Gol Intelligent Airlines Inc.
Form 6-K
March 12, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of March, 2010

(Commission File No. 001-32221) ,

GOL LINHAS AÉREAS INTELIGENTES S.A.
(Exact name of registrant as specified in its charter)

GOL INTELLIGENT AIRLINES INC.
(Translation of Registrant's name into English)

R. Tamoios, 246
Jd. Aeroporto
04630-000 São Paulo, São Paulo
Federative Republic of Brazil
(Address of Registrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No ___X___

If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b):

GOL Linhas Aéreas Inteligentes S.A.

Consolidated Financial Statements for the years ended
December 31, 2009 and 2008
and Independent Accountants' Report

Deloitte Touche Tohmatsu Auditores Independentes

GOL LINHAS AÉREAS INTELIGENTES S.A.

Consolidated Financial Statements

December 31, 2009 and 2008
(In thousands of Brazilian Reais)

Contents

INDEPENDENT AUDITORS REPORT

To the Board of Directors and Shareholders of
Gol Linhas Aéreas Inteligentes S.A.
São Paulo - SP - Brazil

We have audited the accompanying consolidated financial statements of Gol Linhas Aéreas Inteligentes S.A. and subsidiaries, which comprise the financial position as of December 31, 2009 and the statement of operations, statement of changes in shareholders equity, statement of comprehensive income and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT ACCOUNTANT´S REPORT

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gol Linhas Aéreas Inteligentes S.A. and subsidiaries as of December 31, 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The consolidated financial statements of Gol Linhas Aéreas Inteligentes S.A. and subsidiaries as of December 31, 2008 were audited by other auditor whose report dated March 19, 2009, except for Notes 2.a. and 24, which date is May 4, 2009, expressed an unqualified opinion on those statements.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
March 11, 2010
São Paulo, Brazil

GOL LINHAS AÉREAS INTELIGENTES S.A.
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian Reais, except amounts per share)

	Notes	2009	2008
Operating revenues			
Passenger		**5,306,530**	5,890,104
Cargo and other		**718,852**	516,089
Total operating revenues		**6,025,382**	6,406,193
Operating expenses			
Salaries	3	**(1,100,953)**	(983,783)
Aircraft fuel		**(1,813,104)**	(2,630,834)
Aircraft rent		**(650,683)**	(645,089)
Aircraft insurance		**(56,324)**	(42,813)
Sales and marketing		**(364,551)**	(588,735)
Landing fees		**(312,637)**	(338,370)
Aircraft and traffic servicing		**(381,721)**	(422,177)
Maintenance materials and repairs		**(417,212)**	(388,030)
Depreciation and amortization		**(142,853)**	(125,127)
Other operating expenses		**(372,052)**	(329,883)
Total operating expenses		**(5,612,090)**	(6,494,841)
Income (loss) before finance income and expenses		**413,292**	(88,648)
Finance income and expenses			
Finance expenses	4	**(1,076,058)**	(1,858,738)
Finance income	4	**1,418,902**	752,344
Total finance income and expenses, net		**342,844**	(1,106,394)
Income (loss) before income taxes		**756,136**	(1,195,042)
Income taxes	5		
Current		**(609)**	(57.338)
Deferred		**135,305**	13.033
		134,696	(44.305)
Net income (loss) for the year		**890,832**	(1,239,347)
Basic earnings (losses) per share	15	**3.92**	(6.16)
Diluted earnings (losses) per share	15	**3.91**	(6.16)

The accompanying notes are an integral part of these consolidated financial statements.

GOL LINHAS AÉREAS INTELIGENTES S.A.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian Reais)

	Notes	2009	2008
Net income (loss) for the year		**890,832**	(1,239,347)
Other comprehensive income (loss)			
Available for sale financial assets	**22**	**(1,866)**	10,727
Cash flow hedges	**22**	**28,874**	(30,523)
Income tax	**5**	**(9,817)**	10,378
		17,191	(9,418)
Total comprehensive income (loss) for the year		**908,023**	(1,248,765)

The movements in comprehensive income (loss) for the years ended on December 31, 2009 and 2008 are presented below:

	Available for sale financial assets	**Cash flow hedges**	**Income tax**	**Total comprehensive income (loss)**
Balance at December 31, 2007	(6,726)	(346)	117	(6,955)
Realized losses on financial instruments transferred to profit or loss	-	2,575	-	2,575
Decrease in fair value	10,727	(33,098)	10,378	(11,993)
Balance at December 31, 2008	4,001	(30,869)	10,495	(16,373)
Realized losses on financial instruments transferred to profit or loss	**7**	**98,576**	**-**	**98,583**
Decrease in fair value	**(1,873)**	**(69,702)**	**(9,817)**	**(81,392)**
Balance at December 31, 2009	**2,135**	**(1,995)**	**678**	**818**

The accompanying notes are an integral part of these consolidated financial statements.

GOL LINHAS AÉREAS INTELIGENTES S.A.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian Reais)

	Notes	2009	2008
Assets			
Non-current assets			
Property, plant and equipment, net	8	**3,325,713**	3,011,105
Intangible assets	9	**1,231,785**	1,210,320
Other non-current assets			
Prepaid expenses	7	**63,574**	58,793
Deposits	6	**805,140**	493,460
Deferred income tax	5	**866,136**	603,071
Restricted cash	13	**7,264**	6,589
Other non-current assets		**17,304**	98,956
Total other non-current assets		**1,759,418**	1,260,869
Total non-current assets		**6,316,916**	5,482,294
Current assets			
Other current assets		**42,983**	52,386
Prepaid expenses	7	**124,728**	123,801
Deposits	6	**50,429**	237,914
Recoverable taxes, net	5	**86,125**	110,767
Inventories, net	10	**137,959**	188,164
Trade and other receivables	11	**519,308**	344,927
Restricted cash	13	**18,820**	176,697
Short-term investments	23a	**40,444**	245,585
Cash and cash equivalents	12	**1,382,408**	169,330
Total current assets		**2,403,204**	1,649,571
Total assets		**8,720,120**	7,131,865

The accompanying notes are an integral part of these consolidated financial statements.

GOL LINHAS AÉREAS INTELIGENTES S.A.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian Reais)

	Notes	2009	2008
Shareholders' equity and liabilities			
Shareholders' equity	14		
Issued capital		**2,062,272**	1,250,618
Capital reserves		**60,263**	89,556
Treasury shares		**(11,887)**	(41,180)
Other reserves		**818**	(16,373)
Retained earnings (accumulated losses)		**498,520**	(211,013)
Total shareholders' equity		**2,609,986**	1,071,608
Non-current liabilities			
Other non-current liabilities		**115,429**	142,283
Tax obligations	17	**88,642**	41,055
Provisions	18	**76,834**	157,310
Deferred taxes	5	**562,303**	421,967
Advances from customers	19	**64,087**	-
Smiles deferred revenue	20	**221,414**	262,626
Long-term debt	23b	**2,542,167**	2,452,437
Total non-current liabilities		**3,670,876**	3,477,678
Current liabilities			
Other current liabilities		**85,789**	219,308
Dividends payable	14	**186,416**	577
Advances from customers	19	**126,059**	-
Smiles deferred revenue	20	**92,541**	90,043
Provisions	18	**66,259**	165,287
Advance ticket sales	25	**561,347**	572,573
Sales taxes and landing fees		**76,331**	97,210
Tax obligations	17	**57,277**	39,605
Salaries, wages and benefits		**233,162**	146,805
Accounts payable		**362,382**	283,719
Short-term debt	23b	**591,695**	967,452
Total current liabilities		**2,439,258**	2,582,579
Total shareholders' equity and liabilities		**8,720,120**	7,131,865

The accompanying notes are an integral part of these consolidated financial statements

GOL LINHAS AÉREAS INTELIGENTES S.A.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian Reais)

		Issued capital		**Treasury Shares**		**Other reserves**				
	Notes	**Shares**	**Amount**	**Shares**	**Amount**	**Capital reserves**	**Investments revaluation reserve**	**Cash flow hedging reserve**	**Retained earnings (accumulated losses)**	
Balance at December 31, 2007		202,300,255	1,250,618	-	-	89,556	(6,726)	(229)	1,059,229	2
Net loss for the year		-	-	-	-	-	-	-	(1,239,347)	(1,
Other comprehensive income for the year		-	-	-	-	-	10,727	(20,145)	-	
Total comprehensive income		-	-	-	-	-	10,727	(20,145)	(1,239,347)	(1,
Common shares issued		336	-	-	-	-	-	-	-	
Share-based payment		-	-	-	-	-	-	-	5,362	
Treasury shares		-	-	(1,574,200)	(41,180)	-	-	-	-	
Dividends payable		-	-	-	-	-	-	-	(36,257)	
Balance at December 31, 2008		202,300,591	1,250,618	(1,574,200)	(41,180)	89,556	4,001	(20,374)	(211,013)	1
Net income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**890,832**	
Other comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**(1,866)**	**19,057**	**-**	
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**(1,866)**	**19,057**	**890,832**	

Share-based payment		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,540**	
Capital increase on March 20, 2009	14	**26,093,722**	**203,531**	**-**	**-**	**-**	**-**	**-**	**-**	
Capital increase on October 8, 2009, net of issuance costs of R$19,194	14	**38,005,000**	**607,889**	**-**	**-**	**-**	**-**	**-**	**-**	
Common shares issued	15	**-**	**234**	**-**	**-**	**-**	**-**	**-**	**-**	
Cancellation of treasury shares	14	**(1,119,775)**	**-**	**1,119,775**	**29,293**	**(29,293)**	**-**	**-**	**-**	
Dividends payable (R$0.70 per share)	14	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(185,839)**	**(**
Balance at December 31, 2009		**265,279,538**	**2,062,272**	**(454,425)**	**(11,887)**	**60,263**	**2,135**	**(1,317)**	**498,520**	**2**

The accompanying notes are an integral part of these consolidated financial statements .

GOL LINHAS AÉREAS INTELIGENTES S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian Reais)

	2009	2008
Cash flows from operating activities		
Net income (loss) for the year	**890,832**	(1,239,347)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**142,853**	125,127
Allowance for doubtful accounts	**7,701**	8,329
Litigation	**(1,983)**	(43,354)
Onerous contracts	**2,080**	8,250
Provision of obsolescence	**4,327**	(7,739)
Deferred income taxes	**(135,305)**	(13,033)
Share-based payments	**4,540**	5,362
Net foreign exchange fluctuations and interests	**(417,536)**	742,636
Loss in fair value of derivative financial instruments	**98,583**	(9,417)
Return of aircraft	**(82,823)**	(29,211)
Smiles deferred revenues	**(38,714)**	(28,297)
Other non-monetary items	**(8,832)**	-
Changes in operating assets and liabilities:		
Insurance provision	**(16,272)**	10,272
Trade and other receivables	**(182,082)**	549,805
Changes in inventories	**45,878**	17,151
Deposits	**(124,196)**	(104,178)
Prepaid expenses	**(5,712)**	(1,829)
Other assets	**47,771**	(7,412)
Accounts payable	**78,663**	(42,645)
Advance ticket sales	**(11,226)**	99,713
Advances from customers	**190,146**	-
Salaries, wages and benefits	**86,357**	(16,632)
Sales tax and landing fees	**(20,879)**	12,891
Tax obligations	**65,868**	28,930
Other liabilities	**(46,749)**	143,666
Cash provided by operating activities	**573,290**	209,038
Interest paid	**(115,422)**	-
Income tax paid	**(609)**	(57,338)
Net cash provided by (used in) operating activities	**457,259**	151,700
Cash flows from investing activities		
Short term investments	**205,140**	574,758
Investments in restricted cash, net	**(37,812)**	(177,245)
Payment for property, plant and equipment	**(130,475)**	(346,035)
Payment for intangible assets	**(31,431)**	(10,828)
Net cash provided by investing activities	**5,422**	40,650

Cash flows from financing activities		
Net proceeds from / repayment of debt	**(42,416)**	(328,366)
Interest paid	**-**	(205,497)
Acquisition of treasury shares	**-**	(41,180)
Dividends paid	**-**	(36,258)
Capital increase	**811,654**	-
Net cash provided by (used in) financing activities	**769,238**	(611,301)
Effects of exchange rate changes on the balance of cash held in foreign currencies	**(18,841)**	14,890
Net increase (decrease) in cash and cash equivalents	**1,213,078**	(403,791)
Cash and cash equivalents at the beginning of the year	**169,330**	573,121
Cash and cash equivalents at the end of the year	**1,382,408**	169,330

The accompanying notes are an integral part of these consolidated financial statements.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

1. Corporate information

Gol Linhas Aéreas Inteligentes S.A. ("Company" or "GLAI") is a publicly-listed company incorporated in accordance with Brazilian Corporate laws, organized on March, 12, 2004. The objective of the Company is through its operating wholly-owned subsidiary VRG Linhas Aéreas S.A. ("VRG"), to exploit (i) regular and non-regular air transportation services of passengers, cargo and mail bags, domestically or internationally, according to the concessions granted by the competent authorities; (ii) complementary activities of chartering air transportation of passengers.

