Inrad Optics, Inc.
Form 10-Q
August 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **JUNE 30, 2017**

OR

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

For the transition period from ___________________to___________________

Commission file number **0-11668**

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

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

Identification
Number)

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

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

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

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

Yes x   No ¨

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

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

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

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

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

Yes ¨ No x

The number of shares of the registrant’s common stock outstanding, $0.01 par value, as of August 10, 2017 was 13,508,267

INRAD OPTICS, INC AND SUBSIDIARIES

INDEX

INRAD OPTICS, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$619,271	$973,333
Accounts receivable (net of allowance for doubtful accounts of $15,000 in 2017 and 2016)	1,303,524	1,204,908
Inventories, net	3,118,974	2,739,864
Other current assets	194,975	143,970
Total current assets	5,236,744	5,062,075
Plant and equipment:		
Plant and equipment, at cost	14,635,341	14,607,155
Less: Accumulated depreciation and amortization	(13,893,351)	(13,729,985)
Total plant and equipment	741,990	877,170
Precious metals	613,647	613,647
Intangible assets, net	111,287	151,402
Other assets	30,338	30,338
Total assets	$6,734,006	$6,734,632
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of other long term notes	$25,452	$107,801
Accounts payable and accrued liabilities	1,285,184	1,074,671
Customer advances	850,166	599,340
Total current liabilities	2,160,802	1,781,812
Related party convertible notes payable	2,500,000	2,500,000
Other long term notes, net of current portion	264,770	270,722
Total liabilities	4,925,572	4,552,534
Commitments		
Shareholders' Equity:		
Common stock: $.01 par value; 60,000,000 authorized shares; 13,512,867 shares issued at June 30, 2017 and 13,156,544 shares issued at December 31, 2016	135,130	131,567

Capital in excess of par value	18,850,150	18,699,852
Accumulated deficit	(17,161,896)	(16,634,371)
	1,823,384	2,197,048
Less - Common stock in treasury, at cost (4,600 shares)	(14,950)	(14,950)
Total shareholders’ equity	1,808,434	2,182,098
Total liabilities and shareholders’ equity	$6,734,006	$6,734,632

See Notes to Condensed Consolidated Financial Statements (Unaudited)

1

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total revenue	$ 2,606,931	$ 2,641,331	$ 4,771,251	$ 4,989,437
Cost and expenses:				
Cost of goods sold	2,160,002	2,062,664	4,035,188	4,136,319
Selling, general and administrative expenses	642,788	641,895	1,182,629	1,275,930
	2,802,790	2,704,559	5,217,817	5,412,249
Loss from operations	(195,859)	(63,228)	(446,566)	(422,812)
Other expense:				
Interest expense—net	(40,237)	(42,154)	(80,959)	(84,757)
	(40,237)	(42,154)	(80,959)	(84,757)
Net loss before income taxes	(236,096)	(105,382)	(527,525)	(507,569)
Income tax (provision) benefit	—	—	—	—
Net loss	$ (236,096)	$ (105,382)	$ (527,525)	(507,569)
Net loss per common share— basic and diluted	$ (0.02)	$ (0.01)	$ (0.04)	$ (0.04)
Weighted average shares outstanding— basic and diluted	13,508,267	12,942,576	13,253,751	12,793,027

See Notes to Condensed Consolidated Financial Statements (Unaudited)

INRAD OPTICS, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net (loss)	$(527,525)	$(507,569)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	203,481	231,181
401K common stock contribution	124,289	135,193
Stock based compensation	29,572	15,560
Changes in operating assets and liabilities:		
Accounts receivable	(98,616)	264,151
Inventories, net	(379,110)	399,186
Other current assets	(51,005)	(34,887)
Other assets	—	(19,166)
Accounts payable and accrued liabilities	210,513	(226,753)
Customer advances	250,826	62,562
Total adjustments and changes	289,950	827,027
Net cash (used in) provided by operating activities	(237,575)	319,458
Cash flows from investing activities:		
Capital expenditures	(28,186)	(26,388)
Capitalized license fees	—	(10,000)
Net cash (used in) investing activities	(28,186)	(36,388)
Cash flows from financing activities:		
Principal payments on notes payable-other	(88,301)	(84,505)
Net cash (used in) financing activities	(88,301)	(84,505)
Net (decrease) increase in cash and cash equivalents	(354,062)	198,565
Cash and cash equivalents at beginning of period	973,333	673,685
Cash and cash equivalents at end of period	$619,271	$872,250
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$81,952	$84,504

