PRECISION OPTICS CORPORATION, INC.
Form S-1/A
January 16, 2019
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As filed with the Securities and Exchange Commission on January 16, 2019

Registration Statement No. 333-229119

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT No. 1

TO THE

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	**3845**	**04-2795294**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(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.

1314 Main Street, Suite 102
Louisville, CO 80027

Phone (617) 243-0060

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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: x

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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	Accelerated filer
Non-accelerated filer x	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.

CALCULATION OF REGISTRATION FEE

Title of Each Class of **Securities to be Registered**	**Amount to be** **Registered (1)**	**Proposed Maximum** **Offering Price** **Per Share (2)**	**Proposed Maximum** **Aggregate** **Offering Price (2)**	**Amount of** **Registration** **Fee**
Common Stock, par value $0.01, to be sold by existing stockholders (3)	1,600,000	$1.29	$2,064,000.00	$250.16
Common Stock, par value $0.01, to be sold by existing stockholders (4)	2,070,675	$1.29	$2,671,170.75	$323.75
Total	3,670,675	$1.29	$4,735,170.75	$573.91*

* Previously paid.

(1) Pursuant to Rule 416(a) of the Securities Act of 1933, as amended, this registration statement shall be deemed to 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 $1.29, which is the average of the high and low prices of the registrant's common stock as reported on the OTCQB on January 2, 2019.

(3) Shares being registered for the October 2018 private placement.

(4) Shares being registered for selling stockholders exceeding 10% beneficial ownership and purchased in the November 2016, October 2015 private placement.

This registration statement shall hereafter become effective in accordance with the provisions of section 8(a) of the Securities Act of 1933.

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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.

SUBJECT TO COMPLETION, THE DATE OF THIS PROSPECTUS IS JANUARY 16, 2019.

PROSPECTUS

PRECISION OPTICS CORPORATION, INC.

OFFERING UP TO 3,670,675 SHARES OF COMMON STOCK

This prospectus relates to the sale or other disposition of up to 3,670,675 shares of our common stock by selling stockholders. We are not selling any securities in this offering and therefore, we will not receive any proceeds from this offering or the sale or other disposition of common stock by the selling stockholders. All costs associated with this registration will be borne by us. Our common stock is quoted on the OTCQB under the symbol “PEYE.” On January 14, 2018, the last reported sale price of our common stock on the OTCQB was $1.29 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 4.

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 January 16, 2019.

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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 fiscal year end is June 30. Our principal executive offices are located at 22 East Broadway, Gardner, Massachusetts 01440-3338. Our telephone number is (978) 630-1800. Our website is www.poci.com. Information contained on our website does not constitute part of this prospectus.

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 17% of our business in fiscal year 2018 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 the areas of micro optical lenses and prisms, micro medical fiber and CMOS based cameras, and custom design of medical grade instruments, combined with recent developments in the areas of 3D displays and proprietary illumination techniques, has allowed us to begin commercialization of related product and service offerings to a widening group of customers addressing various medical device, defense and aerospace applications. We believe that new products based on these technologies provide enhanced optical and imaging qualities for many uses including existing surgical procedures and development of new procedures enabled by the small size and image quality of our camera modules.

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 unaudited consolidated financial statements for the quarters ended September 30, 2018 and 2017, and our audited consolidated financial statements for the fiscal years ended June 30, 2018 and 2017.

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	Quarter Ended September 30		Fiscal Year ended June 30	
	2018	2017	2018	2017
	(unaudited)		(audited)	
Revenues	$1,559,458	$1,028,746	$4,038,048	$3,154,547
Cost of Goods Sold	1,096,951	642,004	2,556,130	2,380,823
Gross Profit	462,507	386,742	1,481,918	773,724
Research and Development Expenses, net	100,798	118,427	456,377	464,162
Selling, General and Administrative Expenses	660,489	296,584	1,374,160	1,313,478
Gain on Sale of Assets	–	–	–	(1,515)
Total Operating Expenses	761,287	415,011	1,830,537	1,776,125
Interest expense	(505)	(516)	(1,859)	(3,144)
Provision for income taxes	–	–	912	912
Net Loss	$(299,285)	$(28,785)	$(351,390)	$(1,006,457)
Loss per share:				
Basic and Diluted	$(0.03)	$(0.00)	$(0.04)	$(0.12)
Weighted average common shares outstanding:				
Basic and Diluted	10,261,269	9,108,423	9,826,151	8,343,235

THE OFFERING

Common stock outstanding as of December 31, 2018 (1)	11,897,139 shares
Common stock to be registered	3,670,675
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

(1) This number includes the 1,600,000 shares of common stock issued in the 2018 private placement described below in the section entitled "*The Transactions*."

