CONCORD CAMERA CORP
Form 10-K
September 27, 2007

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2007

Commission File No. 0-17038

Concord Camera Corp.
(Exact name of registrant as specified in its charter)

New Jersey	13-3152196
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)

4000 Hollywood Boulevard, Presidential Circle - 6th Floor, North Tower, Hollywood, Florida	33021
(Address of principal executive offices)	(Zip Code)

(954) 331-4200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value per share	The NASDAQ Stock Market LLC
(Title of class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes |_| No |X|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes |_| No |X|

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated" in Rule 12b-2 of the Exchange Act.
Large accelerated filer |_| Accelerated filer |_| Non-accelerated filer |X|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes |_| No |X|

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 29, 2006, the last day of business of our most recently completed second fiscal quarter, was approximately $17,790,988 based on the closing price for

the registrant's common stock as traded on the NASDAQ Global Market of The NASDAQ Stock Market LLC on such date of $4.50 per share. Solely for the purpose of this calculation, shares held by directors, executive officers and 10% shareholders of the registrant have been excluded.

As of September 5, 2007, there were 5,847,408 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2007 Annual Meeting of Shareholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

Item		Page
	PART I	
1.	Business	2
1A.	Risk Factors	7
1B.	Unresolved Staff Comments	16
2.	Properties	16
3.	Legal Proceedings	17
4.	Submission of Matters to a Vote of Security Holders	19
	PART II	
5.	Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	20
6.	Selected Financial Data	22
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
7A.	Quantitative and Qualitative Disclosures About Market Risk	36
8.	Financial Statements and Supplementary Data	38
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	75
9A.	Controls and Procedures	75
9B.	Other Information	75
	PART III	
10.	Directors and Executive Officers and Corporate Governance	76
11.	Executive Compensation	76
12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	76
13.	Certain Relationships and Related Transactions and Director Independence	76
14.	Principal Accountant Fees and Services	76

PART IV

15. Exhibits and Financial Statement Schedules 77

Signatures 87

PART I

Unless the context indicates otherwise, when used in this report, "we," "us," "our," "Concord" and the "Company" refer to Concord Camera Corp. and its subsidiaries. Our fiscal year ends on the Saturday closest to June 30. Fiscal 2007 refers to the fiscal year ended on June 30, 2007; fiscal 2006 refers to the fiscal year ended July 1, 2006; fiscal 2005 refers to the fiscal year ended July 2, 2005; fiscal 2004 refers to the fiscal year ended July 3, 2004; fiscal 2003 refers to the fiscal year ended June 28, 2003. Also for reference purposes, the Company's fiscal year ending on June 28, 2008 is designated as "fiscal 2008."

Cautionary Statement Regarding Forward-Looking Statements

The statements contained in this report that are not historical facts are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995), which can be identified by the use of forward-looking terminology such as: "estimates," "projects," "anticipates," "expects," "intends," "believes," "plans," "forecasts" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors. For a discussion of some of the factors that could cause actual results to differ, see the discussion under "Risk Factors" below and subsequently filed reports. We wish to caution the reader that these forward-looking statements, including, without limitation, statements regarding expected cost reductions, anticipated or expected results of the implementation of our cost-reduction initiatives and new business initiatives, anticipated financial benefits of de-emphasizing the sale of digital cameras and increasing our focus on the sale of single-use and 35mm traditional film cameras, the development of our business, anticipated revenues or capital expenditures, our ability to improve gross margin percentages on the sale of our products, projected profits or losses, the expected market size for single-use and 35 mm traditional film cameras, our expected fulfillment of backlog orders, our assessment of and estimates of royalty payments in connection with intellectual property claims, our remediation of our material weaknesses in our internal control over financial reporting, the sufficiency of our working capital and cash to fund our operations in the next twelve months, our belief regarding the lack of merit in pending litigations, coverage from our insurance carrier in connection with pending litigations and our expectation that there is no material tax exposure to the company on account of our operations in the People's Republic of China ("PRC"), and other statements contained in this report regarding matters that are not historical facts, are only estimates or predictions. No assurance can be given that future results will be achieved. Actual events or results may differ materially as a result of risks facing us or actual results differing from the assumptions underlying such statements. In particular, our expected results could be adversely affected by, among other things, production difficulties or economic conditions negatively affecting our suppliers, customers or the market for our products, by our inability to develop and maintain relationships with suppliers, customers or licensors or by our inability to negotiate favorable terms with our suppliers, our customers or

licensors. Obtaining the results expected from the introduction of any new products or product lines may require successful and timely completion of development, successful and timely ramp-up of full-scale production and customer and consumer acceptance of those products. In addition, future relationships or agreements may require an ability to meet high quality and performance standards, to successfully implement and sustain production at greatly increased volumes, as to all of which there can be no assurance. There also can be no assurance that products and new business initiatives under consideration or development will be successfully developed or that once developed such products and initiatives will be commercially successful. Any forward-looking statements contained in this report represent our estimates only as of the date of this report, or as of such earlier dates as are indicated herein, and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

Item 1. Business.

We incorporated in New Jersey in 1982. We design, develop, manufacture, outsource and sell worldwide easy-to-use single-use and 35mm traditional film cameras. We manufacture and assemble most of our single-use cameras and certain of our 35mm traditional film cameras at our manufacturing facilities in the Peoples Republic of China ("PRC") and outsource the manufacture of certain of our single-use and 35mm traditional film cameras for sale to retail sales and distribution ("RSD") customers. We sell our private label and brand-name products to our RSD customers worldwide either directly or through third-party distributors.

During fiscal 2005, we experienced a substantial reduction in single-use camera sales to design and manufacturing services ("DMS") customers, primarily as a result of the decision of Eastman Kodak Company ("Kodak") to cease purchases of single-use cameras under its two DMS contracts with us. Although we continued to seek and evaluate DMS single-use camera business opportunities, DMS sales in fiscal 2007 and fiscal 2006 were not material.

In fiscal 2004, we initiated a strategic review process to determine how we may better compete in the digital camera market, increase sales of our popular single-use cameras and reduce our operating costs. The strategic review, which continued through fiscal 2007, led to our initiating a restructuring plan and cost-reduction initiatives and resulted in our exiting the digital camera market. During the first quarter of fiscal 2007, we sold a limited quantity of digital cameras as a result of fulfilling certain customer orders placed in the fourth quarter of fiscal 2006. Also, during fiscal 2007, we eliminated most of our digital camera inventories, maintaining only sufficient quantities to satisfy consumer warranties. You can find more information on our cost-reduction initiatives and our fiscal 2007 results of operations in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

In fiscal 2005, we initiated a new business initiative to identify, assess and, as appropriate, commercialize new business opportunities and products. As a result of this initiative, we have introduced a limited number of new products. For additional information, see, "New Business Initiatives" below.

The mailing address of our headquarters is 4000 Hollywood Boulevard, 6th Floor, North Tower, Hollywood, Florida 33021, and our telephone number is (954) 331-4200. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and our proxy statements are available free of charge on our Internet website, at

http://www.concord-camera.com, as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). The information found on our website is not part of this or any other report we file with or furnish to the SEC.

The Film Camera Market

We manufacture, market and sell single-use and 35mm traditional film cameras to our RSD customers.

- Single-use cameras - Single-use cameras are inexpensive, easy-to-use cameras that are sold preloaded with film and batteries and are designed to be used only once by the consumer. After use, the consumer returns the entire camera to the photo processor. The processor then extracts the film and either disposes of the used camera or returns and/or sells it for recycling uses.

- 35mm traditional film cameras - This category includes reloadable cameras that use 35mm silver halide film.

Film Camera Market Trends

Market trends for single-use and 35mm traditional film cameras include the following:

- Single-use cameras - According to available third-party market research data, after years of robust growth, the single-use camera market reached its peak of 450 million units sold worldwide in calendar year 2004. Total worldwide sales of single-use cameras declined to 409 million units in calendar year 2005, declined to 366 million units in calendar year 2006 and are projected to decline to 309 million units in calendar year 2007. We believe, however, that single-use cameras remain a large and viable category. We also believe that we are currently the third largest producer of single-use cameras in the world. (Market Research Source-PMA 7-2006)

- 35mm traditional film cameras - 35mm traditional film cameras are being displaced by digital cameras. In the U.S. market, digital cameras began to outsell film cameras in calendar year 2005. The calendar year 2005 35mm traditional film camera sales in the United States were reported at 4.3 million units, a 36% decrease from the previous year. The decline of 35mm traditional film cameras continued during calendar year 2006 at approximately 51% and is projected to decline during calendar year 2007, with sales projected at 1.2 million units, which represents about a 43% year-over-year decrease in sales. In fiscal 2006, total sales of 35mm traditional film cameras in the U.S. represented approximately 17.5% of the total image capture product sales in the U.S. and are expected to be approximately 10% in the U.S. during calendar year 2007. (Market Research Source-PMAI 2006 Newsletter) In response to the declining market for 35mm traditional film cameras, in fiscal 2006, we reduced our 35mm traditional film camera offerings to two models. During fiscal 2007, we continued to focus our sales effort on these two models, which provide features that satisfies different consumers' needs at affordable retail prices below $25.

Based on the market trends discussed above, we believe that the market for single-use cameras remains a viable market for our company. As a result, we are

focusing on increasing our sales of single-use cameras through various sales and marketing initiatives and reducing our product costs, while maintaining product performance and quality.

Film Camera Products

Our film camera products include single-use and 35mm traditional film cameras. We sell private label and brand-name products to our RSD customers worldwide either directly or through third-party distributors. We design, develop and manufacture most of our single-use cameras and outsource the manufacture of certain of our single-use and 35mm traditional film cameras.

We offer a complete line of single-use cameras, including outdoor, flash, zoom and underwater models. We believe that we are uniquely structured to provide encasements, finishes, packaging and film speed and lengths to accommodate different user and customer preferences.

Our 35mm traditional film cameras range from entry-level to fully featured zoom models and include models used by certain RSD customers to support special promotion and loyalty programs offered to their customers.

Our expenditures for product engineering, design and development decreased to $2.5 million in fiscal 2007 from $3.8 million in fiscal 2006, mainly as a result of our discontinuing digital camera sales. For additional information regarding product development costs, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Sales and Marketing

Our film camera products are sold to retailers on a worldwide basis through direct sales offices, independent sales representatives and distributors in the United States, Canada, Latin America (the "Americas"), the United Kingdom, France and Germany ("Europe"), and Hong Kong, China and Japan ("Asia"). We currently market our film camera products to retailers on a private label basis and/or under the Polaroid and Polaroid Fun Shooter brand names.

We have established our presence with our retail customers by offering attractive, easy-to-use single-use and 35mm traditional film cameras. We market many different styles of cameras that are sold through many retail outlets.

We have in-house sales and marketing personnel who make the majority of our direct sales to our RSD customers. We also have independent sales representatives who serve specific geographic areas. Sales representatives generally receive commissions ranging from 1.0% to 3.0% of net sales to retail customers, depending on the type of customer and product, and may act as sales representatives for manufacturers of other photographic and non-photographic products. We also sell products to distributors on a wholesale basis who, in turn, sell our products to retailers.

Competition in the Film Camera Market

The film camera market is highly competitive with many companies marketing products to the retail market. As a producer and/or marketer of single-use and 35mm traditional film camera products, we encounter substantial competition from a number of companies, many of which have longer operating histories, more established markets and brand recognition, and more extensive research, development and manufacturing capabilities than we have. Our key competitors in the single-use camera market are Fuji and Kodak, both of whom have greater

resources than we have or may reasonably be expected to have in the foreseeable future. Maintaining a competitive advantage depends on our ability to develop and manufacture or purchase high quality products from outsourced manufacturers at the lowest cost.

Backlog

Due to the lead time required for production and shipping and the need to build inventory to meet seasonal demand, we may at times have a backlog of orders for products. We define backlog as unfulfilled orders supported by signed contracts or purchase orders for delivery of our products generally within the next six months. Our backlog at June 30, 2007 was approximately $10.2 million. We experience fluctuations in our backlog at various times during our fiscal year. We expect that approximately $9.7 million of the unfulfilled orders at June 30, 2007 will be shipped during the first quarter of fiscal 2008. Although we believe that our entire backlog consists of firm orders, our backlog as of any particular date may not be indicative of actual revenue for any future period because of the possibility of customer cancellations, order changes, changes in delivery schedules and delays inherent in the shipments of products. No assurance can be given that the current backlog will necessarily lead to revenue in any specific future period.

Major Customers

In fiscal 2007, sales to two of our retail customers represented in excess of 10% of our total net sales: (i) Wal-Mart Stores, Inc. ("Wal-Mart") represented 40.9% of total net sales; and (ii) Walgreen Co. ("Walgreens") represented 20.8% of total net sales. See Note 18, Geographic Area and Significant Customer Information, in the Notes to Consolidated Financial Statements.

4

Seasonality

Sales of our film camera products are linked to the timing of vacations, holidays and other leisure activities. Sales are normally strongest in the first and second quarters (summer, fall and early winter) of our fiscal year when demand is high as retailers prepare for the holiday season. Sales are also strong in the fourth quarter of our fiscal year (spring to early summer) due to demand driven by heavy vacation activity and events such as weddings and graduations. Sales are normally lowest in the third quarter of our fiscal year (winter to early spring) with the absence of holidays and fewer people taking vacations.

Licensing Activities

We have a worldwide non-exclusive license (which excluded Japan until January 1, 2005) to use certain of the single-use camera patents and patent applications of Fuji Photo Film Ltd. ("Fuji") in connection with the manufacture, remanufacture and sale of single-use cameras. The license extends until the later of February 26, 2021 or the expiration of the last of the licensed Fuji patents and provides for payment of a license fee and certain royalty payments to Fuji. Our ability to manufacture and sell single-use cameras may depend on the continuation of our right to use the Fuji patents. As a result, we believe the loss of the Fuji license prior to the expiration of the patents would have a material adverse effect on our financial position and results of operation.

We have the worldwide, exclusive right to use the Polaroid brand name and trademark in connection with the manufacture, distribution, promotion and sale of single-use and traditional film-based cameras, including zoom cameras and

certain related accessories but excluding instant and digital cameras, except for products released by Polaroid Corporation ("Polaroid") into the distribution chain before August 26, 2002. The single-use camera license agreement expires on February 1, 2009 and provides for the payment of $3.0 million of minimum royalties to Polaroid, which will be fully credited against percentage royalties. As of July 1, 2007, we paid $2.5 million of the minimum royalties. The traditional film camera license agreement expires on January 31, 2009 and provided for a minimum royalty payment of $50,000 to Polaroid on or before October 31, 2006, which was fully credited against percentage royalties during the first year of the term ended January 31, 2007. There are no minimum guaranteed royalty payments under the traditional film camera license agreement after the first year of the term. As of July 1, 2006, our traditional film camera percentage royalties exceeded the minimum royalty amount. We believe that the loss of the Polaroid license could have a material adverse effect on our financial position and results of operations.

As part of our acquisition of Jenimage Europe GmbH ("Jenimage") in 2004, we entered into a twenty-year, worldwide trademark license agreement with Jenoptik AG for the exclusive use of the JENOPTIK brand name and trademark on non-professional consumer imaging products including, but not limited to, digital, single-use and traditional film cameras, and other imaging products and related accessories. The license provides for the payment of percentage royalties but does not require any minimum guaranteed royalty payments.

For further discussion of our license and royalty agreements, see Note 14, Commitments and Contingencies, "License and Royalty Agreements," in the Notes to Consolidated Financial Statements.

5

Manufacturing

We conduct all of our manufacturing in the PRC. Our vertically integrated manufacturing facilities include plastic injection molding of lenses and other parts, stamping and machining of metal parts, manufacturing of printed circuit boards ("PCBs"), assembly of PCBs using surface mount technology machinery and manual insertion, quality control, quality assurance, painting and final assembly and testing. In fiscal 2007, as a result of our previous restructuring plan, our manufacturing facility focused predominantly on the manufacture of high volume, low cost single-use cameras.

Our manufacturing and related dormitory facilities in the PRC occupy approximately 600,000 square feet. See Item 2, Properties, for information on the leases and land use agreements related to our manufacturing facilities in the PRC. Our PRC manufacturing facilities have been certified under the Social Accountability 8000 standard ("SA8000") since November 2001. The SA8000 is an international standard designed to ensure safe working conditions, fair management practices and the protection of workers' rights. Our PRC manufacturing facilities are ISO 9000 and 9001 accredited.

In addition, we outsource the manufacture of certain of our film cameras and other products.

Equipment, Components, Raw Materials and Products from Outsourced Manufacturers

We own the tools and equipment necessary to manufacture a significant number of our single-use camera products and components used in our single-use camera products. Manufacturers and suppliers located in the Far East and other parts of the world supply us with raw materials, components and finished products that we do not manufacture. We may experience a shortage of supply of, or a delay in,

receiving certain components and products as a result of strong demand, capacity constraints, diminishing sources of supply or other problems experienced by our suppliers. Our net sales, gross profits and margins could be adversely affected if we encounter supplier issues and/or fail to manage supplier issues properly. See Item 1A, Risk Factors.

PRC Operations

Our operations are substantially dependent upon our manufacturing and assembly activities in the PRC. Our current processing agreement with the PRC governmental entities, which allows us to operate in the PRC, was renewed in October 2006 for an additional ten-year term until October 2016. See Item 2, Properties, for information on the leases and land use agreements related to our manufacturing facilities in the PRC.