Income taxes paid	$1,050	$800

See Notes to Condensed Consolidated Financial Statements (Unaudited)

INRAD OPTICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(**Unaudited**)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

Management Estimates

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

Inventories

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

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

	June 30, 2017 **(Unaudited)**	December 31, 2016
Raw materials	$ 949	$ 1,041
Work in process, including manufactured parts and components	1,618	1,115
Finished goods	552	584
	$ 3,119	$ 2,740

4

Income Taxes

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

For the three and six months ended June 30, 2017 and 2016, the Company did not record a current provision for either state or federal income tax due to the losses incurred for both income tax and financial reporting purposes or the availability of net operating loss carry-forwards to offset against federal and state income tax.

In evaluating the Company’s ability to recover deferred tax assets in future periods, management considers the available positive and negative factors, including the Company’s recent operating results, the existence of cumulative losses and near term forecasts of future taxable income consistent with the plans and estimates that management uses to manage the underlying business. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company over the three-year period ended December 31, 2016 and the six months ended June 30, 2017. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

On the basis of this evaluation as of June 30, 2017, the Company’s management concluded that it is more likely than not that the Company will not be able to realize any portion of the benefit on the net deferred tax balance of $5,118,000 and therefore the Company continues to maintain a valuation allowance for the full amount of the net deferred tax balance.

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

Net (Loss) Income per Common Share

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

For the three and six months ended June 30, 2017, all common stock equivalents were excluded from the computation of diluted net loss per share because their effect is anti-dilutive. This included 2,500,000 common shares and 1,875,000 common shares from warrants issuable upon conversion of outstanding related party convertible notes in each respective period, in addition to 911,341 and 901,341 common stock options, in each respective period.

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

5

Stock-Based Compensation

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

New Accounting Guidance

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) which provides guidance on the classification of certain cash receipts and payments in the statement of cash flows intended to reduce diversity in practice. The guidance is effective for interim and annual periods beginning in 2018. Early adoption is permitted. The guidance is to be applied retrospectively to all periods presented but may be applied prospectively if retrospective application would be impracticable. The Company is currently evaluating the effect of the standard on its Consolidated Statement of Cash Flows.

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

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

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

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

NOTE 2 - EQUITY COMPENSATION PROGRAM AND STOCK BASED COMPENSATION

a) Stock Option Expense

The Company's results of operations for the three months ended June 30, 2017 and 2016 include stock-based compensation expense for stock option grants totaling $14,587 and $9,598, respectively. Such amounts have been included in the accompanying Condensed Consolidated Statements of Operations within cost of goods sold in the amount of $4,024 ($2,305 for 2016), and selling, general and administrative expenses in the amount of $10,563 ($7,293 for 2016).

The Company's results of operations for the six months ended June 30, 2017 and 2016 include stock-based compensation expense for stock option grants totaling $29,572 and $15,560, respectively. Such amounts have been included in the accompanying Condensed Consolidated Statements of Operations within cost of goods sold in the amount of $8,247 ($3,883 for 2016), and selling, general and administrative expenses in the amount of $21,325 ($11,677 for 2016).

As of June 30, 2017 and 2016, there were $119,442 and $65,256 of unrecognized compensation cost, net of estimated forfeitures, related to non-vested stock options, which are expected to be recognized over a weighted average period of approximately 1.6 years and 1.6 years, respectively.