GLAI is direct parent company of foreign wholly-owned subsidiaries GAC Inc. ("GAC"), Gol Finance ("Finance") and indirect of SKY Finance ("SKY") and SKY Finance II ("SKY II").

GAC was constituted on March 23, 2006 according to the bylaws of the Cayman Islands and its activity is related to the aircraft acquisition from its only shareholder GLAI, which provides a finance support for its operational activities. GAC is the parent company of SKY and SKY II, constituted on August 28, 2007 and November 30, 2009, respectively, both located in the Cayman Islands which activities are related to funds raising to finance aircraft acquisition.

Finance was constituted on March 16, 2006, according to the bylaws of the Cayman Islands and its activities are related to funds raising to finance aircraft acquisition and financing.

On April 9, 2007, the Company acquired VRG, a low-cost and low-fare airline company which operates domestic and international flights with GOL and VARIG brands offering regular and non-regular air transportation services to the main destinations in Brazil, South America and the Caribbean.

The Company's shares are traded on the New York Stock Exchange (NYSE) and on the São Paulo Stock Exchange (BM&FBOVESPA). The Company has entered into an Agreement for Adoption of Level 2 Differentiated Corporate Governance Practices with the BM&F BOVESPA, integrating indices of Shares with Differentiated Corporate Governance – IGC and Shares with Differentiated Tag Along – ITAG, created to identify companies committed to adopting differentiated corporate governance practices.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies

The Company's consolidated financial statements for the year ended December 31, 2009 were authorized for issue by the Board of Directors on March 11, 2010. The registered office is located at Rua Tamoios, 246, Jd. Aeroporto, São Paulo, Brazil.

The consolidated financial statements were prepared on a historical cost basis except for certain assets and liabilities, which are measured at fair value, as set out below in each specific accounting policy for such assets and liabilities. The carrying value of recognized assets and liabilities that are accounted for as cash flow hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, using Brazilian Reais as the functional and reporting currency. The accounting principles adopted under IFRS differ in certain aspects from accounting principles generally accepted in Brazil ("BR GAAP"), which the Company uses to prepare its statutory financial statements.

a) Basis of consolidation

The consolidated financial statements comprise the accounts of GLAI and its direct and indirect subsidiaries presented below:

		Type of	**% of capital stock**	
	Location	**control**	**2009**	**2008**
VRG	Brasil	Direct	100%	100%
GAC	Ilhas Cayman	Direct	100%	100%
Finance	Ilhas Cayman	Direct	100%	100%
SKY	Ilhas Cayman	Indirect	100%	100%
SKY II	Ilhas Cayman	Indirect	100%	-

The accounting policies were applied consistently in all consolidated and are consistent entities with those used in previous years.

For off-shore subsidiaries that do not have administrative autonomy, the Company and its subsidiary VRG includes in its financial statements the assets, liabilities, revenues and expenses, eliminating the shares in the capital, reserves and retained earnings of the subsidiaries and the balances of revenues and expenses resulting from intercompany transactions between the Company, VRG and its subsidiaries. See Note 2.o for further information.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

b) Cash and cash equivalents

Consists primarily of cash balances, bank deposits certificates, cash in transit and investments. The investments are stated at cost plus interest earned until the year-end, has original maturities of three months or less (or with no fixed time for redemption) with immediate liquidity, and are subject to an insignificant risk of changes in value. The cash and cash equivalents are classified as financial assets measured at fair value and the earnings are recorded in the profit or loss.

c) Restricted cash

Restricted cash represents pledge deposits with the purpose to guarantee some of Company's hedge operations and long-term financings with the Brazilian Development Bank ("BNDES") and the Development Bank of Minas Gerais ("BDMG").

d) Financial assets and liabilities

The financial assets and liabilities include investments in marketable securities, debt instruments and equities, accounts receivable and other receivables, loans and financings, other accounts payable and other debts. The financial assets and liabilities are initially recognized at their fair value plus the costs directly attributable to their purchase or issue, except those classified under the category of instruments appraised at their fair market value based on results, for which the costs are booked at the statements of operations. Subsequent to initial recognition, the financial assets and liabilities are measured as of each balance sheet date according to their classification, which is defined upon initial recognition based on the purposes for which they were acquired or issued, as described below:

i. Financial assets measured at fair value: these include financial assets acquired for sale and repurchase on a short-term basis, designated upon initial recognition at fair value by means of results, measured at fair value, with the interest, monetary restatement, exchange variation and variations resulting from appraisal of fair value being recognized in profit or loss as financial revenues or expenses, when incurred. The Company has cash and cash equivalents in this category.

ii. Financial assets or liabilities held to maturity: these include financial instruments with fixed or determinable payments with defined maturities, for which the Company has the intention and capacity to hold to maturity. After the initial recognition they are measured at the amortized cost based on the effective interest rate method using a discount rate that, when applied to the estimated future yields over the expected time the financial instrument will remain effective. The interest, monetary and exchange variation, less losses in recoverable value, when applicable, are recognized in profit or loss as financial revenues or expenses, when incurred. The Company has no financial assets in this category.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

d) Financial assets and liabilities (Continued)

iii. Loans granted and receivable: these include financial assets and liabilities with fixed or determinable payments that are not quoted on an active market which, after initial recognition are measured based on the amortized cost under the effective interest rate method. The interest, monetary and exchange variation, less losses in recoverable value, when applicable, are recognized in profit or loss as financial revenues or expenses, when incurred. The Company has no financial liabilities in this category.

iv. Available for sale: these include financial assets that do not match the above categories, measured at their fair value. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses recognized as equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss The Company has short-term investments in this category.

The principal financial assets recognized by the Company are cash and cash equivalents, short-term investments and trade accounts receivable.

Short-term investments in fixed income securities, equities, public government bonds, committed securities and FIDC redeemable in a period of more than 90 days from the purchase date, are purchased in order to match due dates with the cash flow needs. The Company's cash policy determines that securities are to be purchased that feature the characteristics of being rapidly convertible into cash, involve low transaction costs, are of a highly liquid nature and are contracted with leading financial institutions. The Company does not engage in investments involving securities for speculative purposes or to make deals. As defined by IAS 39, "Financial Instruments: Recognition and Measurement", the Company's investments are classified as available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale and not classified as trading, held-to-maturity or loans and receivables.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

d) Financial assets and liabilities (Continued)

Financial liabilities are classified according to the following categories based on the nature of the financial instruments contracted or issued:

i. Financial liabilities measured at fair value based on results: these include financial liabilities normally traded prior to maturity, liabilities designated upon initial recognition at fair value based on results and derivatives, except those designated as hedge instruments. They are remarked to fair value at each balance sheet date. The interest, monetary and exchange variations and variations resulting from the fair value, when applicable, are recognized in profit or loss, when incurred. The Company has no financial liabilities in this category.

ii. Financial liabilities not marked at fair value: non-derivative financial liabilities that are not normally traded prior to maturity. After initial recognition they are measured on the amortized cost based on the effective interest rate method. The interest, monetary updating and exchange variation, when applicable, are recognized in profit or loss when incurred. The Company has short and long-term debt and accounts payable in this category.

e) Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given their short term nature. An allowance for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable through risk analysis and taking into account the historical analysis of the recovery of arrears. The allowance for doubtful receivables is the difference between the book value and recoverable amount. The provision is made for all accounts overdue for more than 90 days for installment sales and 30 days in respect of travel and cargo agencies and others.

f) Inventories

Inventories, including aircraft expendables, are valued at the lower of cost, determined by the weighted average cost method, includes importation of assets in progress and is reduced by a provision for obsolescence, when applicable. The cost of inventory is charged to expense when consumed.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

g) Lease accounting

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term. Differences between aircraft rentals paid and rentals recognized as expense in the income statement are recorded as prepaid assets or accrued rent in the balance sheet.

The assets held under a finance lease are valued at the lower of the following two amounts: the present value of the minimum lease payments under the lease arrangement or the leased asset's fair value determined at inception of the lease. Lease payments are allocated between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement. The corresponding obligation to the lessor is accounted for as short and long-term debt. The aircraft held under finance leases, which have a purchase option at the end of the contract, are depreciated on a straight-line basis over the useful life at rates calculated to write down the cost to the estimated residual value of 20% based on the Company experience and market price valuations. All other aircraft recorded on property, plant and equipment, when there is no reasonable certainty that the Company will obtain ownership of the property at the end of the contractual term, are depreciated over the shorter of the useful life of the assets and the lease term.

Profit or loss related to sale-leaseback transactions followed by an operating lease, is accounted for as follows:

They are recognized immediately when it is clear that the transaction is established at fair value;

If the sale price is below fair value, any profit or loss is recognized immediately. However, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the contractual lease term;

If the sale price is above fair value, the excess is deferred and amortized over the asset's expected useful life, with the amortization recorded as a reduction of rent expense.

h) Prepaid expenses

Prepaid expenses and other assets primarily consist of prepayments for aircraft and engine rentals under operating lease agreements, sales commissions, deferred losses arising on sale-leaseback transactions and prepayments for insurance.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

i) Revenue recognition

Passenger revenue is recognized either when transportation is provided or when the unused ticket expires. Tickets sold but not yet used are recorded as advance ticket sales that represents primarily deferred revenue for tickets sold for future travel dates and also estimated refunds and exchanges of tickets sold for past travel dates. Estimated refunds and exchanges included in the advance ticket sales account are compared with actual refund and exchange activities every month to monitor their reasonableness. These estimates are based on historical data and experience.

Revenue from cargo shipments is recognized when transportation is provided. Other revenue includes charter services, ticket change fees and other incidental services, and is recognized when the service is performed. The Company's revenues are net of certain taxes, including state value-added and other state and federal taxes that are collected from customers and transferred to the appropriate government entities. Such taxes in the year ended December 31, 2009 and 2008 were R$272,547 and R$262,388, respectively.

j) Mileage program

Since the acquisition of VRG, the Company operates a frequent flyer program, ("Smiles Program") that provides travel and other awards to members based on accumulated mileage credits. The obligations assumed under the Smiles Program were valued at the acquisition date at estimated fair value that represents the estimated price the Company would pay to a third party to assume the obligation for miles expected to be redeemed under the Smiles Program.

The sale of passenger tickets by the Company includes air transportation and mileage credits. The Company sales of miles to business partners include marketing and mileage credits. The fair value of the mileage credit, net of breakage is determined based (i) on weighted-average price of passenger tickets sold by VRG considering the mileage amount necessary to issue a ticket when VRG offers mileage for flying and, (ii) on weighted-average price at which the Company sells mileage credits to business partners. The fair value of the mileage credits sold and the mileage component of passenger ticket sales is deferred and recognized as revenue when miles are redeemed and services are provided based on the weighted-average price of all miles that have been deferred. The portion of the revenue received in excess of the fair value of mileage credits sold (the "marketing premium) is recognized in income when the related marketing services are provided and classified as cargo and other revenue.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

j) Mileage program (Continued)

For accounts that are inactive for a period of 36 consecutive months, the Company's policy is to cancel all miles contained in those accounts at the end of the 36 month period of inactivity. The associated value for mileage credits which the Company estimates are not likely to be redeemed ("breakage") is recognized as revenue. The Company calculates its breakage estimate based on historical redemption patterns. Future program redemption opportunities can significantly alter customer behavior from historical patterns with respect to inactive accounts. Such changes may result in material changes to the deferred revenue balance, as well as recognized revenues from that program.

k) Property, plant and equipment

Property, plant and equipment, including rotable parts, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Each component of property, plant and equipment that has a cost that is significant in relation to the overall cost of the item is depreciated separately. Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotable spares purchased separately, are carried as fixed assets and generally depreciated in line with the fleet to which they relate. Pre-delivery deposits refer to prepayments made based on the agreements entered into with Boeing Company for the purchase of Boeing 737-800 Next Generation aircraft and includes interest and finance charges incurred during the manufacture of aircraft and the leasehold improvements.