In 2002, we established, registered and commenced operations of a wholly-owned foreign enterprise, Concord Camera (Shenzhen) Company Limited ("Concord Shenzhen"), which is a wholly-owned subsidiary of Concord Camera HK Limited ("CCHK"), pursuant to the laws of the PRC relating to enterprises with a sole foreign investor. The business license of Concord Shenzhen permits it to design, develop, manufacture and sell single-use, 35mm traditional film and digital cameras and camera components in the PRC and worldwide.

Trademarks and Patents

Our trademarks include, among others, CONCORD, CONCORD EYE Q, GO WIRELESS, FUN SHOOTER, EASYSHOT, LE CLIC, KEYSTONE, APEX and GOLDLINE for cameras sold in the United States and/or numerous foreign countries. We license the POLAROID trademark for exclusive use worldwide in connection with the manufacture, distribution, promotion and sale of single-use and traditional film cameras (excluding instant and digital cameras). We also license the JENOPTIK trademark for exclusive use worldwide for non-professional consumer imaging products and accessories (both digital and film-based). We own numerous patents, some of which are used in our current products.

We have applied for, and will continue to apply for, in the United States and foreign countries, patents to protect the inventions and technologies developed by or for us. We do not believe our competitiveness and market share are dependent on the ultimate disposition of our patent applications. We license patents and patent applications related to single-use cameras from Fuji in connection with the manufacture and sale of single-use cameras. See "Licensing Activities" above.

New Business Initiatives

During fiscal 2005, we initiated a process to identify, assess, quantify and define new products and services potentially capable of increasing our sales and building a profitable business on a sustainable basis. With this objective, we evaluated opportunities that we had identified based on their industry attractiveness, competitive dynamics, channel compatibility and potential for providing a profitable business model. We conducted quantitative and qualitative research, during which we exposed various target audiences to our unique product concepts and obtained their feedback to inquiries regarding purchase intent, channel preference and price sensitivity.

We believe a market opportunity exists in the area of personal safety for products that provide peace-of-mind to a broad base of consumers at an affordable price. In August 2006, we introduced a new product, OnGuard Kids, a

personal safety alert system for children aged five years and older that combines a fashionable digital watch with a 110 decibel emergency alarm signal that can easily be activated by children to call for help in an emergency. We are now marketing and selling the product to new and existing RSD consumers in the Americas and Europe.

Although the product is suitable for teen-agers and young adults, we are initially targeting the five to twelve-year-old market. Based on U.S. Census Bureau data, there are approximately 36 million children in the United States between the ages of five and thirteen years old.

Employee Relations

As of August 10, 2007, we had 108 employees, of whom 54, or 50.0% were located in Hong Kong, 7, or 6.5%, were located in Europe and 47, or 43.5%, were located in the Americas. We currently have one collective bargaining agreement covering one employee in France that has no stated expiration date. During fiscal 2007, pursuant to our agreements with PRC governmental entities, and based upon production demand, approximately 1,600 to 3,100 people worked in our PRC manufacturing facilities. We believe that our relationship with our employees and workers is satisfactory.

Financial Information about Geographic Areas

For financial information about geographic areas, see Note 18, Geographic Area and Significant Customer Information, in the Notes to Consolidated Financial Statements. The risks attendant to our foreign operations are described in Item 1A, Risks Factors, below.

Item 1A. Risk Factors.

You should carefully consider the following risks regarding our company. These and other risks could materially and adversely affect our business, results of operations or financial condition. You should also refer to the other information contained or incorporated by reference in this report.

We depend on third-party suppliers, and our net sales, gross profits and margins could be adversely affected if we encounter supplier issues and/or fail to manage supplier issues properly.

We currently purchase certain components from our suppliers and outsource the manufacture of certain of our single-use and 35mm traditional film camera and other products for sale to our customers worldwide. The term "components" includes film, batteries, packaging and any other items used in the manufacture of our products by our company or outsourced manufacturers. Our manufacturing, sales and distribution operations depend on our ability to anticipate our needs for components and products and our suppliers' ability to deliver sufficient quantities of quality components and products at reasonable prices in time to meet critical manufacturing, sales and distribution schedules. Given the variety of products that we offer and might offer in the future, the dispersal of our suppliers and outsourced manufacturers across the globe, the diminishing number of our suppliers of certain components and the long lead times that are required to manufacture, assemble and deliver certain components and products, adverse circumstances, issues and problems could arise in planning production, procurement and managing inventory levels that could negatively impact our business and increase our financial exposure and risk. Other supplier problems that we could face include component and product shortages, excess supply and risks related to fixed-price contracts that would require us to pay more than

the open market price, as more fully described below.

- o Supply shortages. We may experience a shortage of supply of, or a delay in receiving, certain components and products as a result of strong demand, capacity constraints, diminishing sources of supply or other problems experienced by suppliers. If shortages or delays occur or persist, the price of these components and products may increase, we may be exposed to quality issues or the components and products may not be available at all. We may not be able to secure enough components and/or products at reasonable prices or of acceptable quality to build, sell and distribute new products in a timely manner in the quantities or configurations needed. Accordingly, our revenue, gross profits and margins could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we may have to re-engineer and/or seek other sources for some components and products, resulting in additional costs, delays or insufficient supply of products for our customers. The number of film suppliers has diminished and we currently rely on our two major competitors in the single-use camera market to supply the majority of the film used in the manufacture of our single-use cameras. If either of these suppliers reduces or eliminates its supply of film to us and we are unable to secure film from alternative sources at reasonable prices or of acceptable quality, we will not be able to manufacture the quantities of single-use cameras necessary to fulfill our customer orders and our financial condition and results of operations would be materially adversely affected.

- o Oversupply. In order to secure products or components for the production of products, at times we may make advance payments to suppliers or might purchase components in advance of forecasted requirements, or we may enter into non-cancelable commitments with suppliers. If we fail to properly anticipate customer demand, an oversupply of products and/or components could result in excess or obsolete inventory. This excess or obsolete inventory may result in lowering the carrying value of these components and/or products by recording an inventory charge which could adversely affect our gross profits and margins.

- o Long-term pricing commitments. As a result of binding price or purchase commitments with suppliers, we may be obligated to purchase components and/or products at prices that are higher than those available in the current market and be limited in our ability to respond to changing market conditions. In the event that we become committed to purchase components and/or products in advance of forecasted requirements and/or for prices in excess of the current market price, we may be at a disadvantage to competitors who have access to components and/or products at the times required and/or at lower prices. This excess in component purchases and in purchase price over current market

price may result in lowering the carrying value of those components and/or products by recording an inventory charge that could adversely affect our gross profits and margins.

In many instances, we rely on offshore suppliers, including, but not limited to, manufacturers in the PRC, for the production of cameras and other products and other suppliers in Asia for product assembly and manufacture. Regional economic, business, environmental, political, medical or military conditions or events could disrupt supplies in foreign locations.

We are dependent on third-party service providers to provide distribution facilities for all of our operations in the United States, Latin America and Europe.

The warehousing and distribution services for our (i) United States and Latin American operations are handled from two distribution facilities operated by third-party service providers in San Pedro, California and Memphis, Tennessee; and (ii) European operations are currently handled from a distribution facility operated by a third-party service provider in the Netherlands and are being transitioned to a third-party distribution facility in the United Kingdom. Our products are prepared for shipment and shipped to our customers by such third-party service providers at these distribution facilities. Any failure by these third-party service providers to maintain a regular flow of products from us to our customers or any significant interruption in the business of these service providers or the operation of these distribution facilities due to natural disasters, accidents, system failures, work stoppages or other causes would have a material adverse effect on our business, financial condition and results of operations. Additionally, if the cost of these services increases, our gross profits and margins could suffer.

We face significant risks related to the single-use and 35mm traditional film camera markets.

Based upon available third-party market research data, the single-use camera market is in decline and the 35mm traditional film camera market is in significant decline and is expected to continue to decline further. See Item 1, Business, "Film Camera Market Trends," above. As discussed in this report, we are concentrating on increasing sales of our single-use camera products. There is no assurance, however, that our single-use camera sales will increase, or that, even if they do increase, that we will be profitable or that we will be able to maintain our market share in the single-use and 35mm traditional film camera markets.

The camera and photographic products industry is highly competitive.

As a manufacturer, marketer and distributor of single-use and 35mm traditional film cameras, we encounter intense competition from a number of companies, including, without limitation, Fuji, Kodak and other single-use camera manufacturers, each of which has or may have longer operating histories, more established markets, better brand recognition, more extensive facilities and, in some cases, greater resources than we have. Maintaining a competitive advantage against our competitors depends on our ability to develop and manufacture or purchase from outsourced manufacturers high quality cameras at the lowest cost and our ability to market and sell cameras profitably. These competitive pressures may result in decreased sales volumes, price reductions, and/or increased operating costs, such as for marketing and sales incentives, resulting in lower revenues, gross margins and income.

We are dependent on a small number of customers.

We have a small number of customers that represent a high percentage of our revenues. Our products are sold in very competitive markets. Our competitors may adopt more aggressive policies and devote greater resources to the development, promotion and sale of their products, which could result in a loss of sales or of customers. The loss of sales or of one or more of these important customers could have a material adverse effect on our business, results of operations and financial condition. The loss of Wal-Mart or Walgreens as customers would have a

material adverse effect on our financial condition and results of operations.

We are exposed to credit risk associated with sales to our customers.

We sell a significant number of products to a small number of customers. Receivables arising from these sales are generally not collateralized. We monitor the creditworthiness of our customers and review outstanding receivable balances for collectibility on a regular basis and record provisions for doubtful accounts, sales allowances and sales returns, as necessary. If we are unable to collect or timely collect outstanding receivables from our customers or our customers seek protection from their creditors under the federal bankruptcy code or applicable foreign bankruptcy regulations, our business and results of operations may be materially adversely affected.

Our new business initiatives may not succeed.

During the normal course of our business, we evaluate, develop and implement various short-term and long-term business strategies such as our new business initiatives, discussed in Part II, Item 7, Managements Discussion and Analysis of Financial Condition and Results of Operations. These strategies required, and may continue to require, significant financial and human resources. There can be no assurance that any such strategies, if implemented, will be successful. The failure of such strategies could have a material adverse effect on our business.

We may not be able to identify and integrate future acquisitions.

We may pursue strategic acquisitions that we consider reasonable in light of the revenues and the results of operations we believe we will be able to achieve from these acquisitions, once combined and integrated with us. We compete for acquisitions with other industry competitors, some of which have greater financial and other resources than us. Increased demand for acquisitions may result in fewer acquisition opportunities for us as well as higher acquisition prices. Although we believe opportunities may exist for us to grow through acquisitions, we may not be able to identify and consummate acquisitions on acceptable terms. If we do acquire another company or companies, we may not be able to profitably manage and successfully integrate the acquired company or companies with our operations, sales and marketing efforts without substantial costs or delays. Acquisitions involve a number of potential risks, including the potential loss of customers and contracts, increased leverage and debt service requirements, combining disparate company cultures and facilities and operating in geographically diverse markets. An inability to identify and/or integrate future acquisitions may have a material adverse effect on our financial condition and results of operations.

Our internal control over financial reporting may be insufficient to detect in a timely manner misstatements that could occur in our financial statements in amounts that may be material.

We have previously identified material weaknesses in our internal control over financial reporting. We believe that all ten material weaknesses in our internal control over financial reporting that we identified as of July 2, 2005 were remediated as of June 30, 2007. We may, however, continue to experience significant deficiencies and material weaknesses in our internal control over financial reporting in the future, which, if not remediated, may render us unable to detect in a timely manner misstatements that could occur in our financial statements in amounts that may be material and which may require significant financial and human resources to address and remediate.

For a discussion of our remediation efforts, see Item 9A, Controls and Procedures, below and the periodic reports that we previously filed with the SEC.

We may not continue to meet NASDAQ listing standards regarding minimum per-share prices.

Under NASDAQ continued listing standard one (Rule 4450(a)), companies listed on the NASDAQ Global Market are required to have, among other criteria, a minimum per-share price of at least $1.00. A company may be de-listed from the NASDAQ Global Market if its common stock trades below $1.00 per share for 30 consecutive business days and, after receiving a deficiency notice from NASDAQ, does not maintain a minimum bid price of at least $1.00 for 10 consecutive trading days within a period of 180 days from the date of such notice.

If our common stock is de-listed from NASDAQ, we will face a significant reduction in the liquidity of our common stock and a material reduction in the per-share price of our common stock. In addition, any such de-listing could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the loss of confidence in our financial stability by suppliers, customers and employees. If our securities are de-listed from the NASDAQ Global Market, we may face a lengthy process to re-list our securities, if we are able to re-list them at all, and the liquidity that NASDAQ provides will no longer be available to investors.

We cannot give investors in our common stock any assurance that we will be able to maintain compliance with the $1.00 per-share minimum price requirement for continued listing on NASDAQ or that our stock will not be de-listed by NASDAQ.

The market price of our common stock may fluctuate and/or continue to decline.

The stock markets have experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many companies and that often have been unrelated or disproportionate to the operating results of such companies. These broad market movements may adversely affect the market price of our common stock. In many instances, securities class action litigation has been instituted following periods of volatility in the market price of a company's securities. Such litigation was instituted against us, is currently being defended and could continue to result in substantial costs and a diversion of management's attention and resources, which could harm our business. See Item 3, Legal Proceedings, below and Note 15, Litigation and Settlements, in the Notes to Consolidated Financial Statements.

If we continue to incur substantial losses, we may not have sufficient liquidity to meet our working capital needs.

Although we believe that we have sufficient working capital to fund our operations for at least the next twelve months, our ability to fund our operating requirements and maintain an adequate level of working capital and liquidity may be impaired if we continue to incur losses, fail to generate substantial growth in sales of our products or fail to control operating expenses. If we require funding to meet our cash flow needs, we may seek to obtain such funding through, among other things, loans or the issuance of debt or equity securities. To the extent we raise additional capital by issuing equity securities or by issuing debt that is convertible into equity, existing shareholders will experience dilution in their ownership percentage. Moreover, additional funding or capital may not be available to us on acceptable terms or at all.

We may experience liquidity issues if our reliance on financing facilities increases.

Our primary source of liquidity has been provided by our short-term investments, funds provided by the collection of accounts receivable and borrowing availability under our financing facilities. Our borrowing capacity under the import facility provided by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") was reduced during calendar year 2005 from $24.0 million in January 2005 to $14.0 million in September 2005. In January 2006, the HSBC financing facilities were further reduced to an aggregate of approximately $8.2 million and we were required to provide cash deposits pledged as security in the

amount of approximately $8.2 million against the facility, which we subsequently reduced during fiscal 2007 by $3.0 million to $5.2 million and obtained $3.0 million of alternative financing from two other Hong Kong-based financial institutions. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Hong Kong Financing Facilities," under the caption, "Liquidity and Capital Resources," for additional information on our financing facilities. Due to our recent losses, we may need to increase our reliance on financing facilities, whether through HSBC or other financial institutions and, as a result, we may face liquidity issues due to potential funding limits and debt service requirements imposed by lenders. Additionally, we may not be able to secure such financing on reasonable terms or at all. A significant increase in our indebtedness could increase our financing costs, interfere with our ability to operate our business effectively and have a material adverse effect on our financial condition and results of operations.

Our future income tax rates could increase and our tax positions may be challenged.

A number of factors will affect our income tax rate in the future, and the combined effect of these factors could result in an increase in our effective income tax rate as compared to our effective income tax rate in fiscal 2007. This potential increase in future effective income tax rates would adversely affect net income in future periods. We operate in different countries that have different income tax rates. Based upon our apportionment of income, our effective income tax rate could fluctuate. Changes in income tax laws in the United States or countries where we presently have operations may further limit our ability to utilize our net operating losses. Any further limitation on our ability to utilize our net operating losses could adversely affect our financial condition and results of operations.

During the fourth quarter of fiscal 2007, we reviewed certain tax positions of our German subsidiary in conjunction with a German tax audit. If all of these tax positions are not sustained following the audit, we preliminarily estimate that the potential taxes due to the German taxing authority could be up to $3.5 million in the aggregate. The actual tax amounts due, if any, are dependent upon the outcome of the audit and any negotiations or appeals related thereto. If these or other tax positions that we take are challenged and not sustained, our financial condition and results of operations could be materially adversely affected.

Our cost-reduction initiatives may not be successful.

As a result of our continued evaluation of our cost structure and the on-going strategic review process, we reduced certain costs including, among other things, employee costs as a result of our eliminating certain employee positions and reducing the size of our operations in the Americas, Europe and Asia. The expected benefits from these initiatives are subject to many estimates and assumptions, including, but not limited to, assumptions regarding (i) the amount and timing of cost reductions we can achieve; (ii) our ability to develop and

maintain relationships with outsourced manufacturers for the design, co-development and purchase of our products; (iii) our ability to meet customer demands and fulfill customer service obligations; and (iv) the costs and timing of activities undertaken in connection with these initiatives. These estimates and assumptions are subject to significant economic, competitive and other uncertainties that are difficult to predict and beyond our control. If these assumptions are not realized, or if other unforeseen events occur, the initiatives may not be successful and our financial condition, results of operations and ability to compete could be adversely affected. See Note 16, Other Charges, in the Notes to Consolidated Financial Statements.

The termination of our processing agreement with the PRC would disrupt our operations.

