PHOTONIC PRODUCTS GROUP INC
Form POS AM
August 03, 2007
As Filed with the Securities and Exchange Commission on August 3, 2007

Registration No. 333-118553

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE

AMENDMENT NO. 2 TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PHOTONIC PRODUCTS GROUP, INC.

(Exact name of registrant as specified in its charter)

New Jersey	**3679**	**22-2003247**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

181 Legrand Avenue

Northvale, New Jersey 07647

(201) 767-1910

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

William Foote

Chief Financial Officer

Photonic Products Group, Inc.

181 Legrand Avenue

Northvale, New Jersey 07647

(201) 767-1910

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Alan Wovsaniker, Esq.

Lowenstein Sandler PC

65 Livingston Avenue

Roseland, New Jersey 07068

(973) 597-2500

Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 of the Securities Act of 1933, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price Per Share(1)	Amount of Registration Fee(2)
Common Stock, par value .01 per share	3,043,425 shares	$ 3,318,124 (1)	$ 420.41

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.

(2) Previously paid.

The information in this prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities ,may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting nor does it seek an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated August 3, 2007

PRELIMINARY PROSPECTUS

3,043,425 Shares

Photonic Products Group, Inc.

Common Stock

This prospectus relates to (1) the resale of 1,581,000 shares of our common stock, per value $.01 per share (Common Stock) issued pursuant to our Confidential Private Placement Memorandum dated June 1, 2004 (the   June 2004 Private Placement) by the holders of these shares named in this prospectus, whom we refer to as the   Selling Shareholders,   and their transferees and (2) the resale from time to time of up to 1,462,425 shares of our Common Stock issuable upon exercise of warrants at an initial exercise price of $1.35, which warrants were issued pursuant to the June 2004 Private Placement. See   Selling Shareholders.   We are registering the shares to provide for freely tradable securities. We will not receive any of the proceeds from the disposition of shares by the Selling Shareholders, but we have agreed to bear the cost relating to the registration of the shares.

Our Common Stock s traded on the National Association of Securities Dealers   Over-the-Counter Bulletin Board under the symbol   PHPG.

Investing in our Common Stock involves significant risk. You should read this entire prospectus carefully, including the section entitled   Risk Factors.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Some of the shares of Common Stock registered hereunder may be sold upon exercise of warrants from time to time by the holders, and persons exercising the warrants may engage a broker or dealer to sell the shares they receive. For additional information on the possible methods of sales, you should refer to the section of this prospectus entitled   Plan of Distribution.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. We are offering to issue shares of our Common Stock only in jurisdictions where these offers are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our Common Stock.

The date of this prospectus is   , 2007

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PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all the information that you should consider before investing in our common stock. You should read this entire prospectus carefully, including Risk Factors on page 3 and our consolidated financial statements and notes, beginning on page F-1, before making an investment decision.

Photonic Products Group, Inc.

We develop, manufacture and market products and services for use in diverse photonics industry sectors through our multiple business units. Our products fall into the following product categories:

- *optical components,* including standard and custom optical components and assemblies, crystals, and crystal components; and

- *laser accessories*, including wavelength conversion products and Pockel s Cells (optical shutters) that employ nonlinear crystals to perform the function of wavelength conversion.

We expect that in the future our products may also include other product categories. We market our products and services through our three business units, INRAD, Laser Optics, and MRC Optics, primarily to organizations in the following industry sectors:

- Defense/aerospace

- Process control and metrology,

- Laser systems (non-military), and

- Universities and national laboratories.

The defense/aerospace sector is by far our largest customer base, accounting for 65% of our sales (both to U.S. and foreign defense/aerospace companies) in 2006.

Since 2003, we have been following a strategy to transform our organization from a single business unit into a portfolio of businesses serving the photonics industry with branded products that conform to the paradigm Products Enabling Photonics .

As a part of our plan to transform our organization, we seek to expand our production capacities, product lines and market reach through both internal growth and acquisition of complementary businesses. From time to time we engage in exploratory strategic merger and acquisition discussions. As a result of these efforts, we made the following strategic acquisitions:

- *Laser Optics, Inc.* In November 2003, we concluded our first acquisition, that of the assets and certain liabilities of Laser Optics, Inc. Laser Optics, Inc. was a custom optics and optical coating services provider, in business since 1966.

- *MRC Precision Metal Optics, Inc.* In October 2004 we acquired all of the stock of MRC Precision Metal Optics, Inc. MRC Optics, now our wholly-owned subsidiary, is a fully integrated precision metal optics and diamond-turned aspheric optics manufacturer, specializing in CNC and single point diamond machining, optical polishing, plating, beryllium machining, and opto-mechanical design and assembly services.

Our executive offices are located at 181 Legrand Avenue, Northvale, New Jersey 07647 and our telephone number at that address is (201) 767-1910. We maintain a website on the Internet at www.ppgrpinc.com. Our website, and the information contained therein, is not a part of this prospectus.

June 2004 private placement

In June 2004, we conducted a private placement of our common stock that was not registered with the Securities and Exchange Commission. Pursuant to the terms of the subscription agreements that we entered in connection with the June 2004 private placement, we issued and sold to investors units of securities comprised of:

- an aggregate of 1,581,000 shares of common stock, and
- five-year warrants to purchase up to an aggregate of 1,462,425 shares of our common stock at an exercise price of $1.35 per share, subject to anti-dilution adjustment.

For more information on the June 2004 private placement and the selling shareholders, see the section entitled Selling Shareholders beginning on page 8.

Resale registration

As required by the terms of the June 2004 private placement, we are registering the shares of common stock issued in the June 2004 private placement (including any shares as arvhe issuable pursuant to the warrants) to permit the resale of common stock issued to the selling shareholders. The terms of the June 2004 private placement require us to pay for the fees and expenses relating to this registration, and to keep the registration statement current.

After this Amendment 2 to the registration statement to which this prospectus is a part is declared effective by the Securities and Exchange Commission, the selling shareholders may, from time to time, offer to sell up to 1,462,425 shares of our common stock obtained via the exercise of the warrants issued in the June 2004 private placement. The selling shareholders are already free to sell the 1,581,000 shares of common stock issued directly in the private placement as more than 24 months have passed since their issuance. For more information about re-sales of our common stock by the selling shareholders, see the section entitled Plan of Distribution beginning on page 11.

Use of proceeds

We will not receive any of the proceeds from the disposition of shares by the selling shareholders.

Over-the-Counter Bulletin Board symbol: PHPG.

Risk factors

Investing in our common stock involves significant risk. You should read this entire prospectus carefully, including the section entitled Risk Factors beginning on page 3.

RISK FACTORS

Before deciding to invest in our Common Stock, you should carefully consider each of the following risk factors and all of the other information set forth in this prospectus. The following risks and the risks described elsewhere in this prospectus, including Management s Discussion and Analysis of Financial Condition and Results of Operations, could materially harm our business, financial condition or future results. If that occurs, the trading price of our Common Stock could decline, and you could lose all or part of your investment. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

Risks Relating to Our Company and Industry

a) The Company faces competition

The Company encounters substantial competition from other companies positioned to serve the same market sectors that the Company serves. Some competitors may have financial, technical, capacity, marketing or other resources more extensive than ours, or may be able to respond more quickly than the Company can to new or emerging technologies and other competitive pressures. Some competitors have manufacturing operations in low-cost labor regions such as the far-east and eastern-Europe and can offer products at lower price than the Company. The Company may not be successful in winning orders against the Company s present or future competitors, and competition may have a material adverse effect on our business, results of operations or financial condition.

b) The Company has exposure to Government Markets

Sales to customers in the defense industry have increased. These customers in turn generally contract with a governmental entity, typically the U.S. government. Most governmental programs are subject to funding approval and can be modified or terminated with no warning upon the determination of a legislative or administrative body. The loss or failure to obtain certain contracts or a loss of a major government customer could have a material adverse effect on our business, results of operations or financial condition.

c) The Company s revenues are concentrated in its largest customer accounts

For the year ended December 31, 2006, seven customer accounts represented in the aggregate 62% of total revenues, and three customers represented 42% of revenues. These three customers each represented 16%, 15%, and 11% of sales, respectively. As a supplier of custom manufactured components for its OEM customers, the relative size and identity of our largest customer accounts change somewhat from year to year. In the short term, the loss of any of these large customer accounts could have a material adverse effect on business, our results of operations, and our financial condition.

d) The Company s business success depends on its ability to recruit and retain key personnel

The Company depends on the expertise, experience, and continuing services of certain scientists, engineers, production and management personnel, and on the Company s ability to recruit additional personnel. There is competition for the services of these personnel, and there is no assurance that the Company will be able to retain or attract the personnel necessary for its success, despite the Company s effort to do so. The loss of the services of the Company s key personnel could have a material adverse affect on its business, on its results of operations, or on its financial condition.

e) The Company may not succeed in expanding product lines and markets by acquiring other businesses

The Company s business strategy includes expanding its production capacities, product lines and market reach through both internal growth and acquisition of complementary businesses. The Company may not succeed in finding or completing acquisitions of such businesses, nor can the Company be assured that it will be able to raise the financial capital needed for such acquisitions. Acquisitions may result in substantial per share financial dilution of the Company s Common Stock from the issuance of equity securities. They may also result in the taking on of debt and contingent liabilities, and amortization expenses related to intangible assets acquired, any of which could have a material adverse affect on the Company s business, financial condition or results of operations. Also, acquired businesses may be experiencing operating losses. Any acquisition will involve numerous risks, including difficulties in the assimilation of the acquired company s people, operations and products, uncertainties associated with operating in new markets and working with new customers, and the potential loss of the acquired company s key employees. To date, the Company has had limited experience in acquiring and integrating two businesses.

f) The Company depends on, but may not succeed in, developing and acquiring new products and processes

In order to meet the Company s strategic objectives, the Company must continue to develop new processes, to improve existing processes, and to manufacture and market new products. As a result, the Company expects to continue to make investments in future in process development and additions to its product portfolio. There can be no assurance that the Company will be able to develop and introduce new products or enhancements to its existing products and processes in a way that achieves market acceptance or other pertinent targeted results. Nor can the Company be sure that it will be successful in acquiring complementary products, or technologies. Nor can there be assurance that the Company will have the human or financial resources to pursue or succeed in such activities.

g) The Company may not be able to fully protect its intellectual property

The Company currently holds one material patent applicable to an important product, but does not in general rely on patents to protect its products or manufacturing processes. The Company generally relies on a combination of trade secret and employee non-competition and nondisclosure agreements to protect its intellectual property rights. There can be no assurance that the steps the Company takes will be adequate to prevent misappropriation of the Company s technology. In addition, there can be no assurance that, in the future, third parties will not assert infringement claims against the Company. Asserting the Company s rights or defending against third-party claims could involve substantial expense, thus materially and adversely affecting the Company s business, results of operations or financial condition.

h) The Company has incurred operating losses for one of the past three years and net losses for two of the past three years

The Company had income from operations of $917,000 in 2006 and $358,000 in 2005 but had an operating loss of $(410,000) in 2004. The Company had net income of $772,000 in 2006, but sustained net losses of $(11,000) in 2005, and $(673,000) in 2004. If the Company were to sustain future losses, there are no assurances that the Company would be able to obtain additional financing that it may require to supply the working capital needs of its existing operations, or to continue to implement its growth strategy.

i) The Company s stock price may fluctuate widely

Many factors, including, but not limited to, future announcements concerning the Company, its competitors or customers, as well as quarterly variations in operating results, announcements of technological innovations, seasonal or other variations in anticipated or actual results of operations, changes in earnings estimates by analysts or reports regarding the Company s industries in the financial press or investment advisory publications, could cause the market price of the Company s stock to fluctuate substantially. In addition, the Company s stock price may fluctuate widely for reasons which may be unrelated to operating results. These fluctuations, as well as general economic, political and market conditions such as recessions, military conflicts, or market or market-sector declines, may materially and adversely affect the market price of the Company s Common Stock. In addition, any information concerning the Company, including projections of future operating results, appearing in investment advisory publications or on-line bulletin boards or otherwise emanating from a source other than the Company could in the future contribute to volatility in the market price of the Company s Common Stock.

j) The Company has experienced certain material weaknesses in our internal control over financial reporting

Subsequent to the preparation and filing of our consolidated financial statements for the year ended December 31, 2005, certain material weaknesses became evident to our management with the discovery that our former Chief Financial Officer had paid for unauthorized and personal expenses through the Company. This discovery showed that internal controls for monitoring the use and reporting of charges on the Company s debit card and with respect to the Company s handling of disbursements by check were inadequate. A material weakness is a significant deficiency in one or more of the internal control components that alone or in the aggregate precludes our internal controls from reducing to an appropriately low level the risk that material misstatements in our financial statements will not be prevented or detected on a timely basis.

In light of the foregoing discoveries resulting from the investigation and from management s review of its internal control procedures, the Audit Committee directed the Company to take a number of steps to strengthen its internal controls.

