PRECISION OPTICS CORPORATION INC
Form DEF 14A
October 27, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

Precision Optics Corporation, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1)	Title of each class of securities to which transaction applies:
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRECISION OPTICS CORPORATION, INC.
22 East Broadway
Gardner, Massachusetts 01440

To the Stockholders:

The Board of Directors and officers of Precision Optics Corporation, Inc. invite you to attend the 2006 Annual Meeting of Stockholders to be held Tuesday, November 28, 2006, at 10:00 a.m. at the offices of Ropes & Gray LLP, One International Place, Boston, Massachusetts.

A copy of the Proxy Statement and a copy of the Company's 2006 Annual Report to Stockholders are enclosed.

If you cannot be present at the meeting, please mark, date, and sign the enclosed proxy card and return it as soon as possible in the enclosed envelope.

Very truly yours,

/s/ Richard E. Forkey

Richard E. Forkey
President

PRECISION OPTICS CORPORATION, INC.
22 East Broadway
Gardner, Massachusetts 01440

NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS

November 28, 2006

The 2006 Annual Meeting of Stockholders of Precision Optics Corporation, Inc. (the "Company") will be held on Tuesday, November 28, 2006, at 10:00 a.m. at the offices of Ropes & Gray LLP, Boston, Massachusetts, for the following purposes:

1. To consider and approve an amendment to the Company's Articles of Organization, as amended, to increase the number of authorized shares of the Company.

2. To consider and act on a proposal to approve certain amendments to the Amended and Restated 1997 Incentive Plan of the Company.

3. To consider and act on a proposal to approve the 2006 Equity Incentive Plan of the Company.

4. To elect two Class I directors to hold office for a three-year term and until their respective successors shall have been duly elected and qualified.

5. To transact any and all other business that may properly come before the meeting or any adjournment thereof.

All stockholders of record at the close of business on Friday, October 13, 2006, are entitled to notice of and to vote at the meeting.

Stockholders are requested to sign and date the enclosed proxy and return it in the enclosed envelope. The envelope requires no postage if mailed in the United States.

By Order of the Board of Directors

/s/ Michael T. Pieniazek

Michael T. Pieniazek
Clerk

November 1, 2006

PRECISION OPTICS CORPORATION, INC.

Annual Meeting of Stockholders
November 28, 2006

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

General

This proxy statement and form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors of Precision Optics Corporation, Inc., a Massachusetts corporation (the "Company"), for the 2006 Annual Meeting of Stockholders of the Company to be held on November 28, 2006, at 10:00 a.m. at the offices of Ropes & Gray LLP, One International Place, Boston, Massachusetts, and any adjournments thereof, for the purposes set forth in the notice of meeting. The Company was incorporated in 1982, and its principal executive offices are at 22 East Broadway, Gardner, Massachusetts 01440 (telephone 978-630-1800). This proxy statement and form of proxy are first being distributed to stockholders on or about November 1, 2006.

Stockholders Entitled to Vote

As of September 15, 2006, the Company had outstanding 15,458,212 shares of common stock, $0.01 par value per share (the "Common Stock"). Each share of Common Stock entitles the holder of record thereof at the close of business on October 13, 2006 to one vote, in person or by proxy, on the matters to be voted upon at the meeting.

Voting Procedures

Consistent with Massachusetts law and the Company's by-laws, the holders of a majority of the shares entitled to be cast on a particular matter, present in person or represented by proxy, constitutes a quorum as to such matter. Votes cast by proxy or in person at the annual meeting will be counted by persons appointed by the Company to act as election inspectors for the meeting.

If the enclosed form of proxy is properly signed and returned and not revoked, the shares represented thereby will be voted at the annual meeting. If the stockholder specifies in the proxy how the shares are to be voted, they will be voted as specified. If the stockholder does not specify how the shares are to be voted, such shares will be voted in favor of Proposals 1, 2 and 3 below and for the election of the nominees for director.

Any stockholder has the right to revoke his or her proxy at any time before it is voted by: (1) attending the meeting and voting in person, (2) by filing with the Clerk of the Company a written instrument revoking the proxy or (3) delivering to the Clerk another newly executed proxy bearing a later date.

Required Vote

The approval of the amendment to the Articles of Organization, as amended, to increase the number of shares outstanding as described in Proposal 1 requires the affirmative vote of a majority of all shares outstanding.

The approval of certain amendments to the Company's Amended and Restated 1997 Incentive Plan described in Proposal Number 2 and the approval of the 2006 Equity Incentive Plan of the Company described in Proposal Number 3 require the affirmative vote of a majority of the shares represented and entitled to vote at the meeting.

The election of the Class I directors described in Proposal 4 requires a plurality of votes cast.

Abstentions and broker "non-votes" are counted as present and entitled to vote for purposes of determining a quorum, but will not be counted as votes properly cast for purposes of determining the outcome of voting on any matter. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for the particular item and has not received instructions from the beneficial owner.

Voting on Other Matters

At the date hereof, the Company's management has no knowledge of any business other than that described in the notice for the annual meeting which will be presented for consideration at such meeting. If any other business should come before such meeting, the persons appointed by the enclosed form of proxy may, in their discretion, vote all such proxies in accordance with their own judgment. The persons appointed by the enclosed form of proxy also may, in their discretion, vote all proxies with respect to matters incident to the conduct of the meeting.

Costs of Proxy Solicitation

The Company will bear all the costs of the solicitation of proxies. The Board of Directors (the "Board") may arrange with brokerage houses and other custodians, nominees, and fiduciaries to forward solicitation materials to the beneficial owners of the stock held of record by such persons, and the Company may reimburse them for the reasonable out-of-pocket expenses incurred in so doing. In addition to the solicitation of proxies by use of the mail, the Company may use the services of some of its directors, officers, and regular employees (who will receive no compensation therefrom in addition to their regular salaries) to solicit proxies personally or by mail or telephone.

PROPOSAL NUMBER 1. APPROVAL OF THE AUTHORIZED SHARES AMENDMENT

Purpose of the Increase in Authorized Shares

The Board of Directors has approved and is hereby soliciting stockholder approval of an amendment to the Company's Articles of Organization, as amended, to increase the number of shares of Common Stock that the Company is authorized to issue from 20,000,000 to 50,000,000. On September 15, 2006, the Company had 15,458,212 shares of Common Stock outstanding and 2,492,583 shares of Common Stock reserved for specific purposes, including issuance upon exercise of outstanding stock options or for future awards under its equity incentive arrangements. The Board of Directors believes that it is desirable to have available a substantial number of authorized but unissued shares of Common Stock, which may be issued from time to time without further action by the stockholders, to provide for stock splits or stock dividends, stock options and other equity incentives, to be able to take advantage of acquisition opportunities, to meet future capital needs and for other general corporate purposes.

The form of the proposed amendment is attached hereto as Annex I. Subject to favorable stockholder action, the proposed amendment would become effective upon the filing of Articles of Amendment with the Secretary of State of The Commonwealth of Massachusetts, which would be expected to occur shortly after stockholder approval of the amendment. Upon filing of such amendment, all stockholders of the Company would be bound by the amendment, whether or not they voted for it.