The estimated useful lives for property and equipment are as follows:

	Estimated Useful Life
Leasehold improvements to flight equipment	Lower of lease term or useful life
Aircraft flight equipment	25 years
Rotables	25 years
Maintenance and engineering equipment.	10 years
Major overhaul expenditures	5 years
Communication and meteorological equipment	10 years
Computer hardware and software	5 years

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

k) Property, plant and equipment (Continued)

Under IAS 16 "Property, Plant and Equipment", major engine overhauls including replacement spares and labor costs, are treated as a separate asset component with the cost capitalized and depreciated over the period to the next major overhaul. All other replacement spares and costs relating to maintenance of fleet assets are charged to the income statement on consumption or as incurred. Interest costs incurred and exchange differences on borrowings that fund progress payments on assets under construction, including pre-delivery deposits to acquire new aircraft, are capitalized and included as part of the cost of the assets through the earlier of the date of completion or aircraft delivery. Exchange variations are capitalized to the extent that they are regarded as an adjustment to interest costs.

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

l) Intangible assets

i) Goodwill

Goodwill is tested for impairment annually by comparing the carrying amount to the recoverable amount at the cash-generating unit level which is considered the operating wholly-owned subsidiary VRG. Considerable judgment is necessary to evaluate the impact of operating and macroeconomic changes to estimate future cash flows and to measure the recoverable amount. Assumptions in the Company's impairment evaluations are consistent with internal projections and operating plans.

ii) Airport operating rights

Airport operating rights were acquired as part of the acquisition of VRG and were capitalized at fair value at that date and are not amortized. Those rights are considered to to have an indefinite useful life due to several factors and considerations, including requirements for necessary permits to operate within Brazil and limited slot availability in the most important airports in terms of traffic volume. The carrying value of those rights is tested for impairment annually or on a more frequent basis when events or changes in circumstances indicate that carrying values may not be recoverable. No impairment has been recorded to date.

2. Basis of preparation and summary of significant accounting policies (Continued)

l) Intangible assets (Continued)

iii) Tradenames

VRG tradenames were acquired as part of the VRG acquisition and were capitalized at fair value at that date. The tradenames are considered to have an indefinite useful life (and are not amortized) due to several factors and considerations, including the brand awareness and market position, customer recognition and loyalty and the continued use of the VRG tradenames. The carrying value of the tradenames is tested for impairment annually or on a more frequent basis when events or changes in circumstances indicate that carrying values may not be recoverable. No impairment has been recorded to date.

iv) Software

Costs related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately and amortized over a period not exceeding five years on a straight-line basis.

The carrying value of these intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

m) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset is impaired using discounted cash flow analysis, which considers the creditworthiness of the issuer of the security, as further described in Note 23.

n) Deposits

Are represented by maintenance deposits for aircraft and engines, deposits in guarantee and collaterals of lease agreements and judicial deposits of contingent liabilities relating to labor, civil and tax claims.

Maintenance deposits refer to payments made by the Company to commercial lease companies to be used in future aircraft and engine maintenance work. The deposits that will be returned in cash to the Company are denominated in U.S. Dollars and are adjusted according to exchange rate variation and the prepaid amounts of maintenance deposits are recorded at historical value of the original payment, recognized as maintenance costs when actually incurred, in accordance with the accounting policy spending on maintenance. Management performs regular reviews of the recovery of maintenance deposits and believes that the values reflected in the consolidated balance sheet are recoverable.

2. Basis of preparation and summary of significant accounting policies (Continued)

n) Deposits (Continued)

The deposits in guarantee and collaterals are represented by amounts deposited to lessors of lease monthly payments, as required at the inception of the lease agreements. The deposits in guarantee and collaterals are denominated in U.S. Dollars, do not bear interest and are reimbursable to the Company upon termination of the agreements.

o) Foreign currency transactions

The functional currency used for preparation and presentation of the financial statements of the Company and its subsidiaries is the Brazilian Real. Transactions in foreign currencies are translated into the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are subsequently translated at the exchange rate at the balance sheet date. Any differences resulting from the currency translation are recognized in the statements of operations. These transactions include the off-shore foreign subsidiaries as described in Note 2.a).

p) Derivative financial instruments and hedge accounting

The Company accounts for derivative financial instruments in accordance with IAS 39. In executing the risk management program, management uses a variety of financial instruments, including petroleum call options, interest fixed-price swap agreements, and foreign currency forward contracts to protect against sharp changes in market prices and to mitigate the volatility of its expenditures related to these prices. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognized at fair value and subsequently the change in fair value is recorded in profit or loss, unless the derivative meet the strict criteria for hedge accounting which are accounted for as cash flow hedges.

Cash flow hedges

For hedge accounting purposes according to IAS 39, the hedge instrument is classified as a cash flow hedge when it protects against the exposure to fluctuations in cash flow that are attributable to a particular risk associated with an asset or liability recognized regarding an operation that is highly likely to occur or to an exchange rate risk for an unrecognized firm commitment.

2. Basis of preparation and summary of significant accounting policies (Continued)

p) Derivative financial instruments and hedge accounting (Continued)

Cash flow hedges (Continued)

At the beginning of a hedge transaction, the Company designates and formally documents the item covered by the hedge, as well as the objective of the hedge and the risk policy strategy. Documentation includes identification of the hedge instrument, the item or transaction to be protected, the nature of the risk to be hedged and how the entity will determine the effectiveness of the hedge instrument in offsetting exposure to variations in the fair value of the item covered or the cash flows attributable to the risk covered. The purpose is that such hedge instruments will be effective in offsetting the changes in fair value or cash flows and they are constantly appraised to determine if they really have been effective throughout the entire period for which they have been designated.

According to the provisions of IAS 39, the effective portion of the gain or loss on change in the fair value of the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in profit or loss.

Amounts classified in equity are transferred to profit or loss each period which the hedged transaction affects profit or loss. If the hedged item is the cost of a non-financial asset, the amounts classified in equity are transferred to the initial carrying amount of the non-financial asset.

If the forecast transaction or the firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires, is terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity is recognized in the profit or loss.

The Company measures quarterly the effectiveness of the hedge instruments in offsetting changes in prices. Derivative financial instruments are effective if they offset between 80% and 125% of the changes in price of the item for which the hedge has been contracted. Any gain or loss resulting from changes in the fair value of the derivative financial instruments during the quarter in which they are not qualified for hedge accounting, as well as the ineffective portion of the instruments designated for hedge accounting are recognized in profit or loss.

The Company had the following derivative financial instruments classified as cash flow hedges: petroleum call options, foreign currency call options denominated in U.S. Dollars, forward contracts for U.S. Dollars and interest fixed-price swap agreements for Libor.

2. Basis of preparation and summary of significant accounting policies (Continued)

q) Share-based payments

The Company measures the fair value of equity-settled transactions with employees at the grant date using an appropriate valuation model. The resulting amount, as adjusted for forfeitures is charged to income over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated; representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The change in cumulative expense since the previous balance sheet date is recognized in the income statement with a corresponding entry in equity.

r) Provisions

For certain operating leases, the Company is contractually obligated to return aircraft in a defined condition. The Company accrues for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return condition criteria throughout the duration of the lease.

Other provisions are recorded for probable losses and are reviewed based on the development of lawsuits and the background of losses on labor and civil claims, based on the best current estimate.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

s) Cost for lease return conditions under operating leases

The Company is contractually required to return aircraft leased on the basis of operating lease agreements at defined activity levels. The Company recognizes the obligations related to the costs of return of the aircraft on the contractually required terms when the conditions of the aircraft are not in conformity with the contractual conditions for return, using estimates based on Company's experience and industry data available.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

t) Segment information

The Company has adopted IFRS 8 – Operating Segments on January 1, 2009. This new accounting standard requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the management decision maker in order to allocate resources to the segments and to assess their performance.

The Company's operations are derived from its wholly-owned subsidiary VRG and consist in to provide air transportation services within South America and Caribbean, where it operates domestic and international flights. The Company's Management decision maker makes resource allocation decisions to maximize the Company's consolidated financial results. The major revenue earning assets of the Company are its aircraft, which are registered in Brazil and therefore all profits accrue principally in the same country. Other revenues primarily arises from cargo, Smiles mileage program, installment sales, excess baggage charges and cancellation fares, all directly attributable to air transportation services.

Based on the way the Company treats the network and the manner in which resource allocation decisions are made, the Company has only one operating segment for financial reporting purposes. The Company's primary reporting segments comprise of net revenue geographic segments which is presented in Note 26.

u) Income taxes

a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies(Continued)

u) Income taxes (Continued)

b) Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. Basis of preparation and summary of significant accounting policies (Continued)

v) Key accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i) Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and indefinite-lived intangible assets are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The value in use is determined using discounted cash flow assumptions established by management. These calculations require the use of estimates (Note 9).

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

ii) Impairment of available-for-sale financial assets

The Company classifies certain financial assets as available-for-sale and recognizes changes in their fair value in shareholders' equity. When the fair value declines, Management evaluates the decline in value to determine whether it is an impairment that should be recognized in the statements of operations. See Note 23.

iii) Passenger revenue recognition from unused tickets

Passenger revenue is recognized either when the transportation is provided or when the unused ticket expires. Unused tickets are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends, including breakage.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

v) Key accounting estimates and judgments (Continued)

iv) Income taxes

The Company believes that the tax positions taken are reasonable. However, various taxing authorities may challenge the positions taken resulting in additional liabilities for taxes and interest that may become payable in future years as a result of audits by tax authorities. The tax positions involve considerable judgment on the part of management and tax positions are reviewed and adjusted to account for changes in circumstances, such as lapsing of applicable statutes of limitations, conclusions of tax audits, additional exposures based on identification of new issues or court decisions affecting a particular tax issue. Actual results could differ from estimates.

v) Property, plant and equipment

During 2009, the Company revised the depreciation rates used for aircraft under financial leases, aircraft reconfiguration and spare parts, from 5% to 4%, for better compatibility with the useful life of these assets and is supported by technical studies approved by the Company's Management. This change in economic useful life was applied prospectively in the financial statements since April 1st, 2009. The related reduction of depreciation arising from the change in economic useful life in the year ended December 31, 2009 amounted approximately to R$12,000.

w) New and revised standards and interpretations effective in 2009 adopted

The following new and revised standards and interpretations were adopted and had impact on the Company’s consolidated financial statements:

- IFRS 7 – Financial Instruments – Disclosures (effective January 1st, 2009) introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. The Company presents its financial instruments according to the amendments made on this Statement.
- IFRS 8 Operating Segments (effective for annual periods beginning on or after January 1st, 2009) has been amended by the annual improvements issued in April 2009 and requires additional disclosures to operating segments. The Company has only one business segment: the provision of air transportation services within South America and Caribbean, where it operates domestic and international flights.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

w) New and revised standards and interpretations effective in 2009 adopted (Continued)

- IAS 1 (revised 2007) Presentation of Financial Statements (effective for annual periods beginning on or after January 1st, 2009) has introduced a number of terminology changes (including revised titles for the financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Company. IAS 1 requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. The Company had chosen to present comprehensive income in two statements, a separate statement of operations and a statement of comprehensive income.
- IAS 34 – Interim Financial Reporting (effective January 1st, 2009) clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33. This standard defines the minimum content of an interim financial report including disclosures and also identifies the recognition and measurement principles that should be applied in an interim financial report. This amendment was already considered in the Interim Financial Statements of the Company.