We believe that these corrective steps enable us to conclude that the material weaknesses in internal controls over financial reporting, as identified above, have been eliminated.

k) As general economic conditions deteriorate, the Company s financial results suffer

Significant economic downturns or recessions in the United States or Europe could adversely affect the Company s business, by causing a temporary or longer term decline in demand for the Company s goods and services and thus its revenues. Additionally, the Company s revenues and earnings may also be affected by general economic factors, such as excessive inflation, currency fluctuations and employment levels.

l) Many of the Company s customer s industries are cyclical

The Company s business is significantly dependent on the demand its customers experience for their products. Many of their end users are in industries that historically have experienced a cyclical demand for their products. The industries include but are not limited to, the defense electro-optics industry and the manufacturers of process control capital equipment for the semiconductor tools industry. As a result, demand for the Company s products are subject to cyclical fluctuations, and this could have a material adverse effect on our business, results of operations, or financial condition.

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m) The Company s operations may be adversely affected if it fails to keep pace with industry developments

The Company serves industries and market sectors which will be affected by future technological developments. The introduction of products or processes utilizing new developments could render the Company s existing products or processes obsolete or unmarketable. The Company s continued success will depend upon its ability to develop and introduce on a timely and cost-effective basis new processes, manufacturing capabilities, and products that keep pace with developments and address increasingly sophisticated customer requirements.

n) The Company s manufacturing processes require products from limited sources of supply

The Company utilizes many relatively uncommon materials and compounds to manufacture its products. Examples include optical grade quartz, specialty optical glasses, scarce natural and manmade crystals, beryllium and its alloys, and high purity chemical compounds. Failure of the Company s suppliers to deliver sufficient quantities of these necessary materials on a timely basis, or to deliver contaminated or inferior quality materials, or to markedly increase their prices could have an adverse effect on the Company s business, despite its efforts to secure long term commitments from the Company s suppliers. Adverse results might include reducing the Company s ability to meet commitments to its customers, compromising the Company s relationship with its customers, adversely affecting the Company s ability to meet expanding demand for its products, or causing the Company s financial results to deteriorate.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements made in this prospectus are forward-looking statements as that term is defined in the federal securities laws. The Company wishes to insure that any forward-looking statements are accompanied by meaningful cautionary statements in order to comply with the terms of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. The events described in the forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits of acquisitions to be made by us, projections involving anticipated revenues, earnings, or other aspects of our operating results. The words may , will , expect , believe , anticipat project , plan , target , intend , estimate , and continue , and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks, and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Actual results may vary from these forward-looking statements for many reasons, including the following factors:

- adverse changes in economic or industry conditions in general or in the markets served by the Company and its customers
- actions by competitors
- inability to add new customers and/or maintain customer relationships
- inability to retain key employees.

The foregoing is not intended to be an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by the Company. Investors are encouraged to review the risk factors set forth in the Company s most recent Form 10-K as filed with the Securities and Exchange Commission on March 30, 2007. Any one or more of these uncertainties, risks, and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. Except as required by law, we undertake no obligation to publicly update or revise any forward looking statements, whether from new information, future events, or otherwise.

Readers are further cautioned that the Company s financial results can vary from quarter to quarter, and the financial results for any period may not necessarily be indicative of future results.

The following discussion and analysis should be read in conjunction with the Company s consolidated financial statements and the notes thereto presented elsewhere herein. The discussion of results should not be construed to imply any conclusion that such results will necessarily continue in the future.

USE OF PROCEEDS

We are registering the shares to provide for freely tradable securities for the Selling Shareholders. We will not receive any of the proceeds from the disposition of shares by the Selling Shareholders, but we have agreed to bear the cost relating to the registration of the shares.

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CAPITALIZATION

The following table summarizes our cash and cash equivalents, actual debt and capitalization as of March 31, 2007. You should read the following table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Description of Capital Stock and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	As of March 31, 2007
Cash and Cash Equivalents	$ 3,247,841
Debt:	
Secured promissory note(1)	1,700,000
Other notes payable	1,128,318
Capital lease obligations	180,557
Subordinated promissory note(2)	3,500,000
Total Debt	6,508,875
Shareholders Equity:	
Preferred stock(3)	2,582,000
Common stock, $0.01 par value; 60,000,000 shares authorized and 8,006,207 (4) outstanding	80,061
Additional paid-in capital	12,101,372
Accumulated deficit	(8,901,122)
Treasury stock	(14,950)
Total Shareholders Equity	5,847,361
Total Capitalization	$ 12,356,236

(1) As of March 31, 2007, we had an outstanding Secured Promissory Note for $1.7 million.

(2) As of March 31, 2007 we had three outstanding subordinated convertible promissory notes, convertible into an aggregate of 3,500,000 shares of our Common Stock and warrants exercisable for an aggregate of 2,625,000 shares of Common Stock.

(3) As of March 31, 2007 we had (i) 500 shares of Series A Convertible Preferred Stock with a 10% dividend and $500,000 liquidation preference, convertible into 500,000 shares of Common Stock and (ii) 2,082 shares of Series B Convertible Preferred Stock with a 10% dividend and $2,082,000 liquidation preference, convertible into 832,800 shares of Common Stock. On April 30, 2007, the 500 shares of the Series A Convertible Preferred Stock were called for redemption and were subsequently converted into 500,000 shares of common stock at the option of the holder.

(4) Outstanding as of March 31, 2007. Does not include (i) 1,908,739 shares of Common Stock underlying options, warrants and rights granted to certain employees, officers and directors pursuant to our 1991 Key Employee Compensation Program and our 2000 Equity Compensation Program (the Plans), (ii) 3,500,000 shares of Common Stock and 2,625,000 shares of Common Stock underlying warrants issuable pursuant to outstanding subordinated convertible promissory notes; (iii) 200,000 shares of Common Stock underlying outstanding warrants to purchase the Company s Common Stock at $0.425

per share, (iv) 200,000 shares of Common Stock underlying outstanding warrants to purchase the Company s Common Stock at $1.08 per share, (v) 832,800 shares of Common Stock underlying Series B Preferred Stock (vi) 3,620,661 shares of Common Stock which have been reserved for future issuance under the Plans and (vii) 1,462,425 shares of Common Stock underlying warrants issued pursuant to the June 2004 Private Placement.

SELLING SHAREHOLDERS

We are registering for resale shares of our Common Stock held by the shareholders (the Selling Shareholders) identified below. The Selling Shareholders acquired the resale shares pursuant to a private placement of securities that was not registered with the Securities and Exchange Commission (the June 2004 Private Placement). Pursuant to the terms of subscription agreements (Subscription Agreements) entered into with investors (Investors) in connection with the June 2004 Private Placement, we issued and sold to Investors Units of securities comprising of (i) an aggregate of 1,581,000 shares of Common Stock and (ii) five-year warrants (Warrants) to purchase up to an aggregate of 1,185,750 shares of our Common Stock at an exercise price of $1.35 per share, subject to an anti-dilution adjustment.

We also issued five-year warrants (Placement Agent Warrants) to purchase up to an aggregate of 276,675 shares of our Common Stock to Casimir Capital, LP (the Placement Agent), as placement agent for the June 2004 Private Placement. The Placement Agent Warrants have the same terms as the Warrants, except that the Placement Agent Warrants are entitled to a cashless exercise wherein the exercise price for such warrants is payable by the surrender of shares of Common Stock otherwise issuable. The Common Stock, Warrants, Placement Agent Warrants and the Common Stock underlying the Warrants and the Placement Agent Warrants were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering.

Under the terms of the Subscription Agreements and a placement agent agreement, we have granted the Investors and the Placement Agent certain registration rights pursuant to which we agreed to register the shares of Common Stock issued pursuant to the June 2004 Private Placement (including, such shares as are issuable pursuant to the Warrants and the Placement Agent Warrants).

We are registering the shares of Common Stock issued pursuant to the June 2004 Private Placement (including such shares as are issuable pursuant to the Warrants and the Placement Agent Warrants). We are bearing the expenses of this registration. We are registering the shares to permit the Selling Shareholders and their pledgees, donees, transferees and other successors-in-interest that receive their shares from the Selling Shareholders as a gift, partnership distribution or other non-sale related transfer after the date of this prospectus to resell the shares when and as they deem appropriate. The following table sets forth:

- the name of each Selling Shareholder,

- the number and percent of shares of our Common Stock that each Selling Shareholder beneficially owned prior to the offering for resale of the shares under this prospectus,

- the number of shares of our Common Stock that may be offered for resale for the account of each Selling Shareholder under this prospectus, and

- the number and percent of shares of our Common Stock to be beneficially owned by each Selling Shareholder after the offering for resale of the shares under this prospectus (assuming all such shares are sold by each Selling Shareholder).

The number of shares in the column Number of Shares Being Offered represents all of the shares that each Selling Shareholder may offer under this prospectus, including shares underlying

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warrants acquired pursuant to the June 2004 Private Placement. We do not know how long each Selling Shareholder will hold the shares before selling them or how many shares they will sell and we currently have no agreements, arrangements or understandings with the Selling Shareholders regarding the sale of any of the resale shares. The shares offered by this prospectus may be offered from time to time by each Selling Shareholder listed below.

This table is prepared solely based on information supplied to us by the listed Selling Shareholder, any Schedules 13D or 13G and Forms 3 and 4, and other public documents filed with the SEC, and assumes the sale of all of the shares listed. The applicable percentages of beneficial ownership are based on an aggregate of 9,050,587 shares of our Common Stock issued and outstanding on August 3, 2007.

Percentages are calculated assuming sale by each individual or entity of the securities and warrants owned by each individual or entity separately without considering the dilutive effect of sales and security conversions by any other individual or entity.

	Shares Beneficially Owned Prior to Offering		**Number of Shares Being**	**Shares Beneficially Owned After Offering**	
Selling Shareholder	**Number**	**Percent**	**Offered(1)**	**Number**	**Percent**
Richard F. Sands (2)	63,200	0.7%	63,200	0	0%
Richard F. Sands 1999 Family Trust (2)	15,800	0.2%	15,800	0	0%
Wayde Walker (2)	20,000	0.2%	20,000	0	0%
Kevin Wilson (2)	7,000	*	7,000	0	0%
Richard Brewster (2)	3,500	*	3,500	0	0%
Rafael Vasquez (2)	2,000	*	2,000	0	0%
Matthew Eitner (2)	3,500	*	3,500	0	0%
Matthew McGovern (2)	20,745	0.2%	20,745	0	0%
Nathaniel Clay (2)	5,000	*	5,000	0	0%
William Poon (2)	5,000	*	5,000	0	0%
Shraga Faskowitz (2)	5,000	*	5,000	0	0%
Richard Michalski (2)	1,000	*	1,000	0	0%
Brian Smith (2)	1,000	*	1,000	0	0%
James Ahern (2)	1,000	*	1,000	0	0%
Scott Steele (2)	1,000	*	1,000	0	0%
Anthony Miller (2)	1,000	*	1,000	0	0%
Alan Feldman (2)	13,000	0.1%	13,000	0	0%
Charles Savage (2)	6,000	*	6,000	0	0%
David Bloom (2)	1,000	*	1,000	0	0%
Matthew Donohue (2)	1,000	*	1,000	0	0%
Kent Mitchell (2)	1,000	*	1,000	0	0%
Ian O Brien Rupert (2)	1,000	*	1,000	0	0%
Trautman Wasserman Private Equity (2)	9,590	0.1%	9,590	0	0%
Bob Spiegel (2)	1,920	*	1,920	0	0%
James Palmer (2)	1,570	*	1,570	0	0%
Gordon Fallone (2)	1,919	*	1,919	0	0%
Bob Hill (2)	1,690	*	1,690	0	0%
Andre McClure (2)	1,591	*	1,591	0	0%
John Cassidy (2)	350	*	350	0	0%
Andy Gallion (2)	250	*	250	0	0%
Kevin Palmer (2)	300	*	300	0	0%
Michael R. Hamblett (2)	39,375	0.4%	39,375	0	0%
Doug Millar	17,500	0.2%	17,500	0	0%
Michael Lusk	17,500	0.2%	17,500	0	0%
Source One	100,000	1.1%	100,000	0	0%
Ron Lucas	17,500	0.2%	17,500	0	0%
Dennis R. Lopach	17,500	0.2%	17,500	0	0%

