed October 2, 2012 and incorporated herein by reference).
- 10.29 Settlement Agreement by and among the Company, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P., dated February 12, 2013 (included as Exhibit 10.1 to the Form 8-K filed February 13, 2013 and incorporated herein by reference).
- 10.30 Settlement Agreement by and between the Company and Joel Pitlor, dated February 12, 2013 (included as Exhibit 10.2 to the Form 8-K filed February 13, 2013 and incorporated herein by reference).
- 10.31 Settlement Agreement by and between the Company and Arnold Schumsky, dated February 12, 2013 (included as Exhibit 10.3 to the Form 8-K filed February 13, 2013 and incorporated herein by reference).
- 10.32 Form of Purchase Agreement by and among the Company and investor (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 7, 2014 and incorporated herein by reference).
- 10.33 Form of Registration Rights Agreement by and among the Company and investor (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 7, 2014 and incorporated herein by reference).
- 21.1 Subsidiaries of the Registrant (included as Exhibit 21.1 to the Form 10-K filed September 26, 2008 and incorporated herein by reference).
- 23.1 Consent of Independent Registered Public Accounting Firm (filed herewith).
- 23.2 Consent of Trombly Business Law, PC (to be filed by amendment).
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema Document
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as



amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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## Financial Statement Schedules

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

## UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
- (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;  
To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) (§ 230.424(b) of this chapter) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;
- (ii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that:

- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

- (A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) (§230.424(b)(3) of this chapter) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and
- (B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) (§230.424(b)(2), (b)(5), or (b)(7) of this chapter) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) (§230.415(a) (1)(i), (vii), or (x) of this chapter) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after

effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(h)(3) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised 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. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Gardner, Commonwealth of Massachusetts, on October 9, 2014.

**PRECISION OPTICS CORPORATION, INC.**

By: /s/ Joseph N. Forkey  
 Joseph N. Forkey  
 Chairman of the Board, Chief Executive Officer, President and Treasurer  
 (Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Joseph N. Forkey</u> Joseph N. Forkey	Chairman of the Board, Chief Executive Officer, President, and Treasurer (Principal Executive Officer)	October 9, 2014
<u>/s/ Jack P. Dreimiller</u> Jack P. Dreimiller	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	October 9, 2014
<u>/s/ Donald A. Major</u> Donald A. Major	Executive Vice President for Corporate Development and Director	October 9, 2014
<u>/s/ Peter H. Woodward</u> Peter H. Woodward	Director	October 9, 2014
<u>/s/ Richard B. Miles</u> Richard B. Miles	Director	October 9, 2014

/s/ Joel R. Pitlor  
Joel R. Pitlor

Director

October 9, 2014

/s/Kenneth S. Schwartz

Director

October 9, 2014

Kenneth S. Schwartz

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Precision Optics Corporation, Inc.:

We have audited the accompanying consolidated balance sheets of Precision Optics Corporation, Inc. and subsidiaries (the Company) as of June 30, 2014 and 2013 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Precision Optics Corporation, Inc. and subsidiaries as of June 30, 2014 and 2013 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Stowe & Degon LLC

Westborough, Massachusetts

September 8, 2014





**PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES****Consolidated Balance Sheets at June 30, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$202,380	\$1,034,587
Accounts receivable (net of allowance for doubtful accounts of \$22,500 in 2014 and \$15,000 in 2013)	531,049	278,700
Inventories	988,878	896,173
Prepaid expenses	91,922	61,567
Total current assets	1,814,229	2,271,027
Fixed Assets:		
Machinery and equipment	2,368,709	2,367,029
Leasehold improvements	553,596	553,596
Furniture and fixtures	148,303	148,303
Vehicles	19,674	19,674
	3,090,282	3,088,602
Less—Accumulated depreciation and amortization	3,075,722	3,056,554
Net fixed assets	14,560	32,048
Patents, net	7,672	—
	\$1,836,461	\$2,303,075
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$715,192	\$289,255
Customer advances	26,200	38,044
Accrued employee compensation	200,207	151,915
Accrued professional services	60,250	70,000
Accrued warranty expense	25,000	25,000
Other accrued liabilities	69,028	18,672
Total current liabilities	1,095,877	592,886
Commitments (Note 2)		
Stockholders' Equity:		
Common stock, \$0.01 par value: 50,000,000 shares authorized; 4,455,134 shares issued and outstanding at June 30, 2014 and June 30, 2013	44,551	44,551
Additional paid-in capital	42,146,750	41,955,717
Accumulated deficit	(41,450,717)	(40,290,079)
Total stockholders' equity	740,584	1,710,189
	\$1,836,461	\$2,303,075

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



**PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES****Consolidated Statements of Operations****for the Years Ended June 30, 2014 and 2013**

	2014	2013
Revenues	\$3,651,181	\$2,519,743
Cost of goods sold	2,850,386	1,865,315
Gross profit	800,795	654,428
Research and development expenses, net	471,106	630,294
Selling, general and administrative expenses	1,503,443	1,261,141
Gain on sale of assets	(14,028 )	(4,498 )
Total operating expenses	1,960,521	1,886,937
Operating loss	(1,159,726)	(1,232,509)
Non-cash provision for claims for liquidated damages	-	(629,000 )
Other income	-	76,149
Interest expense	-	(1,408 )
Loss before provision for income taxes	(1,159,726)	(1,786,768)
Provision for income taxes	912	912
Net loss	\$(1,160,638)	\$(1,787,680)
Loss per share:		
Basic	\$(0.26 )	\$(0.51 )
Diluted	\$(0.26 )	\$(0.51 )
Weighted average common shares outstanding:		
Basic	4,455,134	3,521,387
Diluted	4,455,134	3,521,387

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

**PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity****for the Years Ended June 30, 2014 and 2013**

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance, July 1, 2012	1,251,339	\$ 12,513	\$39,009,215	\$(38,502,399)	\$ 519,329
Proceeds from sale of common stock and warrants	2,777,795	27,778	2,163,340	—	2,191,118
Exercise of warrants	50,000	500	49,500	—	50,000
Issuance of common stock to settle claims for liquidated damages	370,000	3,700	625,300	—	629,000
Stock-based compensation	6,000	60	108,362	—	108,422
Net loss	—	—	—	(1,787,680 )	(1,787,680 )
Balance, June 30, 2013	4,455,134	\$ 44,551	\$41,955,717	\$(40,290,079)	\$ 1,710,189
Advance proceeds from private placement of common stock	—	—	50,000	—	50,000
Stock-based compensation	—	—	141,033	—	141,033
Net loss	—	—	—	(1,160,638 )	(1,160,638 )
Balance, June 30, 2014	4,455,134	\$ 44,551	\$42,146,750	\$(41,450,717)	\$ 740,584