The following new and revised standards and interpretations have had no impact on the consolidated financial statements of the Company:

- IFRS 2 – Share-based payments: the purpose of this amendment is to give greater clarity in respect of vesting conditions and cancellations (effective January 1st, 2009).
- IFRS 3 (revised 2008) Business Combinations – effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after July 1st, 2009.
- IAS 16 – Property, Plant and Equipment (effective January 1st, 2009) introduced improvements regarding 'recoverable amount', replacing the term 'net selling price' with 'fair value less costs to sell'. In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- IAS 21 (revised 2008) – Effects of Foreign Exchange Rates (effective for annual periods beginning on or after July 1st, 2009).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

w) New and revised standards and interpretations effective in 2009 adopted (Continued)

- IAS 23 (revised 2009) – Borrowing Costs (effective January 1st, 2009) – the Board had revised the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs' – that is components of the interest expense calculated using the effective interest rate method. The revised standard requires that borrowing costs must be capitalized if they are directly attributed to the acquisition, construction or production of a qualifying asset.
- IAS 27 (revised 2008, together with amendment on IAS 21 – Effects of Foreign Exchange Rates) Consolidated and Separate Financial Statements – improvements related to measurement of a subsidiary held for sale in separate financial statements. Effective for annual periods beginning on or after July 1st, 2009.
- IAS 28 (revised 2008) Investments in Associates – requires disclosures when investments in associates are accounted at fair value through profit or loss. This improvement also requires impairment test for investments in such associates. Effective for annual periods beginning on or after January 1st, 2009.
- Amendment to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations arising on Liquidation (effective January 1st, 2009). As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity.
- IFRIC 13 – "Customer Loyalty Programmes" (effective for periods beginning on or after July 1st, 2008 with early adoption permitted), which deals with accounting for customer loyalty award credits. The Company adopted IFRIC 13 on the year ended on December 31, 2007 and its adoption had no impact on the Company's consolidated financial statements.
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for periods beginning on or after October 1st, 2008) presents amendment to the restriction on the entity that can hold hedging instruments and provides guidance regarding hedge of foreign currency gains and losses on a net investment in a foreign operation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Basis of preparation and summary of significant accounting policies (Continued)

w) New and revised standards and interpretations effective in 2009 adopted (Continued)

- IFRIC 17 – Distributions of Non-cash Assets to Owners (effective July 1st, 2009) requires a change in accounting policy for many entities, which may result in a significant profit being recognized at the date of settlement that may not have been previously recognized.
- IFRIC 18 – Transfer of assets from customers (effective July 1st, 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets.

x) New and revised standards and interpretations not yet adopted

As of the date of these financial statements the following new and revised standards and interpretations were issued but not yet adopted by the Company since its adoption was not yet mandatory:

- IFRS 5 – Disclosure of Non-current Assets classified as Held for Sale or Discontinued Operations (effective for periods beginning on or after July 1st, 2009)**.** When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under IFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale. The impact of this amendment will depend on the future events.
- IFRS 9 "Financial Instruments: Classification and Measurement" only requires to be adopted by January 1st, 2013 although earlier adoption is permitted. This Standard will change substantially the classification and measurement of financial instruments and hedging requirements. The Company is currently evaluating the potential impact that this standard will have on the Group's consolidated financial statements.
- Amendments to IAS 24 (revised on 2009): the revised Standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government related entities) and clarifies the definition of a related party. The revised Standard is effective for annual periods beginning on or after January 1st,2011. The Company is currently evaluating the potential impact that this standard will have on the Group's consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Basis of preparation and summary of significant accounting policies (Continued)

x) New and revised standards and interpretations not yet adopted (Continued)

IAS 7 (revised 2009) – Statements of Cash Flows (effective January 1st, 2010) requires reclassification of expenditures on unrecognized assets. The Company does not expect material effects in its Financial Statements.

IAS 17 (revised 2009) – Leases (effective January 1st, 2010) introduced improvements regarding to classification of landing and buildings. The Company does not expect material effects in its Financial Statements.

IAS 36 – Impairment of Assets (effective January 1st, 2010) requires disclosure of estimates used to determine recoverable amount. When discounted cash-flows are used to estimate 'fair value less costs to sell', the same disclosures are required as when discounted cash flows are used to estimate 'value in use'. The Company is currently evaluating the potential impact that this standard will have on the Group's consolidated financial statements.

IAS 38 (revised 2009) – Intangible Assets (effective January 1st, 2010) reflects additional consequential amendments arising from revised IFRS 3 and measuring the fair value of an intangible asset acquired in a business combination. The impact of this amendment will depend on the future events.

IAS 39 (revised 2009) – Financial Instruments: Recognition and Measurement (effective for periods beginning on or after July 1st, 2009) had introduced improvements related to: i) treating loan prepayment penalties as closely related embedded derivatives; ii) scope exemption for business combination contracts iii) cash flow hedge accounting. The Company is currently evaluating the potential impact that this standard will have on the Group's consolidated financial statements.

IFRIC 19 – (issued 2009) Extinguishing Financial Liabilities with Equity Instruments (effective for periods beginning on or after July 1st, 2010) clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Company is currently evaluating the potential impact that this standard will have on the Group's consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

z) Reconciliation with BR GAAP

As permitted by the SEC and in order to meet the information needs of the market in which it operates, the Company is presenting its financial statements under the International Financial Reporting Standards (IFRS), as well as those pursuant to Brazilian Corporation Law, on a simultaneous basis.

Considering the current stage of the convergence of accounting principles generally accepted in Brazil (BR GAAP) with IFRS, there are still differences between the Company's financial statements under Brazilian law and those prepared according to IFRS. The reconciliations of net income for the years ended December 31, 2009 and 2008 and shareholders' equity as of December 31, 2009 and 2008 are as follows:

	Shareholders' equity	
	2009	**2008**
Under IFRS	**2,609,986**	1,071,608
Smiles deferred revenue (i)	**(3,034)**	29,663
Effects of acquisition of companies (ii)	**346,306**	346,306
Deferred income taxes (iii)	**(112,853)**	(113,184)
Under BR GAAP	**2,840,405**	1,334,393

	Net income (loss)	
	2009	**2008**
Under IFRS	**890,832**	(1,239,347)
Smiles deferred revenue (i)	**(43,483)**	3,385
Deferred income taxes (iii)	**11,117**	(1,152)
Under BR GAAP	**858,466**	(1,237,114)

i) *Smiles deferred revenue*

The wholly-owned subsidiary VRG sponsors a mileage program denominated Smiles that provides travel and other awards to members based on accumulated mileage credits.

The portion of revenue related to miles is deferred, and is recognized in the profit or loss when the miles are redeemed and services are provided. For IFRS purposes, the deferred revenue is recorded at fair value based on the weighted-average price of all miles that have been deferred. Under BR GAAP obligations are recognized based on the incremental cost that is the additional cost of providing services.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

z) Reconciliation with BR GAAP (Continued)

i) *Smiles deferred revenue* (Continued)

Due to the process of revamping the Mileage Program, the Company has been stimulating the usage of accrued miles through promotions and after the corporate structuring the benefit of Mileage Program was extended to all the passengers with accumulated miles. Consequently, the deferred revenue recognized on December 31, 2009 increased of R$43,483 in IFRS compared to BRGAAP (decrease of R$3,385 on December 31, 2008).

ii) *Business combination*

For IFRS purposes, the purchase method of accounting was used based on the fair value of the assets acquired and liabilities assumed, including contingent liabilities, being the excess of the consideration transferred over the net of the identifiable assets acquired and liabilities assumed registered as goodwill of the business. Under BR GAAP, the goodwill calculated on the acquisition of the company has been determined based on book shareholders' equity.

iii) *Deferred income taxes*

Changes in the Company's deferred tax assets and liabilities are the result of the tax effects created by adjustments made to amounts recognized under IFRS which differ from amounts recognized for BR GAAP.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

2. Basis of preparation and summary of significant accounting policies (Continued)

Reclassifications

Certain balances previously reported in 2008 were reclassified with the purpose of better presentation and comparability in the financial statements. The statement of cash flow for the year ended December 31, 2008 has been corrected to present the effects of exchange rate changes on the balance of cash held in foreign currencies.

The main groups from the balance sheet for which balances were reclassified are demonstrated below:

	Previously reported	**Reclassifications**	**Reclassified balances**
Assets			
Non-current assets			
Property, plant and equipment	2,998,756	12,349	**3,011,105**
Intangible assets	1,197,861	12,459	**1,210,320**
Other non-current assets			
Deposits	507,428	(13,968)	**493,460**
Deferred income tax	729,784	(126,713)	**603,071**
Other non-current assets	97,446	1,510	**98,956**
Total other non-current assets	1,400,040	(139,171)	**1,260,869**
Total non-current assets	5,596,657	(114,363)	**5,482,294**
Current assets			
Inventories	200,514	(12,350)	**188,164**
Total current assets	1,661,921	(12,350)	**1,649,571**
Total assets	7,258,578	(126,713)	**7,131,865**
Liabilities			
Non-current liabilities			
Other non-current liabilities	196,894	(54,611)	**142,283**
Tax obligations	-	41,055	**41,055**
Deferred taxes	548,680	(126,713)	**421,967**
Long-term debt	2,438,881	13,556	**2,452,437**
Total non-current liabilities	3,604,391	(126,713)	**3,477,678**

Current liabilities			
Other current liabilities	219,885	(577)	**219,308**
Dividends payable	-	577	**577**
Total current liabilities	2,582,579	-	**2,582,579**
Total liabilities and shareholders' equity	7,258,578	(126,713)	**7,131,865**

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GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

3. Employee costs and headcount

a) Staff costs

The average headcount of employees at December 31, of each year was as follows:

	(Unaudited)	
	2009	**2008**
Brazil	**17,500**	15,421
Rest of the world	**463**	490
	17,963	15,911

The employee costs were as follows:

	2009	**2008**
Salaries, wages and benefits	**1,059,206**	945,702
Other employee costs	**41,747**	38,081
Total employee costs	**1,100,953**	983,783

b) Key management personnel

	2009	**2008**
Social charges	**4,111**	3,622
Salary and benefits	**13,228**	6,928
Share-based payments	**3,430**	3,599
Total	**20,769**	14,149

The Company maintains a profit sharing plan and stock option plans for its employees. The employee profit sharing plan is linked to the economic and financial results measured based on the Company's performance indicators that measure the achievements by the Company, its business units and individual performance goals. At December 31, 2009, the Company recorded an estimated provision of the profit sharing plan in the amount of R$70,810, based on Management's expectations.

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GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

4. Finance income and expenses

	2009	2008
Finance expenses:		
Interest on loans	**(275,466)**	(269,278)
Liability exchange variations	**(519,111)**	(1,366,459)
Losses on investment funds	**(1,299)**	(15,939)
Losses on financial instruments	**(199,387)**	(159,335)
Liability monetary variations	**-**	(6,016)
Tax on financial operations	**(30,615)**	(9,108)
Other financial expenses	**(50,180)**	(32,603)
Total finance expenses	**(1,076,058)**	(1,858,738)
Finance income:		
Interest and gains on marketable securities	**40,940**	65,605
Asset exchange variations	**1,227,351**	599,592
Gains on financial instruments	**119,055**	12,744
Asset monetary variations	**3,603**	15,357
Other financial income	**27,953**	59,046
Total finance income	**1,418,902**	752,344
Net finance income (expenses)	**342,844**	(1,106,394)

5. Deferred and recoverable taxes

	2009	2008
Recoverable taxes		
PIS and COFINS (1)	**-**	782
ICMS (2)	**4,711**	4,184
Prepaid IRPJ and CSSL (3)	**37,644**	45,106
Withholding tax (IRRF) on cash equivalents (4)	**2,044**	25,837
Withholding tax (IRRF) of public institutions	**18,047**	17,193
Value-added taxes recoverable (IVA) (5)	**5,071**	15,968
Import tax	**18,119**	-
Other recoverable taxes	**489**	1,697
Total recoverable taxes - current	**86,125**	110,767

(1) PIS and COFINS: federal taxes charged on revenues;
(2) ICMS: Value Added Tax on sales and services;
(3) IRPJ: Brazilian income tax, which is a federal tax charged on the net taxable income;
CSLL: Federal tax levied on the net taxable income and was introduced to fund social and welfare programs;
(4) IRRF: Withholding income tax applied on certain domestic transactions, such as payment of fees to some service providers, payment of salary and interest income resulting from short term investments;
(5) IVA: foreign indirect Value Added Tax on sales and services.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