Selling Shareholder	Shares Beneficially Owned Prior to Offering Number	Percent	Number of Shares Being Offered(1)	Shares Beneficially Owned After Offering Number	Percent
George Bowker	8,750	*	8,750	0	0 %
Christopher J. Whyman IRA	43,750	0.5 %	43,750	0	0 %
Richard M. Biben	17,500	0.2 %	17,500	0	0 %
George R. Martin	17,500	0.2 %	17,500	0	0 %
Philippa Trading Inc.	50,000	0.6 %	50,000	0	0 %
Robert Burns (4)	10,000	0.1 %	10,000	0	0 %
Irwin Gruverman	43,750	0.5 %	43,750	0	0 %
Joseph J. McLaughlin, Jr.	43,750	0.5 %	43,750	0	0 %
Richard A. Jacoby	87,500	1.0 %	87,500	0	0 %
Professional Traders Fund, LLC	175,000	1.9 %	175,000	0	0 %
Garry Higdem	52,500	0.6 %	52,500	0	0 %
David Cipolla	43,750	0.5 %	43,750	0	0 %
David R. Beck, SEP-IRA	17,500	0.2 %	17,500	0	0 %
Bruce A. Crawford	3,500	*	3,500	0	0 %
Bhopinder Matharu	8,750	*	8,750	0	0 %
John P. Ward	8,750	*	8,750	0	0 %
Richard Meehan	3,500	*	3,500	0	0 %
Greg Dawe	131,250	1.5 %	131,250	0	0 %
Scott S. Monroe	87,500	1.0 %	87,500	0	0 %
Daniel P. Bjornson	17,500	0.2 %	17,500	0	0 %
H.D. Overbeeke	43,750	0.5 %	43,750	0	0 %
Gregory and Carol Herr	8,750	*	8,750	0	0 %
John Igoe	35,000	0.4 %	35,000	0	0 %
John Younts	10,500	0.1 %	10,500	0	0 %
Steven A. Heggelke	17,500	0.2 %	17,500	0	0 %
Bruce & Victoria Butler	2,625	*	2,625	0	0 %
Gordon Gregoretti	52,500	0.6 %	52,500	0	0 %
Rock II, LLC (4)	150,000	1.7 %	150,000	0	0 %
Richard Fisler	17,500	0.2 %	17,500	0	0 %
Robert E. Goldman	17,500	0.2 %	17,500	0	0 %
Trautman Wasserman 8701 Opportunities Fund, LP	175,000	1.9 %	175,000	0	0 %
Juhani Hokkanen	26,250	0.3	26,250	0	0 %
James L. Ericson	38,500	0.4 %	38,500	0	0 %
Gary and Sarah Willoughby	43,750	0.5 %	43,750	0	0 %
Gregory W. & Judy C. Nelson	43,750	0.5 %	43,750	0	0 %
Rocco J. Brescia Jr. (4)	35,000	0.4 %	35,000	0	0 %
Gerald L. Meyr	35,000	0.4 %	35,000	0	0 %
Gerald Meyr (5)	13,125	0.1 %	13,125	0	0 %
Randy Meyr (5)	13,125	0.1 %	13,125	0	0 %
Murray Grigg	43,750	0.5 %	43,750	0	0 %
Whalehaven Fund Limited	350,000	3.9 %	350,000	0	0 %
Greenwich Growth Fund Limited	175,000	1.9 %	175,000	0	0 %
Patrick Discepola	8,750	*	8,750	0	0 %
Gary Meteer	10,500	0.2 %	10,500	0	0 %
R. G. MacDonald	3,500	*	3,500	0	0 %
Bhavanmit Suri	3,500	*	3,500	0	0 %
Joan and Joseph Kump	17,500	0.2 %	17,500	0	0 %
Daniel E. Larson	52,500	0.6 %	52,500	0	0 %
Thomas A. Beyer	8,750	*	8,750	0	0 %
Cary Ludtke	8,750	*	8,750	0	0 %
Kenneth R. White and Becki White	8,750	*	8,750	0	0 %
Howard Girbach	13,125	0.1 %	13,125	0	0 %
William Nicklin	966,575	10.7 %	283,125 (3)	683,450	7.6 %

* Less than 0.1%.

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(1) Shares being offered (including Shares underlying warrants) acquired pursuant to the June 2004 Private Placement.

(2) Acquired pursuant to distribution by Casimir Capital, LP from warrants to purchase 276,675 shares of Common Stock issued to Casimir Capital, LP, as placement agent for the June 2004 Private Placement.

(3) Warrants acquired in private transactions from investors in June 2004 Private Placement

PLAN OF DISTRIBUTION

The Selling Shareholders and any of their pledgees, donees, transferees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Shareholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits Purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- to cover short sales made after the date that this Registration Statement is declared effective by the Commission;
- broker-dealers may agree with the Selling Shareholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The Selling Shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the Selling Shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Shareholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The Selling Shareholders may from time to time pledge or grant a security interest in some or all of the Share of Common Stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell such shares of Common Stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of Selling Shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus.

Upon the Company being notified in writing by a Selling Shareholder that any material arrangement has been entered into with a broker-dealer for the sale of Common Stock through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such Selling Shareholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such shares of Common Stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction. In addition, upon the Company being notified in writing by a Selling Shareholder that a donee or pledge intends to sell more than 500 shares of Common Stock, a supplement to this prospectus will be filed if then required in accordance with applicable securities law.

The Selling Shareholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The Selling Shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, that can be attributed to the sale of securities will be paid by the Selling Shareholder and/or the purchasers. Each Selling Shareholder has represented and warranted to the Company that it acquired the securities subject to this registration statement in the ordinary course of such Selling Shareholder s business and, at the time of its purchase of such securities such Selling Shareholder had no agreements or understandings, directly or indirectly, with any person to distribute any such securities.

The Selling Shareholders may not use shares registered on this Registration Statement to cover short sales of Common Stock made prior to the date on which this Registration Statement shall have been declared effective by the Commission. If a Selling Shareholder uses this prospectus for any sale of the Common Stock, it will be subject to the prospectus delivery requirements of the Securities Act. The Selling Shareholders will be responsible to comply with the applicable provisions of the Securities Act and Exchange Act, and the rules and regulations thereunder promulgated, including, without limitation, Regulation M, as applicable to such Selling Shareholders in connection with resales of their respective shares under this Registration Statement.

The Company is required to pay all fees and expenses incident to the registration of the shares, but the Company will not receive any proceeds from the sale of the Common Stock. The Company has agreed to indemnify the Selling Shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

DESCRIPTION OF CAPITAL STOCK

The following is a description of our capital stock and the material provisions of our certificate of incorporation, bylaws and other agreements to which we and our shareholders are parties, in each case upon the closing of this offering. The following is only a summary and is qualified by applicable law and by the provisions of our certificate of incorporation, bylaws and other agreements, copies of which have been filed as Exhibits to the Form S-1 registration statement filed with the Securities and Exchange Commission in connection with this offering and are available as set forth under Where You Can Find More Information.

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General

Our authorized capital stock consists of 60,000,000 shares of Common Stock, par value $.01 per share, and 1,000,000 shares of Preferred Stock, no par value per share. As of July 31, 2007, 9,050,587 shares of Common Stock (including 500,000 common shares issued on the conversion of 500 Series A, 10% Convertible Preferred Stock on May 2, 2007) and 2,082 shares of Series B, 10% Convertible Preferred Stock were issued and outstanding. In addition, as of August 3, 2007, we have reserved shares of Common Stock for issuance as follows: 832,800 upon conversion of the Company s Series B 10% Convertible Preferred Stock, (plus an indeterminate number of shares for issuance upon conversion of rights to receive unpaid dividends on such shares), 3,000,000 shares upon conversion of subordinated convertible notes issued to one of our major shareholders and one of its affiliates, and 2,250,000 shares upon exercise of warrants issued pursuant to the subordinated convertible notes, 6,000,000 shares upon exercise of authorized stock options under the Company s stock option plans, (of which 1,558,639 shares are reserved for issuance upon exercise of outstanding options), 400,000 shares upon exercise of warrants issued to Clarex, Ltd. related to loans and loan extensions, 60,000 shares upon exercise of warrants issued under a debt for equity exchange program in 2005, and 1,462,425 shares upon exercise of warrants issued pursuant to the June 2004 Private Placement.

Common Stock

Voting. The holders of our Common Stock are entitled to one vote for each outstanding share of Common Stock owned by that shareholder on every matter properly submitted to the shareholders for their vote. Shareholders are not entitled to vote cumulatively for the election of directors.

Dividend Rights. Subject to the dividend rights of the holders of any outstanding series of preferred stock, holders of our Common Stock are entitled to receive ratably such dividends and other distributions of cash or any other right or property as may be declared by our board of directors out of our assets or funds legally available for such dividends or distributions.

Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, holders of our Common Stock would be entitled to share ratably in our assets that are legally available for distribution to shareholders after payment of liabilities. If we have any preferred stock outstanding at such time, holders of the preferred stock may be entitled to distribution and/or liquidation preferences. In either such case, we must pay the applicable distribution to the holders of our preferred stock before we may pay distributions to the holders of our Common Stock.

Conversion, Redemption and Preemptive Rights. Holders of our Common Stock have no conversion, redemption, preemptive, subscription or similar rights.

Classification of Board of Directors. Our board of directors is divided into three classes of directors serving staggered three-year terms. As a result, approximately one-third of the board of directors is elected each year. These provisions, when coupled with the provision of our certificate of incorporation authorizing the board of directors to fill vacant directorships, may deter a shareholder from removing incumbent directors and simultaneously gaining control of the board of directors by filing the vacancies created by such removal with its own nominees.

Common Stock Issuable upon Exercise of Warrants. 1,185,750 shares of our Common Stock offered by the Selling Shareholders in this prospectus are issuable upon the exercise of 1,185,750 warrants issued pursuant to the June 2004 Private Placement, all of which are currently outstanding. Each such warrant is exercisable within five (5) years of its issuance to purchase a share of Common Stock at $1.35. The number and kind of securities issuable upon exercise of such warrants and the per share exercise price of such warrants is subject to adjustment in the event of any stock dividend, stock split, combination or reclassification. Each such warrant, among other features, contains weighted average price protection for Common Stock issuances by us below the exercise price of the warrants, subject to

certain exceptions. In addition, 276,675 shares of our Common Stock offered by the Selling Shareholders in this prospectus are issuable upon the exercise of 276,675 warrants issued to Casimir Capital, LP, as placement agent for the June 2004 Private Placement. The Placement Agent Warrants are entitled to a cashless exercise wherein the exercise price for such warrants is payable by the surrender of shares of Common Stock otherwise issuable.

In addition, 400,000 shares of our Common Stock are issuable upon conversion of warrants held by Clarex, Ltd. Of these warrants, 200,000 warrants are exercisable at $.0425 per share and expire in March 2008 and 200,000 warrants are exercisable at $1.08 per share and expire in May 2008. The number and kind of securities issuable upon exercise of such warrants and the per share exercise price of such warrants is subject to adjustment in the event of any stock dividend, stock split, combination or reclassification.

OUR BUSINESS

Photonic Products Group, Inc. (the Company or PPGI), incorporated in 1973, develops, manufactures and markets products and services for use in diverse Photonics industry sectors via its multiple business units. Prior to its name change in September, 2003, PPGI was named and did business solely as Inrad, Inc.

The Company had announced in 2002 that it was implementing its plan to transform the Company from a single business unit into a portfolio of businesses serving the Photonics industry. Company management, the Board of Directors, and shareholders approved the name change in 2003, reinforcing the transformation of the Company s business model into that of a portfolio of business units whose branded products conform to the paradigm: Products Enabling PhotonicsTM.

In November 2003, the Company concluded its first acquisition, that of the assets and certain liabilities of Laser Optics, Inc. of Bethel, CT. Laser Optics, Inc. was a custom optics and optical coating services provider, in business since 1966. PPGI integrated the Bethel team and their operations into the Company s Northvale, NJ operations in mid-2004, combining them with Inrad s custom optics and optical coating product lines under the Laser Optics name.

In October 2004 the Company completed its second acquisition of a complementary business with the purchase of 100% of the stock of MRC Precision Metal Optics, Inc. of Sarasota, FL. MRC Optics, now a wholly-owned subsidiary of PPGI, is a fully integrated precision metal optics and diamond-turned aspheric optics manufacturer, specializing in CNC and single point diamond machining, optical polishing, plating, beryllium machining, and opto-mechanical design and assembly services.

PPGI s business unit products continue, at present, to fall into two product categories: optical components (including standard and custom optical components and assemblies, crystals, and crystal components), and laser accessories (including wavelength conversion products and Pockel s cells (optical shutters, also known as Q-switches) that employ nonlinear crystals to perform the function of wavelength conversion). Currently, its optical components product lines and services are brought to market via three PPGI business units: INRAD, Laser Optics, and MRC Optics. Laser accessories are brought to market by INRAD.

In summary, the Company is at present an optical component, subassembly, and sub-system supplier to major original equipment manufacturers and researchers in the Photonics industry. PPGI expects that in the future its products may also include other product categories.

Administrative, engineering and manufacturing operations are housed at present in a 42,000 square foot building located in Northvale, New Jersey, about 15 miles northeast of New York City, and in a 25,000 square foot building located in Sarasota, FL. The headquarters of the Company are located within its Northvale, NJ facility.

Custom optic manufacturing is at present a major product area for PPGI. The Company specializes in high-end precision components. It develops, manufactures and delivers precision custom optics and thin film optical coating services via its Laser Optics and MRC Precision Optics branded business units. Glass, metal, and crystal substrates are processed using modern manufacturing equipment and techniques to prepare and polish substrates, deposit optical thin films, and assemble sub-components, thereby producing optical components used in advanced Photonic systems of many kinds. The majority of custom optical components and optical coating services supplied are used in inspection and process control systems, in defense and aerospace electro-optical systems, in laser system applications, in industrial scanners, and in medical system applications.

The Company also currently develops, manufactures, and delivers synthetic optical crystals, optical crystal components, and laser accessories via its INRAD brand. It grows synthetic crystals with electro-optic (EO), non-linear and optical properties for use in both its standard products and custom

products. The majority of crystals, crystal components and laser accessories supplied are used in laser systems, defense EO systems, and in R&D applications by researchers within corporations, universities, and national laboratories.