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

**PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows for the****Years Ended June 30, 2014 and 2013**

	2014	2013
Cash Flows from Operating Activities:		
Net loss	(1,160,638)	\$(1,787,680)
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	20,020	20,970
Gain on sale of assets	(14,028 )	(4,498 )
Gain on settlement of accounts payable	-	(76,149 )
Provision for inventory write-down	-	19,337
Stock-based compensation expense	141,033	108,422
Non-cash consulting expense	64,507	-
Non-cash provision for settlement of claims for liquidated damages	-	629,000
Non-cash interest expense	-	1,250
Changes in operating assets and liabilities-		
Accounts receivable, net	(252,349 )	63,200
Inventories	(92,705 )	(232,610 )
Prepaid expenses	(30,355 )	(27,848 )
Accounts payable	425,937	(44,912 )
Customer advances	(11,844 )	31,657
Accrued expenses	24,391	6,469
Net cash used in operating activities	(886,031 )	(1,293,392)
Cash Flows from Investing Activities:		
Proceeds from sale of assets	14,028	4,498
Additional patent costs	(8,524 )	-
Purchases of fixed assets	(1,680 )	(11,061 )
Net cash provided by (used in) investing activities	3,824	(6,563 )
Cash Flows from Financing Activities:		
Advance proceeds from July 2014 private placement of common stock	50,000	-
Gross proceeds from September 2012 private placement of common stock and warrants	-	2,500,015
Private placement expenses incurred and paid	-	(308,896 )
Payment of principal and interest on 10% Senior Convertible Notes	-	(52,500 )
Proceeds from exercise of warrants to purchase common stock (50,000 shares)	-	50,000
Net cash provided by financing activities	50,000	2,188,619
Net (decrease) increase in cash and cash equivalents	(832,207 )	888,664
Cash and cash equivalents, beginning of year	1,034,587	145,923
Cash and cash equivalents, end of year	\$202,380	\$1,034,587
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for income taxes	\$912	\$912

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

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## **PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

#### **(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Nature of Business**

Precision Optics Corporation, Inc. (the “Company”) designs, develops, manufactures and sells specialized optical systems and components and optical thin-film coatings. The Company conducts business in one industry segment only and its customers are primarily domestic. The Company’s products and services fall into two principal areas: (i) medical products for use by hospitals and physicians; and (ii) advanced optical system design and development services and products used by military and industrial customers.

##### **(b) Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its two wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

##### **(c) Revenues**

The Company recognizes revenue when four basic criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the price to the buyer is fixed and determinable; and (4) collectability is reasonably assured. The Company’s shipping terms are customarily FOB shipping point.

The sales price of products and services sold is fixed and determinable after receipt and acceptance of a customer’s purchase order or properly executed sales contract, typically before any work is performed. Management reviews each customer purchase order or sales contract to determine that the work to be performed is specified and there are no unusual terms and conditions that would raise questions as to whether the sales price is fixed or determinable. The Company assesses credit worthiness of customers based upon prior history with the customer and assessment of

financial condition. Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for that portion of accounts receivable considered to be uncollectible, based upon historical experience and management’s evaluation of outstanding accounts receivable at the end of the year. Bad debts are written off against the allowance when identified.

The Company’s revenue transactions typically do not contain multiple deliverable elements for future performance obligations to customers, other than a standard one-year warranty on materials and workmanship, the estimated costs for which are provided for at the time revenue is recognized.

Revenues for industrial and medical products sold in the normal course of business are recognized upon shipment when delivery terms are FOB shipping point and all other revenue recognition criteria have been met. Gross shipping charges reimbursable from customers, to deliver product, are insignificant and are included in “Revenues” section of the Company’s consolidated statement of operations, while shipping costs are classified in the “selling, general and administrative expenses” section of the Company’s consolidated statement of operations.

**(d) Cash and Cash Equivalents**

The Company includes in cash equivalents all highly liquid investments with original maturities of three months or less at the time of acquisition. Cash and cash equivalents of \$202,380 and \$1,034,587 at June 30, 2014 and 2013, respectively, consist primarily of cash at banks and money market funds. The Company maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on its cash and cash equivalents.

**(e) Inventories**

Inventories are stated at the lower of cost (first-in, first-out) or market and include material, labor and manufacturing overhead. The components of inventories at June 30, 2014 and 2013 are as follows:

	2014	2013
Raw material	\$445,210	\$302,448
Work-in-progress	385,601	392,991
Finished goods	158,067	200,734
	\$988,878	\$896,173



The Company provides for estimated obsolescence on unmarketable inventory based upon assumptions about future demand and market conditions. If actual demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Inventory, once written down, is not subsequently written back up, as these adjustments are considered permanent adjustments to the carrying value of the inventory.

During fiscal year 2014 and 2013, the Company recorded a pre-tax non-cash provision for slow-moving and obsolete inventories of \$0 and \$19,337, respectively.

**(f) Property and Equipment**

Property and equipment are recorded at cost. Maintenance and repair items are expensed as incurred. The Company provides for depreciation and amortization by charges to operations, using the straight-line and declining-balance methods, which allocate the cost of property and equipment over the following estimated useful lives:

<b>Asset Classification</b>	<b>Estimated Useful Life</b>
Machinery and equipment	2-7 years
Leasehold improvements	Shorter of lease term or estimated useful life
Furniture and fixtures	5 years
Vehicles	3 years

Depreciation expense was \$19,168 and \$20,970 for the years ended June 30, 2014 and 2013, respectively.

**(g) Significant Customers and Concentration of Credit Risk**

Financial instruments that subject the Company to credit risk consist primarily of cash equivalents and trade accounts receivable. The Company places its investments with highly rated financial institutions. The Company has not experienced any losses on these investments to date. At June 30, 2014, receivables from the Company's three largest customers were 30%, 17% and 11% of the total accounts receivable. At June 30, 2013, receivables from the Company's three largest customers were 26%, 24% and 12%, of the total accounts receivable. No other customer accounted for more than 10% of the Company's receivables as of June 30, 2014 and 2013. The Company has not experienced any material losses related to accounts receivable from individual customers. The Company generally does not require collateral or other security as a condition of sale, rather it relies on credit approval, balance limitation and monitoring procedures to control credit risk of trade account financial instruments. Management believes that allowances for doubtful accounts, which are established based upon review of specific account balances and historical experience, are adequate.

