PRECISION OPTICS CORPORATION INC
Form 424B3
February 15, 2008

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

PROSPECTUS SUPPLEMENT NO. 7

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, Prospectus Supplement No. 2 thereto dated November 14, 2006, Prospectus Supplement No. 3 thereto dated February 14, 2007, Prospectus Supplement No. 4 thereto dated May 15, 2007, Prospectus Supplement No. 5 thereto dated October 9, 2007, and Prospectus Supplement No. 6 thereto dated November 14, 2007, 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 and six months ended December 31, 2007.

This prospectus supplement should be read in conjunction with the prospectus dated August 14, 2006, Prospectus Supplement No. 1 thereto dated October 13, 2006, Prospectus Supplement No. 2 thereto dated November 14, 2006, Prospectus Supplement No. 3 thereto dated February 14, 2007, Prospectus Supplement No. 4 thereto dated May 15, 2007, Prospectus Supplement No. 5 thereto dated October 9, 2007, and Prospectus Supplement No. 6 thereto dated November 14, 2007, 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.

February 14, 2008

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 December 31, 2007

Commission file number 001-10647

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

Massachusetts	04-2795294
(State or other jurisdiction of incorporation or organization)	(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 o

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

Yes o No x

The number of shares outstanding of issuer's common stock, par value $.01 per share, at February 8, 2008 was 25,458,212 shares.

Transitional Small Business Disclosure Format (check one):

Yes o No x

Item 1

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

	December 31, 2007	June 30, 2007
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 306,691	$ 840,179
Accounts Receivable, net	300,240	801,206
Inventories, net	679,883	904,736
Prepaid Expenses	87,508	53,039
Total Current Assets	1,374,322	2,599,160
PROPERTY AND EQUIPMENT		
Machinery and Equipment	3,581,691	3,559,384
Leasehold Improvements	553,595	553,596
Furniture and Fixtures	150,603	150,603
Vehicles	42,343	42,343
	4,328,232	4,305,926
Less: Accumulated Depreciation	(4,175,924)	(4,148,239)
Net Property and Equipment	152,308	157,687
OTHER ASSETS		
Cash surrender value of life insurance policies	5,465	4,438
Patents, net	222,461	274,312
Total Other Assets	227,926	278,750
TOTAL ASSETS	$ 1,754,556	$ 3,035,597
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 246,056	$ 343,730
Accrued Employee Compensation	213,019	270,437
Accrued Professional Services	43,250	75,616
Accrued Warranty Expense	25,000	25,000
Other Accrued Liabilities	8,591	3,604
Total Current Liabilities	535,916	718,387
STOCKHOLDERS' EQUITY		
Common Stock, $0.01 par value -		
Authorized - 50,000,000 shares		
Issued and Outstanding - 25,458,212 shares at December 31, 2007 and at June 30, 2007	254,582	254,582
Additional Paid-in Capital	37,258,752	37,197,015
Accumulated Deficit	(36,294,694)	(35,134,387)
Total Stockholders' Equity	1,218,640	2,317,210
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,754,556	$ 3,035,597

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 31, 2007 AND 2006
(UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Revenues	$ 579,633	$ 470,811	$ 1,681,361	$ 898,436
Cost of Goods Sold	489,607	316,437	1,285,041	699,897
Gross Profit	90,026	154,374	396,320	198,539
Research and Development Expenses, net	241,962	378,954	544,395	643,477
Selling, General and Administrative Expenses	544,512	545,994	1,020,024	1,029,020
Total Operating Expenses	786,474	924,948	1,564,419	1,672,497
Operating Loss	(696,448)	(770,574)	(1,168,099)	(1,473,958)
Interest Income	2,988	7,391	7,791	22,595
Net Loss	$ (693,460)	$ (763,183)	$ (1,160,308)	$ (1,451,363)
Loss Per Share - Basic and Diluted	$ (0.03)	$ (0.05)	$ (0.05)	$ (0.09)
Weighted Average Common Shares Outstanding - Basic and Diluted	25,458,212	15,458,212	25,458,212	15,458,212

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PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED
DECEMBER 31, 2007 AND 2006
(UNAUDITED)

	Six Months Ended December 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (1,160,308)	$ (1,451,363)
Adjustments to Reconcile Net Loss to Net Cash		
Used In Operating Activities -		
Depreciation and Amortization	106,686	57,365
Stock-based compensation expense	61,738	109,259
Changes in Operating Assets and Liabilities-		
Accounts Receivable, net	500,966	61,294
Inventories	224,853	(65,757)
Prepaid Expenses	(34,469)	(59,822)
Accounts Payable	(97,674)	75,651
Other Accrued Expenses	(84,797)	(36,292)
Net Cash Used In Operating Activities	(483,005)	(1,309,665)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(22,306)	(83,304)
Increase in Other Assets	(28,177)	(69,709)
Net Cash Used In Investing Activities	(50,483)	(153,013)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of Offering Costs	-	(15,460)
Net Cash Used In Financing Activities	-	(15,460)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(533,488)	(1,478,138)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	840,179	2,030,428
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 306,691	$ 552,290
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for-		
Income Taxes	$ -	$ 912

PRECISION OPTICS CORPORATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Operations

The accompanying consolidated financial statements include the accounts of Precision Optics Corporation, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

These consolidated financial statements have been prepared by the Company, without audit, and reflect normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results of the second quarter and the first six months of the Company's fiscal year 2008. These consolidated financial statements do not include all disclosures associated with annual consolidated financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company's consolidated financial statements for the year ended June 30, 2007 together with the Report of Independent Registered Public Accounting Firm filed under cover of the Company's 2007 Annual Report on Form 10-KSB.