The Company has been implementing its plan to assemble a portfolio of businesses serving the Photonics industry, and is engaged from time to time in exploratory strategic merger and acquisition discussions. The Company is also engaged from time to time in discussions regarding the raising of capital to finance its growth. The Company s policy is to not comment on such exploratory discussions, due to their indefinite nature.

The following table summarizes the Company s product sales by product categories during the past three years:

	Years Ended December 31,					
	2006		**2005**		**2004**	
Category	**Sales**	**%**	**Sales**	**%**	**Sales**	**%**
Optical Components	$ 12,761,000	92	$ 12,279,000	89	$ 7,877,000	85
Laser Accessories	1,160,000	8	1,506,000	11	1,345,000	15
TOTAL	$ 13,921,000	100	$ 13,785,000	100	$ 9,222,000	100

Products Manufactured by the Company

Optical Components

a) Custom Optics and Optical Coating Services

Manufacturing of high-performance custom optics is at present a major product area for PPGI, and is addressed in the marketplace principally via its Laser Optics and its MRC Optics business units.

The Laser Optics business unit was formed in 2003 via the combination of INRAD s Northvale, NJ based custom optics and optical coating services operations and those of the former Laser Optics, Inc. of Bethel, CT. The Company had been active in the field since 1973, and Laser Optics, Inc. since 1966.

The new Laser Optics provides custom products. It specializes in the manufacture of optical components, optical coatings (ultra-violet wavelengths through infra-red wavelengths) and subassemblies for military, industrial, process control, photonic instrument, and medical end-use. Planar, prismatic and spherical components are fabricated from glasses of all kinds and crystals of most kinds, including fused silica, quartz, infra-red materials (including germanium, zinc selenide and zinc sulfide), calcite, magnesium fluoride and silicon. Component types include mirrors, lenses, prisms, waveplates, polarizing optics, monochrometers, x-ray mirrors, and cavity optics for lasers.

To meet performance requirements, most optical components and sub-assemblies require thin film coatings on their surfaces. Depending on the design, optical coatings can refract, reflect, or transmit specific wavelengths. Laser Optics optical coating specialties include high laser damage resistance, polarizing, high reflective, anti-reflective, infra-red, and coating to complex custom multi-wavelength requirements on a wide range of substrate materials. Laser Optics coats both components it manufactures and customer furnished components. Coating deposition process technologies employed included electron beam, thermal, and ion assist.

MRC Optics, established in 1983 is a fully integrated precision metal optics and optical assembly manufacturer. The Company provides high quality precision CNC and diamond machining, polishing, plating, beryllium machining, and opto-mechanical design, component manufacturing and assembly services. MRC has developed custom processes to support prototyping through high rate production of large and small metal mirrors, thermally stable optical mirrors, low RMS surface finish polished mirrors,

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diamond machined precision aspheric and plano mirrors, reflective porro prisms, and arc-second accuracy polygons and motor assemblies. Optical plating specialties include void-free gold and electroless nickel.

Crystals and Crystal Components

PPGI produces and brings to market crystals and crystal components via its INRAD business unit. Certain synthetic crystals, because of their internal structure, have unique optical, non-linear, or electro-optical properties. Electro-optic and nonlinear crystal devices can alter the intensity, polarization or wavelength of a laser beam. Developing growth processes for high quality synthetic crystals and manufacturing and design processes for crystal components lies at the heart of the INRAD product line. Synthetic crystals currently in production include Nickel Sulfate, Lithium Niobate, Beta Barium Borate, Alpha Barium Borate, KDP, deuterated KDP and Zinc Germanium Phosphide, among others.

The INRAD crystals and crystal components product lines also include crystalline filter materials, including patented materials, that have unique transmission and absorption characteristics that enable them to be used in critical applications in defense systems such as missile warning sensors. Other crystal components, both standard and custom, are used in laser applications research and in commercial laser systems to change the wavelength of laser light.

Laser Accessories

a) **Pockel s Cells**

INRAD has developed and manufactures a line of Q-switches, Pockel s Cells (optical shutters) and associated electronics, and has been active in this field since 1973. Pockel s cells are used in applications that require the fast switching of the polarization direction of a beam of light. These uses include Q-switching of laser cavities (i.e., to generate laser output pulses), coupling light into and out from regenerative amplifiers, and light intensity modulation. These devices are sold on an OEM basis to laser manufacturers and individually to researchers.

INRAD Pockel s cell products include the following:

Single crystal and dual crystal KD*P Pockel s Cells

PKC-21 and PKC-02

9 mm through 50 mm apertures

Single crystal Lithium Niobate Pockel s Cells

PLC-01

8.5 mm through 10.5 mm apertures

Single crystal and dual crystal BBO Pockel s Cells

PBC-03

2.5 mm x 2.5 mm through 2.5 mm x 7 mm sizes

Electronic drivers

Gimbal mounts

b) Harmonic Generation Systems

PPGI designs, manufactures, and brings to market a line of harmonic generation laser accessories via its INRAD business unit. Harmonic generation systems enable the users of lasers to convert the fundamental frequency of the laser to another frequency required for a specific end use. Harmonic generators are currently used in spectroscopy, semiconductor processing, medical lasers, optical data storage and scientific research.

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Many commercial lasers have automatic tuning features, allowing them to produce a range of frequencies. The INRAD Autotracker, when used in conjunction with these lasers, automatically generates tunable ultraviolet light or infrared light for use in spectroscopic applications.

Products offered for such nano-second laser systems include the following:

- AT-III an Autotracker with servo controlled tuning
- 5-304 temperature-stabilized crystals
- Harmonic separators for ultra-violet (UV), infra-red (IR), and second frequency mixing (SFM)

The Company produces a Harmonic Generator, the 5-050, for use with ultra-fast lasers having pulse durations in the femtosecond and picosecond regime. This product is sold on an OEM basis to manufacturers of ultra fast lasers and to researchers in the scientific community.

1. Laser Pulse Measurement Instruments

The Company marketed, through December 31, 2005, a line of Autocorrelators that measure extremely short laser pulses. Autocorrelators are used for measuring laser pulses from ultrafast lasers, with pulse durations in the picosecond and femtosecond ranges. INRAD had pioneered the design, manufacture, and introduction of autocorrelators as accessories for the emerging field of ultrafast lasers back in 1979. In 2000, INRAD joined forces with Angewandte Physik & Electronik, GmbH of Berlin, Germany, (A.P.E.) and became the source for supply of products manufactured by A.P.E. to customers in the Americas, Israel, and selected other markets. Effective January 1, 2006, the Company and A.P.E. ended their alliance in this field. The Company no longer offers Autocorrelators for sale in the marketplace.

Research and Development

Company-funded research expenditures during the years ended December 31, 2006, 2005, and 2004 were less than 1% of net product sales. During these years, the Company narrowed its focus on internal research and development efforts on improving certain crystal growth processes, and on improving manufacturing process technologies for optical components. Technical resources were focused on supporting the integration of Laser Optics into Northvale operations and ramp-up of production rates within Northvale and Sarasota operations. As a result, internal R&D expenditures were at historically low levels in these years.

Markets

In 2006, 2005 and 2004 the Company s product sales were made to customers in the following market areas:

Market	**2006**			**2005**			**2004**		
Defense/Aerospace	$	9,048,000	(65)%	$	8,352,000	(60)%	$	4,127,000	(45)%
Process control & metrology	2,862,000		(21)%	3,259,000		(24)%	1,817,000		(20)%
Laser systems (non-military)	1,001,000		(7)%	1,044,000		(8)%	1,753,000		(19)%
Universities & National laboratories	502,000		(3)%	522,000		(4)%	763,000		(8)%
Other	508,000		(4)%	608,000		(4)%	662,000		(8)%
Total	$	13,921,000	(100)%	$	13,785,000	(100)%	$	9,222,000	(100)%

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1. Laser Pulse Measurement Instruments

Major market sectors served by the Company include defense and aerospace, process control & metrology, laser systems (non-military), telecomm, universities and national laboratories, and various other markets not separately classified. The defense and aerospace area consists of sales to OEM defense electro-optical systems and subsystems manufacturers, manufacturers of non-military satellite-based electro-optical systems and subsystems, and direct sales to governments where the products have the same end-use. The process control and metrology area consists of customers who are OEM manufacturers of capital equipment used in manufacturing process implementation and control, optics-based metrology and quality assurance, and inventory and product control equipment. Examples of applications for such equipment include semiconductor (i.e., chip) fabrication and testing and inventory management and distribution control. The laser systems market area consists principally of customers who are OEM manufacturers of industrial, medical, and R&D lasers. Universities and National Laboratories consists of product sales to researchers at such institutions. The Other category represents sales to market areas that, while they may be the object of penetration plans by the Company, are not currently large enough to list individually (example: bio-medical), and as well sales through third parties for whom the end-use sector is not known.

The Company is a provider of optical components, both specialty crystal components and high precision custom optical components for customers in the aerospace and defense electro-optical systems sector. End-use applications include military laser systems, military electro-optical systems, satellite-based systems, and missile warning sensors and systems that protect aircraft. The dollar volume of shipments of product within this sector depends in large measure on the U.S. Defense Department budget and its priorities, that of foreign governments, the timing of their release of contracts to their prime equipment and systems contractors, and the timing of competitive awards from this customer community to the Company. In the post-9/11 era, government spending priorities for such systems have risen sharply and deployment of new systems has been accelerated, as has refurbishment of fielded systems. The Company s sales of products to this customer sector continued their upward trend, representing 65% of sales in 2006 and 60% of sales in 2005 and 45% of sales in 2004. In dollar terms, sales to customers in this sector increased by 8.3% in 2006 as compared with 2005. The defense and aerospace sector offers continued opportunities for the Company s capabilities in specialty crystal and precision optics.

Demand in the Process Control and Metrology market for the Company s products rebounded in 2004 from a protracted and deep cyclical downturn in capital spending for new tools and instruments in 2002 and 2003. Sales in 2006 represented 20% of total Company sales, down from 24% in 2005. In dollar terms, 2006 sales to this sector were down 12% from sales in 2005. The optical and x-ray inspection segment of the semiconductor industry offers continued opportunities for the Company s capabilities in precision optics, crystal products, and monochrometers.

The Company serves the non-defense laser industry as an OEM supplier of standard and custom optical components and laser accessories. Sales in 2004 had been up 64% in dollar terms from the prior year on a surge of demand from both old and new customers for the Company s laser accessory products, but have since declined. Sales in 2006 represented 7% of total sales, and in 2005 represented 8%. In dollar terms, this represents a decline of 4% in sales in 2006, and was expected with the discontinuation of the INRAD/APE alliance and sales of autocorrellators on December 31, 2006. Sales to customers in this sector in dollar terms, net of autocorrellator sales, increased between 2005 and 2006.

Sales to customers within the University and National Laboratories market sector represented 4% of total revenues in both 2006 and 2005. Sales to this sector have been in the $500,000 to $750,000 range historically, now representing a smaller percentage of total revenues. Sales to this sector in dollar terms net of autocorrellator sales increased between 2005 and 2006.

Export sales, primarily to customers in countries within Europe, the Near East and Japan, amounted to 10%, 14%, and 12% of product sales in 2006, 2005 and 2004, respectively. No single foreign customer accounted for more than 10% of product sales in 2006, 2005, or 2004.

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In 2006, three domestic customers accounted for 15%, 16%, and 11%, of sales. Each of these three customers are electro-optical systems divisions of major U.S. defense industry corporations who manufacture systems for the U.S. and allied foreign governments. In 2005, two U.S. customers accounted for 13% and 14%, respectively, of sales. These two customers, were two of the same three 2006 customers. In 2004, two U.S. customers each accounted for 12% of sales, and one customer accounted for 10% of sales. The first two are defense industry electro-optics manufacturers, while the third customer manufactures process control and metrology systems. In the short-term, the loss of any of these customers would have a significant negative impact on the company and its business units.

Long-Term Contracts

Certain of the Company s orders from customers provide for periodic deliveries at fixed prices over a period that may be greater than one year. In such cases, as in most other cases as well, the Company attempts to obtain firm price commitments from its suppliers for the materials necessary to fulfill the order.

Marketing and Business Development

The Company s two Northvale, NJ-based business units market their products domestically through their own sales and marketing teams, led by the Vice President - Marketing and Sales. Independent sales agents are used in countries in major non-U.S. markets, including Canada, Europe, Israel, and Japan.

The Company s MRC Optics subsidiary markets its products domestically through a combination of their own sales and marketing team, led by the MRC Director of Sales, a sales representative in the west coast region, and a member of the Company s Northvale sales team who serves as an MRC sales representative in the northeast region.

Trade show participation and Internet-based marketing and promotion are coordinated at the corporate level.

Backlog

The Company s order backlog as of December 31, 2006 was $6,969,000, essentially all of which is expected to be shipped in 2007. The Company s order backlog as of December 31, 2005 was $7,857,000. The Company s order backlog as of December 31, 2004 was $6,433,000.

Competition

Within each product category in which the Company s business units are active, there is competition.