Risks Associated with the Increase in Authorized Shares

The issuance of additional authorized shares of Common Stock may dilute the voting power and equity interests of present stockholders. Prior to the Authorized Shares Amendment, if all of the existing authorized shares were issued, current shares outstanding would be approximately 77% of the total outstanding shares. If the Authorized Shares Amendment is approved and all of the then authorized shares were issued, current shares outstanding would be approximately 31% of the total outstanding shares. It is not possible to predict in advance whether the issuance of additional shares will have a dilutive effect on earnings per share as it depends on the specific events associated with a particular transaction. Shares of authorized but unissued Common Stock may be issued from time to time by the Board of Directors without further stockholder action unless such action is required by Massachusetts law, under which the Company is incorporated, or the Company’s Articles of Organization.

Recommendation of the Board of Directors

The Board of Directors believes that the advantages of the additional authorized shares outweigh any potential disadvantages. The Board of Directors believes that approval of the increase in the authorized shares is in the best interest of the stockholders because it would facilitate the Company’s business and financial purposes in the future without the necessity of delaying such activities for further stockholder approval, except as may be required by Massachusetts law or the Company’s Articles of Organization.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL 1.

PROPOSAL NUMBER 2. APPROVAL OF AMENDMENTS TO THE AMENDED AND RESTATED 1997 EQUITY INCENTIVE PLAN

On April 12, 2006 and May 9, 2006, the Board of Directors approved, and is hereby soliciting stockholder approval of, certain amendments to the Precision Optics Corporation, Inc. Amended and Restated 1997 Incentive Plan (the "1997 Incentive Plan"). The primary purpose of further amending the 1997 Incentive Plan is to increase the total number of shares of Common Stock that may be issued under the 1997 Incentive Plan from 1,500,000 to 3,000,000. The amendment also provides that any shares of Common Stock remaining under an award that terminates or is terminated without having been exercised at all or in full will not be considered to have been delivered in satisfaction of an Award and will revert to the pool of shares of Common Stock available for issuance under the 1997 Incentive Plan. As of October 10, 2006, 497,438 shares of Common Stock remained available for future Awards under the 1997 Incentive Plan.

If Proposal Number 3 related to the adoption of a new equity incentive plan is approved by the requisite number of stockholders, no additional Awards will be granted under the 1997 Incentive Plan and any shares remaining in the pool of shares available for issuance under the 1997 Incentive Plan will be rolled over to the pool of shares available for issuance under the 2006 Incentive Plan.

The following is a summary of the material features of the 1997 Incentive Plan, as proposed to be amended, however, it may not contain all of the information important to you. We urge you to read the 1997 Incentive Plan, a copy of which appears as Exhibit A to this proxy statement. Capitalized terms used under Proposal Number 2 but not otherwise defined under Proposal Number 2 shall have the meanings ascribed to such terms in the 1997 Incentive Plan.

Participation in Plan

The grant of Awards under the 1997 Incentive Plan to eligible participants is subject to the discretion of the plan administrator, which is currently the Board of Directors. The benefits or amounts that have been or are to be received under the 1997 Incentive Plan since the date the Board approved the increase in the number of shares available for grant under the 1997 Incentive Plan are not determinable at this time, other than as set forth in the following table:

Amended Plan Benefits
1997 Incentive Plan

Name and Position	Number of Units	Dollar Value
Richard E. Forkey, President, Chief Executive Officer, and Treasurer	373,600 (1)	- (2)
Joseph N. Forkey, Executive Vice President and Chief Scientific Officer	280,200 (3)	- (2)
Michael T. Pieniazek, Vice President, Finance, Chief Financial Officer and Clerk	125,000 (4)	$22,500(5)
All current executive officers as a group	778,800 (1)	$22,500(6)
All non-executive directors as a group	40,000 (7)	- (8)
All non-executive officer employees as a group	277,000 (9)	- (2)

(1) Richard Forkey was granted options to purchase 373,600 shares of Common Stock at an exercise price of $0.55 per share on May 9, 2006.

(2) The dollar value of the options will depend on the difference between the exercise price and the fair market value of the underlying shares on the date of exercise (the “option spread”). As of October 10, 2006, the closing price of the Company's Common Stock on the OTC Bulletin Board was $0.43, resulting in a negative option spread as of such date.

(3) Joseph Forkey was granted options to purchase 280,200 shares of Common Stock at an exercise price of $0.55 per share on May 9, 2006.

(4) Michael Pieniazek was granted options to purchase 125,000 shares of Common Stock at an exercise price of $0.25 per share on September 15, 2006.

(5) The dollar value of the options will depend on the difference between the exercise price and the fair market value of the underlying shares on the date of exercise. The dollar value of the options shown above represents the option spread as of October 10, 2006.

(6) The dollar value of 125,000 of such options represents the option spread as of October 10, 2006. The remaining options have no value as of such date.

(7) Represents grants of Awards expected in connection with the 2006 Annual Meeting of Stockholders. Each non-employee director of the Company receives an option to purchase shares of Common Stock on the date of each annual meeting of stockholders.

(8) The dollar value of such Awards is not determinable at this time.

(9) Such Awards were granted to other employees on May 9, 2006 and have an exercise price of $0.55 per share.

Summary of the 1997 Incentive Plan

Administration. Subject to the terms of the 1997 Incentive Plan, the Administrator has authority to interpret the 1997 Incentive Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; and otherwise do all things necessary to carry out the purposes of the 1997 Incentive Plan. In the case of any Award intended to be eligible for the performance-based compensation exception under Section 162(m), the Administrator shall exercise its discretion consistent with qualifying the Award for such exception.

Eligibility and Participation. In general, the Administrator selects participants in the 1997 Incentive Plan from among key employees of the Company and its affiliates who, in the opinion of the Administrator, are in a position to make a significant contribution to the success of the Company or its affiliates. The Administrator also has discretion to include as participants in the 1997 Incentive Plan members of the Company's Board of Directors and other persons who provide services to the Company or its affiliates. As of October 10, 2006, approximately 40 persons were eligible to receive Awards under the 1997 Incentive Plan, including the Company's three executive officers and four non-employee directors. The maximum number of shares for which stock options may be granted to any person, the maximum number of shares subject to stock appreciation rights granted to any person, and the aggregate maximum number of shares of Stock which may be delivered to any person pursuant to Awards that are not stock options or stock appreciation rights are each limited to 600,000 shares per year under the 1997 Incentive Plan. In addition, no more than $2 million may be paid to any individual with respect to any annual cash performance-based bonuses and no more than $2 million in cash performance-based bonuses may be paid to any individual with respect to multi-year performance periods ending in the same year. No Award constituting an incentive stock option within the meaning of Section 422 of the Internal Revenue Code (an "ISO") may be granted under the 1997 Incentive Plan after September 15, 2007, but ISO Awards previously granted may extend beyond such date.