Revenues from the Company's largest customers, as a percentage of total revenues, were as follows:

	Year Ended	
	June 30	
	2014	2013
Customer A	21 %	13 %
Customer B	21	54
Customer C	14	1
All others	44	32
	100%	100 %

No other customer accounted for more than 10% of the Company's revenues in fiscal years 2014 and 2013.

**(h) 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 year ended June 30, 2014 and 2013, the effect of such securities was antidilutive and not included in the diluted calculation because of the net loss generated in those periods.

The following is the calculation of loss per share for the years ended June 30, 2014 and 2013:

	Year Ended June 30	
	2014	2013
Net Loss– Basic and Diluted	\$(1,160,638)	\$(1,787,680)
Basic Weighted Average Shares Outstanding	4,455,134	3,521,387
Potentially Dilutive Securities	–	–
Diluted Weighted Average Shares Outstanding	4,455,134	3,521,387
Loss Per Share		
Basic	\$(0.26 )	\$(0.51 )
Diluted	\$(0.26 )	\$(0.51 )

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 3,393,000 and 3,434,000 for the years ended June 30, 2014 and 2013, respectively.

**(i) Stock-Based Compensation**

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. Stock-based compensation costs recognized for the years ended June 30, 2014 and 2013 amounted to \$141,033 and \$108,422, respectively.

**(j) Patents**

Patent costs are amortized using the straight-line method over the shorter of their legal or estimated useful lives, generally five to ten years. Amortization expense was \$852 and \$0 for the years ended June 30, 2014 and 2013, respectively.

In July 2011, the Company assigned all of its currently issued and pending patents, as well as new inventions that it conceives before July 28, 2012, to Intuitive Surgical.

**(k) Fair Value of Financial Instruments**

Financial instruments consist principally of cash equivalents, accounts receivable, senior secured convertible notes payable, accounts payable and accrued expenses. The estimated fair value of these financial instruments approximates their carrying value due to their short-term nature.

**(l) Long-Lived Assets**

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**(m) Warranty Costs**

The Company does not incur future performance obligations in the normal course of business other than providing a standard one-year warranty on materials and workmanship to its customers (except in certain unusual and infrequently occurring situations where extended warranty terms beyond one year are negotiated with the customer). The Company provides for estimated warranty costs at the time product revenue is recognized. Warranty costs have been included as a component of cost of goods sold in the accompanying consolidated statements of operations. The following tables summarize warranty reserve activity for the years ended June 30, 2014 and 2013:

	2014	2013
Balance at beginning of period	\$25,000	\$25,000
Provision for warranty claims	11,917	2,006
Warranty claims incurred	(11,917)	(2,006)
Balance at end of period	\$25,000	\$25,000

**(n) Research and Development**

Research and development expenses are charged to operations as incurred. The Company groups development and prototype costs and related reimbursements in research and development. For the years ended June 30, 2014 and 2013, research and development expense is shown net of reimbursements of \$45,997 and \$87,496, respectively, in the accompanying statements of operations.

**(o) Comprehensive Income**

Comprehensive income or loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owners sources. The Company's comprehensive loss or income for the years ended June 30, 2014 and 2013 was equal to its net loss for the same periods.

**(p) 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 carry-forwards. 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.

**(q) Segment Reporting**

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions about how to allocate resources and assess performance. The Company's chief decision-maker is its Chief Executive Officer. To date, the Company has viewed its operations and manages its business as principally one segment. For all periods presented, over 90% of the Company's sales have been to customers in the United States.

**(r) Use of Estimates**

The preparation of financial statements in conformity with accounting standards generally accepted in the United States 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 during the reporting period. Actual results could differ from those estimates.

**(s) Recent Accounting Pronouncements**

In July 2013, the FASB issued Accounting Standards Update (ASU) 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). The new standard requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the consolidated balance sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2013, which for the Company is the first quarter of fiscal 2015. The Company does not expect the adoption of ASU 2013-11 to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period*. The update is intended to resolve the diverse accounting treatment of these types of awards in practice. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in "Compensation - Stock Compensation (Topic 718)" as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The ASU is effective for interim and annual reporting periods that begin after December 15, 2015. The Company does not expect the adoption of this pronouncement to have an impact on our financial statements as this guidance mirrors our existing policy for such share-based awards.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a single, comprehensive accounting model for revenues arising from contracts with customers that supersedes most of the existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue is recognized at an amount that an entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under existing revenue recognition guidance. ASU 201-09 is effective for the Company beginning in its fiscal year 2018, and may be applied retrospectively to all prior periods presented or through a cumulative adjustment to the opening retained earnings balance in the year of adoption. The Company is currently in the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

**(2) COMMITMENTS**

**(a) Related Party Transactions**

The Company leases its main Gardner facility from a corporation owned by Mr. Richard E. Forkey, who resigned from our board of directors on July 9, 2014, but continues to be involved with our Company as the Founder and Chairman Emeritus. The Company is currently a tenant-at-will, paying rent of \$9,000 per month. Total rent expense paid or accrued to such related party was \$108,000 in each of fiscal years 2014 and 2013, and is included in the Company's accompanying consolidated statements of operations.

On September 28, 2012, the Company closed on agreements with investors for the sale and purchase of units consisting of an aggregate of (i) 2,777,795 shares of common stock, and (ii) warrants to purchase an aggregate of 1,944,475 shares of common stock, at a per unit price of \$0.90. Each unit consisted of one share of common stock and 70% warrant coverage. The warrants have an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, expire five years from September 28, 2012, and are exercisable in whole or in part, at any time prior to expiration. The Company received \$2.5 million in gross proceeds from the offering.

Certain of the Company's directors and officers participated in the offering on the same terms as the other investors and purchased a total aggregate amount of approximately \$80,000 of units in the offering, in such amounts as follows:

Name of Purchaser	Company Affiliation	Securities Purchased in Offering		Unit Price	Subscription Amount
		Shares of Common Stock	Warrants		
Forkey, Richard E.	Director	27,778	19,445	\$0.90	\$25,000.20

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Joseph N. Forkey and Heather C. Forkey JTTE	Chairman of the Board, Chief Executive Officer, President, and Treasurer	22,223	15,557	\$0.90	\$20,000.70
Major, Donald A.	Executive Vice President for Corporate Development and Director	27,778	19,445	\$0.90	\$25,000.20
Miles, Richard	Director	11,112	7,779	\$0.90	\$10,000.80

On February 12, 2013, the Company entered into a settlement agreement with one of its directors and stockholders, Joel Pitlor (the "Pitlor Settlement Agreement"). Under the terms of the Pitlor Settlement Agreement, the Company issued 10,000 shares of common stock and warrants to purchase 10,000 shares of common stock as payment in full of any amounts due to Mr. Pitlor under the registration rights agreement the Company entered into with Mr. Pitlor, and other parties, on February 1, 2007. The warrants issued in connection with the Pitlor Settlement Agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. The Company valued the securities issued to Mr. Pitlor at \$17,000.