Changes in the Photonics industry have had an effect on suppliers of custom optics. As end users have introduced products requiring large volumes of optical components, suppliers have responded either by carving out niche product areas or by ramping up their own manufacturing capacity and modernizing their manufacturing methods to meet higher volume production rates. Many custom optics manufacturers lack in-house thin film coating capability. As a result, there are fewer well-rounded competitors in the custom optics arena, but they are equipped with modern facilities and manufacturing methods. The Company has judiciously deployed capital towards modernizing its facility, and has staffed the manufacturing group with individuals with comprehensive experience in manufacturing management, manufacturing engineering, advanced finishing processes, optical coating processes, and capacity expansion. The Company competes on the basis of providing consistently high quality products delivered on time, its experienced technical and manufacturing employees, developing and maintaining strong customer relationships, and continuously improving its labor productivity, cost structure, and product cycle times.

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Competition for the Company s laser accessories is limited, but competitors products are generally lower priced. The Company s laser accessories are considered to be high end and generally offer a combination of features not available elsewhere. Because of the Company s in-house crystal growth capability, the Company s staff is knowledgeable about matching appropriate crystals to given applications for its laser accessories.

For the crystal product area, price, quality, delivery, and customer service are market drivers. With advancing globalization, many of the Company s competitors supplying non-linear optical crystals are overseas and can offer significantly reduced pricing for some crystal species. Sales in this arena are declining, but the Company has been able to retain a base by providing the quality and customer service needed by certain OEM customers not readily available from others, and by offering proprietary crystal components for which the Company is either sole source or one of few available sources. On many occasions, the quality of the crystal component drives the ultimate performance of the component or instrument into which it is installed. Thus, quality and technical support are considered to be valuable attributes for a crystal supplier by some, but not all, OEM customers.

Although price is a principal factor in many product categories, competition is also based on product design, product performance, customer confidence, quality, delivery, and customer service. The Company is a sole-source supplier of products to several major customers who are leaders in their industries. Based on its performance to date, the Company believes that it can continue to compete successfully in its niches, although no assurances can be given in this regard.

Employees

As of June 30, 2007, the Company had 97 full-time employees.

Patents and Licenses

The Company relies on its manufacturing and technological expertise, rather than on patents, to maintain its competitive position in the industry. The Company takes precautionary and protective measures to safeguard its design and technical and manufacturing data, and relies on nondisclosure agreements with its employees to protect its proprietary information.

Regulation

Foreign sales of certain of the Company s products may require export licenses from the United States Department of Commerce or Department of State. Such licenses are generally available to all but a limited number of countries and are obtained when necessary. One product, representing less than 1% of Company sales in 2006, 2005, and 2004, required U.S. State Department export approval and the required approvals were granted.

There are not any federal regulations nor any unusual state regulations that directly affect the sale of the Company s products other than those environmental compliance regulations that generally affect companies engaged in manufacturing operations in New Jersey and Florida.

Properties

Administrative, engineering and manufacturing operations are housed at present in a 42,000 square foot building located in Northvale and in a 25,000 square foot building located in Sarasota, FL. The headquarters of the Company are located within its Northvale, NJ facility.

PPGI, INRAD and Laser Optics occupy approximately 42,000 square feet of space located at 181 Legrand Avenue, Northvale, New Jersey. In September 2006, the Company signed an extension of its lease until October 31, 2008. In addition, the Company negotiated an option for renewing the lease for two additional two year periods through October 31, 2012.

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PPGI s MRC Optics subsidiary occupies approximately 25,000 square feet of space located at 6405 Parkland Drive, Sarasota, FL pursuant to a net lease expiring on August 31, 2008. MRC Optics has the option of extending the lease for two additional two year periods through August 31, 2012.

The facilities are adequate to meet current and future projected production requirements.

The total rent in 2006 for these leases was approximately $549,000. The Company also paid real estate taxes and insurance premiums that totaled approximately $156,000 in 2006.

Legal Proceedings

There are no legal proceedings involving the Company as of the date hereof.

Submission of Matters to a Vote of Security Holders

On November 8, 2006, at the Company s Annual Meeting of Shareholders, John Rich and Luke P. LaValle, Jr. were re-elected as Class II Directors, each for a three year term and each by a vote of 6,726,334 in favor and 1,200 votes withheld. Class 1 directors, Tom Lenagh and Daniel Lehrfeld continue to serve the remainder of their three year terms until 2008. Class III director, Jan Winston, continues to serve the remainder of his three year term until 2007.

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MARKET FOR OUR COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Market Information

The Company s Common Stock, par value $0.01 per share, is traded on the OTC Bulletin Board under the symbol PHPG.

The following table sets forth the range of closing prices for the Company s Common Stock in each fiscal quarter from the quarter ended March 31, 2005 through the quarter ended September 30, 2007, as reported by the National Association of Securities Dealers NASDAQ System. Such over-the-counter quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	Price High	Low
Quarter ended September 30, 2007 (July 1 through July 31)	2.55	2.05
Quarter ended June 30, 2007	2.30	1.55
Quarter ended March 31, 2007	1.75	1.30
Quarter ended December 31, 2006	1.67	1.05
Quarter ended September 30, 2006	1.48	0.86
Quarter ended June 30, 2006	1.89	1.25
Quarter ended March 31, 2006	1.65	1.35
Quarter ended December 31, 2005	1.45	0.90
Quarter ended September 30, 2005	0.98	0.75
Quarter ended June 30, 2005	1.00	0.65
Quarter ended March 31, 2005	1.40	1.05

Shareholders

As of June 18, 2007, there were approximately 172 owners of record of the Common Stock. The number of record owners of common stock was approximated based upon the Shareholders Listing provided by the Company s Transfer Agent.

Dividends

The Company pays an annual dividend of 134,000 shares of Common Stock on its Series A and Series B convertible preferred stock which is valued at the closing price on the dividend date. The value of the stock dividend issued was $233,240 in 2007, $234,500 in 2006, $134,000 in 2005 and $165,000 in 2004, representing common shares of 133,240 shares for 2007 and 134,000 shares for 2006, 2005 and

2004, respectively. All 500 shares of Series A convertible preferred stock were converted to 500,000 shares of Common Stock on April 30, 2007.

The Company historically has not paid cash dividends. Payment of cash dividends is at the discretion of the Company s Board of Directors and depends, among other factors, upon the earnings, capital requirements, operations and financial condition of the Company. The Company does not anticipate paying cash dividends in the immediate future.

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during 2006 or 2007, to date.

Preferred Stock

Under our certificate of incorporation, our board of directors is authorized, subject to limitations prescribed by law, to issue up to 1,000,000 shares of preferred stock in one or more series without further shareholder approval. The board has discretion to determine the rights, preferences, privileges and restrictions of, including, without limitation, voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of, and to fix the number of shares of, each series of our preferred stock. Accordingly, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our Common Stock or otherwise be in their best interest. As of July 31, 2007, the Company had issued and outstanding 2,082 shares of Series B Preferred Stock with a 10% dividend and $2,082,000 liquidation preference, convertible into 832,800 shares of Common Stock.

Limitations on Directors Liability

Our certificate of incorporation and bylaws contain provisions indemnifying our directors and officers to the fullest extent permitted by law.

In addition, as permitted by New Jersey law, our certificate of incorporation provides that no director will be liable to us or our shareholders for monetary damages for breach of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our shareholders in derivative suits to recover monetary damages against a director for breach of certain fiduciary duties as a director, except that a director will be personally liable for:

- any breach of his or her duty of loyalty to us or our shareholders;
- acts or omissions not in good faith which involve intentional misconduct or a knowing violation of law;
- the payment of dividends or the redemption or purchase of stock in violation of New Jersey law; or
- any transaction from which the director derived an improper personal benefit.

This provision does not affect a director s liability under the federal securities laws.

To the extent that our directors, officers and controlling persons are indemnified under the provisions contained in our certificate of incorporation or New Jersey law, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Provisions of Our Certificate of Incorporation and Bylaws and New Jersey Law that May Have an Anti-Takeover Effect

Certificate of Incorporation and Bylaws

Certain provisions in the our certificate of incorporation and bylaws summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a shareholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market price for the shares held by shareholders.

Our certificate of incorporation and bylaws contain provisions that permit us to issue, without any further vote or action by the shareholders, up to 1,000,000 shares of preferred stock in one or more series and, with respect to each such series, to fix the number of shares constituting the series and the designation of the series, the voting powers (if any) of the shares of the series, and the preferences and relative, participating, optional and other special rights, if any, and any qualifications, limitations or restrictions, of the shares of such series.

Our board of directors is divided into three classes of directors serving staggered three-year terms. As a result, approximately one-third of the board of directors is elected each year. These provisions, when coupled with the provision of our certificate of incorporation authorizing the board of directors to fill vacant directorships, may deter a shareholder from removing incumbent directors and simultaneously gaining control of the board of directors by filing the vacancies created by such removal with its own nominees.

The foregoing provisions of our certificate of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in control. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our Common Stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management.

New Jersey Takeover Statute

We are subject to Sections 14A:10A-4 and 14A:10A-5 of the New Jersey Business Corporation Act (the NJBCA), which, subject to certain exceptions, prohibits a New Jersey corporation from engaging in any business combination (as defined below) with any interested stockholder (as defined below) for a period of five years following the date that such stockholder became an interested stockholder, unless: (A) prior to such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder and (1) on or subsequent to such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder or (2) the aggregate amount of the cash and the market value of the consideration other than cash to be received per share by the holders of outstanding shares of our Common Stock meets certain specified minimum amounts.

Section 14A:10A-3 of the NJBCA defines business combination to include: (1) any merger or consolidation involving the corporation and the interested stockholder; or (2) any sale, lease, exchange, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder. In general, Section 14A:10A-3 defines an interested stockholder as any entity or

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person beneficially owning 10% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person.

The National Association of Securities Dealers Over-The-Counter Bulletin Board

Our Common Stock trades on the OTC Bulletin Board under the symbol PHPG.

Transfer Agent and Registrar

The transfer agent and registrar for our Common Stock is American Stock Transfer and Trust Company.

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SELECTED CONSOLIDATED FINANCIAL DATA

The consolidated statement of operations data and other financial data for the years ended December 31, 2006, 2005 and 2004 and the consolidated balance sheet data as of December 31, 2006 and 2005 are derived from our audited consolidated financial statements that appear elsewhere in this document. The consolidated statement of operations data and other financial data for the years ended December 31, 2004, 2003 and 2002 and the consolidated balance sheet data as of December 31, 2003 and 2002 are derived from our audited consolidated financial statements not included in this prospectus. The consolidated statement of operations data and other financial data for the three months ended March 31, 2007 and 2006 and the consolidated balance sheet data as of March 31, 2007 are derived from our unaudited consolidated financial statements that appear elsewhere in this document. The consolidated balance sheet data as of March 31, 2006 is derived from our unaudited financial statements not included in this prospectus. Our results for interim periods are not necessarily indicative of our results for a full year s operations. You should read the following financial information together with the information under Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	For the year ended December 31,					For the three months ended March 31,	
Consolidated Statements of Operations Data:	**2006**	**2005**	**2004**	**2003**	**2002**	**2007**	**2006**
Revenues	$ 13,921,127	$ 13,785,057	$ 9,221,857	$ 5,388,184	$ 5,569,118	$ 3,540,874	$ 3,662,776
Net profit (loss)	772,266	(11,378)	(672,937)	(1,777,309)	(1,715,972)	434,860	201,653
Net profit (loss) applicable to common shareholders	537,766	(145,398)	(837,757)	(1,830,909)	(1,836,572)	434,860	201,653
Net profit (loss) per common share							
Basic	.07	(.02)	(.15)	(.35)	(.35)	0.06	0.03
Diluted	.06	(.02)	(.15)	(.35)	(.35)	0.04	0.02
Weighted average shares							
Basic	7,572,637	7,218,244	5,710,354	5,287,849	5,210,322	7,902,763	7,311,537
Diluted	11,915,090	7,218,244	5,710,354	5,287,849	5,210,322	13,491,585	12,539,640
Dividends paid	234,500	134,000	164,820	53,600	120,600		

Consolidated Balance	**As of December 31,**					**As of March 31,**	
Sheet Data:	**2006**	**2005**	**2004**	**2003**	**2002**	**2007**	**2006**
Total assets	15,316,260	13,481,021	13,526,634	8,851,121	8,508,925	15,240,094	14,321,557
Long-term obligation	6,299,767	5,963,411	6,459,088	4,405,576	1,188,512	5,256,027	6,397,223
Shareholders equity	5,236,703	3,929,407	3,965,129	3,284,439	5,049,879	5,847,361	4,310,765

The Company completed the acquisition of the stock of MRC Precision Metal Optics, Inc. in mid-October 2004. Also, the Company completed the acquisition of Laser Optics, Inc. s assets and liabilities at the end of November, 2003. The comparability of information in the selected financial data is aided by details provided in the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operation, which attributes certain portions of revenue growth in 2004 to these two acquisitions.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Disclosure: Forward Looking Statements

Management s Discussion and Analysis of Financial Condition and Results of Operations for the Quarter Ended March 31, 2007 and for the Year Ended December 31, 2006 contain forward-looking statements as that term is defined in the federal securities laws. The Company wishes to insure that any forward-looking statements are accompanied by meaningful cautionary statements in order to comply with the terms of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. The events described in the forward-looking statements contained in herein may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits of acquisitions to be made by us, projections involving anticipated revenues, earnings, or other aspects of our operating results. The words may , will , expect , believe , anticipate , project , plan , target , intend , estimate and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks, and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Actual results may vary from these forward-looking statements for many reasons, including the following factors:

- adverse changes in economic or industry conditions in general or in the markets served by the Company and its customers
- actions by competitors
- inability to add new customers and/or maintain customer relationships
- inability to retain key employees.