Our operations are substantially dependent upon our ability to manufacture and assemble our products in the PRC. Our current processing agreement with the PRC governmental entities, which allows us to operate in the PRC, expires in October 2016. If, however, the agreement is terminated prior to its

expiration and we cannot enter into an arrangement that will permit us to continue to operate in the PRC under similar terms and conditions, our financial condition, results of operations and ability to carry on our business could be materially adversely affected.

Most of our operations in the PRC are subject to regulation by local governmental agencies.

The continuing viability of our PRC agreements is critical to our business operations. We manufacture a large number of the components used in our cameras and assemble all of our own manufactured finished products at our facility in the PRC. During fiscal 2007, based upon production demand, we had approximately 1,600 to 3,100 workers at our manufacturing facility in the PRC either employed by our PRC subsidiary or provided through our agreements with various PRC government or quasi-government entities. We are responsible for their wages, food and housing and must comply with a variety of local labor and employee benefit laws covering these workers. While we believe we are in substantial compliance with applicable laws as currently enforced, these laws are subject to modification and interpretation by local governmental authorities. We cannot predict the effect of any future modifications to or strict enforcement of the existing laws. In addition, the termination or material modification of any of our agreements with the PRC governmental or quasi-government entities could have a material adverse impact on our financial condition and results of operations.

We are exposed to political, economic and other risks that arise from operating a multinational business.

We have significant operations outside the United States. We currently have operations in the Americas, Europe and Asia. Further, we obtain raw materials, components and finished camera products from foreign suppliers, particularly in Asia, and import into the PRC those materials, components and products obtained from suppliers outside of the PRC which may require certain approvals by the PRC, including but not limited to certificates, permits and licenses. Accordingly, our business is subject to the political, economic, regulatory and other risks that are inherent in operating in foreign countries. These risks include, but are not limited to:

- the difficulty of ensuring that foreign suppliers and workers are complying with applicable laws, rules and regulation regarding

manufacturing, safety and environmental standards;

- the difficulty of enforcing agreements, collecting receivables and protecting assets through foreign legal systems;
- trade protection measures and import or export licensing requirements;
- the imposition of tariffs, exchange controls or other restrictions;
- difficulty in staffing and managing widespread operations and the application of foreign labor regulations;
- inability to obtain approvals or authorizations necessary to import materials, components and/or products into our manufacturing facility or increased costs relating thereto;
- required compliance with a variety of foreign laws and regulations;
- changes in the general political and economic conditions in the countries where we operate, particularly in emerging markets; and
- increased costs and risks of doing business in a number of foreign jurisdictions.

Our business depends in part on our ability to successfully anticipate and effectively manage these and other risks. We cannot assure you that such risks will not have a material adverse effect on our business, financial condition and results of operations.

Relocation time and expenses could result in substantial losses.

If we determine it is necessary to relocate our manufacturing facilities from the PRC, or to another location within or outside of the PRC, due to confiscation, expropriation, nationalization, embargoes, governmental restrictions or for other regulatory, business and/or financial reasons, we would incur substantial operating and capital losses, including losses resulting from business interruption and delays in production. In addition, as a result of a relocation of our manufacturing equipment and other assets, we may incur relatively higher manufacturing costs, which could reduce sales and decrease the gross profits and margins on the products we manufacture. Relocation of our manufacturing operations could also result in disruption in the delivery of our products, which could, in turn, reduce demand for our products in the future.

We are exposed to risks associated with intellectual property used in our products.

Our products use technology which may be protected by United States or foreign patents. The right to use such intellectual property is subject to the availability of licenses from the owners of the intellectual property. If licenses are not available, or are only available on onerous terms, our business could be materially and adversely affected.

Third parties also may claim that we, or the customers we indemnify, are infringing upon their intellectual property rights. Even if we believe that the claims are without merit, the claims can be time-consuming and costly to defend and divert management's attention and resources away from our business. Claims of intellectual property infringement also may require us to redesign affected

products, enter into costly settlement or license agreements, pay costly damage awards or cease marketing of certain products subject to the claims. Even if we have an agreement with a third party to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations to us. If we cannot or do not license the infringed technology at all or on reasonable terms or substitute similar technology from another source, our operations could suffer.

Those claims for which legal proceedings have been initiated against us are discussed in Item 3, Legal Proceedings, and in Note 15, Litigation and Settlements, in the Notes to Consolidated Financial Statements. We have also received notifications from two entities, one of which was a significant customer, alleging that certain of our digital cameras infringe upon those entities' respective patents. We have engaged in discussions with these entities regarding resolution of the claims.

Based on our initial assessment of these two claims, infringement of one or more patents is probable if the patents are valid. Based upon the licensing discussions to date, we preliminarily estimate the potential royalties due to these two claimants for digital camera sales through June 30, 2007 to be between $0 and approximately $6.7 million in the aggregate. The actual royalty amounts, if any, for past and future sales are dependent upon the outcome of the negotiations. We have notified certain of our suppliers of our right to be indemnified by the suppliers in the event we are required to pay royalties or damages to either claimant. We are unable to reasonably estimate the amount of the potential loss, if any, within the range of estimates relating to these claims. Accordingly, no amounts have been accrued related to these claims as of June 30, 2007. If these and other claims are determined to be valid, our financial condition and results of operations could be materially adversely affected.

Our ability to manufacture and sell single-use cameras is substantially dependent on our licensing agreement with Fuji.

Our business is substantially dependent on our license from Fuji, which granted us a worldwide non-exclusive right to use certain Fuji patents and patent applications related to single-use cameras. The license extends until the later of the expiration of the last of the licensed Fuji patents or February 26, 2021. After the term of the license expires, we expect to continue to be able to manufacture and sell single-use cameras without a license. If, however, the license is terminated prior to the expiration of the

patents, we may not be able to continue to manufacture and sell single-use cameras and, as a result, our financial position and results of operations could be materially adversely affected.

The loss of our licensing agreement with Polaroid could impact our sales.

We currently market and sell our branded single-use and 35mm traditional film camera products under the Polaroid brand name pursuant to license agreements with Polaroid which expire on February 1, 2009 and January 30, 2009, respectively. If either license agreement is terminated prior to its expiration or if we are unable to renew the license agreements upon their expiration, our sales volumes and/or prices will decrease, resulting in lower revenues, gross margins and income and our financial condition and results of operations would be materially adversely affected.

We are exposed to interest rate and exchange rate risk.

As a result of our global operating and financing activities, we are exposed to fluctuation in currency exchange rates and interest rates, which may adversely affect our results of operations and financial position. Exchange rates and interest rates in certain markets in which we do business tend to be more volatile than those in the United States and Western Europe. If there is a significant devaluation of the currency in a specific country, the prices of our products will increase relative to that country's currency and our products may be less competitive in that country. We generally do not engage in currency hedging activities.

The PRC government announced on July 21, 2005 that its currency will no longer be pegged to the U.S. Dollar. Instead, the exchange rates for the Chinese Yuan, or Renminbi, will be determined by a basket of foreign currencies and continues to fluctuate. Currently, we generate nominal net sales valued in Renminbi. Net sales recorded in Hong Kong are denominated in Hong Kong Dollars, the exchange rate of which has not been affected by the Yuan revaluation and is still pegged to the U.S. Dollar. Significant fluctuations in the exchange rates on the currency revaluation could have a materially adverse effect on our financial position and results of operations.

The interest rate related to our Hong Kong financing facilities provided by HSBC and other Hong-Kong based financial institutions is based on a spread over the Hong Kong Interbank Offered Rate on import loans denominated in Hong Kong Dollars and over the U.S. Prime Rate, London Interbank Offered Rate or the Singapore Interbank Offered Rate on import loans denominated in other currencies. A significant change in these rates could have an adverse effect on our business, financial condition and results of operations. Currently, we are not utilizing any interest rate protection agreements to limit our exposure to this risk.

We are dependent on a small group of key personnel.

Our business is managed by a small number of key management and operating personnel. The loss of key management and operating personnel could have a material adverse impact on our business. We believe our future success will depend in large part on our continued ability to attract highly skilled and qualified personnel. Competition for such personnel is intense. We may not be able to hire the necessary personnel to implement our business strategies, or we may need to pay higher compensation for employees than currently budgeted and/or anticipated in the future. Our inability to attract and retain such personnel could limit our growth and affect our financial condition and results of operations.

International trade restrictions could adversely affect our business and growth.

The United States, the PRC, Hong Kong, the European Union or other countries where we do business may impose trade restrictions that could adversely affect our operations. In addition, the United States is currently monitoring various PRC practices, including trade, investment and government procurement, as

well as the PRC's compliance with various multilateral and bilateral agreements. We cannot predict whether the United States will take future trade actions against the PRC that may result in increased tariffs against PRC products, including products that we import into the United States.

Our operations may be impaired as a result of disasters, business interruptions or similar events.

Disasters such as hurricanes, typhoons, earthquakes, or other acts of nature, terrorist attacks, fire, water or electricity failure, or accidents affecting our operating activities, facilities, and employees' and customers' health could materially and adversely affect our results of operations and financial condition. In particular, our operations in the PRC, as well as most of our outsourced manufacturers, suppliers and service providers involved in the manufacturing of components and products are located within a relatively close proximity of one another in the PRC. Therefore, any disaster that strikes within close proximity of that geographic area could disrupt our business and could materially and adversely affect our results of operations and financial condition.

In the event of another outbreak of severe acute respiratory syndrome, or SARS, or some other disease or health-related issue, our facilities and/or the facilities of our outsourced manufacturers, suppliers and service providers located in Hong Kong, the PRC and other parts of the world could be quarantined, temporarily closed and/or disrupted. If such an outbreak occurs, it could delay or prevent us from developing new products or manufacturing, testing or shipping our current or future products, and may require us to find other providers of such services and/or products, which may be unavailable or more expensive. Further, if a SARS or other disease outbreak or other health-related issue has an adverse impact on the businesses of our customers, it could reduce the size and/or frequency of our customers' purchases, which could adversely impact our results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

In Hollywood, Florida, we lease approximately 20,000 square feet of office space. The lease expires on January 31, 2014. As of August 1, 2006, we sublet approximately 5,500 square feet of our office space and are currently occupying approximately 14,500 square feet.

In Hong Kong, we own approximately 6,600 square feet of office space occupying one floor, lease approximately 6,600 square feet of office space occupying one floor under a lease expiring in November 2009 and lease a warehouse comprised of approximately 1,760 square feet under a lease expiring November 30, 2007. The office space we own is collateralized by a mortgage in favor of a certain financing facility. For more information on the financing facility, see Note 7, Short-Term Borrowings and Financing Facilities, in the Notes to the Consolidated Financial Statements. The land on which the office building is situated is subject to a governmental ground lease that will expire in 2047.

We also lease office space in the United Kingdom. The leases for office space in France, Germany and Japan were terminated as of May 31, 2007, December 15, 2006 and September 29, 2006, respectively.

In the PRC, we own manufacturing facilities in the Longgang District of Shenzhen and we lease several employee dormitories and warehouse space. The size of the entire facility is approximately 600,000 square feet. Pursuant to land use agreements entered into with certain PRC governmental entities, we obtained the title and rights to use approximately eight acres of land for factory buildings, dormitories and related ancillary buildings. Under the land use agreements, we have the right to use the land through September 22, 2038. At the end of the term, a PRC governmental entity will own the facilities and we may have the right to extend the usage term of the land and improvements at then prevailing terms.

We also lease a 13,700 square feet warehouse in Fort Lauderdale, Florida that we previously used to warehouse and distribute products. We sublet this space to a subtenant through the expiration of the lease in January 2009.

We believe that our facilities will be adequate to meet our requirements at least through fiscal 2008 and that suitable additional or substitute space will be available if needed.

Item 3. Legal Proceedings.

In July 2002, a class action complaint was filed against the Company and certain of its officers in the United States District Court for the Southern District of Florida by individuals purporting to be holders of the Company's Common Stock. In January 2003, an amended class action complaint (the "Amended Complaint") was filed adding certain of the Company's current and former directors as defendants. On August 27, 2004, the court dismissed the claims against the newly added current and former directors. On September 8, 2005, the court granted the plaintiffs' motion for class certification and certified as plaintiffs all persons who purchased the Common Stock between January 18, 2001 and June 22, 2001, inclusive, and who were allegedly damaged thereby (the period January 18, 2001 through June 22, 2001 hereinafter referred to as the "Class Period"). The allegations remaining in the Amended Complaint were centered around claims that the Company failed to disclose, in periodic reports it filed with the SEC and in press releases it made to the public during the Class Period regarding its operations and financial results, that a large portion of its accounts receivable was represented by a delinquent and uncollectible balance due from then customer, KB Gear Interactive, Inc. ("KB Gear"), and that a material portion of its inventory consisted of customized components that had no alternative usage. The Amended Complaint claimed that such failures artificially inflated the price of the Common Stock. The Amended Complaint sought unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. On October 13, 2006, a Stipulation of Settlement was filed with the court and on January 26, 2007, the court issued a Final Judgment and Order of Dismissal approving the settlement set forth in the Stipulation of Settlement and dismissing the case with prejudice. The Company sought coverage from its insurance carrier for this lawsuit under its directors and officers liability insurance policy. The settlement amount is within the policy limits and was approved and paid by the Company's insurance carrier. On September 17, 2002, the Company was advised by the staff of the SEC that it was conducting an informal inquiry related to the matters described above and requested certain information and materials related thereto. On October 15, 2002, the staff of NASDAQ also requested certain information and materials related to the matters described above and to matters related to the previously reported embezzlement of Company funds by a former employee, uncovered in April 2002. The Company provided the requested information to the staff of the SEC and NASDAQ and has not received any further communication from the staff of the SEC with respect to the informal inquiry or from NASDAQ with respect to its request since the Company last responded in February 2003.

In September 2004, a class action complaint was filed against the Company and certain of its officers in the United States District Court for the Southern District of Florida by individuals purporting to be holders of the Company's Common Stock. In August 2005, an amended consolidated complaint (the "Amended Complaint") was filed adding a former officer of the Company as a defendant. The lead plaintiff under the Amended Complaint seeks to act as a representative of a class consisting of all persons who purchased the Company's Common Stock during the period from August 14, 2003 through August 31, 2004, inclusive. On March 23, 2007, the court granted the plaintiff's motion for class certification and

certified as plaintiffs all persons who purchased the Common Stock between August 14, 2003 and August 31, 2004, inclusive, and who were allegedly damaged thereby (the period August 14, 2003 through August 31, 2004 hereinafter referred as the "Class Period"). The allegations in the Amended Complaint are centered around claims that the Company failed to disclose, in periodic reports it filed with the SEC and in press releases it made to the public during the Class Period regarding its operations and financial results, (i) the full extent of the Company's excess, obsolete and otherwise impaired inventory;

(ii) the departure from the Company of the aforementioned former officer defendant until several months after his departure; and (iii) that Eastman Kodak Company ("Kodak") had notified the Company that it would stop purchasing cameras from the Company under its two design and manufacturing services ("DMS") contracts with the Company due to the Company's alleged infringement of Kodak's patents. The Amended Complaint also alleged that the Company improperly recognized revenue contrary to generally accepted accounting principles due to an alleged inability to reasonably estimate digital camera returns. The Amended Complaint claimed that such failures artificially inflated the price of the Common Stock. The Amended Complaint sought unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. The Company has reached an agreement in principle with the plaintiffs on the settlement of this lawsuit. The settlement is subject to the negotiation and execution of a mutually agreeable settlement agreement and approval by the class shareholders and the court. The Company has sought coverage from its insurance carrier for this lawsuit under its directors' and officers' liability insurance policy and the insurance carrier is defending the action under a reservation of rights. The agreed upon pending settlement amount is within the policy limits and the insurance carrier has agreed to pay such amount. Although the Company believes the settlement will be consummated and approved by the court, the Company cannot guarantee this result and if the lawsuit continues and is adversely determined, the Company's ultimate liability, which could be material, cannot be ascertained. In a letter dated November 19, 2004, the Company was advised by the staff of the SEC that it is conducting an investigation related to the matters described above. The Company has provided the requested information to the staff of the SEC and has not received any further communication from the SEC with respect to its request since the Company last responded in May 2005.

On November 16, 2004, a shareholder derivative suit was filed against certain of the Company's current and former officers and directors, and the Company as a nominal defendant, in the United States District Court for the District of New Jersey by an individual purporting to be a holder of the Company's Common Stock. The complaint alleged that the individual defendants breached their duties of loyalty and good faith by causing the Company to misrepresent its financial results and prospects, resulting in the class action complaints described in the immediately preceding paragraph. The complaint sought unspecified damages, repayment of salaries and other remuneration from the individual defendants, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. In March 2005, the court granted a motion by the individual defendants and the Company to transfer the action to the United States District Court for the Southern District of Florida where the related class action suit is currently pending. In May 2005, the court consolidated this case with the related class action suit for discovery purposes only. Although the Company believes this lawsuit is without merit, its outcome cannot be predicted, and if adversely determined, the ultimate effect on the Company, which could be material, cannot be ascertained. The Company has sought coverage from its insurance carrier for this lawsuit under its directors' and officers' liability insurance policy, and the insurance carrier is defending the action

under a reservation of rights.