5. Deferred and recoverable taxes (Continued)

	2009	**2008**
Deferred non-current tax assets:		
Credits on accumulated IRPJ tax losses carryforward	**346,725**	272,027
Negative base of CSLL	**124,821**	37,365
Temporary differences:		
VRG acquisition effects	**99,215**	99,215
Smiles deferred revenue	**10,085**	10,085
Provision for contingencies	**60,419**	-
Allowance for doubtful accounts	**187,558**	29,054
Return of aircraft	**6,729**	34,889
Aircraft leasing operations	**-**	86,404
Others	**30,584**	34,032
Total of deferred non-current tax assets	**866,136**	603,071
Deferred non-current tax liabilities:		
VRG acquisition effects	**210,154**	210,154
Smiles deferred revenue	**11,117**	-
Maintenance deposits	**151,820**	133,276
Engine and rotable depreciation	**83,427**	64,564
Reversal of goodwill amortization	**25,532**	-
Aircraft leasing operations	**69,893**	-
Other deferred taxes	**10,360**	13,973
Total of deferred non-current tax liabilities	**562,303**	421,967

The Company and its subsidiary have IRPJ tax losses and negative basis of CSLL carryforwards in calculating taxable income that are offsettable against up to 30% of the taxable income accrued each year, with no expiration date, in the following amounts:

	Company		**Subsidiary (VRG)**	
	2009	**2008**	**2009**	**2008**
Accumulated IRPJ tax losses	**266,520**	144,786	**1,360,390**	1,183,236
Negative base of CSLL	**266,520**	144,786	**1,360,390**	1,183,236

On December 31, 2009, the tax credits resulting from accumulated IRPJ tax losses, negative basis of CSLL and temporary differences were recorded based on expectations for future taxable income of the Company and its subsidiaries, within the legal limits.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

5. Deferred and recoverable taxes (Continued)

The reconciliation of the IRPJ and CSLL, calculated according to the combined statutory rate, and the amounts recorded in the statement of operations, is shown as follows:

	IRPJ and CSLL	
	2009	**2008**
Income (Loss) before Income Tax (IRPJ) and Social Contribution on Net Income (CSLL)	**756,136**	(1,195,042)
Combined tax rate	**34%**	34%
IRPJ and CSLL at combined tax rate	**(257,086)**	406,314
Adjustments to calculate the effective tax rate:		
Exchange variation on overseas investments	**104,934**	(98,921)
Benefit from calculation of deferred IRPJ and CSLL at subsidiaries	**-**	(3,876)
Recognized (unrecognized) benefit on tax loss	**273,954**	(330,654)
Non-deductible expenses (non-taxable revenue) of subsidiaries	**22,970**	(30,281)
Income tax on permanent differences	**(10,074)**	11,865
Tax benefit of offsetting of tax losses	**-**	1,248
Income (expense) related to income tax and social contribution	**134,696**	(44,305)
Effective rate	**17.8%**	3.7%
Current IRPJ and CSLL	**(609)**	(57,338)
Deferred IRPJ and CSLL	**135,305**	13,033
	134,696	(44,305)

Income tax recognized in other comprehensive income (loss)

During the year ended December 31, 2009, the income tax recognized in other comprehensive income (loss) relating to cash flow hedges is R$(9,817) (R$10,378 during the year ended December 31, 2008). There is no income tax recognized in other comprehensive income relating to available for sale financial assets.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

6. Deposits

Maintenance deposits

Under certain existing lease agreements, maintenance deposits are paid to aircraft and engine lessors that are to be applied to future maintenances deposits. The maintenance deposits paid under lease agreement transfer neither the obligation to maintain the aircraft nor the cost risk associated with the maintenance activities to the aircraft lessor. The Company maintains the right to select any third-party maintenance provider or to perform such services in-house.

These deposits are calculated based on a performance measure, such as flight hours or cycles, and are available for reimbursement to the Company upon the completion of the maintenance of the lease aircraft. Therefore, these amounts are recorded as a deposit on the balance sheet and maintenance cost is recognized when the underlying maintenance is performed, in accordance with the Company's maintenance policy. Certain lease agreements provide that the excess deposits are not refundable to the Company. Such excess could occur if the amounts ultimately expended for the maintenance events were less than the amounts deposited. Any excess amounts held by lessor or retained by the lessor upon the expiration of the lease, which are not expected to be significant, would be recognized as additional aircraft rental expense.

Based on the foregoing analysis, management believes that the amounts reflected on the consolidated balance sheet are probable of recovery. There has been no impairment of Company's maintenance deposits, which presented on December 31, 2009 the amount of R$50,429 and R$472,244, in current and non-current assets, respectively (R$237,914 and R$283,823 at December 31, 2008).

Additionally, the Company has reached agreements with certain lessors to replace the deposits with letters of credit and amend the lease terms to enable the Company to utilize the deposited funds to settle other amounts owed under the lease. Many of the new aircraft leases do not require maintenance deposits.

Deposits in guarantee for leasing contracts

As required by the lease agreements, the Company made deposits in guarantee for aircraft leasing companies, which are fully redeemable at the maturity dates of the lease contracts. On December 31, 2009, the balance of these deposits classified in non-current asset is R$251,716 (R$147,927 on December 31, 2008).

Judicial deposits

The judicial deposits represent, primarily, guarantees for contingent liabilities relating to labor, civil and tax claims until the resolution of the related litigations. The balance of judicial deposits on December 31, 2009, is R$81,180 (R$61,710 on December 31, 2008).

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

7. Prepaid Expenses

	2009	2008
Deferred losses on sale-leaseback transactions (a)	**72,947**	66,603
Prepayments for insurance	**60,398**	52,971
Prepayments for lease agreements	**35,453**	45,596
Prepaid comission expenses	**14,705**	11,738
Others	**4,799**	5,682
	188,302	182,590
Current	**124,728**	123,797
Non-current	**63,574**	58,793

(a) During 2007, 2008 and 2009, the Company had losses on the sale-leaseback transactions for 9 Boeing 737-800 Next Generation aircraft. The net deferred losses on the sale-leaseback transactions in the amount of R$89,337 is being deferred in proportion to the monthly payments of their respective operating leases over the contractual term of 120 months. On December 31, 2009, the balances classified as current and non-current prepaid expenses are R$9,373 e R$63,574, respectively (R$7,810 e R$58,793 at December 31, 2008). See further information about sale-leaseback transactions in Note 24.

8. Property, plant and equipment

		Consolidated			
		2009			**2008**
	Annual depreciation rate	**Cost**	**Accumulated depreciation**	**Net amount**	**Net amount**
Flight equipment					
Property, plant and equipment under financial leases	**4 - 10%**	**1,873,911**	**(150,984)**	**1,722,927**	1,308,562
Sets of replacement parts and spare engines	**4%**	**651,695**	**(71,442)**	**580,253**	552,738
Reconfigurations of aircraft	**4%**	**87,015**	**(78,930)**	**8,085**	34,054
Aircraft and safety equipment	**20%**	**1,259**	**(577)**	**682**	789
Tools	**10%**	**15,805**	**(3,661)**	**12,144**	7,684

		2,629,685	**(305,594)**	**2,324,091**	1,903,827
Property and equipment in use					
Vehicles	**20%**	**6,816**	**(4,344)**	**2,472**	2,997
Machinery and equipment	**10%**	**19,883**	**(5,652)**	**14,231**	14,684
Furniture and fixtures	**10%**	**15,671**	**(5,488)**	**10,183**	10,647
Computers and peripherals	**20%**	**31,309**	**(17,623)**	**13,686**	15,811
Communications equipment	**10%**	**2,262**	**(897)**	**1,365**	1,350
Installations	**10%**	**4,407**	**(1,755)**	**2,652**	3,071
Confins maintenance center	**7%**	**95,231**	**(8,567)**	**86,664**	55,889
Leasehold improvements	**20%**	**30,786**	**(7,521)**	**23,265**	2,687
Construction in progress	**-**	**10,050**	**-**	**10,050**	30,588
		216,415	**(51,847)**	**164,568**	137,724
		2,846,100	**(357,441)**	**2,488,659**	2,041,551
Advances for acquisition of property, plant and equipment	-	**837,054**	**-**	**837,054**	969,554
		3,683,154	**(357,441)**	**3,325,713**	3,011,105

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GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

8. Property, plant and equipment (Continued)

The advances for acquisition of property, plant and equipment, net of returns, primarily refer to the pre-payments made based on contracts with the Boeing Company for acquisition of 90 next generation 737-800 aircraft (94 aircraft in December 31, 2008), in the amount of R$804,631 (R$957,204 in December 31, 2008), and include the interest and charges capitalized in the amount of R$19,971 (R$33,955 in December 31, 2008). The Company has a schedule for these aircraft delivery until February, 2016, as described in Note nº 24.

As described in Note 23, as of December 31, 2009, the advances for acquisition of aircraft, in the amount of R$245,776 (R$697,719 in December 31, 2008), are related to loan contract guarantees.

Changes in the property, plant and equipment balances are as follows:

	Flight equipment				
	Property, plant and equipment under finance lease (a)	**Rotable parts and spares**	**Advances for acquisition of property, plant and equipment (b)**	**Other**	**Total**
At December 31, 2007	874,441	609,021	695,538	132,227	2,311,227
Additions	523,001	178,433	511.308	54,934	1.267.676
Disposals	(6,815)	(84,669)	(237,292)	(13,921)	(342,697)
Depreciation and amortization	(82,065)	(107,520)	-	(35,516)	(225,101)
At December 31, 2008	**1,308,562**	**595,265**	**969.554**	**137,724**	**3.011.105**
Additions	**525,787**	**53,090**	**420,894**	**44,832**	**1,044,603**
Disposals	**(43,299)**	**(75)**	**(553,394)**	**(340)**	**(597,108)**
Depreciation and amortization	**(68,123)**	**(47,116)**	**-**	**(17,648)**	**(132,887)**
At December 31, 2009	**1,722,927**	**601,164**	**837,054**	**164,568**	**3,325,713**

During the year, the Company carried out a review of the recoverable amount of its property, plant and equipment. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 23.1% per year. No impairment was recognized for the years ended on December 31, 2009 and 2008.

(a) Refers to aircraft held under finance leases agreements in the total of R$1,720,010, net of depreciations and other assets in the amount of R$2,917, net as of December 31, 2009 (R$1,301,146 and R$7,416 as of December 31, 2008, respectively).

(b) The disposals of pre-delivery deposits correspond to the amounts returned by the Boeing Co. at the time the aircraft is delivered to the Company. These resources are used for the payment of the financing of respective aircraft as described in Note nº 23, under the captions PDP I and II.

GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Brazilian Reais, except as indicated otherwise)

9. Intangible assets

	Goodwill	Tradenames	Airport operating rights	Software	Total
At December 31, 2007	542,302	63,109	560,842	33,893	1,200,146
Additions	-	-	-	35,585	35,585

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for income taxes

$912 $912

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Cost of inventory sold as part of product line disposal

$ $20,105

The accompanying notes are an integral part of these consolidated financial statements.

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PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Business and Liquidity

Precision Optics Corporation, Inc. (the "Company") designs, develops, manufactures and sells specialized optical systems and components and optical thin-film coatings. The Company conducts business in one industry segment only and its customers are primarily domestic. The Company's products and services fall into two principal areas: (i) medical products for use by hospitals and physicians; and (ii) advanced optical system design and development services and products used by industrial customers.

The Company has sustained recurring net losses and negative cash flows from operations for several years. During the year ended June 30, 2009, the Company incurred a net loss of $992,135 and used cash in operations of $532,654. As of June 30, 2009, cash and cash equivalents were $384,593, accounts receivable were $511,807 and current liabilities were $1,492,878. The Company anticipates that deferred officers' salaries and director consulting expenses accrued at June 30, 2009 will be settled by issuing restricted common stock rather than by cash payments. These deferred amounts included in current liabilities at June 30, 2009 total approximately $330,000. These factors raise substantial doubt about the Company's ability to continue 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. During the latter part of fiscal year 2008, the Company implemented plans to reduce costs and to streamline operations in an effort to reduce net losses. This has resulted in an increase in gross profit and simultaneous decreases in operating expenses, thereby reducing losses substantially, particularly in the third and fourth quarters of fiscal year 2008. The Company believes that the recent introduction of several new products, along with new and on-going customer relationships, will generate additional revenues, which are required in order for the Company to achieve profitability. If these additional revenues are not achieved on a timely basis, the Company will be required and is prepared to implement further cost reduction measures, as necessary.