Transactions with Stockholders Known by the Company to Own 5% or More of the Company's Common Stock

*Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P.*

On June 25, 2008, the Company entered into a purchase agreement, as amended on December 11, 2008, with Special Situations Fund III QP, L.P., Special Situations Private Equity Fund, L.P., and other accredited investors pursuant to which it sold a total of \$600,000 of 10% Senior Secured Convertible Notes, referred to as the "Notes," that are convertible into a total of 480,000 shares of common stock at a conversion rate of \$1.25. The Company also issued warrants to purchase a total of 316,800 shares of common stock at an exercise price of \$1.75 per share, referred to as the "Warrants." Interest accrued on the Notes at a rate of 10% per year and was payable in cash upon the earlier of conversion or maturity of the Notes. The original maturity of the Notes was June 25, 2010 and the original expiration date of the Warrants was June 25, 2015, subject to extension. By mutual agreement with the Company, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. agreed to amend its Notes on December 11, 2008, June 25, 2010, July 26, 2010, September 15, 2010, October 15, 2010, November 15, 2010, November 30, 2010, December 1, 2010, December 3, 2010, December 17, 2010, January 10, 2011, January 24, 2011, February 7, 2011, February 25, 2011, March 11, 2011, March 31, 2011, April 14, 2011, April 29, 2011, May 13, 2011, June 3, 2011, June 28, 2011, July 6, 2011, July 20, 2011, July 25, 2011, July 27, 2011, August 31, 2011, September 30, 2011, and October 31, 2011 to extend the "Stated Maturity Date" of the Notes. At the time of each of the amendments of the Notes, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. owned over 5% of the Company's common stock. Pursuant to the terms of the settlement agreement entered into with Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. on February 12, 2013 (as discussed in further detail below), the expiration date of the Warrants held by Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. was amended from June 25, 2015 to May 11, 2017. The exercise price of the Warrants may be adjusted downward in the event the Company issues shares of common stock or securities convertible into common stock at a price lower than the exercise price of the Warrants at the time of issuance. On December 15, 2011, the Company repaid Special Situations Fund III QP, L.P. a principal repayment of \$275,000 and accrued interest of \$95,486, for a total payment of \$370,486. On December 15, 2011, the Company repaid Special Situations Private Equity Fund, L.P. a principal repayment of \$275,000 and accrued interest of \$95,486, for a total payment of \$370,486. The Notes held by Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. have been satisfied in full and the obligations thereunder have been terminated. The Company registered the shares and the shares underlying the Warrants purchased by Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. in the June 2008 private placement in a registration statement that is currently effective.

In the Company's private placement of common stock and warrants on September 28, 2012, Special Situations Fund III QP, L.P. purchased 611,112 shares of common stock, and warrants to purchase up to 427,779 shares of common stock at an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, and an expiration date of September 28, 2017. At the time of the transaction, Special Situations Fund III QP, L.P. owned 5% or more of the Company's common stock. The Company registered the shares and the shares underlying the warrants purchased by Special Situations Fund III QP, L.P. in the September 2012 private placement in

a registration statement that is currently effective.

On February 12, 2013, the Company entered into a settlement agreement with Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. Under the terms of the settlement agreement, the Company agreed to: (a) issue an aggregate of (i) 350,000 shares of common stock, and (ii) warrants to purchase an aggregate of 350,000 shares of common stock, and (b) amend the expiration date of the warrants issued to Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. in conjunction with the Company's June 25, 2008 private placement (the "2008 Warrants"), as payment in full of the alleged damages sought by Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. The expiration date of the 2008 Warrants was amended from June 25, 2015 to May 11, 2017. The warrants issued in connection with the settlement agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. The Company valued the securities issued to Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. at \$595,000. At the time of the transaction, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. owned more than 5% of the Company's common stock.

*Arnold Schumsky*

On June 25, 2008, the Company entered into a purchase agreement, as amended on December 11, 2008, with Mr. Arnold Schumsky and other accredited investors pursuant to which it sold a total of \$600,000 of 10% Senior Secured Convertible Notes, referred to as the “Notes,” that are convertible into a total of 480,000 shares of common stock at a conversion rate of \$1.25. The Company also issued warrants to purchase a total of 316,800 shares of common stock at an exercise price of \$1.75 per share, referred to as the “Warrants.” Interest accrued on the Notes at a rate of 10% per year and was payable in cash upon the earlier of conversion or maturity of the Notes. The original maturity of the Notes was June 25, 2010 and the original expiration date of the Warrants was June 25, 2015, subject to extension. By mutual agreement with the Company, Mr. Schumsky agreed to amend his Note on December 11, 2008, June 25, 2010, July 26, 2010, September 15, 2010, October 15, 2010, November 15, 2010, November 30, 2010, December 1, 2010, December 3, 2010, December 17, 2010, January 10, 2011, January 24, 2011, February 7, 2011, February 25, 2011, March 11, 2011, March 31, 2011, April 15, 2011, April 29, 2011, May 13, 2011, June 3, 2011, June 28, 2011, July 6, 2011, July 20, 2011, July 25, 2011, July 27, 2011, August 31, 2011, September 30, 2011, October 31, 2011, December 15, 2011, and January 31, 2012 to extend the “Stated Maturity Date.” On March 31, 2012, Mr. Schumsky further amended his Note to extend the “Stated Maturity Date” of the principal to July 31, 2012 and to modify the Note such that all accrued and unpaid interest on the Note up to and including March 31, 2012 shall be due on or before April 13, 2012, on the condition that the Company issue to him a warrant for 5,000 shares of common stock with an exercise price of \$1.20 per share and a term of three years. On April 13, 2012, the Company repaid Mr. Schumsky a payment of the accrued interest of \$18,819, and such payment included all accrued and unpaid interest on the Note up to and including March 31, 2012. On May 8, 2012, the Company issued Mr. Schumsky the warrant according to the terms described in the amended Note. On July 31, 2012, Mr. Schumsky further amended his Note to extend the “Stated Maturity Date” of the principal to August 31, 2012. On August 31, 2012, Mr. Schumsky further amended his Note to extend the “Stated Maturity Date” of the principal to September 30, 2012. On September 28, 2012, the Company repaid Mr. Schumsky the outstanding and accrued interest of \$2,500 due under his Note and such payment satisfied its obligations in regards to the accrued interest due on the Note in full. On that same date, Mr. Schumsky presented the outstanding principal balance of the Note to the Company and agreed to exchange the \$50,000 principal balance of his Note for participation in the Company’s September 2012 private placement and was awarded units consisting of 55,555 shares of common stock and 38,889 warrants upon the same terms as the units sold in the September 2012 private placement. Accordingly, the Note held by Mr. Schumsky has been satisfied in full and the obligations thereunder have been terminated. At the time of each of the amendments and the 2012 transactions, Mr. Schumsky owned 5% or more of the Company’s stock. The Company registered the shares and the shares underlying the Warrants purchased by Mr. Schumsky in the June 2008 private placement in a registration statement that is currently effective.