Types of Awards. The Administrator, in its discretion, may award (i) options to purchase Common Stock, (ii) stock appreciation rights, (iii) restricted or unrestricted Stock, (iv) promises to deliver Common Stock or other securities in the future, (v) convertible securities, (vi) cash bonuses, and (vii) cash bonuses or loans to help defray the costs of the foregoing Awards.

Performance Criteria. Awards under the 1997 Incentive Plan may be conditioned upon satisfaction of specified performance criteria. In the case of any such Award that is intended to qualify for exemption from the deduction limitation rules of Section 162(m) of the Internal Revenue Code (an "Exempt Award"), the criteria used in connection with the Award shall be one or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business or geographical basis or in combinations thereof): (i) sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; gross margin; inventory level or turns; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; or other objective operating contributions; or (ii) acquisitions or divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; recapitalizations, restructurings, financings (issuance of debt or equity) and refinancings; or other transactions that involve a change in the equity ownership of the Company. A Performance Criterion measure and any targets with respect thereto determined by the Administrator need not be based upon an increase, a positive or improved result or avoidance of loss. In the case of an Exempt Award, the administrator will preestablish the particular performance goals in writing no later than 90 days after the commencement of the period of service to which the performance relates (or earlier if so required under applicable regulations) and will certify prior to payment whether the performance goal or goals have been attained. If the performance goal with respect to an Exempt Award is not attained, no other Award shall be provided in substitution. To date, the Company has not granted any Exempt Awards.

Rules Applicable to Awards. Neither ISOs nor, except as the Administrator otherwise expressly provides, other Awards may be transferred other than by will or by the laws of descent and distribution, and during a Participant's lifetime ISOs (and, except as the Administrator otherwise expressly provides, other non-transferable Awards requiring exercise) may be exercised only by the Participant. The Administrator may determine the time or times at which an Award will vest or become exercisable. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of an Award, regardless of any adverse or potentially adverse tax consequences resulting from such acceleration. Unless the Administrator expressly provides otherwise, immediately upon the cessation of the Participant's Employment, an Award requiring exercise will cease to be exercisable and will terminate, and all other Awards to the extent not already vested will be forfeited with certain exceptions, which are enumerated in the 1997 Incentive Plan.

Stock Options. The Administrator will determine the exercise price, if any, of each Award requiring exercise. Unless the Administrator determines otherwise, each stock option will have an exercise price not less than the fair market value of the Stock subject to the stock option, determined as of the date of grant. A stock option intended to be an ISO granted to a person who owns (or by application of attribution rules is deemed to own) more than 10% of the total combined voting power of all classes of stock of the Company will have an exercise price equal to 110% of such fair market value. Options awarded under the 1997 Incentive Plan will not be ISOs except as expressly provided otherwise.

Effect of Certain Transactions. In the event of a consolidation or merger in which the Company is not the surviving corporation or which results in the acquisition of a majority of the Company's outstanding Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of all or substantially all of the Company's assets or a dissolution or liquidation of the Company, all outstanding Awards requiring exercise will cease to be exercisable, and all other Awards to the extent not fully vested (including Awards subject to performance conditions not yet satisfied or determined) will be forfeited, as of the effective time of such transaction; provided, however, that immediately prior to the consummation of such a transaction, the vesting or exercisability of Awards shall be accelerated unless, in the case of any Award, the Administrator provides for one or more substitute or replacement awards from, or the assumption of existing Awards by, the acquiring entity (if any) or its affiliates.

Equitable Adjustment. In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Company's capital structure, the Administrator will make appropriate adjustments to the maximum number of shares that may be delivered under the 1997 Incentive Plan, to the maximum share limits under the 1997 Incentive Plan, to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, to any exercise prices relating to Awards, and to any other provision of Awards affected by such change. In connection with the one-for-six reverse split of the Company's Common Stock that was consummated on January 29, 2003, the Administrator made such adjustments accordingly. The Administrator also may make such adjustments to take into account other distributions or events, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the 1997 Incentive Plan and to preserve the value of Awards; provided, however, that no such adjustment shall be made to the maximum share limits, or otherwise to an Award intended to be eligible for the performance-based exception under Section 162(m), except to the extent consistent with that exception.

Amendment. Subject to the Administrator's obligation to exercise its discretion consistent with qualifying Awards for the performance-based exception under Section 162(m) if such Awards are intended to so qualify, the Administrator may at any time or times amend the 1997 Incentive Plan or any outstanding Award for any purpose which may at the time be permitted by law, or may at any time terminate the 1997 Incentive Plan as to any further grants of Awards, provided that, except to the extent expressly required or permitted by the 1997 Incentive Plan, no such amendment will, without the approval of the stockholders of the Company, effectuate a change for which stockholder approval is required in order for the 1997 Incentive Plan to continue to qualify under Section 422 of the Internal Revenue Code or for Awards to be eligible for the performance-based exception under Section 162(m).

Other Compensation. The existence of the 1997 Incentive Plan and the grant of Awards will not affect the Company's right to pay other bonuses or compensation in addition to Awards under the 1997 Incentive Plan.

Price of Common Stock. The closing price of the Company's Common Stock on the OTC Bulletin Board on October 10, 2006 was $0.43.

Certain Federal Income Tax Consequences

The following discussion summarizes certain United States federal income tax consequences of the issuance and receipt of options under the 1997 Incentive Plan under the law as in effect on the date of this proxy statement. The 1997 Incentive Plan provides for the grant of both ISOs and NSOs, as well as other Awards. The summary does not purport to cover federal employment tax or other federal tax consequences that may be associated with the 1997 Incentive Plan, nor does it cover state, local or non-U.S. taxes.

ISOs. An optionee realizes no taxable income upon the grant or, for regular tax purposes, upon the exercise of an ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, a disposition of shares purchased under an ISO within two years from the date of grant or within one year after exercise produces ordinary income to the optionee (and a deduction to the Company) equal to the value of the shares at the time of exercise less the exercise price. Any additional gain recognized in the disposition is treated as a capital gain for which the Company is not entitled to a deduction. If the optionee does not dispose of the shares until after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which the Company is not entitled to a deduction.

NSOs. In general, in the case of an NSO, the optionee has no taxable income at the time of grant but realizes income in connection with exercise of the option in an amount equal to the excess (at the time of exercise) of the fair market value of the shares acquired upon exercise over the exercise price; a corresponding deduction is available to the Company; and upon a subsequent sale or exchange of the shares, any recognized gain or loss after the date of exercise is treated as capital gain or loss for which the Company is not entitled to a deduction.

In general, an ISO that is exercised by the optionee more than three months after termination of employment is treated as an NSO. ISOs are also treated as NSOs to the extent they first become exercisable by an individual in any calendar year for shares having a fair market value (determined as of the date of grant) in excess of $100,000.

The Administrator may award stock options that are exercisable for restricted stock. Under Section 83 of the Code, an optionee who exercises a nonqualified stock option for restricted stock will generally have income only when the stock vests, equal to the fair market value of the stock at that time less the exercise price. However, the optionee may make a so-called “83(b) election” in connection with the exercise to recognize taxable income at the time of exercise. Assuming no other applicable limitations, the amount and timing of the deduction available to the Company will correspond to the income recognized by the optionee. In the case of an optionee who exercises an incentive stock option for restricted stock, the tax consequences described above with respect to the exercise of incentive stock options will apply except that (i) the optionee will have no alternative minimum taxable income associated with the exercise until the stock vests, unless the optionee makes a timely “83(b) election,” and (ii) in the event of a disqualifying disposition, the ordinary income recognized by reason of the disposition and the Company’s corresponding deduction will be measured by reference to the fair market value of the stock at the time the stock vested.