The Company has incurred quarter to quarter operating losses during 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 2010, and until sales increase to breakeven and profitable levels. Management also believes that the opportunities represented by these products have the potential to generate sales increases to achieve breakeven and profitable results. The Company will continue its review of other expense areas to determine where additional reductions in discretionary spending can be achieved. There can be no assurance that the Company's operating plans will be successful, and if so required, that the Company will be successful in obtaining the capital necessary to continue ongoing operations.

In April 2006, the Company completed a private placement, issuing 338,000 shares of common stock. Net cash proceeds to the Company (after offering costs of $49,725) were $2,062,775. In February 2007, the Company completed a private placement, pursuant to which it sold an aggregate of 400,000 shares of common stock and warrants to purchase an aggregate of 400,000 shares of common stock at an exercise price of $8.00 per share. Net cash proceeds to the Company (after offering costs of $123,784)

PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

were $2,376,216 (see Note 4). In June 2008, the Company issued senior secured convertible notes and warrants, raising cash proceeds of $600,000.

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, 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.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its two wholly- owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. All shares and per share data reflect the effects of a 1-for-25 reverse stock split that became effective on December 11, 2008.

(c) Revenues

The Company recognized revenue in accordance with Securities and Exchange Commission issued Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB No. 104"), which 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) collectability 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 that 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.

(d) Cash and Cash Equivalents

The Company includes in cash equivalents all highly liquid investments with original maturities of three months or less at the time of acquisition. Cash and cash equivalents of $384,593 and $885,988 at

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PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

June 30, 2009 and 2008, respectively, consist primarily of cash at banks and money market funds. The Company maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and include material, labor and manufacturing overhead. The components of inventories at June 30, 2009 and 2008 are as follows:

	2009	2008
Raw material	$492,712	$347,298
Work-in-progress	116,605	177,464
Finished goods	99,838	83,669
	$709,155	$608,431

The Company provides for estimated obsolescence on unmarketable inventory based upon assumptions about future demand and market conditions. If actual demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Inventory, once written down, is not subsequently written back up, as these adjustments are considered permanent adjustments to the carrying value of the inventory.

During fiscal years 2009 and 2008, the Company recorded pre-tax non-cash provisions for slow-moving and obsolete inventories of approximately $45,000 and $39,000, respectively.

(f) Property and Equipment

Property and equipment are recorded at cost. Maintenance and repair items are expensed as incurred. The Company provides for depreciation and amortization by charges to operations, using the straight-line and declining-balance methods, which allocate the cost of property and equipment over the following estimated useful lives:

Asset Classification	Estimated Useful Life
Machinery and equipment	2-7 years
Leasehold improvements	Shorter of lease term or estimated useful life
Furniture and fixtures	5 years
Vehicles	3 years

Depreciation expense was $33,737 and $53,720 for the years ended June 30, 2009 and 2008, respectively.

(g) Significant Customers and Concentration of Credit Risk

Statement of Financial Accounting Standards ("SFAS") No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk,* requires disclosure of any significant off-balance sheet and credit risk.

Financial instruments that subject the Company to credit risk consist primarily of cash equivalents and trade accounts receivable. The Company places its investments with highly rated financial institutions. The Company has not experienced any losses on these investments to date. At June 30, 2009,

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receivables from the Company's largest customers were 32%, 21%, 19% and 13% of the total accounts receivable. At June 30, 2008, receivables from the Company's largest customers were 27%, 25% and 17% of the total accounts receivable. No other customer accounted for more than 10% of the Company's receivables as of June 30, 2009 and 2008. The Company has not experienced any material losses related to accounts receivable from individual customers. The Company generally does not require collateral or other security as a condition of sale rather relying on credit approval, balance limitation and monitoring procedures to control credit risk of trade account financial instruments. Management believes that allowances for doubtful accounts, which are established based upon review of specific account balances and historical experience, are adequate.

Revenues from the Company's largest customers, as a percentage of total revenues, were as follows:

	2009	2008
Customer A	23%	11%
Customer B	22	25
Customer C	20	20
Customer D	11	8
All Others	24	36
	100%	100%

No other customer accounted for more than 10% of the Company's revenues in fiscal years 2009 and 2008.

(h) Loss per Share

The Company calculates earnings per share according to SFAS No. 128, *Earnings 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 each of the two years in the periods ended June 30, 2009 and 2008, the effect of stock options and warrants was anti-dilutive; 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 anti-dilutive, was approximately 992,000 and 996,000 during fiscal 2009 and 2008, respectively.

(i) Stock-Based Compensation

On July 1, 2006, the Company adopted SFAS No. 123(R), *Accounting for Stock-Based Compensation* ("SFAS No. 123(R)"), which requires the measurement and recognition of all compensation costs for all stock-based awards made to employees and the Board of Directors based upon fair value over the requisite service period for awards expected to vest. Prior to adoption, the Company accounted for stock options under the intrinsic value method set in accordance with Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees,*" and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "*Accounting for Share-based Compensation*" ("SFAS No. 123"), as amended.

SFAS 123(R) requires the Company to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The Company adopted SFAS 123(R) using the modified prospective transition method which required the application of the accounting standard starting July 1, 2006, the first day of the Company's fiscal year 2007. Prior period information has not been restated to

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reflect the fair value method of expensing share-based awards. Stock-based compensation costs recognized for the year ended June 30, 2009 and 2008 amounted to $72,347 and $108,242, respectively.

(j) Foreign Currency Translation

The Company translates certain accounts and financial statements of its foreign subsidiary in accordance with SFAS No. 52, *Foreign Currency Translation.* The functional currency of the Company's foreign subsidiary is the United States dollar. Transaction gains or losses are reflected in the accompanying consolidated statements of operations and have not been significant.

(k) Patents

Patents are carried at cost, less accumulated amortization of $651,520 and $623,063 at June 30, 2009 and 2008, respectively. Such costs amortized using the straight-line method over the shorter of their legal or estimated useful lives, generally five to ten years. Amortization expense was $28,458 and $107,448 for the years ended June 30, 2009 and 2008, respectively. Amortization expense is expected to be approximately $26,000, $25,000, $25,000, $23,000 and $21,000, respectively, for the years ending June 30, 2010 through June 30, 2014, respectively.

(l) Financial Instruments

SFAS No. 107, *Disclosure About Fair Value of Financial Instruments,* requires disclosures about the fair value of financial instruments. Financial instruments consist principally of cash equivalents, accounts receivable, accounts payable, and accrued expenses. The estimated fair value of these financial instruments approximates their carrying value due to the short-term nature of these financial instruments.

(m) Long-Lived Assets

The Company accounts for long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(n) Warranty Costs

The Company does not incur future performance obligations in the normal course of business other than providing a standard one-year warranty on materials and workmanship to its customers. The Company provides for estimated warranty costs at the time product revenue is recognized. Warranty costs have been included as a component of cost of goods sold in the accompanying consolidated

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statements of operations. The following tables summarize warranty reserve activity for the two years ended June 30, 2009 and 2008:

	2009	2008
Balance at beginning of period	$25,000	$25,000
Provision (credit) for warranty claims	9,569	2,619
Warranty claims incurred	(9,569)	(2,619)
Balance at end of period	$25,000	$25,000

(o) Research and Development

Research and development expenses are charged to operations as incurred. The Company groups development and prototype costs and related reimbursements in research and development. For the years ended June 30, 2009 and 2008, research and development expense is shown net of reimbursements of $181,105 and $224,107, respectively, in the accompanying statements of operations.

(p) Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income,* requires disclosure of all components of comprehensive income on an annual and interim basis. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owners sources.

The Company's comprehensive loss for the years ended June 30, 2009 and 2008 was equal to its net loss for the same periods.

(q) 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 carry-forwards. 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.

(r) Segment Reporting

SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information,* establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions about how to allocate resources and assess performance. The Company's chief decision-maker, as defined under SFAS No. 131, is the Chief Executive Officer. To date, the Company has viewed its operations and manages its business as

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principally one segment. For all periods presented, over 90% of the Company's sales have been to customers in the United States.

(s) Use of Estimates

The preparation of financial statements in conformity with accounting standards generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(t) Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This SFAS is effective for the Company's interim reporting period ending on September 30, 2009. This SFAS is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. SFAS No. 167 changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. This SFAS is effective for the Company's interim reporting period ending on September 30, 2010. The Company is currently evaluating the impact of the implementation of SFAS No. 167 on its consolidated financial position, results of operations and cash flows.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This SFAS requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The disclosure requirement under this SFAS is effective for the Company's annual reporting for the fiscal year ended on June 30, 2009.

In April 2009, the FASB issued FSP SFAS No. 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. FSP SFAS No. 141(R)-1 will amend the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS No. 141(R), *Business Combinations*. The FSP will carry forward the requirements in SFAS No. 141, *Business Combinations*, for acquired contingencies, thereby requiring that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with SFAS No. 5, *Accounting for Contingencies*. The FSP will have the same effective date as SFAS No. 141(R), and will therefore be effective for the Company's business combinations for which the acquisition date is on or after July 1, 2009. The Company is currently evaluating the impact of the implementation of FSP SFAS No. 141(R)-1 on the Company's consolidated financial position, results of operations and cash flows.

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In April 2009, the FASB issued FSP SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP SFAS No. 157-4 provides guidelines for making fair value measurements more consistent with the principles presented in SFAS No. 157, *Fair Value Measurements*. The FSP relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what SFAS No. 157 states is the objective of fair value measurement to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The FSP is effective for the Company's annual reporting for the fiscal year ended on June 30, 2009. The implementation of FSP SFAS No. 157-4 did not have a material impact on its consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP SFAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP SFAS No. 107-1 and APB 28-1 enhances consistency in financial reporting by increasing the frequency of fair value disclosures. The FSP relates to fair value disclosures for any financial instruments that are not currently reflected on a company's balance sheet at fair value. Prior to the effective date of this FSP, fair values for these assets and liabilities have only been disclosed once a year. The FSP will now require these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The disclosure requirement under this FSP is effective for the Company's interim reporting period ending on September 30, 2009.

In April 2009, the FASB issued FSP SFAS No. 115-2 and SFAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. FSP SFAS No. 115-2 and SFAS No. 124-2 provides additional guidance designed to create greater clarity and consistency in accounting and presenting impairment losses on securities. The FSP is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income remains fair value. The FSP also requires increased and more timely disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. The FSP is effective for the Company's annual reporting for the fiscal year ended on June 30, 2009. The implementation of FSP SFAS No. 115-2 and SFAS No. 124-2 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets.* FSP SFAS No. 132(R)-1 amends SFAS No. 132(R) to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP requires disclosures surrounding how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies. The disclosure requirement under this FSP is effective for the Company's fiscal year beginning July 1, 2009.

In October 2008, the FASB issued FSP SFAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active.* FSP SFAS No. 157-3 clarifies the application of SFAS No. 157, which the Company adopted as of July 1, 2008, in situations where the market for a particular financial asset is not active. The Company has considered the guidance provided by FSP SFAS No. 157-3 in its determination of estimated fair values, and the impact was not material.

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On August 27, 2008, the SEC announced that they will issue for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. Under the proposed roadmap, the Company could be required in fiscal year 2014 to prepare financial statements in accordance with IFRS. The SEC is expected to make a determination in 2011 regarding the mandatory adoption of IFRS. The Company is currently assessing the impact that this potential change would have on its consolidated financial statements, and the Company will continue to monitor the development of the potential implementation of IFRS.

In April 2008, the FASB adopted FSP SFAS No. 142-3, *Determination of the Useful Life of Intangible Assets*, amending the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. This FSP is effective for intangible assets acquired on or after July 1, 2009. The Company is currently evaluating the impact of the implementation of FSP SFAS No. 142-3 on its consolidated financial position, results of operations and cash flows.