On September 28, 2012, Mr. Schumsky presented the outstanding principal balance of his Note to the Company and agreed to exchange the \$50,000 principal balance of his Note for participation in the Company’s September 2012 private placement. Mr. Schumsky was issued units consisting of 55,555 shares of common stock and warrants to purchase up to 38,889 shares of common stock at an exercise price of \$1.25 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 September 28, 2012, Mr. Schumsky also purchased additional shares in the private placement consisting of 27,779 shares of common stock, and warrants to purchase up to 19,445 shares of common stock at an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, and an expiration date of September 28, 2017. At the time of the exchange and transaction, Mr. Schumsky owned 5% or more of the Company’s stock. The

Company registered the shares and the shares underlying the warrants purchased by Mr. Schumsky in the September 2012 private placement in a registration statement that is currently effective.

On February 12, 2013, the Company entered into a settlement agreement with Mr. Schumsky (the “Schumsky Settlement Agreement”). Under the terms of the Schumsky Settlement Agreement, the Company issued 10,000 shares of common stock and warrants to purchase 10,000 shares of common stock as payment in full of any amounts due to Mr. Schumsky under the registration rights agreement the Company entered into with Mr. Schumsky, and other parties, on February 1, 2007 and under the registration rights agreement the Company entered into with Mr. Schumsky, and other parties, on June 25, 2008. The warrants issued in connection with the Schumsky Settlement Agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. The Company valued the securities issued to Mr. Schumsky at \$17,000. At the time of the transaction, Mr. Schumsky owned 5% or more of the Company’s stock.

On July 1 through July 7, 2014, the Company closed agreements with institutional and accredited investors for the sale and purchase of 1,717,152 shares of our common stock, \$0.01 par value at a purchase price of \$0.60 per share. Pursuant to this transaction, Mr. Schumsky purchased 83,343 shares of the Company’s common stock. In conjunction with the placement, the Company also entered into a registration rights agreement with the Investors, whereby the Company was obligated to file a registration statement with the Securities Exchange Commission on or before forty-five calendar days after July 1, 2014 to register the resale by the investors of the 1,717,152 shares of the common stock purchased in the placement. Subsequent to the agreement, the parties agreed to extend the time period by which the Company is obligated to file a registration statement with the Securities Exchange Commission.

*MHW Partners, LP*

On July 1 through July 7, 2014, the Company closed agreements with institutional and accredited investors for the sale and purchase of 1,717,152 shares of our common stock, \$0.01 par value at a purchase price of \$0.60 per share. Pursuant to this transaction, MHW Partners purchased 125,000 shares of the Company's common stock. In conjunction with the placement, the Company also entered into a registration rights agreement with the Investors, whereby the Company was obligated to file a registration statement with the Securities Exchange Commission on or before forty-five calendar days after July 1, 2014 to register the resale by the investors of the 1,717,152 shares of the common stock purchased in the placement. Subsequent to the agreement, the parties agreed to extend the time period by which the Company is obligated to file a registration statement with the Securities Exchange Commission.

At the time of the transaction, MHW was a holder of more than 5% of the Company's securities. 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, LP. Pursuant to the transaction described above, Mr. Woodward was subsequently appointed as Chairman of the Company's Board of Directors on July 9, 2014.

**(b) Operating Lease Commitments**

The Company has entered into operating leases for its office space and equipment that expire at various dates through fiscal year 2017. Total future minimum rental payments under all non-cancelable operating leases are \$13,178 in fiscal year 2015 and \$776 in each of the two fiscal years thereafter.

Rent expense on operating leases, excluding the related party rent described above, was \$68,232 and \$64,627 for the years ended June 30, 2014 and 2013, respectively.

**(3) STOCKHOLDERS' EQUITY**

**(a) Stock Options**

Stock-based compensation costs recognized during the year ended June 30, 2014 and 2013 amounted to \$141,033 and \$108,422 respectively, and were included in the accompanying consolidated statements of operations in: selling, general and administrative expenses (2014 — \$134,800; 2013 — \$98,589), cost of goods sold (2014 — \$4,033; 2013 — \$7,633), and research and development expenses, net (2014 — \$2,200; 2013 — \$2,200). No compensation has been capitalized because such amounts would have been immaterial. There was no net income tax benefit recognized related to such compensation for the years ended June 30, 2014 or 2013, as the Company is currently in a loss position. There were 9,000 stock options granted during the year ended June 30, 2014 and 9,000 stock options granted during the year ended June 30, 2013.

As of June 30, 2014, the unrecognized compensation costs related to options vesting in the future is \$0. The Company uses the Black-Scholes option-pricing model as the most appropriate method for determining the estimated fair value for the stock awards. The Black-Scholes method of valuation requires several assumptions: (1) the expected term of the stock award; (2) the expected future stock volatility over the expected term; and (3) risk-free interest rate. The expected term represents the expected period of time the Company believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of the Company's common stock and the risk free interest rate is based on the U.S. Zero-Bond rate. The Company utilizes a forfeiture rate based on an analysis of the Company's actual experience. The fair value of options at date of grant was estimated with the following assumptions for options granted in fiscal 2014:

	<b>Year Ended June 30, 2014</b>
Assumptions:	
Option life	5.0 years
Risk-free interest rate	3.00%
Stock volatility	479%
Dividend yield	0
Weighted average fair value of grants	\$0.90

### **Stock Option and Other Compensation Plans:**

The type of share-based payments currently utilized by the Company is stock options.

The Company has various stock option and other compensation plans for directors, officers, and employees. The Company has the following stock option plans outstanding as of June 30, 2014: the Precision Optics Corporation, Inc. 2011 Equity Incentive Plan (the “2011 Plan”); the Precision Optics Corporation, Inc. 2006 Equity Incentive Plan (the “2006 Plan”), and the Precision Optics Corporation, Inc. Amended and Restated 1997 Incentive Plan (the “1997 Plan”). Vesting periods under the 2011 Plan, the 2006 Plan, and the 1997 Plan are at the discretion of the Board of Directors and typically average three to five years. Options under these Plans are granted at fair market value on the date of grant and have a term of ten years from the date of grant.