Under the so-called “golden parachute” provisions of the Code, the accelerated vesting of Awards in connection with a change in control of the Company may be required to be valued and taken into account in determining whether participants have received compensatory payments, contingent on the change in control, in excess of certain limits. If these limits are exceeded, a substantial portion of amounts payable to the participant, including income recognized by reason of the grant, vesting or exercise of Awards under the 1997 Incentive Plan, may be subject to an additional 20% federal tax and may be nondeductible to the Company.

The foregoing description of tax consequences assumes that options awarded under the 1997 Incentive Plan will also qualify for exemption from the rules applicable to nonqualified deferred compensation under Section 409A of the Code, which could otherwise result in acceleration of income and additional tax to the holders of awards. Under currently proposed guidance under Section 409A of the Code, the exemption from Section 409A should be available to both incentive stock options and nonqualified stock options granted under the 1997 Incentive Plan. Options under the 1997 Incentive Plan currently do not qualify as performance-based awards not subject to the deduction limitation under Section 162(m) of the Code. Where applicable, Section 162(m) limits the deduction for compensation payable to certain executive officers of the Company.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL 2.

PROPOSAL NUMBER 3. APPROVAL OF THE 2006 EQUITY INCENTIVE PLAN

On October 11, 2006, the Board of Directors approved, and is hereby soliciting stockholder approval of, the Precision Optics Corporation, Inc. 2006 Equity Incentive Plan (the "2006 Incentive Plan"). The Board of Directors believes that approval of the 2006 Incentive Plan will advance the interests of the Company by providing eligible participants the opportunity to receive a broad variety of equity-based awards.

As of October 10, 2006, 497,438 shares remained available for grant under the 1997 Incentive Plan. Upon adoption of the 2006 Incentive Plan by the stockholders, no further awards will be granted or issued under the 1997 Incentive Plan.

The following is a summary of the material features of the 2006 Incentive Plan, however, it may not contain all of the information important to you. We urge you to read the 2006 Incentive Plan, a copy of which appears as Exhibit B to this proxy statement. Capitalized terms used under Proposal Number 3 but not otherwise defined under Proposal Number 3 shall have the meanings ascribed to such terms in the 2006 Incentive Plan.

Summary of the 2006 Incentive Plan

The Board believes that the success of the Company depends, in large part, on the ability of the Company to attract, retain and motivate key personnel. Accordingly, the Board believes that adoption of the 2006 Incentive Plan, a broad-based equity compensation program, as more fully described below, is a necessary retention tool that is in the best interests of the Company and its stockholders.

The 2006 Incentive Plan became effective on October 11, 2006, subject to stockholder approval, and will terminate when there are no remaining shares available for Awards. No Awards may be made under the 2006 Incentive Plan after the tenth anniversary minus one day of the effective date of its adoption and approval. The maximum number of shares of Common Stock that may be delivered in satisfaction of Awards made under the 2006 Incentive Plan shall be 3,000,000 plus the number of prior 1997 Incentive Plan shares (not to exceed 500,000). Prior 1997 Incentive Plan shares consist of: (i) shares of Stock available for issuance under the 1997 Incentive Plan immediately prior to stockholder approval of the 2006 Incentive Plan, (ii) shares of Stock subject to awards under the 1997 Incentive Plan, other than restricted stock awards, outstanding immediately prior to stockholder approval of the 2006 Incentive Plan to the extent such awards are exercised or are satisfied, or terminate or expire, on or after the date of stockholder approval of the 2006 Incentive Plan without the delivery of such shares, and (iii) shares of Stock outstanding immediately prior to stockholder approval of the 2006 Incentive Plan constituting restricted stock awards under the Prior Plan and thereafter forfeited. The maximum number of shares that may be issued under the 2006 Incentive Plan represents approximately 23% percent of the total number of shares of the Company's Common Stock outstanding on October 10, 2006.

Shares delivered under the 2006 Incentive Plan may consist of either authorized but unissued shares or treasury shares. For purposes of calculating the maximum number of shares that may be delivered in satisfaction of Awards made under the 2006 Incentive Plan, such maximum will be determined net of any shares (i) withheld by the Company in payment of the exercise price of an Award or in satisfaction of tax withholding with respect to an Award, (ii) awarded under the 2006 Incentive Plan as restricted stock but subsequently forfeited, or

(iii) subject to an Award that is exercised or satisfied, or terminates or expires, without the delivery of such shares. In the event of a stock dividend, stock split or other change in our capital structure, the Administrator (as defined below) will make appropriate adjustments to the limits described above and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards, any exercise prices relating to Awards and any other provisions of awards affected by the change. The Administrator may also make similar adjustments to take into account other distributions to stockholders or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the 2006 Incentive Plan and to preserve the value of awards.

The maximum number of shares of Common Stock for which stock options may be granted to any person in any calendar year and the maximum number of shares of Common Stock subject to stock appreciation rights ("SARs") granted to any person in any calendar year will each be 1,000,000. The maximum number of shares that will be paid to any person under other awards in any calendar year will be 1,000,000.

Administration. The Board of Directors (the "Administrator") administers the 2006 Incentive Plan. The Administrator has full authority to determine who will receive Awards and to determine the types of Awards to be granted as well as the amounts, terms, and conditions of any awards. Awards may be in the form of options, SARs, restricted or unrestricted stock, restricted or unrestricted stock units, or performance awards (collectively, "Awards"). The Administrator has the right to determine any questions that may arise regarding the interpretation and application of the provisions of the 2006 Incentive Plan and to make, administer, and interpret such rules and regulations as it deems necessary or advisable. To the extent permitted by law and the terms of the 2006 Incentive Plan, the Administrator may, in its discretion, delegate its duties, powers, and rights under the 2006 Incentive Plan to one or more of its members or officers of the Company or to a committee of the Board. Determinations of the Administrator and its delegates made under the 2006 Incentive Plan are conclusive and bind all parties.

Eligibility. Key employees of, and consultants and advisors to, the Company are eligible to be granted Awards under the 2006 Incentive Plan, except that incentive stock options may only be granted to employees of the Company and its subsidiaries. As of October 10, 2006, approximately 40 persons were eligible to receive Awards under the 1997 Incentive Plan, including the Company's three executive officers and four non-employee directors.

Types of Awards

Stock Options. The Administrator may from time to time award options to any participant subject to the limitations described above. Stock options give the holder the right to purchase shares of Common Stock within a specified period of time at a specified price. The 2006 Incentive Plan provides for the grant of two types of options: incentive stock options ("ISOs"), which are subject to special tax treatment as described below, and nonstatutory stock options ("NSOs").