There were 180,000 and 163,500 stock options granted during the six months ended June 30, 2017 and 2016, respectively. The following range of weighted-average assumptions were used to determine the fair value of stock option grants during the six months ended June 30, 2017 and 2016:

	Six Months Ended June 30, 2017		2016	
Expected Dividend yield	—	%	—	%
Expected Volatility	133 - 134	%	128	%
Risk-free interest rate	2.2 - 2.3	%	2.1	%
Expected term	10 years		10 years	

b) Stock Option Activity

The following table represents stock options granted, exercised and forfeited during the six month period ended June 30, 2017:

Stock Options	Number of Options	Weighted Average Exercise Price per Option	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2017	760,214	$ .60	4.8	$ 109,168
Granted	180,000	.58		
Exercised	—	—		
Expired/Forfeited	(28,873)	1.09		

Outstanding at June 30, 2017	911,341	$ .59	5.6	$ 296,080
Exercisable at June 30, 2017	580,846	$ .66	4.2	$ 165,693

The following table represents non-vested stock options granted, vested and forfeited for the six months ended June 30, 2017.

	Options	Weighted-Average Grant-Date Fair Value ($)
Non-vested - January 1, 2017	272,167	.28
Granted	180,000	.56
Vested	(121,672)	.27
Forfeited	—	—
Non-vested – June 30, 2017	330,495	.44

NOTE 3 - STOCKHOLDERS' EQUITY

In April 2017, the Company issued a total of 356,323 common shares to the Inrad Optics 401k plan as a match to employee contributions for the year ended December 31, 2016.

NOTE 4 – RELATED PARTY TRANSACTIONS

On June 9, 2016, the maturity dates of a $1,500,000 Subordinated Convertible Promissory Note to Clarex Limited ("Clarex") and a $1,000,000 Subordinated Convertible Promissory Note to an affiliate of Clarex were each extended to April 1, 2019 from April 1, 2017. The notes bear interest at 6%. Interest accrues quarterly and is payable on maturity. Unpaid interest, along with principal, may be converted into securities of the Company as follows: the notes are convertible in the aggregate into 1,500,000 units and 1,000,000 units, respectively, with each unit consisting of one share of common stock and one warrant. Each warrant allows the holder to acquire 0.75 shares of common stock at a price of $1.35 per share. As part of the agreement, the expiration dates of the warrants were extended from April 1, 2020 to April 1, 2022. As of June 30, 2017, the Company had accrued interest in the amount of $75,000 associated with these notes which is included in accrued expenses.

NOTE 5 – OTHER LONG TERM NOTES

Other Long Term Notes consist of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Term Note Payable, payable in equal monthly installments of $13,953 and bearing an interest rate of 4.35% and expiring in July 2017	$ 14	$ 96
U.S. Small Business Administration term note payable in equal monthly installments of principal and interest in the amount of $1,922 and bearing an interest rate of 4.0% and expiring in April 2032.	276	282
	290	378
Less current portion	(25)	(108)
Long-term debt, excluding current portion	$ 265	$ 270

8

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

Caution Regarding Forward Looking Statements

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The Company wishes to insure that any forward-looking statements are accompanied by meaningful cautionary statements in order to comply with the terms of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. The events described in the forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of the Company's plans or strategies, projected or anticipated benefits of acquisitions made by the Company, projections involving anticipated revenues, earnings, or other aspects of the Company's operating results. The words "may", "will", "expect", "believe", "anticipate", "project", "plan", "intend", "estimate", and "continue", and their opposites and similar expres intended to identify forward-looking statements. The Company cautions you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks, and other influences, many of which are beyond the Company's control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect the Company's results include, but are not limited to, the risks and uncertainties discussed in Items 1A, 7 and 7A of the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on March 31, 2017. Any one or more of these uncertainties, risks, and other influences could materially affect the Company's results of operations and whether forward-looking statements made by the Company ultimately prove to be accurate. Readers are further cautioned that the Company's financial results can vary from quarter to quarter, and the financial results for any period may not necessarily be indicative of future results. The foregoing is not intended to be an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by the Company. The Company's actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward looking statements, whether from new information, future events, or otherwise.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 of the accompanying consolidated financial statements and further discussed in our annual financial statements included in our annual report on Form 10-K for the year ended December 31, 2016. In preparing our condensed consolidated financial statements, we made estimates and judgments that affect the results of our operations and the value of assets and liabilities we report. These include estimates used in evaluating intangibles for impairment such as market multiples used in determining the fair value of reporting units, discount rates applicable in determining net present values of future cash flows, projections of future sales, earnings and cash flow and capital expenditures. It also includes estimates about the amount and timing of future taxable income in determining the Company's valuation allowance for deferred income tax assets. Our actual results may differ from these estimates under different assumptions or conditions.