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THE TRANSACTIONS

Private Placement of Common Stock October 2018

On October 16, 2018, we entered into agreements with accredited investors for the sale and purchase of 1,600,000 shares of our common stock, $0.01 par value, at a per unit price of $1.25 per share. We received $2,000,000 in gross proceeds from the offering. We intend to use the net proceeds from this placement for general working capital purposes.

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 90 calendar days after October 16, 2018 to register the resale by the investors of the 1,600,000 shares of the common stock purchased in the placement.

The selling stockholders who participated in the October 2018 private placement are as follows:

Name	**Common Shares Purchased in the October 2018 Offering**	**Aggregate Purchase Price**
Brian L. Pessin	160,000	$200,000
Sandra F. Pessin	530,000	$662,500
Saxony 1999 Dynastic Trust	160,000	$200,000
Edwin A. Levy	160,000	$200,000
Stavros George Vizirgianakis	590,000	$737,500
TOTAL	**1,600,000**	**$2,000,000**

PAST TRANSACTIONS BEING RE-REGISTERED IN PART

Pursuant to registration rights agreements we entered into concurrent with our October 2015 and November 2016 private placement, we agreed to register shares for holders of our common stock whose beneficial ownership exceeds 10% of our issued and outstanding common stock. We have re-registered shares of common stock held by Dolphin Offshore Partners, L.P. as part of these agreements.

Private Placement of Common Stock and Warrants November 2016

On November 22, 2016, we entered into agreements with accredited investors for the sale and purchase of 1,333,334 units with each unit consisting of one share of our common stock, $0.01 par value, and one warrant to purchase one-half of one share of our common stock, at a purchase price of $0.60 per unit. We received $780,000 in gross cash proceeds from the offering and settled an outstanding accounts payable balance with a consultant in the amount of $20,000 by issuing units. We used the net proceeds from this placement for general working capital purposes. The warrants were all exercised for $0.01 per share on or before October 16, 2017.

In conjunction with the offering, 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 90 calendar days after November 22, 2016 to register the resale by the investors of the 1,333,334 shares and warrant shares purchased in the offering. The registration statement was filed with the Securities and Exchange Commission on February 3, 2017 and became effective on March 2, 2017.

The selling stockholders who participated in the November 2016 private placement are as follows:

Name	**Common Shares Purchased in the November 2016 Offering**	**Shares Issued Upon Exercise of the November 2016 Warrants**	**Aggregate Purchase Price**
Dolphin Offshore Partners, L.P.*	916,667*	458,334*	$550,000
Hershey Strategic Capital, L.P.	125,000	62,500	$75,000
MHW Partners, L.P.	156,667	78,333	$94,000
Vesselin M. Mihaylov	10,000	5,000	$6,000
ProActive Capital Resources Group, LLC	33,333	16,667	$20,000
Joseph A. Schueller	50,000	25,000	$30,000
Arnold Schumsky	41,667	20,833	$25,000
TOTAL	**1,333,334**	**666,667**	**$800,000**

* Represents shares being re-registered.

Private Placement of Common Stock October 2015

On October 19, 2015, we entered into agreements with institutional and accredited investors for the sale and purchase of 1,044,776 shares of our common stock, $0.01 par value, at a purchase price of $0.67 per share. We received $700,000 in gross proceeds from the offering. We used the net proceeds from this placement for general working capital purposes.

In conjunction with the placement, we also entered into a registration rights agreement with investors, whereby we were obligated to file a registration statement with the Securities Exchange Commission on or before 90 days after October 19, 2015 to register the resale by the investors of the 1,044,776 shares of the common stock purchased in the placement. Certain directors participated in the October 2015 offering and purchased an aggregate of 102,238 shares of common stock at an aggregate purchase price of $68,500.

The selling shareholders who participated in the October 2015 offering are as follows:

Name	**Common Shares Purchased in the**	**Aggregate Purchase**

	October 2015 Offering	**Price**
Kenneth S. Schwartz	14,925	$10,000
Ralph Weil Revocable Trust, Ralph Weil & Karen Weil Trustees	50,000	$33,500
Proactive Capital Resources Group, LLC	14,925	$10,000
MHW Partners, L.P.	87,313	$58,500
Joseph A. Schueller	50,000	$33,500
Dolphin Offshore Partners, L.P.*	695,674*	$466,100
Hershey Strategic Capital, L.P.	37,313	$25,000
Tamas Gonda, MD	37,313	$25,000
Lewis Schneider	37,313	$25,000
Christopher Lahiji	20,000	$13,400
TOTAL	**1,044,776**	**$700,000**

* Represents shares being re-registered.