The exercise price of both an ISO and NSO granted under the 2006 Incentive Plan may not be less than the fair market value of the Common Stock on the date the option is granted. In addition, the expiration date of an ISO cannot be more than ten years after the date of the original grant. The Administrator will determine all other terms and conditions related to the exercise of an option, including the consideration to be paid, if any, for the grant of the option, the time at which options may be exercised and conditions related to the exercise of options.

The option exercise price is payable in cash or check acceptable to the Administrator. The Administrator may, in its discretion, also permit optionees to make payment in Common Stock of the Company having a fair market value equal to the option exercise price, or subject to certain conditions, using a broker-assisted “cashless exercise” program.

All unexercised options terminate not later than after a certain number of years as determined by the Administrator. The maximum term of an ISO may not be longer than ten years. Except as otherwise provided in the 2006 Incentive Plan and the applicable award agreement, vested options generally must be exercised within three months of the cessation of a participant’s employment with the Company.

Stock Appreciation Rights. The 2006 Incentive Plan permits the Administrator to grant SARs. A SAR entitles the holder, upon exercise, to receive an amount in Common Stock, or cash, or a combination thereof, determined by reference to appreciation from and after the date of grant in the base price of a share of the Company's Common Stock, which may not be less than such share’s fair market value on the date of grant.

Restricted Stock; Stock Unit Awards. Under the 2006 Incentive Plan, the Administrator may grant nontransferable shares of restricted or unrestricted Common Stock and restricted or unrestricted stock unit awards. A stock award is an award of shares of Common Stock, while a stock unit award entitles the recipient to the future delivery of shares of Common Stock or an amount of equivalent value. Stock unit awards may be settled in shares, cash or a combination thereof. Awards of restricted stock and unrestricted stock may be made in exchange for past services or other lawful consideration. Generally, awards of restricted stock and restricted stock unit awards are subject to the requirement that the shares or award be forfeited or resold to the Company unless specified conditions, such as continued employment and/or achievement of performance goals, are met. Subject to these restrictions, conditions and forfeiture provisions, any recipient of an award of restricted stock will have all the rights of a stockholder of the Company, including the right to vote the shares and to receive dividends. Other Awards under the 2006 Incentive Plan may also be settled with restricted stock.

Performance Awards. The Administrator may also make Awards subject to the satisfaction of specified performance criteria (“Performance Awards”). Performance Awards may consist of stock options, SARs, restricted stock or restricted stock units. The performance criteria used in connection with a particular Performance Award will be determined by the Administrator. In the case of Performance Awards intended to qualify for exemption under Section 162(m) of the Internal Revenue Code, the Administrator will use objectively determinable measures of performance in accordance with Section 162(m) that are based on any or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. Any of the foregoing performance criteria and any targets set by the Administrator with respect to those criteria need not be based upon an increase, a positive or improved result or avoidance of loss. In addition, to the extent that an event, such as an acquisition or disposition, occurs during the period related to a Performance Award that affects one or more of the performance criteria, the Administrator may adjust the performance criteria in an objectively determinable manner to reflect such events. Such adjustments will be made only to the extent consistent with the requirements for satisfying the performance-based compensation exception under Section 162(m). The Administrator will determine whether the performance targets or goals that have been chosen for a particular Performance Award have been met.

General Provisions Applicable to All Awards. Neither ISOs, nor, except as the Administrator may otherwise determine or provide in an Award, any other Award may be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom it is granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution. During the life of a participant an ISO is exercisable only by the recipient. Other Awards may be transferred during the recipient's lifetime, but only on a gratuitous basis and only to the extent, if any, permitted by the Administrator.

Treatment of Awards in Connection with Certain Transactions. The 2006 Incentive Plan provides that, in the event of (i) a consolidation, merger, or similar transaction or series of transactions in which the Company is not the surviving corporation or which results in the acquisition by a person or entity or by a group of persons or entities acting together of substantially all of the Company's Common Stock, (ii) a sale of all or substantially all the assets of the Company, or (iii) a complete liquidation or dissolution of the Company, the following rules will apply unless otherwise provided in an Award:

- If there is a surviving or acquiring entity, the Administrator may arrange to have that entity (or an affiliate) assume some or all outstanding Awards or grant substitute Awards. Any such assumption or substitution of a stock option or SAR exempt from the requirements of Section 409A of the Code will be accomplished in a manner that preserves such exemption.

- If the transaction involves a payment to the Company stockholders (whether cash, non-cash, or some combination of the two), the Administrator may provide for a "cash-out" payment with respect to some or all Awards or portions thereof. With respect to each affected Award, the "cash-out" payment will be equal to the excess, if any, of the fair market value of one share of Common Stock multiplied by the number of shares of stock subject to the Award or portion thereof over the aggregate exercise or purchase price (if any) of the Award or portion thereof.

- Regardless of whether there is a surviving or acquiring entity, if the transaction does not involve an assumption or substitution of Awards or a "cash-out" payment, all Awards requiring exercise will become fully exercisable and the delivery of shares deliverable under a stock unit award will be accelerated prior to the completion of the transaction on a basis that gives participants a reasonable opportunity, as determined by the Administrator to participate in the transaction as a stockholder.

- Existing Awards, unless assumed, will terminate upon completion of the transaction.

The Administrator may require that any amounts delivered, exchanged or otherwise paid with respect to a "cash-out" or acceleration of an outstanding Award contain restrictions as it deems appropriate to reflect any performance or other vesting conditions to which the Award was subject. In the case of restricted stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such stock be placed in escrow or otherwise made subject to restrictions.

Amendment and Termination. The Administrator may amend the 2006 Incentive Plan or any outstanding Award at any time or times for any purpose which may at the time be permitted by law, and may at any time terminate the 2006 Incentive Plan as to any future grants of Awards. The Administrator may not, however, alter the terms of an Award so as to affect adversely the participant's rights under an Award without the participant's consent, unless the Administrator expressly reserved the right to do so at the time of the Award.

Other Compensation. The existence of the 2006 Incentive Plan and the grant of Awards will not affect the Company's right to pay other bonuses or compensation in addition to Awards under the 2006 Incentive Plan.

Price of Common Stock. The closing price of the Company's Common Stock on the OTC Bulletin Board on October 10, 2006 was $0.43.

2006 Incentive Plan Benefits

The future benefits or amounts that would be received under the 2006 Incentive Plan by executive officers and non-executive officer employees are discretionary and are therefore not determinable at this time. In addition, the benefits or amounts which would have been received by or allocated to such persons for the last completed fiscal year if the 2006 Incentive Plan had been in effect cannot be determined.

Certain Federal Income Tax Consequences

The following discussion summarizes certain United States federal income tax consequences of the issuance and receipt of options under the 2006 Incentive Plan under the law as in effect on the date of this proxy statement. The 2006 Incentive Plan provides for the grant of both ISOs and NSOs, as well as other Awards. The summary does not purport to cover federal employment tax or other federal tax consequences that may be associated with the 2006 Incentive Plan, nor does it cover state, local or non-U.S. taxes.