The foregoing is not intended to be an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by the Company. Investors are encouraged to review the risk factors set forth in the Company s most recent Form 10-K as filed with the Securities and Exchange Commission on March 30, 2007. Any one or more of these uncertainties, risks, and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward looking statements, whether from new information, future events, or otherwise.

Readers are further cautioned that the Company s financial results can vary from quarter to quarter, and the financial results for any period may not necessarily be indicative of future results.

The following discussion and analysis should be read in conjunction with the Company s consolidated financial statements and the notes thereto presented elsewhere herein. The discussion of results should not be construed to imply any conclusion that such results will necessarily continue in the future.

Critical Accounting Policies

The Company s significant accounting polices are described in Note 1 of the Consolidated Financial Statements, that were prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the Company s financial statements, the Company made

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estimates and judgments that affect the results of its operations and the value of assets and liabilities the Company reports. The Company s actual results may differ from these estimates.

The Company believes that the following summarizes critical accounting polices that require significant judgments and estimates in the preparation of the Company s consolidated financial statements.

Revenue Recognition

The Company records revenue when a product is shipped. Losses on contracts are recorded when identified. The Company, from time to time, may recognize revenue using the percentage of completion method for certain long term manufacturing projects. There were no revenues in 2007, 2006 or 2005 that were accounted for using the percentage of completion method.

Accounts Receivable

Accounts receivable are stated at the historical carrying amount, net of write-offs and allowances. The Company establishes an allowance for doubtful accounts based on estimates as to the collectibility of accounts receivable. Management specifically analyzes past-due accounts receivable balances and, additionally, considers bad debts history, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Uncollectible accounts receivable are written-off when it is determined that the balance will not be collected.

Inventory

Inventories are stated at the lower of cost (first-in, first-out method) or market. Cost includes material, labor and overhead.

The Company records a reserve for slow moving inventory as a charge against earnings for all products identified as surplus, slow moving or discontinued. Excess work-in-process costs are charged against earnings whenever estimated costs-of-completion exceed unbilled revenues.

Acquired Goodwill and Intangible assets

The intangible assets are amortized on a straight-line basis over the assets estimated useful life up to 14 years. The Company periodically evaluates whether events or circumstances have occurred indicating the carrying amount of intangible assets may not be recoverable. When factors indicate that intangible assets should be evaluated for possible impairment, the Company uses an estimate of the associated undiscounted future cash flows compared to the related carrying amount of assets to determine if an impairment loss should be recognized.

Share-based compensation

Effective January 1, 2006, the Company adopted the recognition and measurement provisions of Statement of Financial Accounting Standards (FAS) No. 123 (revised 2004), Share-Based Payment (FAS 123(R)), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations.

FAS 123 (R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 107, which provides the Staff s views regarding the interaction between SFAS No. 123(R)

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and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Prior to January 1, 2006, the Company accounted for similar transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not recognized for fixed stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date.

While FAS No. 123 encouraged recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB No. 25 and disclose certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied. In December 2002, FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, was issued, which, in addition to providing alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, required more prominent pro-forma disclosures in both the annual and interim financial statements. The Company complied with these disclosure requirements for all applicable periods prior to January 1, 2006.

In adopting FAS 123(R), the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of FAS 123 (R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123.

Management Discussion and Analysis of Financial Condition and Results for the Quarter Ending March 31, 2007 and March 31, 2006

Results of Operations

PPGI s business units products continue to fall into two product categories: optical components (including standard and custom optical components and assemblies, crystals, and crystal components), and laser accessories (including wavelength conversion instruments, that employ nonlinear or electro-optical crystals to perform the function of wavelength conversion, or optical switching, and optical Q-switches. Currently, its optical components product lines and services are brought to market via three PPGI business units: INRAD, Laser Optics, and MRC Optics. Laser accessories are brought to market by INRAD.

Revenues

Total sales for the three months ended March 31, 2007 were $3,541,000 as compared with total sales of $3,663,000 for the same three months in 2006, a decrease of 3.3%. Sales of custom optical components in this quarter decreased by approximately 4.3% from the same period in the prior year, with a reduction in demand for UV filter crystals from a defense industry OEM customer. This was offset somewhat by an approximately 1% increase in sales of laser accessories. Sales of optical components remained strong to customers within the aerospace/defense and process control and metrology industry sectors. Shipments to two aerospace/defense industry customers in the first quarter represented 15.3% and 18.8% of total sales in the period, respectively. During fiscal year 2006 sales to two aerospace customers represented 13.0% and 13.6% of total revenues in the first quarter.

Product bookings for the quarter ended March 31, 2007 were $4,960,000 as compared with $2,271,000 for the same period last year, an increase of 118%. In this year s first quarter, order intake for

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optical components was especially strong for Laser Optics, while order intake at INRAD and MRC for optical components was moderate. Major OEM customer orders do not usually follow a strict seasonal trend, and major production releases from aerospace/defense industry customers usually occur once or twice per year at irregular intervals. In this year s first quarter, orders from four major OEM customers accounted for 67% of new orders. Of these, one large order for high precision crystal optical components was from a major defense industry OEM customer in the infra-red imaging systems sector, another was for precision X-ray monochrometers from a major multinational manufacturer of X-ray analytical process control and metrology equipment, another was for UV filter crystal components from a defense industry manufacturer of aircraft missile warning sensors and self-protection systems, while the fourth was for laser accessories and specialty laser frequency doubling crystals from a major manufacturer of commercial laser systems. In last year s first quarter, orders from three INRAD and MRC Optics OEM customers accounted in the aggregate for 56% of total new orders. One order was from a major defense industry OEM customer, on a new program, which represented 30% of total bookings for the quarter. Another order, representing 17% of new orders was from another defense industry OEM who issued a follow-on production release for proprietary INRAD filter crystal components used in their anti-aircraft missile warning systems, while the third was from an industrial factory automation sector customer.

Product backlog at March 31, 2007 was $8,450,000 which compares with a backlog of $6,484,000 at the same point in 2006 and a backlog of $6,969,000 on December 31, 2006.

Based upon the backlog at the end of the first quarter, and related delivery schedules, management expects revenues to trend moderately higher in the second quarter.

Cost of Goods Sold

For the three-month period ended March 31, 2007, the cost of goods sold as a percentage of product revenues was 61.0% as compared with 67.6% for the same period last year. For the full year 2006, the actual cost of goods sold percentage was 67.4%.

Gross margin was 39.0% in the first quarter ended March 31, 2007 compared with 32.4% in the first quarter of last year. Gross margin in 2006 was 32.6% for the full year. In dollar terms, first quarter cost of goods sold was $2,159,000 compared with $2,475,000 in the same period in 2006, down 12.8%. A part of this decrease is attributable to the 3.3% decrease in revenues. However, this reduction in cost of goods sold was primarily a result of improved operational productivity and related cost reduction compared to the previous period. Work-in-process inventory levels increased in the period as production backlogs for the second quarter rose to record levels, positively affecting the cost of goods sold and gross margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $857,000, or 24.2% of sales, in the first quarter of 2007 compared to $873,000, or 23.8% in the same period in the prior year. This decrease in dollar costs reflects management s ongoing focus on tight control over costs and cash outflows.

Operating Income (Loss)

The company realized operating income for the quarter ending March 31, 2007 of $525,000, equal to 14.8% of sales, as compared with operating income of $315,000, or 8.6% of sales, for the same period last year. As discussed above, the increase in income from operations, despite a 3.3% decrease in sales, was the result of improved margins resulting from increased productivity and improved operational efficiencies.

Other Income and Expenses

Interest expense-net for the quarter ending March 31, 2007 was $75,000, as compared with $113,000 in the same quarter of last year

Interest expense-net decreased over prior periods due to the decrease in capital lease obligations for the comparative periods, and increased interest income realized on this year s higher cash balances.

Net Income (Loss)

The company had net income applicable to common shareholders of $435,000 for the period ending March 31, 2007, or $0.06 per share basic, and $0.04 per share diluted, as compared with net income applicable to common shareholders of $202,000, or $0.03 per share basic and $0.02 per share diluted in the same period last year.

Liquidity and Capital Resources as of March 31, 2007

Net cash flow from operating activities was positive at $287,000 in the quarter ended March 31, 2007, but was below prior years comparable with positive net cash flow from operations of $419,000 in the same period last year. Cash flow from operations decreased from that in the first quarter of last year despite significantly higher net income primarily due to a greater deployment of cash into increased work-in-process inventory, and a higher liquidation of customer cash advances against product shipments during the comparable periods.

During the three month periods ended March 31, 2007, and March 31, 2006, working capital requirements were funded from cash generated by operations.

Management expects that cash flow from operations will provide adequate liquidity for the Company s operations throughout 2007.

Capital expenditures for the three months ended March 31, 2007 were $30,000, compared to $800,000 in the first quarter of 2006. Capital expenditures for all of 2006 were $987,000. In the first quarter of 2007 these expenditures were primarily for replacement or refurbishment of capital equipment at the end of its useful life, in addition to the acquisition of new computer hardware and engineering software.

In the first quarter of 2006, capital additions represented major expenditures for equipment required in the performance of certain specific contracts and to give the Company increased capability and a stronger competitive position in the manufacture of spherical and aspherical lenses.

On April 16, 2007, the Company called for the redemption of its Series A 10% Convertible Preferred Stock (the Series A). On April 30, 2007, the Company received notice that Clarex Limited, the holder of all the shares of the Series A, elected to convert the 500 preferred shares into 500,000 shares of the Company s common stock, in accordance with the Series A Agreement.

Management expects to continue to deploy excess cash from time to time into repayment of debt.

Management also expects that it may from time to time attempt to raise investment capital and to make investments in capital acquisitions, both in equipment and acquisition of complementary lines of businesses, to pursue its objective of growth in shareholder value and to maintain a competitive edge in the markets that it serves.

In February 2006, a major shareholder and debt holder provided the Company with $700,000 in financing to fund the acquisition of certain capital assets required for expanded capabilities to meet customer demand. The terms call for repayment of the Company s Promissory note in equal monthly installments, including interest & principal, commencing March 2006, until maturity in March 2013. The Note bears an annual interest rate of 6.75%.

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In 2002, the Company received $1,000,000 in proceeds from the issuance of a Subordinated Convertible Promissory Note. The note, originally due in January 2006, has been extended to December 31, 2008 and bears an interest rate of 6%. Interest accrues yearly and along with principal may be converted into Common Stock, (and/or securities convertible into common shares). The note is convertible into 1,000,000 Units consisting of 1,000,000 shares of Common Stock and Warrants to acquire 750,000 shares of Common Stock at a price of $1.35 per share. The Holder of the Note is a related party to a major shareholder of the Company.

In June of 2003, the Company paid off existing debt with the proceeds of a $1,700,000 Secured Promissory Note held by a major investor in the Company. The note was for a period of 36 months at an interest rate of 6% per annum. The Company s Board of Directors approved the issuance of 200,000 warrants to Clarex Limited, the lender, as a fee for the issuance of the Note. In 2004, the Company approved the issuance of 200,000 additional warrants to Clarex, as additional consideration in connection with the same transaction. The note was subsequently extended to December 31, 2008 without issuance of warrants or any other consideration. The warrants are exercisable at $0.425 per share and $1.08 per share, respectively, approximately a 20% discount to market, and expire in March 2008 and May 2008. The note is secured by all assets of the Company.

A Subordinated Convertible Promissory Note for $1,500,000 originally due in January 2006, has been extended to December 31, 2008 and bears an interest rate of 6%. Interest accrues yearly and along with principal may be converted into Common Stock, and/or securities convertible into Common Stock. The note is convertible into 1,500,000 Units consisting of 1,500,000 shares of Common Stock and Warrants to acquire 1,125,000 shares of Common stock at a price of $1.35 per share. The Holder of the Note is a major shareholder of the Company. The proceeds from the Note were used in the Company s acquisition program.

In 2004, the Company received $1,000,000 in proceeds from the issuance of a Subordinated Convertible Promissory Note. The note bears an interest rate of 6% and was initially due on March 31, 2007, but its term has been extended to March 31, 2008. Interest accrues yearly and along with principal may be converted into Common Stock, (and/or securities convertible into common shares). The note is convertible into 1,000,000 Units consisting of 1,000,000 shares of Common Stock and Warrants to acquire 750,000 shares of Common Stock at a price of $1.35 per share. The note holder is a major shareholder of the Company.