The Company has sustained recurring net losses and negative cash flows from operations for several years. During the year ended June 30, 2007, the Company incurred a net loss of $2,889,829 and used cash in operations of $3,334,918. During the first six months of fiscal year 2008, the Company incurred a net loss of $1,106,587 and used cash in operations of $483,005. As of December 31, 2007, cash and cash equivalents were $306,691, accounts receivable were $300,240 and current liabilities were $535,916, resulting in a net liquid asset amount of $71,015. Due to the current financial condition of the Company and the expectation of future continued quarterly operating losses during fiscal 2008, management is currently investigating and evaluating alternatives for raising additional capital as soon as possible. The Company believes that it does not have sufficient working capital to fund its short-term or long-term cash needs. While the Company continues to seek to obtain the capital necessary to continue ongoing operations, there can be no assurance that the Company will be able to raise additional capital on acceptable terms or at all. These matters raise substantial doubt about the Company's ability to continue its operations as a going concern. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In an effort to decrease operating expenses, the Company has implemented cost containment plans including work force reductions, deferring of certain development initiatives and focusing on a limited number of products and technologies expected to provide near term revenues. The Company will continue its review of other expense areas to determine where additional reductions in discretionary spending can be achieved. As part of a major initiative to concentrate resources on the Company's medical visualization business, the Company closed on the sale of its custom optical thin film product line in January 2008, which resulted in gross proceeds to the Company of $250,000 and provides for the Company to receive a royalty of 25% of revenues exceeding $300,000 annually from the purchased customer list for a three year period. There can be no assurance that the Company's operating plans will be successful or that the Company will be successful in obtaining the capital necessary to continue ongoing operations. If the Company is unable to raise sufficient working capital by the third quarter of fiscal year 2008, some or all of its operations will have to be shut down.

The Company has incurred quarter to quarter operating losses in connection with its recent efforts to develop current products including endoscopes, image couplers, beamsplitters, thin film coatings, night vision and micro-optic lenses, prisms and assemblies for various applications and utilizing a number of proprietary and patent-pending technologies including Lenslock ™ endoscope and micro-precision ™ lens technologies. Management expects that such operating losses will continue through fiscal year 2008. Management also believes, however, that the opportunities represented by these products have the potential to generate sales increases. The Company expects its recent pattern of quarter-to-quarter revenue fluctuations to continue, due to the uncertain timing of individual orders and their size in relation to total revenues.

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As of December 31, 2007 the Company had 24 full-time employees.

During the past year, the introduction of several new products, along with new and on-going customer relationships, has resulted in significant revenue growth. The Company believes that with continued promotion (funds for which the Company does not currently have), these opportunities have the potential to continue the general trend of increasing revenues, which, along with enhanced operations are required in order for the Company to achieve profitability.

Use of Estimates

The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. For the three and six months ended December 31, 2007 and 2006, the effect of stock options and warrants was antidilutive; therefore, they were not included in the computation of diluted loss per share. The number of shares issuable upon the exercise of outstanding stock options and warrants that were excluded from the computation as their effect would be antidilutive were approximately 12,562,583 and 2,532,583 for the three months ended December 31, 2007 and 2006, respectively.

Revenue Recognition

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB No. 104") which establishes guidance in applying generally accepted accounting principles to revenue recognition in financial statements and was effective for the Company's fiscal year 2004. SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (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) collectibility is reasonably assured. The Company's shipping terms are customarily FOB shipping point. The Company's revenue recognition practices comply with the guidance in the bulletin.

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 which 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, while shipping costs are classified as the Selling, General and Administrative Expenses section of the Consolidated Statement of Operations.

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 carryforwards. 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. Based on this evaluation, a full valuation reserve has been provided for the deferred tax assets.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has adopted FIN 48 as of July 1, 2007.

The Company had net deferred tax assets totaling approximately $1.6 million as of June 30, 2007 prior to the consideration of the full valuation allowance. Realization of the deferred tax assets is dependent upon the Company's ability to generate sufficient future taxable income and, if necessary, execution of tax planning strategies.

The Company's historical operating losses raise considerable doubt as to when, if ever, any of the deferred tax assets will be realized. As a result, management has provided a full valuation allowance for the net deferred tax assets. In the event management determines that sufficient future taxable income may be generated in subsequent periods and the previously recorded valuation allowance is no longer needed, the Company will decrease the valuation allowance by providing an income tax benefit in the period that such a determination is made.

FIN 48 requires that an enterprise must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not threshold is then measured to determine the amount of benefit to recognize in the financial statements. Based on its assessment, the Company has concluded that there are no significant uncertain tax positions that require recognition in the financial statements.

With respect to any future uncertain tax positions, the Company intends to record interest and penalties, if any, as a component of income tax expense.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. SFAS No. 157 is effective for the Company beginning July 1, 2008. The Company is currently reviewing SFAS No. 157 to determine the impact and materiality of its adoption.

In February 2007, the FASB issued Statement No. 159*, The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"), which permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the effect SFAS No. 159 will have on its consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (“SFAS 141(R)”). SFAS 141(R) expands the definition of a business combination and requires the fair value of the purchase price of an acquisition, including the issuance of equity securities, to be determined on the acquisition date. SFAS 141(R) also requires that all assets, liabilities, contingent considerations, and contingencies of an acquired business be recorded at fair value at the acquisition date. In addition, SFAS 141(R) requires that acquisition costs generally be expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 with early adoption prohibited. The Company is currently evaluating the effect the implementation of SFAS 141(R) will have, if any, on the financial statements.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51* (“SFAS 160”). SFAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company’s equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the effect the implementation of SFAS 160 will have, if any, on the financial statements.

2. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	December 31, 2007	June 30, 2007
Raw Materials	$ 343,364	$ 511,588
Work-In-Progress	252,291	349,936
Finished Goods	84,228	43,212