For additional information regarding our critical accounting policies and estimates, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report filed with the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2016.

Results of Operations

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

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

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

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

Revenue

Sales for the three months ended June 30, 2017 decreased 1.3% to $2,607,000 from $2,641,000 for the comparable period last year. For the six months ended June 30, 2017, sales were $4,771,000, a decrease of 4.4%, compared to $4,989,000 for the six months ended June 30, 2016.

Sales to customers in the defense/aerospace market decreased by 31.4% and 18.2% for the three and six months ended June 30, 2017, respectively, compared to the same periods last year. This reflected lower bookings activity and reduced shipments to three major customers in this market.

Sales to customers in the process control and metrology market increased by 35.1% and 11.9% for the three and six months ended June 30, 2017, respectively, compared to the same periods last year. This was mainly attributable to increased shipments to one major customer who booked a large order during the periods.

Sales in the laser systems and related products market decreased by 52.1% and 32.5% for the three and six months ended June 30, 2017, respectively, as compared to the same periods last year. Sales under one government contract, in addition to two sales to original equipment manufacturers in this market were primarily responsible for the decrease compared to the same periods last year.

The university and national lab market increased by 97.5% in the second quarter of 2017 and was up 43.4% in the six months ended June 30, 2017 compared to the same periods last year. Sales increases to one large national lab were primarily attributable for the overall increase.

In the six months ended June 30, 2017, the Company had two customers that individually had sales representing more than 10% of total sales. One customer was in the defense/aerospace market and the other customer was in the process control and metrology market. For the six months ended June 30, 2016, there was one customer with sales of more than 10% of total sales. This customer was in the defense/aerospace market.

The Company's top five customers represented 47.4% of total sales in the six month period ended June 30, 2017, compared to 35.9% in the same period in 2016. For the three months ended June 30, 2017 and 2016, sales for the top five customer group represented 51.4% and 41.1%, respectively.

Orders booked during the first six months of 2017 were $5.4 million compared to $4.9 million in the comparable period last year.

Order backlog was $6.8 million at June 30, 2017, compared to $5.1 million at June 30, 2016.

Cost of Goods Sold

Cost of goods sold was $2,160,000 and $2,063,000 for the three months ended June 30, 2017 and 2016, respectively. This represented an increase of $97,000 or 4.7%. For the six months ended June 30, 2017, cost of goods sold were $4,035,000, a decrease of $101,000 or 2.4% compared to $4,136,000 in the same period in 2016.

Material costs as a percentage of sales for the three and six months ended June 30, 2017 increased as compared to the same period in 2016, primarily due to an increase in sales mix to products with a higher component of material costs.

For the three months ended June 30, 2017, manufacturing salaries and wages and related fringe benefits decreased by approximately 5.4% or $57,000 from the comparable period in 2016. For the six months ended June 30, 2017, manufacturing salaries and wages and related fringe benefits decreased by approximately 7.6% or $167,000 from the six months ended June 30, 2016. Average head counts were higher during the comparable periods last year.

Manufacturing expenses decreased by 16.1% in the second quarter compared to the same period in 2016 and were down 8.6% in the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Gross profit for the three months ended June 30, 2017 was $447,000 or 17.1% of sales compared to $579,000 or 21.9% of sales in the same quarter last year. Gross profit for the six months ended June 30, 2017 and 2016 was $736,000 or 15.4% and $853,000 or 17.1% of sales, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A" expenses) in the three and six months ended June 30, 2017 amounted to $643,000 or 24.7% of sales and 1,183,000 or 24.8% of sales, respectively. This compared to $642,000 or 24.3% of sales and $1,276,000 or 25.6% of sales, respectively, for the same periods in 2016.