ISOs. An optionee realizes no taxable income upon the grant or, for regular tax purposes, upon the exercise of an ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, a disposition of shares purchased under an ISO within two years from the date of grant or within one year after exercise produces ordinary income to the optionee (and a deduction to the Company) equal to the value of the shares at the time of exercise less the exercise price. Any additional gain recognized in the disposition is treated as a capital gain for which the Company is not entitled to a deduction. If the optionee does not dispose of the shares until after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which the Company is not entitled to a deduction.

NSOs. In general, in the case of an NSO, the optionee has no taxable income at the time of grant but realizes income in connection with exercise of the option in an amount equal to the excess (at the time of exercise) of the fair market value of the shares acquired upon exercise over the exercise price; a corresponding deduction is available to the Company; and upon a subsequent sale or exchange of the shares, any recognized gain or loss after the date of exercise is treated as capital gain or loss for which the Company is not entitled to a deduction.

In general, an ISO that is exercised by the optionee more than three months after termination of employment is treated as an NSO. ISOs are also treated as NSOs to the extent they first become exercisable by an individual in any calendar year for shares having a fair market value (determined as of the date of grant) in excess of $100,000.

The Administrator may award stock options that are exercisable for restricted stock. Under Section 83 of the Code, an optionee who exercises a nonqualified stock option for restricted stock will generally have income only when the stock vests, equal to the fair market value of the stock at that time less the exercise price. However, the optionee may make a so-called “83(b) election” in connection with the exercise to recognize taxable income at the time of exercise. Assuming no other applicable limitations, the amount and timing of the deduction available to the Company will correspond to the income recognized by the optionee. In the case of an optionee who exercises an incentive stock option for restricted stock, the tax consequences described above with respect to the exercise of incentive stock options will apply except that (i) the optionee will have no alternative minimum taxable income associated with the exercise until the stock vests, unless the optionee makes a timely “83(b) election,” and (ii) in the event of a disqualifying disposition, the ordinary income recognized by reason of the disposition and the Company’s corresponding deduction will be measured by reference to the fair market value of the stock at the time the stock vested.

Under the so-called “golden parachute” provisions of the Code, the accelerated vesting of Awards in connection with a change in control of the Company may be required to be valued and taken into account in determining whether participants have received compensatory payments, contingent on the change in control, in excess of certain limits. If these limits are exceeded, a substantial portion of amounts payable to the participant, including income recognized by reason of the grant, vesting or exercise of Awards under the 2006 Incentive Plan, may be subject to an additional 20% federal tax and may be nondeductible to the Company.

The foregoing description of tax consequences assumes that options awarded under the 2006 Incentive Plan will also qualify for exemption from the rules applicable to nonqualified deferred compensation under Section 409A of the Code, which could otherwise result in acceleration of income and additional tax to the holders of awards. Under currently proposed guidance under Section 409A of the Code, the exemption from Section 409A should be available to both incentive stock options and nonqualified stock options granted under the 2006 Incentive Plan. Options under the 2006 Incentive Plan currently do not qualify as performance-based awards not subject to the deduction limitation under Section 162(m) of the Code. Where applicable, Section 162(m) limits the deduction for compensation payable to certain executive officers of the Company. The exception to the deduction limitation may become available with respect to Awards under the 2006 Incentive Plan if, among other requirements, the administration of the 2006 Incentive Plan is changed to provide that Awards are made by a committee of the Board of Directors of the Company consisting solely of two or more outside directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL 3.

PROPOSAL NUMBER 4. ELECTION OF DIRECTORS

The Company's Board of Directors is divided into three classes that are as nearly equal in number as possible, with staggered terms of office. Only one class is elected each year. Each director serves a three year term and until his or her successor has been duly elected and qualified. The Board of Directors has fixed the number of directors at six. The directors in Class III (Richard Miles and Joseph N. Forkey) will hold office until the annual meeting of stockholders in 2008 and until their respective successors have been duly elected and qualified. The Company's Class II directors (Joel R. Pitlor and Donald A. Major) will hold office until the annual meeting of stockholders in 2007 and until their respective successors have been duly elected and qualified. The directors in Class I (Richard E. Forkey and Edward A. Benjamin) will hold office until the annual meeting of stockholders in 2006 and are standing for re-election.

The names, ages, principal occupations for at least the last five years, and certain other information regarding the current directors, are as follows:

Name	Age	Director Since	Principal Occupation; Directorships of Other Public Companies
Richard E. Forkey	66	1982	President, Chief Executive Officer, Treasurer and a director of the Company since founding the Company in 1982; Clerk of the Company from May 1983 to June 1990.
Edward A. Benjamin	68	1990	Clerk of the Company from June 1990 to January 1998. Mr. Benjamin is a Trustee of the IXIS Advisor Funds, AEW Real Estate Income Fund, and Loomis Sayles Funds and a Director of Coal, Energy Investments & Management, LLC. Mr. Benjamin was a partner in the law firm of Ropes & Gray LLP, Boston, Massachusetts, from 1969 to 1998.
Joseph N. Forkey (1)	38	2006	Executive Vice President and Chief Scientific Officer of the Company since April 2006; Chief Scientist of the Company from September 2003 to April 2006. Prior to joining the Company, Dr. Forkey spent seven years at the University of Pennsylvania Medical School as a postdoctoral fellow and research staff member.
Joel R. Pitlor (1)	68	1990	Since 1979, Mr. Pitlor has been President of J.R. Pitlor, a management consulting firm that provides strategic business planning, which Mr. Pitlor founded. Mr. Pitlor has provided business planning consultation to the Company since 1983.
Donald A. Major (1)	45	2005	Since 2002, Mr. Major has been Vice President and Chief Financial Officer of Digital Excellence, LLC. From 1999 to 2001 Mr. Major served as Chief Financial Officer

			and Clerk for Uroplasty, Inc.
Richard Miles (1)	63	2005	Since 1972, Professor Miles has been a member of the faculty at Princeton University, and serves as the Director of the Applied Physics Group in Princeton University's Mechanical and Aerospace Engineering Department.

(1) Directors whose terms do not expire this year.

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All of the stockholders holding shares of the Company's Common Stock are entitled to cast one vote in person or by proxy for each share standing in their names and are entitled to elect two Class I directors at the 2006 Annual Meeting. If a nominee is not available as a candidate when the election occurs, the persons named in the proxy may, in their discretion, vote for the election of such other person as the Board of Directors may designate or reduce the number of directors correspondingly. The Company has no reason to believe the nominees will not be available for election.

Board of Directors

During the fiscal year ended June 30, 2006, the Company's Board of Directors held eight meetings and acted by unanimous written consent on three occasions. Each director attended at least 75% of the meetings of the Board of Directors.

While the Company has no formal policy in place regarding board members' attendance at annual meetings of stockholders, the Company encourages their attendance at such annual meetings. There were three members of the Board of Directors in attendance at the Company's 2005 Annual Meeting of Stockholders.

Information as to ownership of the Company's securities by the nominee for director is included under the heading "Security Ownership of Certain Beneficial Owners and Management."

While the Board does not have a standing nominating committee, it does have a standing Audit Committee and a standing Compensation Committee.