In February 2008, the FASB adopted FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157,* delaying the effective date of SFAS No. 157 for one year for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is currently evaluating the impact of the implementation of the deferred portion of SFAS No. 157 on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*. SFAS No. 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. In addition, SFAS No. 141(R) requires expensing of acquisition-related and restructure-related costs, remeasurement of earn-out provisions at fair value, measurement of equity securities issued for purchase at the date of close of the transaction and non-expensing of in-process research and development related intangibles. SFAS No. 141(R) is effective for the Company's business combinations for which the acquisition date is on or after July 1, 2009, except that resolution of certain tax contingencies and adjustments to valuation allowances related to business combinations, which previously were adjusted to goodwill, will be adjusted to income tax expense for all such adjustments after July 1, 2009, regardless of the date of the original business combination. The Company is currently evaluating the impact of the implementation of SFAS No. 141(R) on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. This SFAS amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. This SFAS establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. SFAS No. 160 is effective for the Company's fiscal year beginning July 1, 2009. This

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SFAS is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

(2) 10% SENIOR SECURED CONVERTIBLE NOTES

On June 25, 2008, the Company entered into a Purchase Agreement with institutional and other accredited investors (the "Investors") pursuant to which it sold an aggregate of $600,000 of 10% Senior Secured Convertible Notes (the "Notes"), which are convertible into an aggregate of 480,000 shares of common stock, par value $0.01 per share, at a conversion price of $1.25 per share, and warrants to purchase an aggregate of 316,800 shares of common stock at an exercise price of $1.75 per share (the "Warrants"). The Investors are current stockholders of the Company. Interest accrues on the Notes at a rate of 10% per annum and is payable upon the earlier of conversion or maturity of the Notes. The Notes mature on June 25, 2010, and the Warrants expire on June 25, 2015. The closing of the sale of the Notes and Warrants occurred on June 25, 2008.

The Purchase Agreement contains customary representations and warranties of the Company and the Investors, and the Notes contain customary covenants binding on the Company and customary events of default. If an event of default occurs and is uncured within the allowable grace period, if any, the Investors may declare all amounts under the Notes immediately due and payable and may pursue any other available remedies.

The Notes are secured by a pledge of the Company's assets under the terms of a Pledge and Security Agreement and the security documents ancillary thereto.

The Notes consist of the following:

	June 30, 2009	June 30, 2008
10% Senior Secured Convertible Notes issued on June 25, 2008, convertible into common stock at $1.25 per share, bearing interest at 10% per annum. Outstanding principal and accrued interest are due at maturity, June 25, 2010.	$ 600,000	$ 600,000
Accrued interest 10% coupon	60,833	833
Unamortized discount	(196,729)	(590,529)
	$ 464,104	$ 10,304

Upon issuance of the Notes and Warrants, the proceeds of $600,000 were allocated between the Notes and Warrants based on relative fair values. The value of the Warrants was recorded as a discount to the Notes, with a corresponding increase to additional paid-in capital. The fair value of the Warrants was determined using the Black-Scholes method, with the following assumptions:

Expected life	7 years
Risk-free rate	4.84%
Expected Dividends	0.00%
Volatility factor	154%

In accordance with EITF 00-27, *Application of EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios,"* the proceeds from the issuance of the Notes were first allocated between the Notes and the Warrants. The value of the conversion feature was then calculated, which resulted in an effective conversion ratio that was less

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than the market price of the Company's common stock. The intrinsic value of this beneficial conversion feature was recorded as a further discount to the Notes, equal to the difference between the effective conversion ratio and the market price of the Company's common stock, with a corresponding increase to additional paid-in capital.

The following summarizes the discount on the Notes as of June 30:

	2009	2008
Discount beginning balance	$ 590,529	$
Proceeds allocated to warrants		399,000
Beneficial conversion feature intrinsic value		201,000
Less: amortization of discount	(393,800)	(9,471)
Discount ending balance	$ 196,729	$ 590,529

(3) COMMITMENTS

(a) Related Party Transactions

The Company leases one of its facilities from a corporation owned by an officer-director-shareholder of the Company. The Company is currently a tenant-at-will, paying rent of $9,000 per month. Total rent expense paid to related parties was $108,000 in each of fiscal years 2009 and 2008, and is included in the accompanying consolidated statements of operations.

The Company paid or accrued fees to a director of $60,000 in each of fiscal years 2009 and 2008 for consulting services.

(b) Operating Lease Commitments

The Company has entered into operating leases for its office space and equipment that expire at various dates through fiscal year 2010. Total future minimum rental payments under all non-cancelable operating leases are approximately $30,450 in fiscal 2010 and $1,950 thereafter.

Rent expense on operating leases, excluding the related party rent described above, was approximately $46,844 and $46,900 for the years ended June 30, 2009 and 2008, respectively.

(4) STOCKHOLDERS' EQUITY

(a) Stock Options

Stock-based compensation costs recognized for the year ended June 30, 2009 and 2008, included compensation costs for awards granted prior to, but not yet vested as of July 1, 2006 (adoption date), as well as any new grants issued after July 1, 2006. Total costs recognized during the year ended June 30, 2009 and 2008 amounted to $72,347 and $108,242, respectively, and were included in the accompanying consolidated statements of operations in: selling, general and administrative expenses (2009 $55,340; 2008 $83,161), cost of goods sold (2009 $14,252; 2008 $18,635), and research and development expenses, net (2009 $2,755; 2008 $6,446). No compensation has been capitalized because such amounts would have been immaterial. There was no net income tax benefit recognized related to such compensation for the years ended June 30, 2009 or 2008, as the Company is currently in a loss position. The total number of options granted during the year ended June 30, 2009 was 1,200.

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As of June 30, 2009, the unrecognized compensation costs related to options vesting will be primarily recognized over a period of approximately 2 years:

OPTIONS	2010	2011	TOTAL
Compensation Expense	$12,703	$12,703	$25,406

Upon adoption of SFAS 123(R), in accordance with Staff Accounting Bulletin No. 107, *Share-Based Payment*, the Company selected the Black-Scholes option-pricing model as the most appropriate method for determining the estimated fair value for the stock awards. The Black-Scholes method of valuation requires several assumptions: (1) the expected term of the stock award; (2) the expected future stock volatility over the expected term; and (3) risk-free interest rate. The expected term represents the expected period of time the Company believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of the Company's common stock and the risk free interest rate is based on the U.S. Zero-Bond rate. The Company utilizes a forfeiture rate based on an analysis of the Company's actual experience. The fair value of options at date of grant was estimated with the following assumptions:

	Years Ended June 30, 2009	Years Ended June 30, 2008
Assumptions:		
Option life	5.3 years	5.3 years
Risk-free interest rate	2.06%	4.84%
Stock volatility	179%	147%
Dividend yield	0	0
Weighted average fair value of grants	$ 1.25	$ 7.25

Stock Option and Other Compensation Plans:

The type of share-based payments currently utilized by the Company is stock options.

The Company has various stock option and other compensation plans for directors, officers, and employees. The Company has the following stock option plans outstanding as of June 30, 2009: Amended and Restated 1997 Incentive Plan and the 2006 Equity Incentive Plan. Vesting periods are at the discretion of the Board of Directors and typically average five years. Options under these plans are granted at fair market value and have a term of ten years from the date of grant.

During fiscal 2007, the stockholders approved an equity incentive plan (the "2006 Incentive Plan"), which provides eligible participants (certain employees, directors, consultants, etc.) the opportunity to receive a broad variety of equity based and cash awards. Options granted vest and are exercisable for periods determined by the Board of Directors, not to exceed 10 years from the date of grant. A total of 139,898 shares of common stock have been reserved for issuance under the 2006 Incentive Plan. At June 30, 2009, a total of 4,000 stock options are outstanding and 135,898 shares of common stock were available for future grants under the 2006 Incentive Plan.

During fiscal 1998, the stockholders approved an incentive plan (the "1997 Incentive Plan"), which provided eligible participants (certain employees, directors, consultants, etc.) the opportunity to receive a broad variety of equity based and cash awards. Options granted vest and are exercisable for periods determined by the Board of Directors, not to exceed 10 years from the date of grant. Options for a total of 94,432 shares of common stock are outstanding at June 30, 2008 under the 1997 Incentive Plan,

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as amended and restated in fiscal year 2006. Prior to the adoption of the 2006 Incentive Plan, 9,000 stock options were granted in fiscal year 2007 under the 1997 Incentive Plan. Upon the adoption of the 2006 Incentive Plan, no new awards were granted under the 1997 Incentive Plan. No shares are available for future grants under the Company's 1997 Incentive Plan.

The following tables summarize stock option activity for the two years ended June 30, 2009:

	Options Outstanding		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life
Outstanding at June 30, 2007	101,335	$ 15.50	8.57 years
Grants	1,200	7.75	
Exercises			
Cancellations	(5,303)	9.00	
Outstanding at June 30, 2008	97,232	$ 15.75	7.56 years
Grants	1,200	1.25	
Exercises			
Cancellations	(5,254)	6.61	
Outstanding at June 30, 2009	93,178	$ 16.17	6.56 years

Information related to the stock options outstanding as of June 30, 2009 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Exercisable Number of Shares	Exercisable Weighted-Average Exercise Price
$1.25	1,200	9.41	$ 1.25	1,200	$ 1.25
$6.25	1,600	7.42	6.25	1,600	6.25
$7.75	1,200	8.42	7.75	1,200	7.75
$11.50	800	6.42	11.50	800	11.50
$13.75	51,018	6.86	13.75	48,352	13.75
$20.75	37,360	5.96	20.75	37,360	20.75
$1.25 $20.75	93,178	6.56	$ 16.17	90,512	$ 16.24

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options as of June 30, 2009 was $0 and $0, respectively.

(b) Registration Statement

On December 18, 2008, the Company filed a registration statement on Form S-1 to register 1,074,621 shares of common stock, which included 480,000 shares underlying Senior Secured Convertible Notes, 96,000 shares underlying potential interest due on the Notes and 498,621 shares underlying warrants. The Company filed an amendment to the Form S-1 on April 6, 2009, reducing the number of shares being registered to 960,439 shares, which included 480,000 shares underlying the Notes and 480,439 shares underlying warrants. The Company will not receive any proceeds from the sale or other disposition of common stock by the selling stockholders. The Company may receive proceeds from the exercise of warrants. On June 29, 2009, the registration statement was declared effective by the U.S. Securities and Exchange Commission.

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(c) Reverse Stock Split

Effective as of the open of business on December 11, 2008, the Company effected a reverse stock split of its common stock, par value $0.01 per share. Every 25 shares of common stock were reclassified and combined into one share of common stock, and the Company's stock ticker symbol on the OTCBB was changed from POCI.OB to PEYE.OB. No fractional shares were issued as a result of the reverse stock split. Instead, each resulting fractional share of common stock was rounded up to one whole share. The reverse stock split reduced the number of shares of common stock outstanding from 25,458,212 to 1,018,411. The total number of authorized shares of common stock continued to be 50,000,000 and the par value per share of the common stock continued to be $0.01.

All shares and per share data in the accompanying consolidated financial statements reflect the effects of the 1-for-25 reverse stock split that became effective on December 11, 2008. In addition, capital stock has been decreased by $244,398, with a corresponding increase to paid-in capital to reflect the adjusted number of shares of $0.01 par value common stock outstanding as a result of the 1-for-25 reverse stock split.

(d) Warrants

In conjunction with the sale of the 10% Senior Secured Convertible Notes on June 25, 2008 mentioned above, the Company issued warrants to purchase an aggregate of 316,800 shares of common stock at an exercise price of $1.75 per share. The warrants expire on June 25, 2015.

In February 2007, the Company completed a private placement with institutional and other accredited investors pursuant to which it sold an aggregate of 400,000 shares of common stock, at a price of $6.25 per share and warrants to purchase an aggregate of 400,000 shares of common stock at an exercise price of $8.00 per share. In conjunction with the issuance by the Company of the 10% Senior Secured Convertible Notes and warrants on June 25, 2008, certain anti-dilution provisions of the existing warrants were triggered. As a result, the number of existing warrants was increased from 400,000 to 581,821 and the related exercise price was decreased from $8.00 per share to $5.50 per share. The warrants expire on February 1, 2012.

(5) INCOME TAXES

The provision for income taxes in the accompanying consolidated statements of operations consists of the minimum statutory state income tax liability of $912 and $912 for the years ended June 30, 2009 and 2008, respectively.