The 2011 Plan, which provides eligible participants (certain employees, directors, consultants, etc.) the opportunity to receive a broad variety of equity based and cash awards. Options granted vest and are exercisable for periods determined by the Board of Directors, not to exceed 10 years from the date of grant. A total of 325,000 shares of common stock, including shares rolled forward from the 1997 Plan, have been reserved for issuance under the 2011 Plan. At June 30, 2014, a total of 207,800 stock options are outstanding and 117,200 shares of common stock were available for future grants under the 2011 Plan.

The 2006 Plan, which provides eligible participants (certain employees, directors, consultants, etc.) the opportunity to receive a broad variety of equity based and cash awards. Options granted vest and are exercisable for periods determined by the Board of Directors, not to exceed 10 years from the date of grant. A total of 139,898 shares of common stock, including shares rolled forward from the 1997 Plan, have been reserved for issuance under the 2006 Plan. At June 30, 2014, a total of 112,700 stock options are outstanding and 27,198 shares of common stock were available for future grants under the 2006 Plan.

The 1997 Plan provided eligible participants (certain employees, directors, consultants, etc.) the opportunity to receive a broad variety of equity based and cash awards. Options granted vested and were exercisable for periods determined by the Board of Directors, not to exceed 10 years from the date of grant. Options for a total of 88,587 shares of common stock were outstanding at June 30, 2013 under the 1997 Plan, as amended and restated in fiscal year 2006. Prior to the adoption of the 2006 Plan, 9,000 stock options were granted in fiscal year 2007 under the 1997 Plan. Upon the adoption of the 2006 Plan, no new awards were granted under the 1997 Plan. No shares are available for future grants under the 1997 Plan.

The following tables summarize stock option activity for the years ended June 30, 2014 and 2013:

	Options Outstanding		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life
Outstanding at July 1, 2012	392,587	\$ 4.56	8.15 years
Grants	9,000	0.85	
Cancellations	(1,500 )	0.55	
Outstanding at June 30, 2013	400,087	\$ 4.49	7.21 years
Grants	9,000	0.90	
Outstanding at June 30, 2014	409,087	\$ 4.41	6.27 years

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Information related to the stock options outstanding as of June 30, 2014 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Exercisable Number of Shares	Exercisable Weighted-Average Exercise Price
\$1.20	207,800	7.68	\$ 1.20	207,800	\$ 1.20
\$0.90	9,000	9.52	0.90	9,000	0.90
\$0.85	9,000	8.52	0.85	9,000	0.85
\$0.55	49,500	7.62	0.55	49,500	0.55
\$0.27	40,000	7.04	0.27	40,000	0.27
\$1.35	1,200	5.41	1.35	1,200	1.35
\$1.25	1,200	4.41	1.25	1,200	1.25
\$6.25	1,600	2.42	6.25	1,600	6.25
\$7.75	1,200	3.41	7.75	1,200	7.75
\$11.50	800	1.42	11.50	800	11.50
\$13.75	50,427	1.86	13.75	50,427	13.75
\$20.75	37,360	0.96	20.75	37,360	20.75
\$0.27–\$20.75	409,087	6.27	\$ 4.41	409,087	\$ 6.21

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options as of June 30, 2014 was \$26,415.

## (b) Warrants

During the quarter ended December 31, 2010, the Company issued warrants to purchase 100,000 shares of common stock at an exercise price of \$1.00 per share to several consultants to the Company. The warrants became exercisable beginning six months after December 16, 2010 (the issue date) and expired on December 16, 2013. In December 2012, warrants for 50,000 shares were exercised, and accordingly, 50,000 shares of restricted common stock were issued.

On June 25, 2008, the Company entered into a Purchase Agreement, as amended on December 11, 2008, with institutional and other accredited investors pursuant to which it sold a total of \$600,000 of 10% senior secured convertible notes (the "Notes") that were convertible at the investor's option into a total of 480,000 shares of the Company's common stock at a conversion rate of \$1.25. On March 31, 2012, the remaining investor, Arnold Schumsky, further amended his remaining Note to extend the "Stated Maturity Date" of the principal to July 31, 2012 and to modify the Note such that all accrued and unpaid interest on the Note up to and including March 31, 2012 shall be due on or before April 13, 2012, on the condition that the Company issue to him a warrant for 5,000 shares of common stock with an exercise price of \$1.20 per share and a term of three years. On April 13, 2012, the Company

repaid Mr. Schumsky a payment of the accrued interest of \$18,819, and such payment included all accrued and unpaid interest on the Note up to and including March 31, 2012. On May 8, 2012, the Company issued Mr. Schumsky the warrant according to the terms described in the amended Note.

In conjunction with the sale of the Notes on June 25, 2008 mentioned above, the Company also issued warrants to purchase an aggregate of 316,800 shares of common stock at an exercise price of \$1.75 per share. In conjunction with the issuance of warrants to purchase 100,000 shares of common stock in December 2010, certain anti-dilution provisions of the existing warrants were triggered. As a result, the number of existing warrants was increased from 316,800 to 318,621 and the related exercise price was decreased from \$1.75 per share to \$1.74 per share. In conjunction with the issuance of warrants to purchase 1,944,475 shares of common stock in September 2012, certain anti-dilution provisions of the existing warrants were triggered. As a result, the number of existing warrants was increased from 318,621 to 469,831 and the related exercise price was decreased from \$1.74 per share to \$1.18 per share. 39,153 of these warrants expire on June 25, 2015, and the remaining 430,678 warrants expire on May 11, 2017.

As of June 30, 2014, there are warrants outstanding for the issuance of an aggregate of 2,983,752 shares of common stock, including warrants for a total of 2,138,921 shares issued on September 28, 2013 as described below under "Sale of Stock," and warrants for a total of 370,000 shares issued on February 12, 2013 as described below under Note 10, "Claims for Liquidated Damages," all at a weighted average exercise price of \$1.25 per share.

**(c) Sale of Stock**

On September 28, 2012, the Company closed on agreements with accredited investors (the “Investors”) for the sale and purchase of units consisting of an aggregate of (i) 2,777,795 shares of the Company’s common stock, and (ii) warrants to purchase an aggregate of 1,944,475 shares of common stock, at a per unit price of \$0.90. Each unit consisted of one share of common stock and 70% warrant coverage. The warrants have an exercise price of \$1.25 per share, subject to adjustment and a call provision if certain market price targets are reached, an expiration date of September 28, 2017, and are exercisable in whole or in part, at any time prior to expiration. Certain directors and officers participated in the offering and purchased a total aggregate amount of approximately \$80,000 of units in the offering.