Management Discussion and Analysis of Financial Condition and Results for the Fiscal Years Ended December 31, 2006, 2005 and 2004

The following table summarizes the Company s product sales by product categories during the last three full fiscal years:

	Years Ended December 31,					
	2006		**2005**		**2004**	
Category	**Sales**	**%**	**Sales**	**%**	**Sales**	**%**
Optical Components	$ 12,761,000	92	$ 12,279,000	89	$ 7,877,000	85
Laser Accessories	1,160,000	8	1,506,000	11	1,345,000	15
TOTAL	$ 13,921,000	100	$ 13,785,000	100	$ 9,222,000	100

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The following table sets forth, for the past three years, the percentage relationship of statement of operations categories to total revenues.

	Years ended December 31,		
	2006	**2005**	**2004**
Revenues:			
Product sales	100.0 %	100.0 %	100.0 %
Costs and expenses:			
Cost of goods sold	67.4 %	72.2 %	71.9 %
Gross profit margin	32.6 %	27.8 %	28.1 %
Selling, general and administrative expenses	26.1 %	25.0 %	31.5 %
Internal research and development	0.0 %	0.1 %	1.1 %
Profit (loss) from operations	6.6 %	2.6 %	(4.5)%
Net income (loss)	5.5 %	(0.1)%	(7.3)%

Revenues

Total revenues were approximately $13,921,000, $13,785,000, and $9,222,000 in 2006, 2005 and 2004, respectively. Revenues leveled off in 2006, increasing by 1%. Sales in 2006 included a third year of 12 full months of revenues from legacy Laser Optics, Inc. lines of business acquired in November of 2003, synergies resulting from the combination and integration of Laser Optics and Inrad custom optics operations in 2004, and a second full year of revenues from the Company s MRC Optics subsidiary, acquired in October of 2004.

Revenues increased 49% in 2005 to $13,785,000 from $9,222,000 in 2004, aided by strong ending backlog in 2004, increased demand for the Company s products in 2005, and a full twelve month of revenues from the Company s MRC Optics, Inc. subsidiary, acquired in October 2004. Approximately two-thirds of the total revenue growth seen between 2004 and 2005 came from the acquisition of MRC Optics.

In 2004, sales rose 71% from 2003. This rapid sales growth resulted from the combination of several factors. Revenues in 2004 included two and one half month of sales, $901,000 in dollar terms, from newly acquired MRC Optics. When considering the $8,321,000 of 2004 revenues net of the contribution from the MRC Optics acquisition, revenue growth in 2004 was 55% over the prior year. 2004 also marked the first year with 12 full months of revenue contribution from legacy Laser Optics, Inc. lines of business, acquired in November 2003. Approximately one-third of the remaining sales increase in 2004 was directly attributable to the Company s acquisition of the assets of Laser Optics in November 2003. The remaining two-thirds of that increase was attributable to synergies realized from that acquisition and from increased demand for the Company s products in general.

Examining these results by customer industry sector:

Sales to the Defense/Aerospace sector continued their three year upward trend in 2006, increasing by 8.3% in dollar terms in 2006 from 2005, to 65% of total Company sales. 2005 sales to the sector were $9,048,000 as compared with $8,352,000 in 2005. Sector sales in 2004 were $4,127,000. Increased military spending on electro-optical systems and R&D in the post-9/11 era combined with strategic re-positioning by the Company has boosted demand for the Company s services in manufacturing custom products for its OEM customers. Sales to this sector accounted for 65%, 60%, and 45%, of total sales in 2006, 2005, and 2004, respectively.

Revenues from customers in the Process Control and Metrology (i.e. semiconductor tools, instruments, inventory management equipment) sector in 2006 decreased 12% from sales in 2005, to $2,862,000 from $3,259,000, and now represent 21% of total Company sales. Sales declined due to reduced demand from two major OEM customers in this industry in 2006. Sales to this sector in 2005 had increased 79% from sales of $1,817,000 in 2004 due to inclusion of a full 12 months of sales to this sector by the Company s MRC Optics subsidiary. Sales in the sector had rebounded in 2004 from a protracted and deep cyclical downturn in capital spending for new tools and instruments in 2002 and 2003. Revenues rose to $1,817,000 in 2004 from $844,000 in 2003, up 115%. The optical and x-ray inspection segment of the semiconductor industry offers continued opportunities for the Company s capabilities in precision optics, crystal products, and X-ray monochrometers. Sales to this sector accounted for 21%, 24%, and 20% of total sales in 2006, 2005, and 2004, respectively.

Revenues decreased in the non-military Laser Systems sector, declining 4.2% in 2006 to $1,000,000 from $1,044,000 in 2005, and now representing 7% of total revenues. A decline was expected with the discontinuation of the INRAD/APE alliance and sales to OEM s of autocorrellators on December 31, 2005. Sales to this sector in dollar terms net of autocorrellator sales increased between 2005 and 2006. Sales to this sector in 2006 and 2005 reflect a return to 2003 sales levels. The similar sales level in 2003 then represented 20% of sales and now represents 7% of sales, as total Company sales have grown substantially since 2003 because of acquisition and internal growth. Sales in 2004 had been up 64% from the prior year on a surge of demand from customers for the Company s laser accessory products and certain optical components. This demand declined in 2005 to pre-2004 levels. Reasons included decline in sales of one customer s product line, acquisition of another customer by a larger corporation with in-house resources for the production of the product, and a general decline in demand for harmonic generators. Sales to this sector accounted for 7%, 8%, and 19%, of total sales in 2006, 2005, and 2004, respectively. Sales to customers within the University and National Laboratories market sector represented 4% of total revenues in both 2006 and 2005. Sales to this sector have been in the $500,000 to $750,000 range historically, now representing a smaller percentage of total revenues. Sales to this sector in dollar terms net of autocorrellator sales to researchers increased between 2005 and 2006.

Sales to customers in Other (i.e. non-separately classified) sectors were $512,000 in 2006, $608,000 in 2005, and $659,000 in 2004. Sales in 2004 were up 4% from $458,000 in 2003. Sales in these sectors have accounted for 4%, 4%, and 8% of total sales in 2006, 2005, and 2004, respectively.

Total new orders booked in 2006 were $13,269,000, down approximately 13% from 2005 new orders of $15,308,000. Orders from certain OEM customers were up during the year while orders from others declined. Order intake from three large OEM customers in the Defense/Aerospace sector increased in 2006. The net decline of $2.039,000 in new orders this year was largely due to changes in ordering patterns and reduced demand from four customers. One OEM customer in the Process Control and Metrology sector changed his ordering pattern from an annual blanket order arrangement in 2005 to periodic order releases during the course of the year. Another commercial OEM customer in that sector, a start-up high technology company addressing the automotive capital equipment market, cancelled his outstanding order in mid-2006, while forecasting demand would resume late in 2007. A third OEM customer in that sector indicated in 2006 that certain custom optical components would no longer be required. A defense electro-optical systems manufacturer saw his needs for a specialty optical component drop sharply from levels experienced in 2005, and forecast reordering would not occur until early 2007. Additionally, an expected decision on a major new multi-year order, was deferred to the spring of 2007. Such slippages in awards are not uncommon in the defense industry s procurement cycles. New orders in 2005 had increased 36% from orders of $11,240,000 in 2004. 2005 results included a full 12 months of new orders from the Company s MRC Optics subsidiary, as compared with only two and one half months of new orders in 2004. New orders in 2004 rose 85% from those in 2003, reflecting strong increases in demand for all product lines as well as both a full twelve months of new orders from the legacy lines of

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business of Laser Optics, Inc., acquired in November 2003, and two and one-half months of new orders from newly acquired MRC Optics.

The Company s backlog of product orders as of December 31, 2006 was approximately $6,969,000, down 11.5% from the record closing backlog on December 31, 2005 of $7,876,000. The Company s end of year backlog in 2004 was $6,433,000.

Cost of Goods Sold and Gross Profit Margin

As a percentage of product sales, cost of goods sold was 67.4%, 72.2%, and 71.9% for the years ended December 31, 2006, 2005 and 2004, respectively. Gross profit margin as a percentage of product sales was 32.6%, 27.8%, and 28.1% for 2006, 2005, and 2004, respectively.

In 2006, the cost of goods sold declined as a percentage of sales, from 2005 levels, due to productivity increases within operations. Sales increased by 1.0%, while cost of goods sold decreased by 6.0%. In 2005, the cost of goods sold remained relatively constant, as a percentage of sales compared to 2004. Sales in 2005 increased by 49%, while cost of goods sold increased by 51%. In dollar terms, the higher cost of goods sold in 2005 in comparison to 2004 was primarily due to increased costs for material and personnel associated with increased sales volumes.

Gross margins for the Company in 2006 represent the combined results from its two centers of operation: Northvale, NJ (site of INRAD and Laser Optics) and Sarasota, FL (site of MRC Optics). Gross margins from the Company s Northvale operations continued their year-over-year improvement in 2006, the third year following the integration of the acquired operations of Connecticut-based Laser Optics into Northvale. During 2002, gross margins improved due to improved labor productivity, economies of scale, and reduced expenses.

In 2006, the Company recorded its second full year of operations at the Company s Sarasota-based MRC Optics subsidiary. Gross margins at MRC Optics in 2006 improved somewhat from the prior year on 6.9% higher sales. 2005 represented the first full year of fiscal contribution from operations at the Company s Sarasota-based MRC Optics subsidiary. Negative gross margins during the first quarter of 2005 was followed by improved margins during the remainder of the year as sales volumes rose by 35% year over year. Problem vendors were replaced with qualified new suppliers, capacity constraints were eased with the addition of these new vendors, new personnel and equipment resources were brought on line, and key manufacturing processes were re-optimized for use of higher productivity methods.

Fixed costs are a major component of the Company s total cost structure. Management and the Board of Directors decided to reduce such costs in 2002 and 2003 only up to the point where further reductions would impede the Company s ability to perform for its current customers or to rebound in the future when macroeconomic conditions improved, and to invest in and integrate new operations, assets, and lines of business. This philosophy enabled the Company to be well-positioned with its operations to manufacture and deliver the goods that are behind the stronger revenues and improved margins that has characterized financial results in 2006.

In the aggregate, costs of most purchased components have been relatively stable in 2006, 2005, and 2004.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales were 26.1%, 25.0%, and 31.5% in 2006, 2005, and 2004, respectively.

Selling, general and administrative expenses in 2006 increased in dollar terms from those in 2005 by $205,000, or 5.9%, while sales increased by 1.0%, resulting in the increase in the 2006 SG&A cost as a percentage of sales. The increase in SG&A expenditures in 2006 resulted in large measure from non-recurring expenses that were incurred in connection with the investigation into misappropriation of

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Company funds for personal use by its former CFO, as we reported in our Form 8-K filed on June 26, 2006, and the resolution of this matter. These included additional costs for legal advice, forensic consulting, temporary accounting assistance, and special meetings of the Audit Committee of the Board of Directors. Increased expenses also resulted from recruitment costs incurred in connection with the Company s search for its new CFO, and assistant controller, and higher legal and accounting expenses related to day-to-day corporate matters.

Selling, general and administrative expenses in 2005 increased in dollar terms from those in 2004 by $534,000, or 18.3%, while sales increased by 49%, resulting in a drop in the SG&A cost as a percentage of sales. The increase in SG&A expenditures in that year reflected the first full year of SG&A costs from the Company s MRC Optics subsidiary, acquired in October of 2004.

Internal Research and Development Expenses

Company-funded research expenditures during the years ended December 31, 2006, 2005, were less than 1% of net product sales, down slightly from just over 1% in 2004. During these years, the Company narrowed its focus of internal research and development efforts on improving certain crystal growth processes, and on improving manufacturing process technologies for optical components. Technical resources were focused on supporting the integration of Laser Optics into Northvale operations and ramp-up of production rates within Northvale and Sarasota operations. As a result, internal R&D expenditures were at historically low levels in these years.

Operating Income

Profit from operations in 2006 was $917,000. This compares with a profit in 2005 of $358,000, and an operating loss of $(410,000) in 2004. Management s efforts to restore and increase profitability from operations through 2006 have been focused on expanding the scope of the Company s product lines, increasing the Company s top line, and on improving productivity in its operations. Throughout 2006, the Company continued to focus on cost saving opportunities with respect to its overhead structure and other manufacturing expenses. The improved results have been a direct result of the success to date of these efforts.

Other Income and Expenses

The Company incurred interest expense at fixed rates on a $1,700,000 secured note, three subordinated convertible notes totaling $5,200,000, certain equipment leases, and other notes related to its acquisition of MRC Optics and Laser Optics, Inc. Net interest in 2006 declined to $402,000 from $505,000 in 2005. The reduction in interest expense reflects both the positive impact of interest income earned on 2006 higher cash balances and an approximately $580,000 reduction in higher rate long term notes and capital lease balances due to scheduled amortization payments, although the overall debt balance increased by approximately $120,000 with the addition of new debt, at a lower rate, which was used to finance the acquisition of new equipment in the first quarter of 2006.

In the third quarter of 2006, the Company received notification of a settlement for $300,000, the policy limit, from a claim under its employee dishonesty insurance policy and the Company reported the recovery as other income (expense) for the period. These proceeds were significantly offset by the additional general and administrative costs related to the investigation of the employee involved and costs associated with remediation of the Company s internal controls. By comparison, in the third quarter of 2005, the Company realized a gain of $136,000 on the sale of excess and non-productive precious metals.

