

PRECISION OPTICS CORPORATION INC
Form 424B3
November 15, 2006

Filed pursuant to Rule 424(b)(3) and Rule 424(c)
Registration No. 333- 136033

PROSPECTUS SUPPLEMENT NO. 2

8,450,000 Shares

PRECISION OPTICS CORPORATION, INC.

Common Stock

This prospectus supplement amends the prospectus dated August 14, 2006, as previously supplemented by Prospectus Supplement No. 1 thereto dated October 13, 2006, related to the common stock that may be re-sold by the selling security holders named therein to include information related to the financial condition and the results of operations for Precision Optics Corporation, Inc. for the quarter ended September 30, 2006.

This prospectus supplement should be read in conjunction with the prospectus dated August 14, 2006 and Prospectus Supplement No.1 thereto dated October 13, 2006, which are to be delivered with this prospectus supplement.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 1 of the prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

November 14, 2006

FORM 10-QSB

**U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

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

For the quarterly period ended September 30, 2006

Commission file number 001-10647

PRECISION OPTICS CORPORATION, INC.
(Exact name of small business issuer as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2795294
(I.R.S. Employer
Identification No.)

22 East Broadway, Gardner, Massachusetts 01440-3338
(Address of principal executive offices) (Zip Code)

(978) 630-1800
(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes () No (X)

The number of shares outstanding of issuer's common stock, par value \$.01 per share, at November 1, 2006 was 15,458,212 shares.

Transitional Small Business Disclosure Format (check one):

Yes () No (X)

Item 1

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
ASSETS

	September 30,	
	2006	June 30, 2006
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,274,979	\$ 2,030,428
Accounts Receivable, net	342,913	381,097
Inventories, net	500,335	445,802
Prepaid Expenses	44,547	45,912
Total Current Assets	2,162,774	2,903,239
PROPERTY AND EQUIPMENT		
Machinery and Equipment	3,538,217	3,513,736
Leasehold Improvements	553,595	553,596
Furniture and Fixtures	93,545	93,545
Vehicles	42,343	42,343
	4,227,700	4,203,220
Less: Accumulated Depreciation	(4,139,290)	(4,127,287)
Net Property and Equipment	88,410	75,933
OTHER ASSETS		
Cash surrender value of life insurance policies	13,246	13,246
Patents, net	275,572	236,115
Total Other Assets	288,818	249,361
TOTAL ASSETS	\$ 2,540,002	\$ 3,228,533

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts Payable	\$ 286,570	\$ 218,658
Accrued Employee Compensation	163,063	227,892
Accrued Professional Services	41,750	90,000
Accrued Warranty Expense	50,000	50,000
Other Accrued Liabilities	4,008	2,086
Total Current Liabilities	545,391	588,636
STOCKHOLDERS' EQUITY		
Common Stock, \$.01 par value- Authorized -- 20,000,000 shares Issued and Outstanding -15,458,212 shares at September 30, 2006 and at June 30, 2006	154,582	154,582
Additional Paid-in Capital	34,772,765	34,729,873
Accumulated Deficit	(32,932,736)	(32,244,558)
Total Stockholders' Equity	1,994,611	2,639,897
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,540,002	\$ 3,228,533

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005
(UNAUDITED)

	Three Months Ended September 30,	
	2006	2005
REVENUES	\$ 474,154	\$ 419,582
COST OF GOODS SOLD	485,925	521,501
Gross Loss	(11,771)	(101,919)
RESEARCH and DEVELOPMENT EXPENSES	207,824	208,111
SELLING, GENERAL and ADMINISTRATIVE EXPENSES	483,787	424,688
GAIN ON SALE OF FIXED ASSETS	-	(165,700)
Total Operating Expenses	691,611	467,099
Operating Loss	(703,382)	(569,018)
INTEREST INCOME	15,203	9,147
Net Loss	\$ (688,179)	\$ (559,871)
Basic and Diluted Loss Per Share	\$ (0.04)	\$ (0.08)
Weighted Average Common Shares Outstanding - Basic and Diluted	15,458,212	7,008,212

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

	Three Months Ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (688,179)	\$ (559,871)
Adjustments to Reconcile Net Loss to Net Cash		
Used In Operating Activities -		
Depreciation and Amortization	12,003	41,382
Gain on Disposal of Asset		