The Company received \$2.5 million in gross proceeds from the offering. The Company retained Loewen, Ondaatje, McCutcheon USA LTD as the exclusive placement agent for the offering. In addition to the payment of certain cash fees upon closing of the offering, the Company issued a warrant to the placement agent to purchase up to 194,446 shares of common stock on substantially similar terms to the warrants issued in the offering, except that the placement agent warrant has an exercise price of \$0.95 per share.

In conjunction with the offering, the Company also entered into a registration rights agreement dated September 28, 2012 with the Investors, whereby it was obligated to file a registration statement with the Securities and Exchange Commission (the “SEC”) on or before thirty calendar days after September 28, 2012 to register the resale by the Investors of the 2,777,795 shares of common stock purchased in the offering, and the 1,944,475 shares of common stock underlying the warrants purchased in the offering. The Company filed a registration statement with the SEC on October 26, 2012, prior to the filing deadline. The registration statement became effective on December 14, 2012. The Company is obligated to continue to keep the securities registered and, in the event the Company does not comply with such provision of the registration rights agreement, it may have to pay damages to the Investors.

In conjunction with the offering, certain anti-dilution provisions of the warrants issued in conjunction with the Company’s June 25, 2008 financing transaction were triggered. As a result, the number of existing June 25, 2008 warrants increased from 318,621 to 469,831 and the related exercise price of the warrants decreased from \$1.74 per share to \$1.18 per share. The June 25, 2008 warrants expire on June 25, 2015.

**(4) INCOME TAXES**

The Company has identified its federal tax return and its state tax return in Massachusetts as “major” tax jurisdictions. The periods subject to examination for its federal and state income tax returns are the years ended in 2012 and thereafter. The Company believes its income tax filing positions and deductions will be sustained on audit and it does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no liabilities

for uncertain income tax positions have been recorded.

The provision for income taxes in the accompanying consolidated statements of operations consists of the minimum statutory state income tax liability of \$912 for the years ended June 30, 2014 and 2013.

A reconciliation of the federal statutory rate to the Company's effective tax rate for the fiscal years ended June 30, 2014 and 2013 is as follows

	2014	2013
Income tax expense (benefit) at federal statutory rate	(34.0)%	(34.0)%
Increase (decrease) in tax resulting from:		
State taxes, net of federal benefit	(5.3 )	(6.3 )
Change in valuation allowance	15.0	30.1
Nondeductible items	0.3	1.0
Prior-year tax adjustments	14.0	7.5
Other	9.9	1.6
Effective tax rate	(0.1 )%	(0.1 )%

The components of deferred tax assets and liabilities at June 30, 2014 and 2013 are approximately as follows:

	2014	2013
Deferred tax assets:		
Net operating loss carry forwards	\$2,747,000	\$2,582,000
Tax credit carry forwards	405,000	381,000
Reserves and accruals not yet deducted for tax purposes	286,000	301,000
Total deferred tax assets	3,438,000	3,264,000
Valuation allowance	(3,438,000)	(3,264,000)
Net deferred tax asset	\$-	\$-

The Company has provided a valuation allowance to reduce the net deferred tax asset to an amount the Company believes is “more likely than not” to be realized. The valuation allowance increased in fiscal 2014, as compared to the prior year, by approximately \$174,000.

At June 30, 2014, the Company had federal and state net operating loss carry forwards of approximately \$6,600,000 and \$2,100,000, respectively, which will, if not used, expire at various dates from 2015 through 2033. In addition, the Company had net operating loss carry forwards from its Hong Kong operations of approximately \$2,171,000, which carry forward indefinitely.

**(5) PROFIT SHARING PLAN**

The Company has a defined contribution 401(k) profit sharing plan. Employer profit sharing and matching contributions to the plan are discretionary. No employer profit sharing or matching contributions were made to the plan in fiscal years 2014 and 2013.

**(6) SALE OF ASSETS**

In fiscal year 2014, the Company sold equipment that was previously written off for proceeds totaling \$14,028 and recorded a gain of \$14,028. In fiscal year 2013, the Company sold equipment that was previously written off for proceeds totaling \$4,498 and recorded a gain of \$4,498. These gains are included within operating expenses in the accompanying consolidated statements of operations.

**(7) CLAIMS FOR LIQUIDATED DAMAGES**

*Settlement Agreement with Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P.*

On January 17, 2013, the Company received a demand letter from two of its stockholders, Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. (along with Special Situations Fund III QP, L.P., “Special Situations”). The letter alleged that the Company failed to maintain a current registration statement for the sale of stock purchased by Special Situations pursuant to registration rights agreements entered into with the Company on February 1, 2007 and June 25, 2008, and sought prompt payment of \$719,100 as liquidated damages and an amendment to the terms of certain warrants purchased in 2008. A registration statement covering the shares in question is currently

effective.

On February 12, 2013, the Company entered into a settlement agreement with Special Situations (the “Settlement Agreement”). Without agreeing to the alleged damages, the Company entered into the Settlement Agreement in order to resolve the claim without requiring a cash payment or extended distraction of its resources away from operational activities. Under the terms of the Settlement Agreement, Special Situations agreed to forego their claims for cash damages. In return, the Company agreed to: (a) issue an aggregate of (i) 350,000 shares of common stock, and (ii) warrants to purchase an aggregate of 350,000 shares of common stock (the “Securities”), and (b) amend the expiration date of the warrants issued to Special Situations in conjunction with the Company’s June 25, 2008 private placement (the “2008 Warrants”), as payment in full of the alleged damages sought by Special Situations. The Securities were issued on February 12, 2013. The expiration date of the 2008 Warrants was amended from June 25, 2015 to May 11, 2017. The new warrants issued in connection with the Settlement Agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration.

In conjunction with the Settlement Agreement, the Company also entered into a registration rights agreement dated February 12, 2013 with Special Situations, whereby it was obligated to register the resale by Special Situations of the Securities, consisting of 350,000 shares of common stock and the 350,000 shares of common stock underlying the warrants issued on February 12, 2013. A registration statement covering the Securities was declared effective on April 26, 2013.