Pursuant to the Company's Certificate of Incorporation, as amended, the personal liability of the Company's directors is limited to the fullest extent permitted under the New Jersey Business Corporation Act ("NJBCA"), and the Company is required to indemnify its officers and directors to the fullest extent permitted under the NJBCA. In accordance with the terms of the Certificate of Incorporation and the NJBCA, the Board of Directors approved the payment of expenses for each of the current and former officers and directors named as defendants (the "individual defendants") in the above described class action and derivative action litigations (collectively, the "actions") in advance of the final disposition of such actions. The individual defendants have executed and delivered to the Company written undertakings to repay the Company all amounts so advanced if it shall ultimately be determined that the individual defendants are not entitled to be indemnified by the Company under the NJBCA.

On October 6, 2004, a patent infringement complaint was filed by Honeywell International, Inc. and Honeywell Intellectual Properties, Inc., against 27 defendants, including the Company, in the United States District Court for the District of Delaware. The complaint asserted that the defendants have

conducted activities which infringe U.S. Patent No. 5,280,371, entitled, "Directional Diffuser for a Liquid Crystal Display." The complaint sought unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. The proceedings in this action against the Company and other similarly situated defendants were stayed by the court pending the resolution of the infringement actions against the liquid crystal display manufacturers. It is too early to assess the probability of a favorable or unfavorable outcome or the loss or range of loss, if any, and therefore, no amounts have been accrued relating to this action. The Company has notified several third parties of its intent to seek indemnity from such parties for any costs or damages incurred by the Company as a result of this action.

In June 2006, St. Clair Intellectual Properties Consultants, Inc. filed a patent infringement complaint against 22 defendants, including the Company, in the United States District Court for the District of Delaware. The complaint asserted that the defendants conducted activities which infringe U.S. Patent Nos. 5,138,459, 6,094,219, 6,233,010 and 6,323,899. The complaint sought injunctive relief, unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. The proceedings in this action against the Company and the other defendants were stayed by the court until further order of the court. It is too early to assess the probability of a favorable or unfavorable outcome or the loss or range of loss, if any, and, therefore, no amounts have been accrued relating to this action. The Company is assessing potential claims of indemnification against certain of its suppliers with respect to this action.

The Company is also involved from time to time in routine legal matters incidental to its business. Based upon available information, the Company believes that the resolution of such matters will not have a material adverse effect on its financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Our common stock has been listed on the NASDAQ Stock Market LLC under the symbol "LENS" since July 12, 1988. The following table shows, for each quarter in fiscal 2007 and fiscal 2006, the high and low sales prices per share of our common stock as reported by the NASDAQ Global Market.

On October 26, 2006, our Board of Directors approved, without action by the shareholders, a Certificate of Amendment to our Certificate of Incorporation to implement a one-for-five split of our common stock with an effective date of November 21, 2006. All shares of common stock and per-share and related stock option amounts have been retroactively adjusted for the reverse stock split in the accompanying financial tables and selected financial data.

Quarter Ended	High	Low
June 30, 2007	$4.88	$3.97
March 31, 2007	$5.40	$4.28
December 30, 2006	$5.00	$2.20
September 30, 2006	$3.35	$2.10
July 1, 2006	$5.95	$3.05
April 1, 2006	$6.60	$5.10
December 31, 2005	$7.10	$5.00
October 1, 2005	$8.00	$5.80

On September 5, 2007, the last reported sale of our common stock as reported on the NASDAQ Global Market was $3.38 per share. According to the records of our transfer agent, there were 949 shareholders of record of Concord's common stock at September 5, 2007. Because many of our shares of common stock are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of shareholders represented by these record holders.

Dividend Policy

The Company has never declared or paid any cash dividends and does not presently intend to pay cash dividends on our common stock in the future.

Stock Repurchase

We did not repurchase any of our shares during fiscal 2007.

Comparative Stock Performance

The following graph and table compare the cumulative total shareholder return in U.S. dollars on our common stock for the years ended June 30, 2002 through June 30, 2007 with The NASDAQ Stock Market LLC - U.S. Index and a seven-company peer group based on SIC Code 3861 (Photographic

Equipment and Supplies) for the same periods. The graph and table assume an investment of $100 in our common stock, in the NASDAQ Index and in the peer group on June 30, 2002 and the reinvestment of all dividends. The peer group cumulative total return is calculated on a weighted average basis. The stock performance shown is not intended to forecast, and may not be indicative of, future stock performance.

[GRAPHIC OMITTED]

	6/02	6/03	6/04	6
			(dollars)	
Concord Camera Corp.	$100	$136.44	$ 64.69	$
Nasdaq Stock Market - U.S. Index	$100	$110.23	$135.64	$1
Peer Group Index	$100	$111.43	$130.21	$1

Item 6. Selected Financial Data.

(Dollars in thousands, except per share data)

		As of and for th Fiscal Years Ende	
STATEMENT OF OPERATIONS DATA:	June 30, 2007	July 1, 2006	July 2, 2005
Net sales	$ 86,653	$ 137,529	$ 174,348
Cost of products sold	77,452	122,928	180,130
Gross profit (deficit)	9,201	14,601	(5,782)
Operating expenses	22,584	34,873	39,794
Operating (loss) income	(13,383)	(20,272)	(45,576)
Interest expense	336	374	931
Other income, net	(1,999)	(1,142)	(1,770)
(Loss) income before income taxes and extraordinary item	(11,720)	(19,504)	(44,737)
Provision for income taxes	6	107	186

(Loss) income before extraordinary item	(11,726)	(19,611)	(44,923)
Extraordinary gain	--	--	--
Net (loss) income	$ (11,726)	$ (19,611)	$ (44,923)
Net (loss) income per common share:			
Basic and diluted:			
(Loss) income before extraordinary item	$ (1.99)(d)	$ (3.36)(d)	$ (7.70)(d
Extraordinary gain	--	--	--
(Loss) income per common share	$ (1.99)	$ (3.36)	$ (7.70)

22

BALANCE SHEET DATA:

			As of and fo Fiscal Years
	June 30, 2007	July 1, 2006	July 2 2005
Working capital	$ 39,019	$ 46,843	$ 61,76
Total assets	$ 82,504	$ 104,742	$146,75
Total debt	$ 2,756	$ --	$ 2,93
Total stockholders' equity	$ 51,644	$ 62,967	$ 82,30

(a) Includes $0.9 million of variable stock-based compensation expense. For further discussion, see Note 1 and Note 11, Description of Business and Summary of Significant Accounting Policies and Stock Option Plans, respectively, in the Notes to Consolidated Financial Statements.

(b) Includes $0.7 million of variable stock-based compensation income. For further discussion, see Note 1 and Note 11, Description of Business and Summary of Significant Accounting Policies and Stock Option Plans, respectively, in the Notes to Consolidated Financial Statements.

(c) Represents the excess of estimated fair value of net assets acquired over cost (negative goodwill) for the Jenimage acquisition.

(d) On October 26, 2006, our Board of Directors approved, without action by the shareholders, a Certificate of Amendment to our Certificate of Incorporation to implement a one-for-five split of our common stock with an effective date of November 21, 2006. All issued shares of our common stock (including treasury shares and shares held in trust) and per-share and related stock option amounts have been retroactively adjusted for the reverse stock split in the accompanying selected financial data.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with Item 6, Selected Financial Data and our audited consolidated financial statements and the related notes included in Item 8, Financial Statements and Supplementary Data. In addition to historical information, this discussion contains forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, expectations and intentions. See our cautionary language preceding Item 1, Business, of this report regarding these statements. Our actual results could differ materially from those discussed here. See Item 1A, Risk Factors, for factors that could cause future results to differ materially.

References to fiscal 2007, fiscal 2006 and fiscal 2005 in this section are to fiscal years ended June 30, 2007, July 1, 2006 and July 2, 2005, respectively.

OVERVIEW

We market and sell easy-to-use single-use and 35mm traditional film cameras. We design, develop, manufacture and assemble most of our single-use cameras and certain of our 35mm traditional film cameras at our manufacturing facilities in the Peoples Republic of China ("PRC") and outsource the manufacture of certain of our single-use and our 35mm traditional film cameras. In fiscal 2006, we significantly de-emphasized the sale of digital cameras. Digital camera sales in fiscal 2007 were not material and we do not expect digital camera sales in fiscal 2008. We sell our private label and brand-name products to our customers worldwide either directly or through third-party distributors.

Executive Summary

Year-over-Year Results of Operations

Our operating loss in fiscal 2007 decreased $6.9 million to $(13.4) million as compared to an operating loss of $(20.3) million for fiscal 2006.

The decrease in our operating loss year-over-year is primarily related to decreases in selling, general and administrative expense. Year-over-year selling expenses decreased by $4.8 million due to (i) lower selling-related employee compensation costs in the amount of $2.4 million net of severance charges resulting from the elimination of certain positions in connection with our cost reduction initiatives; and (ii) lower freight and royalty costs in the amount of $1.3 million and $1.1 million, respectively, as a result of a decrease in year-over-year net sales and certain other costs. Year-over-year general and administrative ("G&A") expenses decreased by $7.5 million primarily due to (i) a decrease in employee compensation costs of $3.9 million net of severance costs as a result of the elimination of certain positions in connection with our cost-reduction initiatives; (ii) lower professional fees in the amount of $1.1 million related to our internal control remediation efforts and $0.6 million of certain other professional fees; (iii) a decrease in amortization and

depreciation expense of $1.4 million due primarily to a year-over-year reduction in long-lived assets and property, plant and equipment asset balances resulting from prior year reductions in carrying values; and (iv) a net reduction of certain other costs totaling $0.5 million.

Although we experienced decreases in our year-over-year selling, general and administrative expenses of $12.3 million, our gross profit for fiscal 2007 decreased by $5.4 million as compared to our gross profit for fiscal 2006. The decrease in the gross profit for fiscal 2007 was primarily due to unfavorable manufacturing material, labor and overhead cost variances of $5.4 million, unanticipated air freight costs of $1.1 million partially offset by improved average gross margin percentages due to a change in our product mix totaling $1.1 million.

Fiscal 2007 Results of Operations

Although we significantly reduced our operating loss by $6.9 million, or 34.0%, in fiscal 2007 as compared to fiscal 2006, we still recorded an operating loss of $(13.4) million during fiscal 2007.

Factors contributing to the fiscal 2007 operating loss were:

1. Insufficient Net Sales and Related Gross Profit to Fully Absorb Non-Manufacturing Overhead Costs;

2. Unfavorable Manufacturing Material, Labor and Overhead Cost Variances;

3. Unanticipated Air Freight Costs; and

4. Internal Control Remediation Costs.

1. Insufficient Net Sales and Related Gross Profit to Fully Absorb Non-Manufacturing Overhead Costs

During fiscal 2007, we experienced a significant decrease in net sales and related gross profit resulting in insufficient gross profit to fully absorb our non-manufacturing overhead costs. This net sales and related gross profit reduction contributed approximately $7.4 million to the operating loss.

2. Unfavorable Manufacturing Material, Labor and Overhead Cost Variances

During fiscal 2007, we experienced unfavorable manufacturing material, labor and overhead cost variances of $4.1 million primarily attributable to lower than anticipated production volume during the period.

3. Unanticipated Air Freight Costs

During the fourth quarter of fiscal 2007, we experienced a temporary shortage of camera film which affected the production schedule of our single-use and 35mm traditional film cameras. As a result of this film shortage and its impact on our production schedule, certain of our products were shipped by air from Asia to the United States in order to meet our customers' delivery schedules. Due to this unanticipated usage of air freight, we incurred an additional $1.1 million in freight costs.

4. Internal Control Remediation Costs

During fiscal 2007, we recorded charges of $0.8 million related to internal control costs incurred in connection with the remediation of certain previously disclosed material weaknesses in our internal control over financial reporting.

We continue to take action and to review our strategies, including and relating to: (i) acquisition of new single-use and 35mm traditional film camera customers, (ii) potential new business initiatives and (iii) implementation of additional cost reductions related to worldwide overhead costs. There can be no assurances that implementing any such strategies will successfully reverse our losses, increase our revenues, decrease our costs or improve our results of operations. See Item 1, Business, for more information regarding our new business initiatives.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Our application of accounting policies affects these estimates and assumptions. Actual results could differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant estimates and assumptions used in the preparation of our consolidated financial statements and accompanying notes.

Revenue Recognition

We recognize revenue, in accordance with Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition: Corrected Copy, when title and risk of loss are transferred to the customer, the sales price is fixed or determinable, persuasive evidence of an arrangement exists, and collectibility is probable. Title and risk of loss generally transfer when the product is delivered to the customer or upon shipment, depending upon negotiated contractual arrangements. Sales are recorded net of anticipated returns which we estimate based on historical rates of return, adjusted for current events as appropriate, in accordance with Statement of Financial Accounting Standard No. 48, Revenue Recognition When Right of Return Exists

("SFAS No. 48"). If actual future returns are higher than estimated, then net sales could be adversely affected.

We may enter into arrangements to offer certain pricing discounts and allowances that do not provide an identifiable separate benefit or service or may enter into arrangements to provide certain free products. In accordance with Emerging Issues Task Force ("EITF") Issue No. 01-09, Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products), we record the pricing discounts and allowances as a reduction of sales and record the cost of free products ratably into cost of products sold based upon the underlying revenue transaction.

Sales Returns

We establish a provision for estimated sales returns based on historical product return trends. If the actual future returns are higher than we originally estimated, which we based upon historical data, our net sales could be adversely affected.

Provision for Doubtful Accounts

We establish a provision for doubtful accounts based on our assessment of the collectibility of specific customer accounts and the aging of accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual amounts of recoverability are lower than our historical experience, our estimates of the recoverability of amounts owed to us could be adversely affected.

Inventories

Inventory purchases and commitments are based upon estimates of future demand that are difficult to forecast. If (i) there is a sudden and significant decrease in demand for our products; (ii) there is a higher rate of inventory obsolescence because of rapidly changing technology and customer requirements; and/or (iii) the market value and selling prices of our products to our customers decline or the price at which these customers can purchase similar products from other manufacturers is lower than ours, we may be required to reduce our inventory values which would result in lower-of-cost-or-market value adjustments. Such a reduction could have a material adverse effect on our gross profit. See Item 1A, Risk Factors, above.

Deferred Income Taxes

The deferred income tax asset valuation allowance is based on our assessment of the realizability of our deferred income tax assets on an ongoing basis and may be adjusted from time to time as necessary. In determining the valuation allowance, we have considered future taxable income and the feasibility of tax planning initiatives and strategies. We have a full valuation allowance on all of our deferred income tax assets as of June 30, 2007 and July 1, 2006. Should we determine that it is more likely than not that we will realize certain of our deferred income tax assets in the future, an adjustment would be required to reduce the existing valuation allowance and increase income. Alternatively, if we determine that we would not be able to realize a recorded deferred income tax asset, an adjustment to increase our valuation allowance would be charged to the results of operations in the period in which we reach such a conclusion.

Impairment of Long-Lived and Other Assets

Periodically, we review our long-lived assets for impairment. We record an impairment loss when indications of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying values. Since we incurred significant operating losses in fiscal 2006 and fiscal 2007, a potential impairment indicator, we performed an impairment test of our long-lived

and other assets as of June 30, 2007 by summarizing the undiscounted cash flows expected to result from the use and eventual sale of our long-lived and other assets. If the carrying value of the assets exceed the estimated undiscounted cash flows, we record an impairment charge to the extent the carrying value of long-lived asset exceeds its fair value. We determine fair value through quoted market prices in active markets or, if quoted market prices are unavailable, through the performance of internal analyses of discounted cash flows or external appraisals. Assets reviewed included patents, prepaid amounts related to licensing and royalty agreements and property, plant and equipment. See Note 5, Property, Plant and Equipment, Net and Note 16, Other Charges, in the Notes to Consolidated Financial Statements.

Accounting for Litigation and Settlements

We are involved in various legal proceedings. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and the possibility of governmental intervention. Management assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. While certain of these matters involve substantial amounts, management believes, based on available information, that the ultimate resolution of such legal proceedings will not have a material adverse effect on our financial condition taken as a whole.

RESULTS OF OPERATIONS

Fiscal 2007 Compared to Fiscal 2006

Net Sales

Net sales for fiscal 2007 were $86.7 million, a decrease of $50.8 million, or 37.0%, as compared to net sales for fiscal 2006. The decrease in net sales was due primarily to a decrease in sales of digital cameras in fiscal 2007 attributable to our decision in fiscal 2006 to de-emphasize digital camera sales and to a lesser extent, a reduction in 35mm traditional film camera sales and in single-use camera sales.

Net sales from our operations in the Americas for fiscal 2007 were $66.8 million, a decrease of $21.4 million, or 24.3%, as compared to fiscal 2006. The decrease in net sales was due primarily to a reduction in sales of single-use cameras, 35mm traditional film cameras and digital cameras.

Net sales from our operations in Europe for fiscal 2007 were $15.1 million, a decrease of $33.4 million, or 68.9%, as compared to fiscal 2006. The decrease was primarily due to reduced digital camera sales attributable to our decision in fiscal 2006 to de-emphasize sales of digital cameras and, to a lesser extent, 35mm traditional film cameras, partially offset by an increase in single-use cameras.

Net sales from our operations in Asia for fiscal 2007 were $4.8 million, an increase of $4.0 million, or 500.0%, as compared to fiscal 2006. The increase in net sales in Asia was due to an increase in sales of single-use cameras in Japan.

See Note 18, Geographic Area and Significant Customers, in the Notes to Consolidated Financial Statements.