Audit Committee

The Audit Committee of the Board of Directors is currently composed of Messrs. Major, Benjamin and Miles. The Audit Committee's primary function is to assist the Board of Directors in monitoring the integrity of the Company's financial statements, systems of internal control and the independence and performance of the independent registered public accounting firm. The Audit Committee's specifically enumerated powers and responsibilities include hiring and terminating the independent registered public accounting firm and pre-approving any engagements of the independent registered public accounting firm for non-audit services. The Audit Committee held four meetings during the fiscal year ended June 30, 2006. Each of the Audit Committee members attended 100% of the meetings of the Audit Committee in the last year.

The Board of Directors has made a determination that Donald A. Major, Chair of the Audit Committee, qualifies as an audit committee financial expert meeting the criteria set forth in Item 401(e) of Regulation S-B.

Compensation Committee

The Board constituted a compensation committee in April 2006. The Compensation Committee of the Board of Directors is currently composed of Messrs. Major, Benjamin and Miles, with Mr. Major serving as chair of such committee. The Compensation Committee's primary functions are to provide a general review of the Company's compensation and benefit arrangements and to review and establish compensation practices and policies for the officers of the Company. The Compensation Committee did not meet in separate session during the fiscal year ended June 30, 2006.

Director Nomination Procedures

The Company believes that it is appropriate not to have a standing nominating committee because of the small size of the Board of Directors. The Board of Directors as a whole identifies and evaluates nominees for election to the Board of Directors. By having the Board of Directors as a whole consider and evaluate nominees, the Board of Directors weighs the input of all directors. Of the current members of the Board of Directors, Messrs. Benjamin, Major, Miles and Pitlor would be considered independent according to NASDAQ's listing standards governing nominating committees.

The process by which the Board of Directors considers nominees for membership on the Board of Directors is flexible and based, generally, on the directors' assessment of the needs of the Company and the extent to which existing directors meet those needs. Factors considered by the Board of Directors in evaluating the suitability of a potential nominee may include, but not be limited to: business and management experience, familiarity with the Company's industry and products, the ability to integrate with existing directors and management and the extent to which a potential nominee may satisfy applicable requirements such as independence or expertise requirements under the securities laws and Nasdaq Marketplace Rules.

The Board of Directors will consider director nominees recommended by stockholders. Such recommendations should include the name, age, address, telephone number, principal occupation, background and qualifications of the nominee and the name, address, and telephone number of and number of shares of Common Stock beneficially owned by the stockholder making the recommendation and should be sent to the Clerk of the Company at 22 East Broadway, Gardner, Massachusetts 01440. Such recommendations should be submitted to the Clerk of the Company prior to June 15 of the respective year in order to give the Company adequate time in order to consider the recommendations.

Director Compensation

The Company pays each director who is not also an employee of the Company $250 per Board or committee meeting that the director attends and reimburses the director for travel expenses.

During the fiscal year ended June 30, 2006, the Company issued, pursuant to its Amended and Restated 1997 Incentive Plan, 10,000 stock options in November 2005, exercisable at a price per share of $0.46, of the Company's Common Stock to each of Messrs. Major and Miles. Each of these options is immediately exercisable.

On August 4, 2005, Donald A. Major was elected to be a director of the Company and appointed to chair of the Audit Committee. As of the date of Mr. Major's acceptance, the Company issued, pursuant to its Amended and Restated 1997 Incentive Plan, 10,000 stock options to Mr. Major, exercisable at a price per share of $0.75. Each of these options is immediately exercisable. For his service to the Company, in his capacity as Chair of the Audit Committee, Mr. Major receives compensation of $500 per month, which is in addition to the standard compensation received by all members of the Board of Directors for their services.

THE BOARD OF DIRECTORS RECOMMENDS THE ELECTION OF THE NOMINEES DESCRIBED IN PROPOSAL NUMBER 4.

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EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES

The Company’s executive officers and significant employees as of June 30, 2006 were as follows:

Name	Age	Offices
Executive Officers		
Richard E. Forkey	66	President, Chief Executive Officer and Treasurer
Joseph N. Forkey	38	Executive Vice President and Chief Scientific Officer
R. Michael Arbon (1)	41	Chief Financial Officer and Clerk

(1) Resigned as of July 18, 2006

Mr. Richard E. Forkey has been the President, Chief Executive Officer, Treasurer, and a director of the Company since he founded the Company in 1982. He was the Clerk of the Company from May 1983 to June 1990.

Dr. Joseph N. Forkey, son of Richard E. Forkey, has been Chief Scientist since September 2003. Since then he has been involved in general technical and management activities of the Company, as well as investigations of opportunities that leverage the Company’s newly developed technologies. Dr. Forkey holds B.A. degrees in Mathematics and Physics from Cornell University, and a Ph.D. in Mechanical and Aerospace Engineering from Princeton University. Prior to joining the Company, Dr. Forkey spent seven years at the University of Pennsylvania Medical School as a postdoctoral fellow and research staff member.

Mr. Arbon was employed as the part-time Chief Financial Officer and Clerk from June 2005 until his resignation, effective as of July 18, 2006. Mr. Arbon has been with Winbro Group, Ltd. since 1997, and from January 2000 has served as Chief Operating Officer. He also serves as Finance Director for Winbro Group’s UK based subsidiaries. Mr. Arbon holds a B.S. degree in Accounting from Utah State University and a MBA from Bentley College.

COMPENSATION AND OTHER MATERIAL TRANSACTIONS

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth all compensation for the last three completed fiscal years awarded to, earned by, or paid to the Company's Chief Executive Officer at June 30, 2006 and the executive officers during the fiscal year ended June 30, 2006 whose total annual salary and bonuses for the fiscal year ended June 30, 2006 exceeded $100,000 for all services rendered in all capacities to the Company and its subsidiaries (the "Named Executive Officers").

		Annual Compensation			Long Term Compensation	
					Awards	Payouts
Name and Principal Position at Fiscal Year End	**Fiscal Year**	**Salary ($)**	**Bonus($)**	**Other Annual Compensation($)**	**Securities Underlying Options(Number)**	**All Other Compensation($)**
Richard E. Forkey President, Chief Executive	2006	195,000	-0-	4,925(1)	373,600	19,757(2)
Officer &	2005	195,000	-0-	12,250(1)	373,600	7,193(2)
Treasurer	2004	195,000	-0-	12,250(1)	-0-	6,692(2)
Joseph N. Forkey, Executive Vice President and Chief	2006	120,000	-0-	2,400(4)	295,200(5)	-0-
Scientific	2005	120,000	-0-	2,221(4)	560,400	-0-
Officer	2004	91,381	10,000(3)	-0-	15,000(5)	-0-

(1) Includes car expense of $3,100 for 2006 and $9,250 for each of 2005 and 2004.
(2) Represents premiums for a life insurance policy and a disability insurance policy.
(3) Represents a signing bonus paid to Dr. Forkey upon hire.
(4) Represents the Company's matching contribution to Profit Sharing Plan.
(5) 15,000 options granted in September 2003 were repriced on May 9, 2006.