#### *Settlement Agreement with Joel Pitlor*

On February 12, 2013, the Company entered into a settlement agreement with one of its directors and stockholders, Joel Pitlor (the “Pitlor Settlement Agreement”). Under the terms of the Pitlor Settlement Agreement, the Company agreed to issue 10,000 shares of common stock and warrants to purchase 10,000 shares of common stock as payment in full of any amounts due to Mr. Pitlor under the registration rights agreement the Company entered into with Mr. Pitlor, and other parties, on February 1, 2007. The shares and warrants were issued on February 12, 2013. The warrants issued in connection with the Pitlor Settlement Agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. There are no registration rights associated with the securities acquired pursuant to the Pitlor Settlement Agreement.

By virtue of Mr. Pitlor’s directorship with the Company, he is considered a related party of the Company under federal securities law. The Company’s Board of Directors has acknowledged that Mr. Pitlor’s entry into the Pitlor Settlement Agreement is a related party transaction and has approved such transaction.

*Settlement Agreement with Arnold Schumsky*

On February 12, 2013, the Company also entered into a settlement agreement with one of its stockholders, Arnold Schumsky (the "Schumsky Settlement Agreement"). The terms of the Schumsky Settlement Agreement and the accompanying Form of Warrant of the Schumsky Settlement Agreement are substantially similar to the terms of the Pitlor Settlement Agreement and the accompanying Form of Warrant of the Pitlor Settlement Agreement. Under the terms of the Schumsky Settlement Agreement, the Company agreed to issue 10,000 shares of common stock and warrants to purchase 10,000 shares of common stock as payment in full of any amounts due to Mr. Schumsky under the registration rights agreement the Company entered into with Mr. Schumsky, and other parties, on February 1, 2007 and under the registration rights agreement the Company entered into with Mr. Schumsky, and other parties, on June 25, 2008. The shares and warrants were issued on February 12, 2013. The warrants issued in connection with the Schumsky Settlement Agreement have an exercise price of \$1.50 per share, subject to adjustment, expire three years from February 12, 2013, and are exercisable in whole or in part, at any time prior to expiration. There are no registration rights associated with the securities acquired pursuant to the Schumsky Settlement Agreement.

The Company has estimated the fair value of the non-cash consideration exchanged for the settlement of claims with Special Situations, Mr. Pitlor, and Mr. Schumsky to be a total of \$629,000 as of December 31, 2012, and recorded this amount as a non-cash expense and current liability in its consolidated financial statements as of December 31, 2012, and for the quarter and six months then ended.

The Company used the Black-Scholes option-pricing model for determining the estimated fair value of the new warrants to be issued to Special Situations, Mr. Pitlor, and Mr. Schumsky, and for determining the value of the extension of the maturity date of the 2008 Warrants held by Special Situations. The Company valued its issued common stock as of the closing price of the stock at December 31, 2012, which was \$0.85 per share.

**(8) SETTLEMENT OF ACCOUNTS PAYABLE**

In December 2012, the Company settled \$106,149 of accounts payable with a vendor for a negotiated payment of \$30,000, and recorded a gain of \$76,149. The gain is included within other income for the year ended June 30, 2013 in the accompanying consolidated statements of operations.

**(9) SUBSEQUENT EVENTS**

(a) Equity Issuances

On July 1 through July 7, 2014, the Company closed on agreements with institutional and accredited investors (the “Investors”) for the sale and purchase of 1,717,152 shares of the Company’s common stock, \$0.01 par value at a purchase price of \$0.60 per share (the “Shares”). The Company received \$1,030,291 in gross proceeds from the offering. The Company anticipates using the net proceeds from this placement for general working capital purposes. Of this amount, \$50,000 was received in June 2014 and the remainder was received in July 2014.

In conjunction with the placement, the Company also entered into a registration rights agreement with the Investors, whereby the Company is obligated to file a registration statement with the Securities Exchange Commission on or before forty-five calendar days after July 1, 2014 to register the resale by the Investors of the 1,717,152 shares of the common stock purchased in the placement. Subsequent to the execution of the agreement, the parties agreed to extend the time period by which the Company is obligated to file a registration statement with the Securities Exchange Commission.

In conjunction with the offering, certain anti-dilution provisions of the warrants issued in conjunction with the Company’s June 25, 2008 and September 28, 2012 financing transactions were triggered. As a result, the number of existing June 25, 2008 warrants increased from 469,831 to 538,253 and the related exercise price of the warrants decreased from \$1.18 per share to \$1.03 per share. And the number of existing September 28, 2012 warrants increased from 1,944,475 to 2,189,724 and 194,446 to 217,322, respectively, and the related exercise price decreased from \$1.25 to \$1.11 and from \$0.95 to \$0.85, respectively.

On July 22, 2014, the Company issued 78,000 restricted shares of our common stock to Mr. Jeff DiRubio as compensation for services rendered to the Company.

On July 22, 2014, the Company issued 12,298 restricted shares of our common stock to Mr. Kevin Dahill as compensation for services rendered to the Company.

On September 23, 2014, the Company granted an option to purchase 35,000 shares of our common stock to Mr. Bob Hallock as compensation for services rendered to the Company. The option shall expire September 23, 2024 and shall have an exercise price of \$0.90 per share.

On September 23, 2014, the Company granted an option to purchase 30,000 shares of our common stock to its Executive Vice President of Corporate Development, Mr. Donald Major as compensation for services rendered to the Company. The option shall expire September 23, 2024 and shall have an exercise price of \$0.90 per share.



(b) Departure of Director

On July 9, 2014, Mr. Richard E. Forkey resigned from the Company's Board of Directors. Mr. Forkey shall continue to stay involved with the Company as the Founder and Chairman Emeritus.

(c) Appointment of New Directors

On July 9, 2014, the Board of Directors appointed Dr. Kenneth S. Schwartz, MD and Peter H. Woodward as directors of the Company and Mr. Woodward as Chairman of the Board.

Both Dr. Schwartz and Mr. Woodward were appointed in connection with the sale and purchase agreement between the Company and accredited investors reported on the Company's Periodic Report on Form 8-K filed July 7, 2014. Pursuant to the Agreement, the Company is required to appoint two qualified individuals named by Hershey Strategic Capital LP to the Company's Board of Directors. Those individuals shall serve for three years or until resignation, whichever is earlier.

(d) Amendment of Bylaws

On July 9, 2014, the Board of Directors approved an amendment to the Company's Bylaws. The Bylaws now provide that the Board of Directors shall consist of six directors, rather than five. Additionally, the Bylaws were revised to state that the Chairman of the Board is not required to be an officer of the Company. Massachusetts law provides for a staggered Board by default; however, the Board of Directors believed it would add clarity to revise the Bylaws to explicitly state that the Company has a staggered Board.