Gross Profit (Deficit)

Gross profit for fiscal 2007 was $9.2 million, or 10.6% of net sales, versus gross profit of $14.6 million, or 10.6 % of net sales, in fiscal 2006. The decrease in the gross profit for fiscal 2007 was primarily due to unfavorable manufacturing material, labor and overhead cost variances of $5.4 million and unanticipated air freight costs of $1.1 million, partially offset by improved gross margin percentages due to a change in our product mix totaling $1.1 million.

Product engineering, design and development costs for fiscal 2007

and fiscal 2006, in dollars and as a percentage of net sales, were $2.5 million,

or 2.9%, and $3.8 million, or 2.8%, respectively.

Operating Expenses

Selling expenses for fiscal 2007 were $9.1 million, or 10.5% of net sales, compared to $13.9 million, or 10.1% of net sales, for fiscal 2006. The decrease of $4.8 million was primarily due to a reduction in selling-related employee compensation costs of $2.4 million including a year-over-year increase in other charges of $0.1 million, resulting from the elimination of certain positions in connection with our cost-reduction initiatives and a reduction in freight and royalty costs in the amounts of $1.3 million and $1.1 million, respectively, as a result of the decrease in year-over-year net sales.

General and administrative expenses for fiscal 2007 were $13.5 million, or 15.6% of net sales, compared to $21.0 million, or 15.3% of net sales, for fiscal 2006. The decrease of $7.5 million in general and administrative expenses in fiscal 2007 was primarily due to a reduction in employee compensation costs of $3.9 million, including a year-over-year decrease in other charges of $2.2 million, resulting from the elimination of certain positions in connection with our fiscal 2006 cost-reduction initiatives, a reduction in professional fees of $1.1 million related to our internal control remediation efforts and $0.6 million of certain other professional fees, and a decrease in amortization and depreciation of long-lived assets and expense of $1.4 million due primarily to a year-over-year reduction in property, plant and equipment asset balances resulting from the prior year's reductions in carrying values, and a net reduction totaling $0.5 million of certain other costs. For further discussion, see Note 16, Other Charges, in the Notes to Consolidated Financial Statements.

Share-Based Compensation Expenses

During fiscal 2007 and fiscal 2006, we recorded approximately $61,000 and $275,000, respectively, of share-based compensation expenses. We consider all of our share-based compensation as a component of general and administrative expenses. In addition, no amount of share-based compensation expense was capitalized as part of capital expenditures or inventory for the periods presented. For further discussion, see Note 11, Share-Based Compensation, in the Notes to the Consolidated Financial Statements.

Interest Expense

Interest expense decreased to $0.3 million in fiscal 2007 as compared to $0.4 million in fiscal 2006. The decrease of $0.1 million was the result of the reduction in the interest expense associated with the amortization of intangible assets.

Other Income, Net

Other income, net was $2.0 million and $1.1 million for fiscal 2007 and fiscal 2006, respectively. The increase was primarily attributable to an increase in investment income and higher interest rates on the invested balances during fiscal 2007 as compared to fiscal 2006, See Note 1, Description of Business and Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Income Taxes

We recorded a provision for income taxes of $6,000 and $0.1 million in fiscal 2007 and fiscal 2006, respectively. The fiscal 2007 income tax provision relates primarily to income tax liabilities incurred for state and federal tax liabilities.

As a result of current and prior year losses realized by our foreign

subsidiaries, the foreign subsidiaries have an accumulated earnings deficit of approximately $44.3 million as of June 30, 2007. Although, we

have an accumulated earnings deficit related to most of our foreign subsidiaries, certain of our foreign subsidiaries have undistributed earnings. Historically, we do not provide for U.S. federal and state income taxes on such undistributed earnings based on the re-investment of such earnings outside the United States.

As of June 30, 2007, we had net operating loss carryforwards for U.S. federal tax purposes of approximately $18.2 million. The net operating loss carryforwards are scheduled to expire between 2010 and 2027. The U.S. net operating loss carryforwards include a portion arising from the exercise of stock options and will be credited to additional paid-in capital when the related tax benefit is realized.

Additionally, we have approximately $53.9 million of net operating loss carryforwards related to our foreign operations, of which $48.5 million relates to Hong Kong. A significant portion of these net operating loss carryforwards have no expiration dates.

In fiscal 2007, management evaluated the realizability of our deferred income tax assets. As part of assessing the realizability of our deferred income tax assets, management evaluated whether it is more likely than not that some portion, or all, of our deferred income tax assets, will be realized. The realization of U.S., Europe and Hong Kong deferred income tax assets relates directly to our tax planning initiatives and strategies for U.S. federal and state, Europe and Hong Kong tax purposes. In fiscal 2007, based on all the available evidence, management determined that it is not more likely than not that our deferred income tax assets will be fully realized. Accordingly, we recorded a full valuation allowance against all of our deferred income tax assets in fiscal 2007. Historically, we have recorded a full valuation allowance against all of our deferred tax assets in each fiscal year subsequent to and including fiscal 2005. For fiscal 2007 and fiscal 2006, our effective tax rate was 0 % and 0.6%, respectively. Our future effective tax rate will depend on the apportionment between foreign and domestic taxable income and losses, the statutory rates of the related tax jurisdictions, results of pending tax audits and any changes to the valuation allowance.

For further discussion, see Note 1and Note 13, Description of Business and Summary of Significant Accounting Policies and Income Taxes, respectively, in the Notes to Consolidated Financial Statements.

Net Loss

We incurred a net loss of $(11.7) million, or $(1.99) per common share, for fiscal 2007 as compared to a net loss of $(19.6) million, or $(3.36) per common share, for fiscal 2006.

Fiscal 2006 Compared to Fiscal 2005

Net Sales

Net sales for fiscal 2006 were $137.5 million, a decrease of $36.8 million, or 21%, as compared to net sales for fiscal 2005. The decrease in net sales was due to the cessation of DMS single-use camera sales to Kodak and a decrease in RSD digital and 35mm traditional film camera sales, partially offset by an overall increase in RSD single-use camera sales. RSD net sales accounted for 100% of

total net sales.

RSD net sales from our operations in the Americas for fiscal 2006 were $88.2 million, an increase of $1.0 million, or 1.1%, as compared to fiscal 2005. The increase in RSD net sales was due primarily to increased single-use camera sales to Walgreens and Wal-Mart.

RSD net sales from our operations in Europe for fiscal 2006 were $48.5 million, a decrease of $19.8 million, or 29%, as compared to fiscal 2005. The decrease was primarily due to reduced digital camera sales attributable to our decision to de-emphasize sales of digital cameras.

29

RSD net sales from our operations in Asia for fiscal 2006 were $0.8 million, a decrease of $4.5 million, or 84.9%, as compared to fiscal 2005. The decrease was attributable primarily to reduced digital camera sales by our subsidiary in Japan due to our decision to de-emphasize sales of digital cameras.

There were no DMS sales in fiscal 2006, as compared to DMS net sales of $13.6 million for fiscal 2005, because of the cessation of sales to Kodak, for whom the Company previously manufactured products under two DMS agreements. For fiscal 2005, sales to Kodak accounted for 10.2% of total net sales.

See Note 18, Geographic Area and Significant Customers, in the Notes to Consolidated Financial Statements.

Gross Profit (Deficit)

Gross profit for fiscal 2006 was $14.6 million, or 10.6% of net sales, versus gross (deficit) of $(5.8) million, or 3.3% of net sales, in fiscal 2005. During fiscal 2006, gross profit, in dollars and as a percentage of net sales, was positively affected by the following factors: (i) a reduction of $7.1 million in charges to reduce the carrying value of certain finished goods and return camera inventory below their cost basis to their estimated net realizable market value resulting from price declines, and (ii) lower product design costs and reduced under-absorption of manufacturing labor and overhead of $4.6 million and $6.6 million, respectively; and was negatively affected by (i) negative gross profit margins on the sales of digital cameras and (ii) no gross profit on the sales of certain digital cameras whose carrying values were lowered in fiscal 2005 and fiscal 2006. Since we lowered the carrying value of certain digital inventory in the fiscal 2005 and fiscal 2006 periods, sales of such digital inventory in future periods will result, on average, in a nominal gross profit margin.

Product engineering, design and development costs for fiscal 2006 and fiscal 2005, in dollars and as a percentage of net sales, were $3.8 million, or 2.8%, and $8.4 million, or 4.8%, respectively.

Operating Expenses

Selling expenses for fiscal 2006 were $13.9 million, or 10.1% of net sales, compared to $16.8 million, or 9.6% of net sales, for fiscal 2005. The decrease of $2.9 million was primarily due to the reduction of sales and marketing personnel and related marketing activities associated with our de-emphasis of digital camera sales.

General and administrative expenses for fiscal 2006 were $21.0 million, or 15.3% of net sales, compared to $22.9 million, or 13.1% of net sales, for fiscal 2005. The decrease of $1.9 million in general and administrative expenses in fiscal 2006 was primarily due to a decrease in professional fees. As a result of new

rules that the SEC adopted in December 2005, combined with our declining public float, we were classified as a non-accelerated filer as of the end of fiscal 2006 and, as such, were not required to report on our internal control over financial reporting as of July 1, 2006.

Interest Expense

Interest expense decreased to $0.4 million in fiscal 2006 as compared to $0.9 million in fiscal 2005. The decrease of $0.5 million was the result of a reduction in our short-term borrowings partially offset by an increase in short-term borrowing rates.

Other Income, Net

Other income, net was $1.1 million and $1.8 million for fiscal 2006 and fiscal 2005, respectively. The decrease was primarily attributable to foreign exchange losses incurred during fiscal 2006 as compared to foreign exchange gains recorded during fiscal 2005, partially offset by an increase in investment income.

See Note 1, Description of Business and Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Income Taxes

We recorded a provision for income taxes of $0.1 million and $0.2 million in fiscal 2006 and fiscal 2005, respectively. The fiscal 2006 income tax provision relates primarily to income tax liabilities incurred by certain of our foreign subsidiaries. These foreign subsidiaries do not have net operating losses to offset such liabilities.

As a result of current and prior year losses realized by our foreign subsidiaries, the foreign subsidiaries have an accumulated earnings deficit of approximately $37.9 million as of July 1, 2006. Although we have an accumulated earnings deficit related to most of our foreign subsidiaries, certain of our foreign subsidiaries have undistributed earnings. Historically, we do not provide for U.S. federal and state income taxes on such undistributed earnings based on the re-investment of such earnings outside the United States.

As of July 1, 2006, we had net operating loss carryforwards for U.S. federal tax purposes of approximately $16.7 million. The net operating loss carryforwards are scheduled to expire between 2010 and 2026. The U.S. net operating loss carryforwards include a portion arising from the exercise of stock options and will be credited to additional paid-in capital when the related tax benefit is realized. Additionally, we have approximately $51.4 million of net operating loss carryforwards related to our foreign operations, of which $46.7 million relates to Hong Kong. A significant portion of these net operating loss carryforwards have no expiration dates.

In fiscal 2006, management evaluated the realizability of our deferred income tax assets. As part of assessing the realizability of our deferred income tax assets, management evaluated whether it is more likely than not that some portion, or all, of our deferred income tax assets, will be realized. The realization of U.S., Europe and Hong Kong deferred income tax assets relates directly to our tax planning initiatives and strategies for U.S. federal and state, Europe and Hong Kong tax purposes. In fiscal 2006, based on all the available evidence, management determined that it is not more likely than not that our deferred income tax assets will be fully realized. Accordingly, we

recorded a full valuation allowance against all of our deferred income tax assets in fiscal 2006. Historically, we have recorded a full valuation allowance against all of our deferred tax assets in each fiscal year subsequent to and including fiscal 2004. For fiscal 2006 and fiscal 2005, our effective tax rate was 0.5% and 0.4%, respectively. Our future effective tax rate will depend on the apportionment between foreign and domestic taxable income and losses, the statutory rates of the related tax jurisdictions and any changes to the valuation allowance.

For further discussion, see Note 1 and Note 13, "Description of Business and Summary of Significant Accounting Policies" and "Income Taxes," respectively, in the Notes to Consolidated Financial Statements.

Net Loss

We incurred a net loss of $(19.6) million, or $(3.36) per common share, for fiscal 2006 as compared to a net loss of $(44.9) million, or $(7.70) per common share, for fiscal 2005.

Cost-Reduction Initiatives

We continue to evaluate our cost structure and implement cost-reduction initiatives as appropriate. During fiscal 2007, cost-reduction initiatives included, among other things, the elimination of certain employee positions. As a result, during fiscal 2007, we recorded total charges of $0.9 million related to severance costs for the elimination of certain employee positions.

During the fourth quarter of fiscal 2006, we began implementing an operating strategy designed to significantly de-emphasize the sale of digital cameras and increase our focus on the sales of single-use and 35mm traditional film cameras. In connection with this strategy, we realigned our operations in Europe, including ceasing our operations in France and Germany. As a result of the France and Germany office closures, in fiscal 2007, we recorded charges of approximately $0.4 million for severance costs. In addition, as a result of the de-emphasis of digital camera sales, we reduced our outsourcing organization in Asia and recorded a total of $0.1 million for employee severance costs. We also recorded impairment charges totaling $1.8 million related to the impairment of certain long-lived assets that included a reduction in the carrying value of a license used primarily in the branding of digital cameras and certain machinery held for sale in the amounts of $1.0 million and $0.8 million, respectively.

Table I -- Other Charges Liability reconciles the beginning and ending balances of the other charges liability.

(in thousands)

Other Charges Liability

	Severance	Retention
Balance as of July 2, 2005	$ 190	$ 129
Charges	1,630	177
Reversals	--	(24)
Payments	(645)	(275)

Balance as July 1, 2006	$ 1,175	$ 7
Charges	943	9
Reversals	(44)	(7)
Payments	(1,838)	--
Balance as June 30, 2007	$ 236	$ 9

Table II -- Other Charges presents the related expenses and their classification in the consolidated statements of operations.

(in thousands)

Other Charges	Severance	Retention	Long-Lived Asset Impairment	L
Fiscal 2007				
Cost of products sold	$ 341	$ --	$ --	$
Selling expense	470	(7)	--	
General and administrative expense	88	9	--	
Total	$ 899	$ 2	$ --	$
Fiscal 2006				
Cost of products sold	$ 29	$ 96	$ 788	$
Selling expense	357	14	--	
General and administrative expense	1,244	43	1,039	
Total	$1,630	$ 153	$1,827	$
Fiscal 2005				
Cost of products sold	$ --	$ 142	$ --	$
Selling expense	107	47	--	
General and administrative expense	153	147	--	
Total	$ 260	$ 336	$ --	$

As a result of the cost-reduction initiatives implemented in fiscal 2006 and fiscal 2007, we expect to make cash payments totaling $0.2 million during fiscal 2008 related to severance.

Growth Opportunities - We are evaluating various growth opportunities that could require significant funding commitments. We have from time to time held, and will continue to hold, discussions and negotiations with (i) companies that

represent potential acquisition or investment opportunities; (ii) potential strategic and financial investors who have expressed an interest in making an investment in or acquiring us; (iii) potential joint venture partners looking toward formation of strategic alliances that would broaden our product base or enable us to enter new lines of business; and (iv) potential new customers where the design, development and production of new products, including certain new technologies, would enable us to expand our existing business and enter new markets. There can be no assurance, however, that any definitive agreement will be reached regarding any of the foregoing.

LIQUIDITY AND CAPITAL RESOURCES

We are not engaged in hedging activities and had no forward exchange contracts outstanding at June 30, 2007. In the ordinary course of business, we enter into operating lease commitments, purchase commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with generally accepted accounting principles in the United States and are more fully discussed below.

We believe that our cash and cash equivalents, short-term investments, anticipated cash flow from working capital and amounts available under our credit facilities provide sufficient liquidity and capital resources for our anticipated working capital and capital expenditure requirements for at least the next twelve months.

Cash and Cash Equivalents - Cash and cash equivalents decreased by $2.9 million from $6.8 million at July 1, 2006 to $3.9 million at June 30, 2007. The decrease was primarily the result of cash used for the net purchases of short-term investments of $6.9 million, net capital expenditures of $0.1 million and changes in net working capital accounts of $1.1 million, partially offset by $ 2.1 million from the reduction in restricted cash and net borrowings related to short-term debt of $2.8 million and proceeds from the exercise of stock options in the amount of $0.3 million.

Short-Term Investments - Short-term investments, including available-for-sale investments, increased by $6.9 million from $23.6 million at July 1, 2006 to $30.5 million at June 30, 2007, primarily as a result of the purchase of short-term investments.

Cash Used in Operating Activities - Cash used in operations in fiscal 2007 was $1.1 million, which compared unfavorably to cash used in operating activities of $27,000 for fiscal 2006 and favorably to cash used in operating activities of $7.8 million for fiscal 2005. The changes in cash used in operating activities for the respective fiscal years were primarily attributable to changes in accounts receivable as a result of improved collections, inventories as a result of a focused effort to control inventory balances, accounts payable and accrued expenses as a result of lower overall costs.

Cash (Used in) Provided by Investing Activities - For fiscal 2007, the decrease in cash from investing was primarily due to the net purchase of short-term investments of $6.9 million and net capital expenditures of $0.1 million and a decrease in restricted cash of $2.1 million, representing a decrease in cash deposits as security for borrowings under our financing facilities. For fiscal 2006, the increase in cash provided by investing was primarily due to proceeds from the sale of short-term investments partially offset by the increase in restricted cash. During fiscal 2006, restricted cash increased by $8.3 million representing required minimum cash deposits as security for borrowings under our financing facilities. Capital expenditures for fiscal 2007, fiscal 2006 and

fiscal 2005 were $0.6 million, $1.6 million and $2.8 million, respectively, and related primarily to expenditures on plant and equipment for our manufacturing facilities in the PRC. The cash provided by investing activities in fiscal 2005 was primarily due to the sale of short-term investments and the proceeds of approximately $0.9 million on the sale of our property in Coalville, England that was previously used in connection with our operations in the United Kingdom.