The Company also incurred costs of $13,000 during 2006 to liquidate liabilities for property tax and unemployment and disability tax that were incurred as part of its acquisition in December 2003 of the assets and certain liabilities of the former Laser Optics, Inc.

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Liquidity and Capital Resources as of December 31, 2006, 2005 and 2004

The Company s primary source of cash has been provided from operating cash flows and long-term borrowings. Other sources of cash include proceeds received from a private placement of stock and preferred shares during 2004. The Company s major uses of cash have been for capital expenditures, for repayment and servicing of outstanding debt and acquisition of new business.

Supplemental information pertaining to our source and use of cash is presented below:

	Years ended December 31,		
Selected sources (uses) of cash ($ thousands)	**2006**	**2005**	**2004**
Net cash provided by operations	$ 2,672	$ 360	$ 632
Proceeds from issuance of common stock	113		1,173
Capital Expenditures	(987)	(454)	(1,014)
Net borrowing (payment) on debt obligations	123	(439)	52
Cash used for business acquisition, net			(732)

In February 2006, a major shareholder and debt holder provided the Company with $700,000 in financing to fund the acquisition of certain capital assets required for expanded capabilities to meet customer demand. The terms call for repayment of the Company s Promissory note in equal monthly installments, including interest & principal, commencing March 2006, until maturity in March 2013. The Note bears an annual interest rate of 6.75%.

In 2002, the Company received $1,000,000 in proceeds from the issuance of a Subordinated Convertible Promissory Note. The note, originally due in January 2006, has been extended to December 31, 2008 and bears an interest rate of 6%. Interest accrues yearly and along with principal may be converted into Common Stock, (and/or securities convertible into common shares). The note is convertible into 1,000,000 Units consisting of 1,000,000 shares of Common Stock and Warrants to acquire 750,000 shares of Common Stock at a price of $1.35 per share. The Holder of the Note is a related party to a major shareholder of the Company.

In June of 2003, the Company paid off existing debt with the proceeds of a $1,700,000 Secured Promissory Note held by a major investor in the Company. The note was for a period of 36 months at an interest rate of 6% per annum. The Company s Board of Directors approved the issuance of 200,000 warrants to Clarex, Ltd., the lender, as a fee for the issuance of the Note. In 2004, the Company approved the issuance of 200,000 additional warrants to Clarex, The note was subsequently extended to December 31, 2008 without issuance of warrants or any other consideration. The warrants are exercisable at $0.425 per share and $1.08 per share, respectively, approximately a 20% discount to market, and expire in March 2008 and May 2008. The note is secured by all assets of the Company.

A Subordinated Convertible Promissory Note for $1,500,000 originally due in January 2006, has been extended to December 31, 2008 and bears an interest rate of 6%. Interest accrues yearly and along with principal may be converted into Common Stock, and/or securities convertible into Common Stock. The note is convertible into 1,500,000 Units consisting of 1,500,000 shares of Common Stock and Warrants to acquire 1,125,000 shares of Common stock at a price of $1.35 per share. The Holder of the Note is a major shareholder of the Company. The proceeds from the Note were used in the Company s acquisition program.

In 2004, the Company received $1,000,000 in proceeds from the issuance of a Subordinated Convertible Promissory Note. The note bears an interest rate of 6% and was initially due on March 31, 2007, but its term has been extended to March 31, 2008. Interest accrues yearly and along with principal may be converted into Common Stock, (and/or securities convertible into common shares). The note is convertible into 1,000,000 Units consisting of 1,000,000 shares of Common Stock and Warrants to acquire 750,000 shares of Common Stock at a price of $1.35 per share. The note holder is a major shareholder of the Company.

During 2004, the Company entered into an agreement with an investment banking firm to raise equity via a private placement of the Company s common stock. In July 2004 the Company issued 1,581,000 Units consisting of 1,581,000 shares and warrants to acquire an additional 1,185,750 shares at $1.35 per share. In addition, 262,276 Warrants were issued to Casimir Capital, LP, the placement agent for the private placement. Casimir Capital earned commissions of $142,391 as the underwriter of this private placement. This private placement resulted in net proceeds to the Company of approximately $1,173,000. The funds were utilized in the furtherance to the company s M&A program, capital equipment purchases and to meet general working capital requirements. The issued shares and shares underlying warrants were subsequently registered under an S-1 Registration filing.

Capital expenditures, including internal labor and overhead charges, for the years ended December 31, 2006, 2005 and 2004 were approximately $987,000, $454,000, and $1,014,000, respectively. Capital expenditures in 2006 and 2005 were used for the acquisition of manufacturing and test equipment and the build up of tooling for new customer requirements. A major portion of the 2004 capital expenditures were for the relocation and integration of the Laser Optics Bethel operations into the Northvale facility. Approximately $600,000 was used in this facility rearrangement and expansion, including $190,000 of capitalized internal labor and overhead. Additional large capital expenditures for that year included a certain production-critical instrument for lens assembly, upgraded coating equipment in the Laser Optics business unit, and metrology equipment and computer hardware and software upgrades.

A summary of the Company s contractual cash obligations at December 31, 2006 is as follows:

Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**Greater Than 5 Years**
Notes payable	$ 1,700,000	$	$ 1,700,000	$	$
Convertible notes payable	3,500,000		3,500,000		
Notes payable-other, including interest	1,487,349	155,091	432,194	297,648	602,416
Operating leases	992,235	563,262	428,973		
Capital leases, including interest	262,397	213,256	49,141		
Total contractual cash obligations	$ 7,941,981	$ 931,609	$ 6,110,308	$ 297,648	$ 602,416

Overview of Financial Condition as of December 31, 2006, 2005 and 2004

As shown in the accompanying financial statements, the Company reported net income of approximately $772,000 in fiscal year 2006 and losses of approximately ($11,000) in 2005, and ($673,000) in 2004, respectively. During 2006, 2005 and 2004, the Company s working capital requirements were provided by positive cash flow from its operations.

Net cash provided by operations was $2,672,000 in 2006, $360,000 in 2005, and $632,000 in 2004. The significantly higher operating cash flow for 2006 resulted from the increase in net income and the higher level of customer advances received during the year on certain long term contracts. Operating cash flow in 2005 was lower than in the prior year due to, in part, the need to fund increases in accounts

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receivable resulting from the higher sales levels and to increased working capital requirements at its new MRC Optics subsidiary during the first half of 2005.

The Company has made progress in transforming itself into a portfolio of businesses serving the Photonics industry. The Company assesses merger and acquisition opportunities from time to time, and seeks financing from time to time in the private equity and public equity financial markets. The Company s first acquisition was completed in November 2003 and the necessary capital was raised in part via the $1,500,000 subordinated convertible note. Additional financing was obtained in 2004 via placement of a $1,000,000 convertible note proceeds of approximately $1,173,000 from a private placement of units consisting of the Company s common stock and warrants. These funds were earmarked for acquisitions and capital expenditures, and were partially used to complete its second acquisition in 2004.

The Company continues to seek new opportunities to increase sales and minimize expenses and cash requirements, in order to improve future operating results and cash flows. Management expects that cash flow from operations and use of available cash reserves will provide sufficient liquidity to fund the Company s operations, working capital requirements and capital expenditure plans in 2007.

No assurances can be given that the Company will be able to identify and acquire appropriate targets for acquisition or merger, or to raise the capital required for any such acquisition. Additional capital from financings may be needed if it were to make further acquisitions.

Quantitative and Qualitative Disclosures About Market Risk

The Company believes that it has limited exposure to changes in interest rates from investments in certain money market accounts. The Company does not utilize derivative instruments or other market risk sensitive instruments to manage exposure to interest rate changes. The Company believes that a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of the Company s interest sensitive money market accounts at December 31, 2006.

Financial Statements and Supplementary Data

The financial statements and supplementary financial information required to be filed under this Item are presented commencing on page F-1 of the Annual Report on Form 10-K, and are incorporated herein by reference.

Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

Controls and Procedures

Background to Matters related to Controls and Procedures Resulting in Filing of 10-K/A

In the second quarter of 2006, the Company discovered that over a period of approximately six years, from the second quarter of 2000 through the second quarter of 2006, Mr. William Miraglia, the Company s former chief financial officer, had engaged in unauthorized and personal transactions totaling approximately $860,000. This included unauthorized charges on the Company s debit card of approximately $711,000. In addition, the investigation by the audit committee arising from these discoveries revealed inadequate internal controls with respect to the Company s handling of disbursements by check and its corporate debit card. The audit committee investigation concluded that Mr. Miraglia acted alone and there was no evidence implicating any other employees, in these or any other unauthorized and personal transactions. Mr. Miraglia had created a control environment that contributed to the failure of Company employees charged with certain financial and accounting duties to

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exercise appropriate judgment, skepticism and objectivity in detecting and preventing these unauthorized personal transactions by Mr. Miraglia. As a result of the foregoing discoveries, Mr. Miraglia was terminated for cause from his employment with the Company on June 14, 2006.

The Company filed a claim to recover a portion of these losses under its employee dishonesty insurance policy, to the extent permitted as a result of policy limits on time and amounts of coverage. This claim has been settled and the company recovered $300,000 from our insurance carrier, which is the policy limit and which has been reflected in the Company s financial results for 2006. Upon termination of his employment, Mr. Miraglia signed an agreement to make restitution to the Company. To date, he has repaid $5,000. In light of a number of factors, the Company does not believe that any significant recoveries from Mr. Miraglia are likely in the near term, but the Company is keeping all of its options open. The Company has been cooperating with the U.S. Attorney s office in its investigation into this matter.

Disclosure controls and procedures

The Company carried out an evaluation with the participation of the Company s management, including our Chief Executive Officer and current Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15, as of the end of the period covered by this Annual Report on Form 10-K. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including our CEO and CFO, as appropriate.

At the time of the filing our Annual Report on Form 10-K for the fiscal 2005, our Chief Executive Officer and former Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2005. Subsequent to that evaluation, our Chief Executive Officer and current Chief Financial Officer concluded that our disclosure controls were not effective in ensuring that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms, as of December 31, 2005, because of the internal control inadequacies discussed above. However, based upon the substantial work performed as a result of the audit committee investigation of Mr. Miraglia s actions, management has concluded that the Company s consolidated financial statements for the periods covered by and included in the Annual Report on Form 10-K are fairly stated in all material respects.

Changes in internal controls over financial reporting

In light of the foregoing discoveries resulting from the investigation and from management s review of its internal control procedures during 2006, the Audit Committee directed the Company to take a number of steps to strengthen its internal controls, including (a) recall and cancellation of the corporate debit card and (b) implementation of a policy requiring two authorized signatures on all checks in amounts of $5,000 or more. These changes have been implemented. The Company has extended this policy to all wire transfers initiated from its bank. In addition, a joint meeting with the accounting staff, the Chief Executive Officer and the new Chief Financial Officer was conducted to review internal controls and procedures, to promote a control environment that emphasizes appropriate judgment, skepticism and objectivity and to reinforce each employee s responsibility to report unusual or suspicious financial transactions to an independent officer or member of the Audit Committee.

Other initiatives to further strengthen internal controls have been implemented by the Company. These include but are not limited to: (i) establishing a written ethics policy to cover all employees which supplements the existing policy that covers senior financial executives and members of the Board of Directors, (ii) improving internal procedures for reporting suspected ethics violations, and (iii) extending

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the requirement for the written approval of business expenses to corporate officers expense reports and, (iv) identification and documentation of all critical internal controls within an Internal Control Policies and Procedures Manual.

Except as stated above, there were no other changes in our internal control over financial reporting that occurred during our current fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Other Information

None.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the name and age of each director of the Company, the period during which each such person has served as a director and the positions and business experience of each such person:

Name and Age	Since	Positions; Business Experience
John C. Rich, 69	2000	Chairman of the Board of Directors (September 2004 to present) Director (2000 to August 2004) Vice President/General Manager Power Electronics Division, C&D technologies (1999-2002) President, Raytheon/GM Hughes Optical Systems (1990-1999) Vice President), Perkin Elmer Microlithography, Electro-Optics, and Systems (1983-1989) Colonel, Commander, Air Force Avionics Laboratory and Air Force Weapons Laboratory (Ret.)
Daniel Lehrfeld, 63	1999	Director (1999 to present) President and Chief Executive Officer (2000-present) President and Chief Operating Officer (1999-2000) Vice President/General Manager Raytheon/GM Hughes Electro-Optics Center, (1995-1999) President, New England Research Center, (1989-1991) Deputy General Manager, Magnavox Electronic Systems, Division Philips Electronics, NV (1989-1995)
Luke P. LaValle, Jr., 65	2006	Director (2005 to present) President and CEO, American Capital Management Inc. (1980 to present) Senior investment officer, United States Trust Company of NY (1967-1980) Lt. Colonel, US Army Reserve (Ret.)
Thomas H. Lenagh, 81	1998	Director (May 2000 to present) Chairman of the Board of Directors (May 2000 August 2004) Management Consultant (1990 - present) Past Chairman and CEO, Systems Planning Corporation Treasurer and Chief Investment Officer, The Ford Foundation Captain, US Navy Reserve (Ret.)