A reconciliation of the federal statutory rate to the Company's effective tax rate for the two years ended June 30 is as follows:

	2009	**2008**
Income tax benefit at federal statutory rate	(34.0)%	(34.0)%
Increase (decrease) in tax resulting from- State taxes, net of federal benefit	(6.3)	(6.8)
Change in valuation allowance	66.9	43.0
Nondeductible items	0.7	1.1
Prior-year tax adjustments	(23.9)	
Other	(3.3)	(3.2)
Effective tax rate	0.1%	0.1%

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PRECISION OPTICS CORPORATION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The components of deferred tax assets and liabilities at June 30, 2009 and 2008 are approximately as follows:

	2009	2008
Deferred tax assets:		
Net operating loss carry forwards	$ 2,403,000	$ 2,035,000
Tax credit carry forwards	370,000	96,000
Reserves and accruals not yet deducted for tax purposes	173,000	151,000
Total deferred tax assets	2,946,000	2,282,000
Valuation allowance	(2,946,000)	(2,282,000)
Net deferred tax asset	$	$

The Company has provided a valuation allowance to reduce the net deferred tax asset to an amount the Company believes is "more likely than not" to be realized. The valuation allowance increased in fiscal 2009 by approximately $664,000.

At June 30, 2009, the Company had federal and state net operating loss carry forwards of approximately $5,300,000 and $5,000,000, respectively, which will, if not used, expire at various dates from 2010 through 2028. In addition, the Company had net operating loss carry forwards from its Hong Kong operations of approximately $1,600,000, which carry forward indefinitely.

(6) PROFIT SHARING PLAN

The Company has a defined contribution 401K profit sharing plan. Employer profit sharing and matching contributions to the plan are discretionary. No employer profit sharing contributions were made to the plan in fiscal years 2009 and 2008. Employer matching contributions to the plan amounted to $0 and $17,473 for fiscal years 2009 and 2008, respectively.

(7) SALE OF PRODUCT LINE

On January 18, 2008, the Company entered into an Asset Purchase Agreement for the sale of its custom optical thin film product line and completed the sale on the same date. The assets sold included equipment, certain inventory, intellectual property, and a customer list. The purchase price was $250,000, and the Company will also receive a royalty of 25% of revenues exceeding $300,000 annually from the purchased customer list for a three-year period. The Company recognized a gain of $210,549 from the sale of the product line, recorded in the quarter ended March 31, 2008.

(8) SALE OF ASSETS

The Company sold equipment that was previously written off for proceeds totaling $48,752 and recorded a gain of $48,752, which is included within operating expenses in the accompanying consolidated statements of operations.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A(T). CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures, including internal control over financial reporting, were not effective as of June 30, 2009, to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended (i) is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are intended to be designed to provide reasonable assurance that such information is accumulated and communicated to our management.

Management's Annual Report on Internal Control Over Financial Reporting

Our disclosure controls and procedures include components of our internal control over financial reporting. In designing and evaluating our disclosure controls and procedures management recognizes that any controls, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, with our Company have been detected.

A "material weakness" is defined as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A "significant deficiency" is a control deficiency, or a combination of control deficiencies, that adversely affects a company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential will not be prevented or detected.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of June 30, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework.*

The following is a description of two material weaknesses in the Company's internal control over financial reporting:

Segregation of Duties: As previously disclosed in our annual report on Form 10-K for the fiscal year ended June 30, 2008, our management identified a control deficiency during the 2008 fiscal year because we lacked sufficient staff to segregate accounting duties. We believe the control deficiency resulted primarily because we have the equivalent of one and one-half persons performing all accounting-related on-site duties. As a result, we did not maintain adequate segregation of duties within our critical financial reporting applications, the related modules and financial reporting processes. This control deficiency could result in a misstatement of balance sheet and income statement accounts in our interim or annual consolidated financial statements that would not be detected. Accordingly, management has determined that this control deficiency constitutes a material weakness. No audit adjustments to the Company's audited financial statements as of June 30, 2009 were necessary as a result of this condition.

To address and remediate the material weakness in internal control over financial reporting described above, beginning with the quarter ended September 30, 2008, we instituted a procedure whereby our President, our Executive Vice President and other members of our Board of Directors will perform a higher level review of the quarterly and annual reports on Form 10-Q and Form 10-K prior to filing.

We believe that the step outlined above strengthens our internal control over financial reporting and mitigates the material weakness described above. As part of our 2010 assessment of internal control over financial reporting, our management will evaluate this additional control to assess whether it is operating effectively.

Inventory Valuation: There are insufficient controls with respect to the valuation of our inventories. Specifically, the amounts used to value our inventory at June 30, 2009 with respect to overhead rates and purchased items were often not consistent with the supporting documentation, due to year-to-year changes in overhead rates and costs of purchased items that were not properly reflected in inventory valuation. Accordingly, management has determined that this control deficiency constitutes a material weakness. No audit adjustments to the Company's audited financial statements as of June 30, 2009 were necessary as a result of this condition.

To address and remediate the material weakness in internal control over financial reporting described above, we intend to implement procedures to improve our inventory controls and documentation surrounding inventory valuation for overhead rates and purchased items.

We intend to continue to remediate material weaknesses and enhance our internal controls but cannot guarantee that our efforts will result in remediation of our material weaknesses or that new issues will not be exposed in this process.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fourth quarter of our fiscal year covered by this annual report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

We will furnish to the Securities and Exchange Commission a definitive Proxy Statement not later than 120 days after the close of our fiscal year ended June 30, 2009. The information required by this item, other than with respect to our Corporate Code of Ethics and Conduct, is incorporated herein by reference to the Proxy Statement.

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A copy of our Corporate Code of Ethics and Conduct applicable to all employees, officers and directors of our Company, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions can be obtained free of charge by contacting our Clerk, c/o Precision Optics Corporation, 22 East Broadway, Gardner, Massachusetts 01440.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated herein by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated herein by reference to the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item is incorporated herein by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is incorporated herein by reference to the Proxy Statement.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

a. The following documents are filed as part of this 10-K:

1. FINANCIAL STATEMENTS

The following documents are filed in Part II, Item 8 of this annual report on Form 10-K:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at June 30, 2009 and 2008
Consolidated Statements of Operations for the years ended June 30, 2009 and 2008
Consolidated Statements of Stockholders' Equity for the years ended June 30, 2009 and 2008
Consolidated Statements of Cash Flows for the years ended June 30, 2009 and 2008
Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULES

All financial statement schedules have been omitted as they are not required, not applicable, or the required information is otherwise included.

3. EXHIBITS

The exhibits listed below are filed with or incorporated by reference in this report.

Exhibit	Description
2.1	Asset Purchase Agreement between the Company and Optometrics Corporation, dated January 18, 2008 (included as Exhibit 2.1 to the Form 8-K filed January 25, 2008 and incorporated herein by reference).
3.1	Articles of Organization of the Company, as amended (included as Exhibit 3.1 to the Form SB-2 filed March 16, 2007 and incorporated herein by reference).

3.2 By-laws of Precision Optics Corporation (included as Exhibit 3.2 to the Form S-1 filed on December 18, 2008 and incorporated herein by reference).

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3.3 Articles of Amendment, dated December 11, 2008 (included as Exhibit 3.1 to the Form 8-K filed December 11, 2008 and incorporated herein by reference).

4.1 Registration Rights Agreement, dated March 17, 2000 (included as Exhibit 4.4 to the Form S-3 filed April 28, 2000 and incorporated herein by reference).

4.2 Registration Rights Agreement, dated June 30, 1998 (included as Exhibit 4.9 to the Form 10-KSB filed September 29, 1998 and incorporated herein by reference).

4.3 Registration Rights Agreement, dated August 5, 1999 (included as Exhibit 4.7 to the Form 10-KSB filed September 28, 1999 and incorporated herein by reference).

4.4 Registration Rights Agreement, dated February 1, 2007 (included as Exhibit 4.1 to the Form 8-K filed February 2, 2007 and incorporated herein by reference).

4.5 Form of Warrant to Purchase Shares of Common Stock (included as Exhibit 4.2 to the Form 8-K filed February 2, 2007 and incorporated herein by reference).

4.6 Registration Rights Agreement by and among the Company and each investor named therein, dated June 25, 2008 (included as Exhibit 4.1 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).

4.7 Form of Warrant, dated June 25, 2008 (included as Exhibit 4.2 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).

4.8 Form of 10% Senior Secured Convertible Note, dated June 25, 2008 (included as Exhibit 4.3 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).

10.1 Precision Optics Corporation, Inc. 1997 Incentive Plan, as amended and restated (included as Exhibit 10.1 to the Form 10-QSB filed November 13, 2003 and incorporated herein by reference).

10.2 Securities Purchase Agreement between the Company and investors, dated March 13, 2000 (included as Exhibit 2.1 to the Form S-3 filed April 28, 2000 and incorporated herein by reference).

10.3 Form of Securities Purchase Agreement between the Company and investors (included as Exhibit 10.1 to the Form 8-K filed April 19, 2006 and incorporated herein by reference).

10.4 Employment Offer Letter from the Company to Michael T. Pieniazek, dated September 15, 2006 (included as Exhibit 10.1 to the Form 8-K filed September 21, 2006 and incorporated herein by reference).

10.5 Precision Optics Corporation, Inc. 2006 Equity Incentive Plan (included as Exhibit 99.1 to the Form 8-K filed December 4, 2006 and incorporated herein by reference).

10.6 Purchase Agreement between the Company and investors, dated February 1, 2007 (included as Exhibit 10.1 to the Form 8-K filed February 2, 2007 and incorporated herein by reference).

10.7 Form of Incentive Stock Option Certificate (included as Exhibit 10.1 to the Form 10-QSB filed February 14, 2007 and incorporated herein by reference).

10.8 Form of Nonstatutory Stock Option Certificate (included as Exhibit 10.2 to the Form 10-QSB filed February 14, 2007 and incorporated herein by reference).

10.9 Purchase Agreement by and among the Company and each investor named therein, dated June 25, 2008 (included as Exhibit 10.1 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).

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10.10	Pledge and Security Agreement by and among the Company and each investor named therein, dated June 25, 2008 (included as Exhibit 10.2 to the Form 8-K filed June 27, 2008 and incorporated herein by reference).
10.11	Consulting Agreement between the Company and Jack P. Dreimiller, dated August 15, 2008 (included as Exhibit 10.1 to the Form 8-K filed August 18, 2008 and incorporated herein by reference).
10.12	Side Letter Agreement between the Company and the investors signatory to the Purchase Agreement, dated June 25, 2008, dated November 25, 2008 (included as Exhibit 10.1 to the Form 8-K filed December 11, 2008 and incorporated herein by reference).
10.13	Side Letter Agreement between the Company and the holders signatory to the 10% Senior Secured Convertible Note, dated December 11, 2008 (included as Exhibit 10.15 to the Form S-1 filed December 18, 2008 and incorporated herein by reference).
10.14	Side Letter Agreement between the Company and the holders signatory to the 10% Senior Secured Convertible Note, dated April 2, 2009 (included as Exhibit 10.16 to the Form S-1/A filed April 6, 2009 and incorporated herein by reference).
14.1	Precision Optics Corporation, Inc. Corporate Code of Ethics and Conduct (included as Exhibit 14.1 to the Form 10-K filed September 28, 2008 and incorporated herein by reference).
21.1	Subsidiaries of the Registrant (included as Exhibit 21.1 to the Form 10-K filed September 26, 2008 and incorporated herein by reference).
23.1	Consent of Independent Registered Public Accounting Firm (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 28, 2009

PRECISION OPTICS CORPORATION, INC.

By: /s/ Richard E. Forkey

Richard E. Forkey
Chairman of the Board,
Chief Executive Officer (Principal Executive Officer),
President and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard E. Forkey Richard E. Forkey	Chairman of the Board, Chief Executive Officer, President and Treasurer (Principal Executive Officer)	September 28, 2009
/s/ Joseph N. Forkey Joseph N. Forkey	Executive Vice President, Chief Scientific Officer and Director	September 28, 2009
/s/ Donald A. Major Donald A. Major	Director	September 28, 2009
/s/ Richard B. Miles Richard Miles	Director	September 28, 2009
/s/ Joel R. Pitlor Joel R. Pitlor	Director	September 28, 2009
/s/ Jack P. Dreimiller Jack P. Dreimiller	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 28, 2009