For the three and six months ended June 30, 2017, SG&A salary, wages and fringe benefits decreased by approximately $11,000 or 3.3% and $103,000 or 14.9%, respectively, reflecting lower average head count levels compared to the same periods in 2016.

SG&A expenses increased by approximately $12,000 or 3.7% and $9,000 or 1.7% in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 mainly due to higher recruiting costs which were partially offset by lower trade show expenses during the period.

Loss from Operations

The Company had a loss from operations of $196,000 in the three months ended June 30, 2017 compared with an operating loss of $63,000 in the three months ended June 30, 2016. For the six months ended June 30, 2017, the Company's operating loss was $447,000 compared with an operating loss of $423,000 in the same period last year.

Other Income and Expense

Net interest expense for the three months ended June 30, 2017 was $40,000 compared to $42,000 in the same period in 2016. Net interest expense for the six months ended June 30, 2017 was $81,000 compared to $85,000 in the same period in 2016.

Income Taxes

For the three and six months ended June 30, 2017 and 2016, the Company did not record a current provision for either state tax or federal tax due to the losses incurred for both income tax and financial reporting purposes.

Net Income (Loss)

The Company had a net loss of $236,000 compared to a net loss of $105,000 in the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, the Company had a net loss of $528,000 and $508,000, respectively. Lower sales in the three and six months ended June 30, 2017 partially offset by reduced operating and SG&A expenses compared to the previous year was primarily responsible for the increase in operating losses.

Liquidity and Capital Resources

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

As of June 30, 2017 and December 31, 2016, the Company had cash and cash equivalents of $619,000 and $973,000, respectively.

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

On June 9, 2016, the maturity dates of a $1,500,000 Subordinated Convertible Promissory Note to Clarex Limited ("Clarex") and a $1,000,000 Subordinated Convertible Promissory Note to an affiliate of Clarex were each extended to April 1, 2019 from April 1, 2017. The notes bear interest at 6%. Interest accrues yearly and is payable on maturity. Unpaid interest, along with principal, may be converted into securities of the Company as follows: the notes are convertible in the aggregate into 1,500,000 units and 1,000,000 units, respectively, with each unit consisting of one share of common stock and one warrant. Each warrant allows the holder to acquire 0.75 shares of common stock at a price of $1.35 per share. As part of the agreement, the expiration dates of the warrants were extended from April 1, 2020 to April 1, 2022. As of June 30, 2017, the Company had accrued interest in the amount of $75,000 associated with these notes.

The following table summarizes net cash (used in) provided by operating, investing and financing activities for the six months ended June 30, 2017 and 2016:

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Net cash (used in) provided by operating activities	$ (238)	$ 319
Net cash (used in) investing activities	(28)	(36)

Net cash (used in) financing activities	(88)	(85)
Net (decrease) increase in cash and cash equivalents	$ (354)	$ 198

Net cash used in operating activities was $(238,000) for the six months ended June 30, 2017 compared to net cash provided by operating activities of $319,000 in the same period last year.

In addition to the higher loss, the decrease in net cash from operating activities in the six months ended June 30, 2017 resulted primarily from the Company's net decrease in working capital compared to the six months ended June 30, 2016 as increases in accounts receivable and inventory were only partially offset by increased accounts payable and customer advances.

Net cash used in investing activities was $28,000 during the six months ended June 30, 2017 compared to $36,000 last year. The expenditures in 2017 and 2016 were primarily for operating equipment, in addition to capitalized license fees in 2016. Net cash used in financing activities was $88,000 and $85,000 during the six months ended June 30, 2017 and 2016, respectively, and were related to principal payments on other long term notes.

Overall, the Company had a net decrease in cash and cash equivalents of $354,000 in the six months ended June 30, 2017 compared with a net increase of $198,000 for the six months ended June 30, 2016.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of June 30, 2017 (the "Evaluation Date"), have concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (2) is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

b. Changes in Internal Controls over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable

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

None.

ITEM 3. DEFAULTS UNDER SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

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

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

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

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

101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

* Filed herewith

** Furnished herewith

SIGNATURES

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

Inrad Optics, Inc.

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

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

Date: August 14, 2017