Cash Provided by (Used in) Financing Activities - Cash provided by financing activities in fiscal 2007 was $3.1 resulting from the net borrowings under the credit facilities of $2.8 million and $0.3 million from net proceeds for the issuance of common stock from the exercise of stock options. Cash used in financing activities in fiscal 2006 was $(2.9) million resulting from the repayment of net borrowings under the credit facilities. In fiscal 2005, cash used in financing activities resulted from repayments of net borrowings under the credit facility.

OFF-BALANCE SHEET ARRANGEMENTS

Under SEC regulations, in certain circumstances, we are required to make certain disclosures regarding the following off-balance sheet arrangements, if material:

- Any obligation under certain guarantee contracts;
- Any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- Any obligation under certain derivative instruments; and
- Any obligation arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

As of June 30, 2007, we had $2.1 million in letters of credit outstanding, which were issued primarily to certain suppliers to guarantee payment of our purchase orders with such suppliers. The letters of credit are issued under our approximately $6.8 million import facility from our Hong Kong financing facilities. See "Hong Kong Financing Facilities" below.

We do not have any off-balance sheet arrangements pursuant to these regulations, other than those described above and in the Notes to Consolidated Financial Statements. We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships including variable interest entities. We are not engaged in hedging activities and had no forward exchange contracts or other derivatives outstanding as of June 30, 2007. In the ordinary course of business, we

enter into operating lease commitments, purchase commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with generally accepted accounting principles in the United States and are more fully discussed below under the caption "Liquidity and Capital Resources."

CONTRACTUAL OBLIGATIONS AS OF June 30, 2007
(in millions)

Contractual Obligations	Total	Payments Less than 1 year
Purchase Obligations	$13.5	$13.5
Borrowings under Financing Facilities	2.8	2.8
Letters of Credit	2.1	2.1
Employment Contract Obligations	2.7	0.9
Operating Leases	2.6	0.7
Patent, Trademark, Licensing and Royalty Obligations	2.3	0.5
Total	$26.0	$20.5

Operating Leases - We enter into operating leases in the ordinary course of business (e.g., warehouse facilities, office space and equipment). The effects of outstanding leases are not material to us either in terms of annual costs or in total future minimum payments. See Note 14, Commitments and Contingencies, in the Notes to Consolidated Financial Statements.

Purchase Commitments - In the ordinary course of our business, we enter into purchase commitments for components, raw materials, supplies, services, finished camera products, and property, plant and equipment. In the aggregate, such commitments are not at prices in excess of current market prices (except for those instances in which the cost basis has been lowered to net realizable value) and typically do not exceed one year.

Other Contractual Obligations - We do not have any material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity. See Hong Kong Financing Facilities below for information about our financial guarantees.

Hong Kong Financing Facilities - At June 30, 2007 and July 1, 2006, we had $2.1 million and $1.5 million, respectively, in letters of credit outstanding, which were issued primarily to certain suppliers to guarantee payment of our purchase orders with such suppliers. The letters of credit were issued under our financing facilities that have been granted to CCHK. See Note 7, Short-Term Borrowings and Financing Facilities, in the Notes to the Consolidated Financial Statements.

Reverse Split of Common Stock - On October 26, 2006, our Board of Directors approved, without action by the shareholders, a Certificate of Amendment to our Certificate of Incorporation to implement a one-for-five split of our common stock with an effective date of November 21, 2006. On the effective date of the reverse split, each five shares of issued common stock (including treasury shares and shares held in trust) were converted automatically into one share of common stock. Our authorized common stock was reduced from 100,000,000 shares to 20,000,000 shares. All shares of our common stock and per-share and related stock option amounts have been retroactively adjusted for the reverse stock split in the accompanying consolidated financial statements and footnotes.

License Agreements - See Note 14, Commitments and Contingencies, in the Notes to Consolidated Financial Statements for a discussion of our licensing activities.

Intellectual Property Claims - See Note 14, Commitments and Contingencies, and Note 15, Litigation and Settlements, in the Notes to Consolidated Financial Statements regarding intellectual property claims and litigations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For a discussion of recently issued accounting pronouncements, see Note 1, Description of Business and Summary of Significant Accounting Policies, "Recently Issued Accounting Pronouncements," in the Notes to Consolidated Financial Statements.

Other Events

In fiscal 2005 and fiscal 2004, certain of our foreign subsidiaries inadvertently sold approximately $16,000 and $22,000, respectively, of our products that were shipped to Cuba, Iran and Syria. One or more of the shipments may be in violation of regulations of the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"). We informed the U.S. Treasury Department of these matters and took steps to ensure future compliance with all OFAC regulations. To the extent we violated any regulations with respect to the above or other transactions, we may be subject to civil fines or other sanctions, which we believe will not be material. We do not expect these matters to have a material adverse effect on our financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

As a result of our global operating and financial activities, we are exposed to changes in interest rates and foreign currency exchange rates that may adversely affect our results of operations and financial condition. In seeking to minimize the risks and/or costs associated with such activities, we manage exposures to changes in interest rates and foreign currency exchange rates through our regular operating and financing activities.

At June 30, 2007, our exposure to changes in interest rates was limited, since we had no significant debt outstanding. Since we have no significant debt outstanding, we do not deem interest rate risk to be

significant or material to our financial condition or results of operations. We do not presently use derivative instruments to adjust our interest rate risk profile. We do not utilize financial instruments for trading or speculative purposes, nor do we utilize leveraged financial instruments.

Each of our foreign subsidiaries purchases their inventories in U.S. Dollars and certain of their sales are in foreign currency, thereby creating an exposure to fluctuations in foreign currency exchange rates. We have purchased and continue to purchase in foreign currencies certain components, products, raw materials and services needed to manufacture and sell our products. The impact of foreign exchange transactions is reflected in our statements of operations. Although we have previously analyzed the benefits and costs associated with hedging against foreign currency fluctuations, as of June 30, 2007, we were not engaged in any hedging activities and we had no forward exchange contracts outstanding.

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm	39
Consolidated Balance Sheets at June 30, 2007 and July 1, 2006	40
Consolidated Statements of Operations for the years ended June 30, 2007, July 1, 2006 and July 2, 2005	41
Consolidated Statements of Stockholders' Equity for the years ended June 30, 2007, July 1, 2006 and July 2, 2005	42
Consolidated Statements of Cash Flows for the years ended June 30, 2007, July 1, 2006 and July 2, 2005	43
Notes to Consolidated Financial Statements	44

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Concord Camera Corp.

We have audited the accompanying consolidated balance sheets of Concord Camera Corp. and its subsidiaries as of June 30, 2007 and July 1, 2006 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years ended June 30, 2007. We have also audited the schedule for the three years ended June 30, 2007 listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Concord Camera Corp. and its subsidiaries at June 30, 2007 and July 1, 2006, and the results of its operations and its cash flows for the three years ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the 2007, 2006 and 2005 schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP
Certified Public Accountants

Miami, Florida
September 26, 2007

39

Concord Camera Corp. and Subsidiaries
Consolidated Balance Sheets
(in thousands)

Assets
Current Assets:
Cash and cash equivalents
Restricted cash
Short-term investments
Accounts receivable, net
Inventories
Prepaid expenses and other current assets

Total current assets
Property, plant and equipment, net
Other assets

Total assets

Liabilities and Stockholders' Equity
Current Liabilities:
Short-term borrowings under financing facilities
Accounts payable
Accrued royalty
Accrued expenses
Other current liabilities

Total current liabilities
Other long-term liabilities

Total liabilities
Commitments and contingencies
Stockholders' Equity:
Blank check preferred stock, no par value, 1,000 shares authorized, none issued
Common stock, no par value, 20,000 shares authorized; 6,261 and 6,185 shares issued as of June 30, 2007 and July 1, 2006
Additional paid-in capital
Deferred share arrangement
Accumulated deficit

Less: treasury stock, at cost, 347 shares as of June 30, 2007 and July 1, 2006
Less: common stock held in trust, 66 and 102 shares as of June 30, 2007 and July 1, 2006

Total stockholders' equity

Total liabilities and stockholders' equity

See accompanying notes to consolidated financial statements.

Concord Camera Corp. and Subsidiaries
Consolidated Statements of Operations
(in thousands, except per share data)

	June 30, 2007
Net sales	$ 86,653
Cost of products sold	77,452
Gross profit (deficit)	9,201
Selling expenses	9,133
General and administrative expenses	13,451
Operating loss	(13,383)
Interest expense	336
Other income, net	(1,999)
Loss before provision for income taxes	(11,720)
Provision for income taxes	6
Net loss	$ (11,726)
Net loss per common share:	
Basic and diluted loss per common share	$ (1.99)
Weighted average common shares outstanding - basic and diluted	5,878

See accompanying notes to consolidated financial statements.

Concord Camera Corp. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(in thousands)

	Common Stock Issued Shares	Stated Value	Additional Paid-in Capital	D Sh Com
Balance as of July 3, 2004	6,114	$143,073	$4,853	
Exercise of stock options	71	445	--	
Deferred stock-based compensation	--	--	--	
Purchase of treasury stock	--	--	--	
Common stock held in Trust	--	--	--	
Deferred share arrangement	--	--	--	
Net loss	--	--	--	
Balance as of July 2, 2005	6,185	$143,518	$4,853	
Share-based compensation expense	--	--	275	
Net loss	--	--	--	
Balance as of July 1, 2006	6,185	$143,518	$5,128	
Exercise of stock options	76	342	--	
Share-based compensation expense	--	--	61	
Deferred share arrangement	--	--	--	
Net loss	--	--	--	
Balance as of June 30, 2007	6,261	$143,860	$5,189	

	Treasury Stock Shares	Treasury Stock Cost	Common Stock Held in Trust Shares	Common Stock Held in Trust Cost	
Balance as of July 3, 2004	320	$(4,620)	66	$(413)	$1
Exercise of stock options	--	--	--	--	
Deferred stock-based compensation	--	--	--	--	
Purchase of treasury stock	27	(373)	--	--	
Common stock held in Trust	--	--	36	(211)	
Deferred share arrangement	--	--	--	--	
Net loss	--	--	--	--	(
Balance as of July 2, 2005	347	$(4,993)	102	$(624)	$
Share-based compensation expense	--	--	--	--	
Net loss	--	--	--	--	(
Balance as of July 1, 2006	347	$(4,993)	102	$(624)	$
Exercise of stock options	--	--	--	--	
Share-based compensation expense	--	--	--	--	
Deferred share arrangement			(36)	211	
Net loss	--	--	--	--	(
Balance as of June 30, 2007	347	$(4,993)	66	$(413)	$

See accompanying notes to consolidated financial statements.

42

Concord Camera Corp. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	June 30, 2007
Cash flows from operating activities:	
Net loss	$(11,726)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for inventory charges	418
Depreciation and amortization	3,981
Gain on sale of short-term investments	--
Gain on sale of building	--
Gain on disposal of property, plant and equipment	(48)
Impairment of long-lived assets	--
Share-based compensation	61
Changes in operating assets and liabilities:	
Accounts receivable, net	5,946
Inventories	12,036
Deferred compensation assets	112
Prepaid expenses and other current assets	1,549
Other assets	267
Accounts payable	(9,547)
Accrued expenses	(2,490)
Accrued royalty	(724)
Restructuring reserve net of payments	--
Deferred compensation liabilities	(97)
Other current liabilities	(430)
Other long-term liabilities	(381)
Net cash used in operating activities	(1,073)
Cash flows from investing activities:	
Purchases of short-term investments, net	--
Proceeds from sales of available-for-sale investments	78,400
Purchase of available-for-sale investments	(85,325)
Restricted cash	2,064
Purchases of property, plant and equipment	(597)
Proceeds from sale of property, plant and equipment	491
Net cash (used in) provided by investing activities	(4,967)
Cash flows from financing activities:	
Borrowings (repayments) under financing facilities, net	2,756
Net proceeds from issuance of common stock	342
Net cash provided by (used in) financing activities	3,098
Net decrease in cash and cash equivalents	(2,942)
Cash and cash equivalents at beginning of the year	6,795

Cash and cash equivalents at end of the year	$ 3,853
	========

See Note 2, Supplemental Cash Flow Information, and accompanying notes to consolidated financial statements.

43

CONCORD CAMERA CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Concord Camera Corp., a New Jersey corporation, and its consolidated subsidiaries (collectively referred to as the "Company" or "Concord") design, develop, manufacture, outsource and sell easy-to-use film camera products worldwide. The Company's products include single-use and 35mm traditional film cameras. The Company manufactures and assembles most of its single-use cameras and certain of its 35mm traditional cameras at its manufacturing facility in the Peoples Republic of China ("PRC") and outsources the manufacture of certain of its single-use and its 35mm traditional film cameras. In Fiscal 2006, the Company de-emphasized the sale of digital cameras and in Fiscal 2007 sales of digital cameras were not material. The Company sells its private label and brand-name products to its customers worldwide either directly or through third-party distributors.

Fiscal Periods

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to June 30. Fiscal 2007 and 2005 were each comprised of 52 weeks, whereas Fiscal 2006 was comprised of 53 weeks.

References to Fiscal 2007, Fiscal 2006 and Fiscal 2005 in this section are to the fiscal years ended June 30, 2007, July 1, 2006 and July 2, 2005, respectively.

For reference purposes, the Company's Fiscal 2007 quarters are defined as the quarter ended: September 30, 2006 ("First Quarter Fiscal 2007"), December 30, 2006 ("Second Quarter Fiscal 2007"), March 31, 2007 ("Third Quarter Fiscal 2007"), and June 30, 2007 ("Fourth Quarter Fiscal 2007"). Also for reference purposes, the Company's fiscal year ending on June 28, 2008 is designated as "Fiscal 2008."

Reverse Split of Common Stock

On October 26, 2006, the Board of Directors of the Company approved, without action by the shareholders of the Company, a Certificate of Amendment to the Company's Certificate of Incorporation to implement a one-for-five split of the Company's Common Stock with an effective date of November 21, 2006. On the effective date of the reverse split, each five shares of issued Common Stock (including treasury shares and shares held in trust) were converted automatically into one share of Common Stock. The number of authorized shares of the Company's Common Stock was reduced from 100,000,000 shares to 20,000,000 shares. All Common Stock shares and per-share and related stock option amounts have been retroactively adjusted for the reverse stock split in the accompanying consolidated financial statements and footnotes.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States and include the accounts of the Company. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The more significant of the Company's estimates includes sales returns and allowances, provision for bad debts, inventory valuation charges, realizability of intangibles, realizability of deferred tax assets, and accounting for litigation and settlements, among others.

Foreign Currency Transactions

The Company operates on a worldwide basis and its results may be adversely or positively affected by fluctuations of various foreign currencies against the U.S. Dollar, specifically, the Canadian Dollar, European Euro, British Pound Sterling, PRC Renminbi, Hong Kong Dollar and the Japanese Yen. Although certain net sales to customers and purchases of certain components and services are transacted in local currencies, each of the Company's foreign subsidiaries purchases substantially all of its finished goods inventories in U.S. Dollars. Therefore, the Company has determined the U.S. Dollar is the functional currency for all of its subsidiaries. The accounting records for subsidiaries that are maintained in a local currency are remeasured into the U.S. Dollar. Accordingly, most non-monetary balance sheet items and related income statement accounts are remeasured from the applicable local currency to the U.S. Dollar using average historical exchange rates, producing substantially the same result as if the entity's accounting records had been maintained in the U.S. Dollar. Adjustments resulting from the remeasurement process are recorded into earnings. Gains or losses resulting from foreign currency transactions and remeasurement are included in "Other income, net" in the accompanying consolidated statements of operations. For Fiscal 2007, Fiscal 2006 and Fiscal 2005 included in "Other income, net" in the accompanying consolidated statements of operations are approximately $ 0.1 million, $0.3 million and $0.4 million, respectively, of net foreign currency losses.

Hedging Activities

During Fiscal 2007, Fiscal 2006 and Fiscal 2005, the Company had no forward exchange contracts or other derivatives outstanding and did not participate in any other type of hedging activities.

Concentration of Credit Risk

The Company sells a significant percentage of its products to a relatively small number of customers. These customers operate in markets located principally in the United States, Canada, the United Kingdom, Germany, France and Japan. Receivables arising from these sales are generally not collateralized. The Company's credit terms extended to customers are generally 60 days or less. The Company does not charge interest on amounts outstanding. The Company monitors

the credit-worthiness of its customers and reviews outstanding receivable balances for collectibility on a regular basis and records allowances for doubtful accounts, sales returns and allowances, as necessary. Customers that individually account for greater than 10% of the Company's total net sales create a concentration of credit risk. During Fiscal 2007, there were two such customers. See Note 18, Geographic Area and Significant Customer Information, for further discussion of significant customers.