Option Grants in Last Fiscal Year

The following table sets forth the individual grants of stock options made by the Company during the fiscal year ended June 30, 2006 to its Named Executive Officers.

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date
Richard E. Forkey	373,600(1)	39%	$0.55	5/9/2016
Joseph N. Forkey	280,200(1)	29%	$0.55	5/9/2016
	15,000(2)	n/a	$0.55	5/9/2016

(1) 25% of such options are immediately exercisable; 25% of such options will become exercisable on May 9, 2007; 25% of such options will become exercisable on May 9, 2008; and 25% of such options will become exercisable on May 9, 2009.

(2) Such options were originally granted in September 2003, were repriced on May 9, 2006 and will become fully vested on September 27, 2006.

On May 9, 2006, the Board approved the repricing of certain stock options held by employees, including certain options identified above held by Joseph Forkey, and certain members of the Board. The new exercise price per share of common stock subject to such options was set at $0.55. The new exercise price per share applied to all stock options with an original exercise price above $0.55 per share, other than an option to purchase 560,400 shares of common stock held by Joseph Forkey and an option to purchase 373,600 shares of common stock held by Richard Forkey. The Board determined that because many of the options held by employees had exercise prices significantly in excess of the then-current market value, they were not serving as an effective incentive to employees, and the Board determined to reprice certain options as a means to motivate its employees.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table summarizes for each of the Named Executive Officers (i) the total number of shares received upon exercise of stock options during the fiscal year ended June 30, 2006, (ii) the aggregate dollar value realized upon such exercise, (iii) the total number of unexercised options, if any, held at June 30, 2006 and (iv) the value of unexercised in-the-money options, if any, held at June 30, 2006. In-the-money options are options where the fair market value of the underlying securities exceeds the exercise or base price of the option. The aggregate value realized upon exercise of a stock option is the difference between the aggregate exercise price of the option and the fair market value of the underlying stock on the date of exercise. The value of unexercised, in-the-money options at fiscal year-end is the difference between the exercise price of the option and the fair market value of the underlying stock on June 30, 2006, which was $0.32 per share. With respect to unexercised, in-the-money options, the underlying options have not been exercised and actual gains, if any, on exercise will depend on the value of the Company's Common Stock on the date of exercise.

Fiscal Year-End Option Values

Name	Shares Acquired on Exercise(Number)	Value Realized($)	Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End ($)	
			Exercisable (Number)	Unexercisable (Number)	Exercisable ($)	Unexercisable ($)
Richard E. Forkey	-0-	-0-	205,480	541,720	-0-	-0-
Joseph N. Forkey	-0-	-0-	249,420	606,180	-0-	-0-

Long Term Incentive Plans - Awards in Last Fiscal Year

The Company made no awards under any long term incentive plan in the fiscal year ended June 30, 2006.

Employment Contracts and Termination of Employment Arrangements

The Company has no employment contracts in place with any Named Executive Officer. The Company has no compensatory plan or arrangement with respect to any Named Executive Officer where such plan or arrangement will result in payments to such Named Executive Officer upon or following his resignation, or other termination of employment with the Company and its subsidiaries, or as a result of a change-in-control of the Company or a change in the Named Executive Officers' responsibilities following a change-in-control.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

To the Company's knowledge, based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during the fiscal year ended June 30, 2005 and Forms 5 and amendments thereto furnished to the Company with respect to such fiscal year, the following reports required to be filed under Section 16(a) of the Securities Exchange Act of 1934 were not filed on a timely basis during such fiscal year: Form 4 of Joel Pitlor filed on December 1, 2005, Form 4 of Edward Benjamin filed on December 1, 2005, and Form 4 of Robert Shannon filed on December 1, 2005.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has an arrangement with J.R. Pitlor ("J.R. Pitlor"), a company wholly owned by Mr. Pitlor, a Director of the Company, under which Mr. Pitlor provides consulting services to the Company for a fee currently not to exceed $5,000 a month. These consulting services consist primarily of advice regarding marketing, strategic planning and other general business issues. Either party may terminate this arrangement at will. The Company paid or accrued to J.R. Pitlor for consulting services aggregate fees of $60,000 for fiscal year 2006 and $24,000 for fiscal year 2005.

The Company leases its facility in Gardner, Massachusetts from Equity Assets, Inc., a company wholly owned by Mr. Richard E. Forkey, the President, Chief Executive Officer and Treasurer and a director of the Company. The Company is currently a tenant-at-will, paying rent of $9,000 per month.

In April 2006, the Company sold an aggregate of 8,450,000 shares of Common Stock at a price of $0.25 per share in a private placement. Three of the Company's directors, Joel Pitlor, Donald Major and Richard Miles, participated in the private placement, which closed on April 13, 2006. As a group, the three directors purchased a total of 2,200,000 shares in the transaction, with Mr. Pitlor acquiring 2,000,000 shares of Common Stock, and Mr. Major and Mr. Miles each purchasing 100,000 shares of Common Stock.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the Company's Common Stock owned as of the close of business on September 15, 2006 by the following persons: (i) each person who is known by the Company to own beneficially more than 5% of the Company's Common Stock, (ii) each of the Company's directors and nominees for director who beneficially owns the Company's or its subsidiaries' Common Stock, other than directors' qualifying shares, (iii) each of the Company's Named Executive Officers who beneficially own the Company's or its subsidiaries' Common Stock and (iv) all executive officers and directors, as a group, who beneficially own the Company's or its subsidiaries' Common Stock. The information on beneficial ownership in the table and footnotes thereto is based upon data furnished to the Company by, or on behalf of, the persons listed in the table.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (2)
AIGH Investment Partners, LLC 6006 Berkeley Avenue, Baltimore, MD 21209	4,755,200 (3)	30.76%
David M. Greenhouse c/o Special Situations 153 East 53rd Street, New York, NY 10022	1,881,884 (4)	12.17%
Austin W. Marxe c/o Special Situations 153 East 53rd Street, New York, NY 10022	1,886,888 (5)	12.20%
Hershel Berkowitz c/o Tallie Taylor 399 Park Avenue, 12th Fl., New York, NY 10022	951,040	6.15%
Directors and Named Executive Officers		
Edward A. Benjamin* c/o Precision Optics Corporation, Inc. 22 East Broadway, Gardner, MA 01440	44,440 (6)	**
Joseph N. Forkey* c/o Precision Optics Corporation, Inc. 22 East Broadway, Gardner, MA 01440	265,360 (7)	1.69%
Richard E. Forkey* c/o Precision Optics Corporation, Inc. 22 East Broadway, Gardner, MA 01440	520,858 (8)	3.33%
Donald A. Major* c/o Precision Optics Corporation, Inc.	120,000 (9)	**

22 East Broadway, Gardner, MA 01440		
Richard Miles* c/o Precision Optics Corporation, Inc. 22 East Broadway, Gardner, MA 01440	110,000 (10)	**
Joel R. Pitlor* 237 Moody Street, Waltham, MA 02453	2,233,797 (11)	14.43%
All executive officers and directors as a group, including those named above (7 persons)	3,319,455 (12)	20.