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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 our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 filed with the Securities and Exchange Commission on September 27, 2018. 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 have a history of losses, we may continue to incur losses and we may never achieve profitability; and we may need to raise additional funds.

During the years ended June 30, 2018 and 2017, we incurred net losses of $351,390 and $1,006,457, respectively. Our accumulated deficit at June 30, 2018 amounted to $45,022,122. We had working capital of $481,876 and $479,604 as of June 30, 2018 and 2017, respectively. During the year ended June 30, 2018, net cash provided by operating activities amounted to $100,657. During the quarter ended September 30, 2018, we had a net loss of $299,285 for the quarter. Our accumulated deficit at September 30, 2018 amounted to $45,321,407. We had working capital of $487,388 at September 30, 2018. We may continue incurring losses for the foreseeable future and may never achieve sustained profitability. We must generate sufficient cash flow or raise additional capital to pursue our product development initiatives, penetrate markets for the sale of our products and continue to conduct operations. We cannot provide any assurance that we will raise additional capital. We believe that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations, strategic alliances, or other means. We may not raise enough capital to meet our needs and we may have to raise additional capital in the future. If we are unable to secure additional capital, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash in amounts sufficient to sustain operations and meet our obligations. These measures could cause significant delays in our efforts to further commercialize our products and complete development projects and manufacturing services for our customers, which are critical to the realization of our business plan and to our future operations.

As of December 31, 2018, we may have to pursue additional funding for our operations if we do not maintain adequate sales revenues.

For the year ended June 30, 2018, net cash provided by operating activities was $100,657, and our net loss for the year was $351,390. As of June 30, 2018, we had $402,738 in cash and cash equivalents, $769,923 of accounts receivable and $1,932,844 of current liabilities, including $857,842 of customer advances paid against open purchase orders from our customers. For the quarter ended September 30, 2018, net cash used in operating activities was $6,430, and our net loss for the quarter was $299,285. As of September 30, 2018, we had $351,314 in cash and cash equivalents, $655,720 of accounts receivable and $1,691,131 of current liabilities, including $400,704 of customer advance paid against open purchase orders from our customers. We received $2,000,000 gross proceeds in the October 2018 private placement. However, if we do not maintain adequate sales revenue, we may not have sufficient cash to continue operations without obtaining additional funding for operations in the future. We may have to pursue several options to manage cash flow and raise capital including issuing debt, equity or entering into a strategic alliance. The sale of additional equity or convertible debt securities would result in additional dilution to our 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.

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, 2018, our two largest customers represented approximately 16%, and 14%, respectively, of our total revenues. In the fiscal year ended June 30, 2017, our three largest customers represented approximately 11%, 10%, and 10%, respectively, of our total revenues. No other customer accounted for more than 10% of our revenues during those periods. At June 30, 2018, our four largest customer account receivable balances were 22%, 16%, 13%, and 13%, respectively, of total accounts receivable. At June 30, 2017, our five largest account receivable balances were 16%, 15%, 12%, 12%, 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, 2018, our four largest customer account receivable balances were 22%, 16%, 13%, and 13%, respectively, of 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. Additionally, our customers could become unable or unwilling to pay amounts owed to us. During fiscal 2018, we recorded a $227,500 reserve against accounts receivable amounts owed to us by one customer that has not been able to pay us for design services we provided. We have not purchased insurance on our accounts receivable balances. Large uncollectible accounts receivable balances could have a material adverse effect on our financial condition.

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.

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 perform the necessary design services for our customers or produce our products causing damage to our business or an inability to meet customer demand or increase revenues.

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

We primarily perform engineering and manufacturing services for our customers who could decide to use another vendor for these services in the future.

A significant portion of our revenues are derived from engineering and manufacturing services that we perform to design and fabricate medical device products or sub-assemblies of medical device products for our customers who in turn sell the products to the end users. Our customers typically own the proprietary rights to and control commercial distribution of the final products. Therefore, in many of these cases we do not own the proprietary rights to the medical device products that we manufacture or that our sub-assemblies are made a part of. Our customers could decide to use other suppliers for these services based on cost, quality, delivery time, production capacities, competitive and regulatory considerations or other factors. Thus, revenues from our customers and the products and services we provide them are subject to significant fluctuation on a product to product basis from period to period.

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. We also rely on a limited number of suppliers for specialized CMOS sensors and the electronic wiring of those sensors. 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 who 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 September 22, 2018, 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;