Estimated Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents; restricted cash; short-term investments; accounts receivable, net; short-term borrowings under credit or revolving facilities; accounts payable; and accrued expenses approximate fair value because of their liquidity, short duration to maturity or short repayment term. Because judgment is required in interpreting market data to develop estimates of fair value, the

estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions or estimation methodologies may be material to the estimated fair value amounts.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Restricted Cash

The Company's financing facilities require a minimum cash deposit as security in the amount of $6.2 million for borrowings outstanding under its revolving demand financing facilities. The restricted cash amount is classified as a current asset in the consolidated balance sheets since the borrowings it secures are classified as a current liability. The total amount of restricted cash as of June 30, 2007 and July 1, 2006 was $6.2 million and $8.3 million, respectively, on the consolidated balance sheets.

Investments

At June 30, 2007 and July 1, 2006, the Company's "Short-term investments" as classified in the accompanying consolidated balance sheets consisted of auction rate debt securities and are considered to be available-for-sale securities. During Fiscal 2007, no other comprehensive income or loss is recorded because the variable interest rate feature and short maturities of the auction rate debt securities cause their carrying values to approximate market value. Realized gains and losses, interest and dividends are classified as investment income in "Other income, net" in the accompanying consolidated statements of operations. During Fiscal 2005, the Company recorded a $1.1 million gain on the sale of a short-term investment denominated in European Central Bank Euros. The gain on the sale of short-term investments is included in "Other income, net" in the accompanying consolidated statement of operations. Investment income of $1.9 million, $1.5 million and $1.0 million related to the short-term investments is included in "Other income, net" for Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively. See "Comprehensive Income (Loss)" below for further discussion of unrealized losses related to available-for-sale securities. Investments held in deferred compensation rabbi trusts directed by participants are classified as trading, and changes in the fair value of such investments are recorded in earnings.

Inventories

Inventories, consisting of raw materials, components, work-in-process and finished goods, are stated at the lower of cost or market value and are determined on a first-in, first-out basis. Work-in-process and component inventory costs include materials, labor and manufacturing overhead. The Company records lower of cost or market value adjustments based upon changes in market pricing, customer demand, technological developments or other economic factors and for on-hand excess, obsolete or slow-moving inventory. See Note 4, Inventories, for further discussion.

Property, Plant and Equipment, Net

Property, plant and equipment, net are carried at cost less accumulated depreciation and amortization. Depreciation is computed by use of the straight-line method over the estimated useful lives of the respective assets. Small tools and accessories used in production in the PRC are charged to operations when purchased. Leasehold costs and improvements are amortized on a straight-line basis over the term of the lease or the estimated useful lives of such improvements, whichever is shorter. Depreciation expense for Fiscal 2007, Fiscal 2006 and Fiscal 2005 was approximately $3.5 million, $4.8 million and $8.2 million, respectively. Depreciation expense for Fiscal 2005 includes $1.4 million related to a

reduction in the remaining useful lives of certain molds and tooling. See Note 5, Property, Plant and Equipment, Net and Note 16, Other Charges for further discussion.

Asset Class	Useful Lives (in years)
Buildings and improvements	30-50
Equipment, including tooling	1-10
Office furniture and equipment	3-7
Transportation equipment	5-7
Leasehold improvements	3-11

Intangible Assets

Identifiable intangible assets that have finite useful lives are amortized over their useful lives. The Company's amortizable intangible assets include patents, trademarks and licenses and their respective costs are amortized on a straight-line basis over their estimated useful lives. See Note 6, Other Assets.

Impairment of Long-Lived and Other Assets

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company records impairment losses when indications of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The Company reviews the carrying value of its long-lived assets for impairment whenever events or changes in conditions indicate that the carrying value of such assets may not be recoverable. Since the Company incurred a significant operating loss during Fiscal 2007, Fiscal 2006 and Fiscal 2005, a potential impairment indicator, it performed an impairment test of its long-lived assets as of June 30, 2007, July 1, 2006 and July 2, 2005. The Company performed the impairment tests by summarizing the undiscounted cash flows expected to result from the use and

eventual sale of its long-lived assets for each year tested, excluding goodwill. If the carrying values of the assets exceed the estimated undiscounted cash flows, the Company records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets, or if quoted market prices are not available, through the performance of internal analyses of the discounted cash flows or external appraisals. Assets reviewed include patents, prepaid amounts related to licensing and royalty agreements and property, plant and equipment. See Note 5, Property, Plant and Equipment, Net and Note 16, Restructuring and Other Charges.

47

Revenue Recognition

The Company recognizes revenue, in accordance with Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition: Corrected Copy, when title and risk of loss are transferred to the customer, the sales price is fixed or determinable, persuasive evidence of an arrangement exists, and collectibility is probable. Title and risk of loss generally transfer when the product is delivered to the customer or upon shipment, depending upon negotiated contractual arrangements. Sales are recorded net of anticipated returns which the Company estimates based on historical rates of return, adjusted for current events as appropriate, in accordance with Statement of Financial Accounting Standard No. 48, Revenue Recognition When Right of Return Exists ("SFAS No. 48"). If actual future returns are higher than estimated, then net sales could be adversely affected.

Shipping, Handling and Related Costs

The Company incurred shipping, handling and related costs of approximately $2.0 million, $3.1 million and $3.6 million during Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively, which are included in the accompanying consolidated statements of operations under the caption "Selling expenses." Shipping, handling and related costs incurred by the Company to ready products for sale (i.e., freight, duty and custom charges incurred to deliver products to the Company's manufacturing facility and warehouses) are included in the accompanying consolidated statements of operations under the caption "Cost of products sold."

Product Design and Development Costs

Product design and development costs, which include costs in connection with new product development, product design, fundamental and exploratory research, process improvement, product use technology, and product quality assurance, are part of the production process and are expensed as incurred. Certain of the Company's products are developed, designed and engineered by its own engineers in the Company's facilities located in the U.S., Hong Kong and the PRC. The Company incurred $2.5 million, $3.8 million and $8.4 million during Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively, for product design and development. These costs are included in the accompanying consolidated statements of operations under the caption, "Cost of products sold."

Sales Allowances

The Company may enter into arrangements to offer certain pricing discounts and allowances that do not provide an identifiable separate benefit or service. In accordance with Emerging Issues Task Force Issue No. 01-09, Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products) ("EITF Issue No. 01-09"), the Company records these pricing discounts and allowances as

a reduction of sales. Advertising and promotional costs, which include advertising allowances and other discounts, have been expensed as incurred. In accordance with EITF Issue No. 01-09, which addresses the statement of operations classification of consideration between a vendor and a retailer, the Company records certain variable selling expenses, including advertising allowances, other discounts and other allowances, as a reduction of sales. The Company may enter into arrangements to provide certain free products. In accordance with EITF Issue No. 01-09, the Company records the cost of free products ratably into cost of products sold based upon the underlying revenue transaction.

Share-Based Compensation

The Company has four share-based employee compensation plans, which are described more fully in Note 11, Stock Option Plans. Effective July 3, 2005, the Company adopted the fair value recognition provisions of Statement of Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," as

48

interpreted by Financial Accounting Standards Board ("FASB") Staff Positions No. 123R-1, 123R-2, 123R-3, 123R-4, 123R-5 and 123R-6. The Company's loss before income taxes for the years ended June 30, 2007 and July 1, 2006 includes approximately $61,000 and $275,000 of share-based compensation expense.

Prior to July 1, 2005, the Company accounted for its employee stock incentive plans under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB Opinion") No. 25, Accounting for Stock Issued to Employees ("APB No. 25") and related Interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), as amended by SFAS No. 148, Accounting for Stock-Based Compensation and Disclosure ("SFAS No. 148"). The Company had complied with the disclosure requirement of SFAS No. 148 prior to adopting SFAS No. 123 (revised 2004) Share-Based Payment ("SFAS 123R"). Accordingly, no share-based compensation was recognized in the consolidated statements of operations for Fiscal 2005, as all of the options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The total income tax benefit recognized in the consolidated statement of operations for the share-based compensation arrangements was $0 for each Fiscal 2006 and Fiscal 2007. The Company considers all of its share-based compensation expense as a component of general and administrative expenses. In addition, no amount of share-based compensation was capitalized as part of capital expenditures or inventory for Fiscal 2007 and Fiscal 2006.

Pro forma information regarding net loss and loss per share required by SFAS No. 123, as amended by SFAS No. 148, had been determined as if the Company had accounted for its employee stock options under the fair value method for the periods presented below. The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions for the year ended July 2, 2005:

	For Fiscal 2005
Risk-Free Interest Rates	3.8%
Expected Option Lives	3-5 years
Expected Volatilities	75.1
Expected Dividend Yields	0%

Weighted Average Fair Value of Options Granted	$1.16

The following table illustrates the effect on net loss and loss per share if the fair value based method had been applied to all outstanding and unvested awards in each period presented (in thousands, except per share amounts):

	For Fiscal 2005
Net loss, as reported	$(44,923)
Deduct: total stock-based compensation expense determined under fair value based method for all awards,	(858)
Pro forma net loss	$(45,781)
Loss per share:	
Basic - as reported	$ (7.70)
Basic - pro forma	$ (7.85)
Diluted - as reported	$ (7.70)
Diluted - pro forma	$ (7.85)

Income Taxes

The provision for income taxes is based on the consolidated United States entities' and individual foreign companies' estimated tax rates for the applicable year. Deferred taxes are determined utilizing the asset and liability method based on the difference between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax provisions and benefits are based on the changes in the net deferred tax asset or liability from period to period. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. See Note 13, Income Taxes.

Comprehensive (Loss) Income

Comprehensive income in accordance with SFAS No. 130, Reporting Comprehensive Income, ("SFAS No. 130") includes net (loss) income adjusted for certain revenues, expenses, gains and losses that are excluded from net (loss) income under accounting principles generally accepted in the U.S. During Fiscal 2007, Fiscal 2006 and Fiscal 2005, the Company's comprehensive (loss) was $(11.7) million, $(19.6) million and $(44.9) million. The Company did not have any items of other comprehensive income or (loss) during Fiscal 2007, Fiscal 2006 and Fiscal 2005.

(Loss) Income Per Share

Basic and diluted (loss) income per share are calculated in accordance with SFAS No. 128, Earnings per Share ("SFAS No. 128"). All applicable (loss) income per share amounts have been presented in conformity with SFAS No. 128 requirements. During the past three fiscal years, the Company has issued shares of Common Stock upon the exercise of stock options as follows: Fiscal 2007 (75,532

shares), Fiscal 2006 (0 shares) and Fiscal 2005 (70,695 shares). In Fiscal 2007, Fiscal 2006 and Fiscal 2005, potentially dilutive securities, comprised of options to purchase 39,896 shares, 67,470 shares, 453,177 shares of Common Stock, respectively, were not included in the calculation of diluted loss per share because their impact was antidilutive.

For Fiscal 2007, the weighted average effect of the 66,202 shares for which delivery was deferred under the Company's Deferred Delivery Plan was included in the denominator of both the basic and diluted loss per share calculations. For Fiscal 2006 and Fiscal 2005, the weighted average effect of the 101,811 shares for which delivery was deferred under the Company's Deferred Delivery Plan, was included in the denominator of both basic and diluted loss per share calculations. See Note 10, Deferred Share Arrangement.

Recently Issued Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes--an Interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements by prescribing a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on de-recognition of tax benefits previously recognized and additional disclosures for unrecognized tax benefits, interest and penalties. FIN 48 is effective for fiscal years beginning after December 15, 2006, and is required to be adopted by the Company in the first quarter of fiscal year 2008. The Company is currently evaluating the impact of adopting FIN 48 and as a result, is not able to estimate the effect the adoption will have on its consolidated financial position and results of operations or cash flows.

In September 2006, the FASB issued Statement of Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on the Company's consolidated financial position and results of operations or cash flows.

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation.

NOTE 2 - SUPPLEMENTAL CASH FLOW INFORMATION:
(in thousands)

	Fiscal Year		
	2007	2006	2005
Cash paid for interest	$166	$184	$442

Cash paid for income taxes	$ 26	$134	$ --

Non-Cash Investing Activities:

Deferred Share Arrangement	2007	2006	2005
Common stock issued to participant and trust	$ --	$ --	$ 373
Treasury stock received by Company	--	--	(373)
Deferred share arrangement obligation to participant	(211)	--	211
Common stock received and held in trust	211	--	(211)
	$ --	$ --	$ --

See Note 10, Deferred Share Arrangement for a description of the deferred share arrangement transactions in Fiscal 2007, Fiscal 2006 and Fiscal 2005.

51

NOTE 3 - ACCOUNTS RECEIVABLE, NET:
(in thousands)

Accounts receivable, net consists of the following:

	June 30, 2007	July 1, 2006
Trade accounts receivable	$ 12,738	$ 20,475
Less: allowances for sales returns and allowances, discounts, and doubtful accounts	(2,036)	(3,827)
Total accounts receivable, net	$ 10,702	$ 16,648

NOTE 4 - INVENTORIES:
(table in thousands)

Inventories consist of the following:

	June 30, 2007	July 1, 2006
Raw material, components and work-in-process	$ 5,431	$ 9,589
Finished goods	10,375	18,671
Total inventories	$ 15,806	$ 28,260

During Fiscal 2007 and Fiscal 2006, the Company recorded inventory related pre-tax charges of approximately $0.4 million and $1.6 million, respectively. The inventory charges were primarily attributable to price declines and increased competitive pricing pressures in the digital camera market and excess

customer inventory levels that adversely affected the value of the Company's digital camera inventories. For Fiscal 2007, the inventory related pre-tax charges had the effect of decreasing inventory by $0.4 million and increasing cost of products sold by $0.4 million. For Fiscal 2006, the inventory related pre-tax charges had the effect of decreasing inventory by $1.6 million and increasing cost of products sold by $1.6 million. For Fiscal 2005, the inventory related pre-tax charges had the effect of decreasing inventory by $13.0 million and increasing cost of products sold by $13.0 million. See Note 16, Other Charges.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT, NET:
(in thousands)

Property, plant and equipment, net consist of the following:

	June 30, 2007	July 1, 2006
Buildings and improvements	$ 6,804	$ 6,804
Equipment, including tooling	34,065	36,238
Office furniture and equipment	12,891	15,412
Transportation equipment	509	509
Leasehold improvements	5,474	5,593
	59,743	64,556
Less: accumulated depreciation and amortization	(49,127)	(50,778)
Total property, plant and equipment, net	$ 10,616	$ 13,778

During Fiscal 2006, the Company recorded an impairment charge of $0.8 million to lower the carrying value of certain machinery held for sale and reclassified the $0.3 million carrying value of certain machinery to current assets in the accompanying consolidated balance sheets at July 1, 2006. The Company sold the machinery held for sale during Fiscal 2007. See Note 16, Other Charges.

NOTE 6 - OTHER ASSETS
(tables in thousands)

Other assets consist of:

	June 30, 2007	July 1, 2006
Patents, trademarks and licenses, net	$3,347	$3,800
Other	104	370
Total other assets	$3,451	$4,170

Patents, trademarks, and licenses, net consist of the following:

	Useful Lives (in Years)	June 30, 2007	July 1, 2006

Patents, trademarks and licenses	3 - 20	$10,109	$10,109
Less: accumulated amortization		(6,762)	(6,309)
Patents, trademarks and licenses, net		$ 3,347	$ 3,800

As of June 30, 2007, the aggregate weighted average amortization period for patents, trademarks, and licenses was approximately 12 years. For Fiscal 2007, Fiscal 2006 and Fiscal 2005, intangible asset amortization expense was $0.5 million, $0.4 million and $0.6 million, respectively. Estimated future aggregate annual amortization expense for each of the next five years is as follows:

Fiscal Year	Estimated Aggregate Amortization Expense
2008	$ 426
2009	426
2010	237
2011	237
2012	237

See Note 14, Commitments and Contingencies for a description of license and royalty agreements and the Fiscal 2006 impairment charges related to the Jenoptik license.

NOTE 7 - SHORT-TERM BORROWINGS AND FINANCING FACILITIES

Hong Kong Financing Facilities

During Fiscal 2007, Concord Camera HK Limited ("CCHK"), the Company's Hong Kong subsidiary, (i) reduced the demand financing facilities provided by The Hongkong and Shanghai Banking Corporation ("HSBC") by approximately US$3.0 million, from an aggregate amount of approximately US$8.2 million to approximately US$5.2 million, and the corresponding cash on deposit as security for the facilities by approximately US$3.0 million; and (ii) accepted additional demand financing facilities from each of Dah Sing Bank, Limited ("Dah Sing") and Shanghai Commercial Bank Ltd ("SCB") in an aggregate amount of approximately US$3.4 million. As security for the Dah Sing and SCB financing facilities, among other

53

things, the Company provided a corporate guarantee to Dah Sing in the amount of approximately US$2.3 million and to SCB in the amount of approximately US$1.1 million. The Dah Sing and SCB financing facilities are discussed in detail below.

On December 5, 2006, CCHK accepted a proposal from SCB dated June 12, 2006 (the "SCB Agreement") for the provision to CCHK of certain demand banking facilities up to an amount of approximately HKD9,000,000 (approximately, US$1.125 million) (collectively, the "SCB Facilities"). Pursuant to the SCB Agreement, subject to certain terms and conditions set forth in the agreement, CCHK may use (i) up to HKD6,000,000 (approximately US$750,000) of the SCB Facilities for opening letters of credit, import loans for settlement of draw-downs under letters of credit, releasing goods under trust receipts, payables financing loans against vendor's invoices and packing loans; and (ii) up to HKD3,000,000 (approximately US$375,000) for negotiating export documents under letters of credit in CCHK's favor. The SCB Agreement has no stated expiration date.

The SCB Facilities bear interest at variable rates, as follows: 0.5% per annum over the Hong Kong prime rate on facilities denominated in Hong Kong Dollars;

and 0.5% per annum over the U.S. prime rate on facilities denominated in U.S. Dollars. At June 30, 2007, the Hong Kong prime rate was 6.57% and the U.S. prime rate was 8.25%.

As security for the SCB Facilities, in addition to the Company's corporate guarantee in the amount of HKD9,000,000 (approximately US$1.125 million), CCHK executed a mortgage in favor of SCB on the Hong Kong office property owned by CCHK.

On October 4, 2006, CCHK accepted a proposal from Dah Sing dated June 19, 2006 (the "Dah Sing Agreement") for the provision to CCHK of certain demand banking facilities up to an amount of approximately $2.3 million (collectively, the "Dah Sing Facilities"). Pursuant to the proposal, CCHK may use the Dah Sing Facilities for opening letters of credit, draft loans, negotiating export letters of credit with a letter of guarantee and/or outward bills loans. Of this credit line, approximately $1.9 million will be available for trust receipts, invoice financing, packing loans and/or advances against receivables. The Dah Sing Agreement was to have expired on June 30, 2007. The Dah Sing Facilities were extended on their existing terms until August 31, 2007 by a letter dated June 27, 2007, and until September 30, 2007 by a letter dated August 27, 2007, and until October 31, 2007 by a letter dated September 25, 2007, pending completion of Dah Sing's review of the facilities.

The Dah Sing Facilities bear interest at variable rates, as follows: 1.5% per annum over the Hong Kong Interbank Offered Rate on facilities denominated in Hong Kong Dollars; 1.5% per annum over the London Interbank Offered Rate on facilities denominated in U.S. Dollars; and 1.5% per annum over the Singapore Interbank Offered Rate on facilities denominated in any other foreign currency.

As security for the Dah Sing Facilities, in addition to the Company's corporate guarantee in the amount of approximately $2.3 million, CCHK provided to Dah Sing a pledged deposit in the amount of $1.0 million and CCHK had undertaken (A) to maintain a net worth of not less than HKD80.0 million (approximately US$10.0 million); (B) to provide audited financial statements of each of CCHK and the Company within nine months after the Company's fiscal year end; (C) to provide an audited report of CCHK reflecting a net profit as of June 30, 2007, the end of the Company's 2007 fiscal year; and (D) to direct import/export business to Dah Sing of not less than HKD60.0 million (approximately US$7.5 million) per year. As of June 30, 2007, CCHK may not be compliant with one or more of these undertakings and, as a result, Dah Sing may not renew or further extend the Dah Sing Facilities and may demand full repayment of all indebtedness outstanding thereunder. There is no guarantee that Dah Sing will agree to renew or further extend the Dah Sing Facilities. The Company does not believe that the potential loss of the Dah Sing Facilities will have a material adverse effect on the Company's liquidity or financial condition because the Company has sufficient capital resources to fully repay all indebtedness outstanding under the Dah Sing Facilities and to continue to finance its operations.

At June 30, 2007 and July 1, 2006, the Company had $2.8 million and zero, respectively, in short-term borrowings outstanding under the import facilities described above. The weighted average borrowing

rates on the short-term borrowings as of June 30, 2007 and July 1, 2006, were 6.85% and 6.79%, respectively.

At June 30, 2007 and July 1, 2006, the Company had $2.1 million and $1.5 million, respectively, in letters of credit outstanding, which were issued primarily to certain suppliers to guarantee payment for our purchase orders with

such suppliers. The letters of credit are issued under the Company's import facilities that have been granted to CCHK.

NOTE 8 - OTHER LONG-TERM LIABILITIES
(tables in thousands)

Other long-term liabilities consist of the following:

	June 30, 2007	July 1, 2006
Licensing and royalty related obligations	$1,257	$1,588
Other	185	236
Total other long-term liabilities	$1,442	$1,824

Licensing and royalty related obligations represent the total of future minimum royalty payment amounts and an amount equal to the present value of future payments related to various licensing agreements. See Note 14, Commitments and Contingencies.

NOTE 9 - STOCKHOLDERS' EQUITY

In the fourth quarter of the year ended July 1, 2000 ("Fiscal 2000"), the shareholders authorized the Company to issue up to 1.0 million shares of blank check preferred stock, with such rights and preferences as may be determined by the Board from time to time. No preferred stock has been issued to date.

On October 26, 2006, the Board of Directors of the Company approved, without action by the shareholders of the Company, a Certificate of Amendment to the Company's Certificate of Incorporation to implement a one-for-five split of the Company's Common Stock with an effective date of November 21, 2006. On the effective date of the reverse split, each five shares of issued Common Stock (including treasury shares and shares held in trust) were converted automatically into one share of Common Stock, resulting in the total number of shares outstanding being reduced from 28,859,385 shares to 5,771,877 shares, and the number of authorized shares of the Company's Common Stock reduced from 100,000,000 shares to 20,000,000 shares. All Common Stock shares and per-share and related stock option amounts have been retroactively adjusted for the reverse stock split in the accompanying consolidated financial statements and footnotes.

The Company has not declared or paid any cash dividends for any of the fiscal years presented in the accompanying consolidated financial statements.

NOTE 10 - DEFERRED SHARE ARRANGEMENT

The Company's Deferred Delivery Plan allows designated executive officers to elect, subject to the approval of the Compensation and Stock Option Committee of the Company's Board of Directors (the "Compensation Committee"), to defer the gains on certain stock option exercises by deferring delivery of the "profit" shares to be received upon exercise.

Pursuant to the Deferred Delivery Plan and an election previously made on August 9, 2004, the Company's Chairman, Chief Executive Officer and President ("Chairman") tendered 27,254 fully paid and owned shares of Common Stock to the Company in payment of the exercise price (the "Payment

Shares") of his option to purchase 62,862 shares of Common Stock ("2005 Delivery Plan Transaction"). Upon consummation of the 2005 Delivery Plan Transaction, the 27,254 Payment Shares were classified as "Treasury stock" and recorded at a cost of $373,375. The Company issued 62,862 new shares of Common Stock and classified them as "Common stock" at a cost of $373,375, of which 27,254 shares were issued to the Chairman in exchange for the Payment Shares. The remaining 35,609 shares, the delivery of which was deferred by the Chairman, were issued to a rabbi trust. The 35,609 shares held in the rabbi trust were recorded at a cost of $211,500 and were classified as "Common stock held in trust." The corresponding liability to the Chairman was recorded as $211,500 and was classified as "Deferred share arrangement" in the stockholders' equity section of the accompanying consolidated balance sheets. On August 9, 2006, the Chairman took delivery of the 35,609 shares held in trust upon expiration of the two-year deferral period, reducing the deferred share arrangement in the stockholders' equity section by $211,500.

Pursuant to an election previously made under the Deferred Delivery Plan on July 14, 2003, the Chairman exercised an option to purchase 77,400 shares of Common Stock and tendered 11,198 fully paid and owned shares of Common Stock to the Company in payment of the exercise price ("2004 Delivery Plan Transaction"). Upon the consummation of the 2004 Delivery Plan Transaction, the 11,198 Payment Shares were classified as "Treasury stock" and recorded at a cost of $482,625. The Company issued 77,400 new shares of Common Stock and classified them as "Common stock" at a cost of $482,625, of which 11,198 shares were issued to the Chairman in exchange for the Payment Shares. The remaining 66,202 shares, the delivery of which was deferred by the Chairman, were issued to a rabbi trust. The 66,202 shares held in the rabbi trust were recorded at a cost of $412,825 and were classified as "Common stock held in trust." The corresponding liability to the Chairman was recorded at $412,825 and was classified as "Deferred share arrangement" in the stockholders' equity section of the accompanying consolidated balance sheet. On July 2, 2007, the Chairman took delivery of the 66,202 shares held in trust upon the expiration of the extended deferral period, reducing the deferred share arrangement in the stockholders' equity section by $412,825. See Note 20, Subsequent Events.

NOTE 11 - STOCK OPTION PLANS

On September 4, 2002, the Company adopted a non-qualified stock option plan that provides for a maximum number of 100,000 shares of Common Stock for awards issuable to new employees ("SEP 2002 Plan"). The SEP 2002 Plan permits the Compensation Committee or the Board of Directors (the "Board") to grant, at their discretion, a variety of Common Stock awards on a stand-alone, combination, or tandem basis. The SEP 2002 Plan expires in September 2012.

On April 26, 2002, the Company adopted a non-qualified stock option plan that provides for a maximum number of 100,000 shares of Common Stock for awards issuable to non-officer employees, new employees, and consultants ("APR 2002 Plan"). The APR 2002 Plan permits the Compensation Committee or the Board to grant, at their discretion, a variety of Common Stock awards on a stand-alone, combination or tandem basis. The APR 2002 Plan expires in April 2013.

On August 28, 2001, the Company launched an offer to exchange outstanding stock options with an exercise price of more than $35.00 per share for new options to purchase 75% of the shares subject to the outstanding options at an exercise price of $29.85 per share (the closing price of the Common Stock as reported on the NASDAQ National Market on the date the Board approved the exchange offer). The exchange offer expired on October 16, 2001. The Company accepted for exchange and cancelled options to purchase a total of 275,175 shares of Common Stock and issued new options to purchase a total of 206,381 shares of Common Stock in exchange for the cancelled options. As a result of the exchange offer, the Company applied variable accounting for these new stock options until July

3, 2005, when the Company adopted FASB 123R.

The Company's 1993 Incentive Plan permitted the Compensation Committee to grant a variety of Common Stock awards. As of June 30, 2007, 114,307 shares of Common Stock were outstanding in the amended 1993 Incentive Plan. The 1993 Incentive Plan expired on December 1, 2003.

In addition, the Company, from time to time, has granted stock options to certain individuals as an inducement to employment.

Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. For all plans, options granted have a maximum term of ten years and generally vest annually over a three- to five-year period, provided that the optionee remains a full-time employee of the Company.

The Company uses the Black-Scholes-Merton option valuation model to calculate the fair value of a stock option grant. The stock-based compensation recorded in Fiscal 2007 was calculated using the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's Common Stock over the period of time commensurate with the expected life of the stock options. The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. The Company estimated its future stock option exercise and employee termination information used in the valuation model. The expected term of options granted is based upon the observed and expected time to the date of post-vesting exercise and forfeitures of options by the Company's employees. The risk-free interest rate is derived from the average U.S. Treasury rate for the period, which approximates the rate in effect at the time of the stock option grant.

	Fiscal 2007	Fiscal 2006
Expected volatility	61.9%-64.7%	64%-73.4%
Expected dividend yield	0%	0%
Expected term (in years)	4	5
Risk-free interest rate	4.6%-4.8%	4.0%-5.1%

A summary of stock option activity under the Company's stock option plans as of June 30, 2007, and changes during the year then ended is presented below:

Total Stock Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 1, 2006	327,690	$ 21.06		
Granted	12,500	$ 4.40		
Exercised	(75,532)	$ 4.53		
Canceled	(60,707)	$ 30.86		
Outstanding at June 30, 2007	203,951	$ 23.24	3.2	$ 3,650
Exercisable at June 30, 2007	178,658	$ 25.65	2.6	$ 300

The weighted average grant-date fair value of options granted during Fiscal 2007, Fiscal 2006 and Fiscal 2005 was $2.36, $3.57 and $6.47 respectively.

During Fiscal 2007, 75,532 options were exercised. No options were exercised during Fiscal 2006. The total intrinsic value of options exercised during Fiscal 2007, Fiscal 2006 and Fiscal 2005 was approximately, $1,511, $0 and $508,000, respectively. The intrinsic value of a stock option is the amount by which the current market value of the underlying stock exceeds the exercise price of the stock option.

57

A summary of the status of the Company's nonvested shares as of June 30, 2007, and changes during Fiscal 2007 is presented below:

Nonvested Stock Options	Shares	Weighted Average Grant Date Fair Value
Nonvested at July 1, 2006	32,169	$ 7.90
Granted	12,500	$ 2.36
Vested	(10,190)	$ 12.96
Canceled	(9,186)	$ 6.37
Nonvested at June 30, 2007	25,293	$ 3.68

As of June 30, 2007, there was approximately $78,000 of total unrecognized compensation cost related to nonvested stock-based compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average vesting period of 3.3 years. The total fair value of stock options vested during Fiscal 2007, Fiscal 2006 and Fiscal 2005 was approximately $132,000, $506,000 and $929,000, respectively.

NOTE 12 - DEFINED CONTRIBUTION PLAN

The Company maintains a defined contribution "401(k)" plan that covers substantially all United States employees meeting certain service requirements. The Company, at its sole discretion, makes matching cash contributions up to specified percentages of employees' contributions and may make additional discretionary contributions if the Company achieves certain profitability requirements.

During Fiscal 2007, the Company contributed a 2% matching contribution to the 401(k) plan in the amount of $65,000 for employees who were participants in the plan from July 1, 2005 through June 30, 2006. For Fiscal 2006 and Fiscal 2005, the Company did not make any contribution to the 401(k) plan.

NOTE 13 - INCOME TAXES
(in thousands)

Loss before income taxes in the accompanying consolidated statements of operations consists of the following:

	Fiscal Year		
	2007	2006	2005
United States	$ 88	$ (1,224)	$ (4,451)
Foreign	(11,808)	(18,280)	(40,286)
Total	$(11,720)	$(19,504)	$(44,737)

The provision (benefit) for income taxes is comprised of the following:

	Fiscal Year		
	2007	2006	2005
Current:			
United States federal and state	$ 6	$ 17	$ --
Foreign	--	90	186
Deferred			
United States federal and state	--	--	--
Foreign	--	--	--
	$ 6	$ 107	$ 186

58

Deferred income tax assets and liabilities reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss carryforwards. The tax effects of significant items comprising the Company's deferred income tax assets and liabilities as of June 30, 2007 and July 1, 2006 were as follows:

	Fiscal Year	
	2007	2006
Deferred Income Tax Liabilities:		
Depreciation	$ (65)	$ --
Other deferred tax liabilities	(4)	--
Total deferred income tax liabilities	$ (69)	$ --
Deferred Income Tax Assets:		
Operating loss carryforwards	$ 17,205	$ 16,091
Difference between book and tax basis of inventory	1,228	1,493
Compensation accruals	834	1,124
Reserves not currently deductible	114	487
Alternative minimum tax credit	227	227
Amortization	231	220
Depreciation	--	313
Contributions carryover	65	65

Other deferred income tax assets	--	10
Total deferred income tax assets	19,904	20,030
Less: valuation allowance	(19,835)	(20,030)
Net deferred income tax assets	$ --	$ --

Income attributable to Hong Kong business activities is taxed separately from income attributable to the PRC business activities. The annual effective income tax rate of the Company's Hong Kong subsidiary is 8.75%.

The Company has never paid any income or turnover tax to the PRC related to its processing activities in the PRC, but there can be no assurance that the Company will not be required to pay such taxes in the future. Existing PRC statutes can be construed as providing for a minimum of 10% to 15% income tax and a 3% turnover tax on the Company's business activities; however, the PRC has never attempted to enforce those statutes. The Company has been advised that the PRC's State Tax Bureau is reviewing the applicability of those statutes to processing activities of the type that the Company engages in, but it has not yet announced any final decisions as to the taxability of those activities. After consultation with its tax advisors, the Company does not believe that any tax exposure it may have on account of its operations in the PRC will be material to the Company's financial position or results of operations.

59

As a result of current and prior year losses realized by its foreign subsidiaries, the foreign subsidiaries had an accumulated earnings deficit of approximately $53.9 million as of June 30, 2007. Although the Company has an accumulated earnings deficit related to its foreign subsidiaries, certain of its foreign subsidiaries have undistributed earnings. Historically, the Company does not provide for U.S. federal and state income tax on such undistributed earnings based on the re-investment of such earnings outside the United States. For Fiscal 2007, the Company recorded an income tax provision of $6,000 related to income tax liabilities incurred for U.S. state taxes.

As of June 30, 2007, the Company had net operating loss carryforwards for U.S. federal tax purposes of approximately $18.2 million. The net operating loss carryforwards are scheduled to expire between 2010 and 2027. The U.S. net operating loss carryforwards include a portion arising from the exercise of stock options and will be credited to additional paid-in capital when the related tax benefit is realized. Additionally, as of June 30, 2007, the Company had approximately $53.9 million of net operating loss carryforwards related to its foreign operations, of which $48.5 million relates to Hong Kong. A significant portion of these net operating loss carryforwards have no expiration dates.

As of June 30, 2007, management evaluated the realizability of the Company's deferred income tax assets. As part of assessing the realizability of its deferred income tax assets, management evaluated whether it is more likely than not that some portion, or all, of its deferred income tax assets will be realized. The realization of its U.S., Europe, and Hong Kong deferred income tax assets relates directly to the Company's tax planning initiatives and strategies for U.S. federal and state, Europe and Hong Kong tax purposes. In Fiscal 2007, based on all the available evidence, management determined that it is not more

likely than not that its deferred income tax assets will be fully realized. Accordingly, the Company recorded a full valuation allowance against all of its deferred income tax assets in Fiscal 2007. Historically, the Company has recorded a full valuation allowance against all of its deferred tax assets in each fiscal year subsequent to and including Fiscal 2004. For Fiscal 2007, Fiscal 2006 and Fiscal 2005, the Company's effective income tax rate was 0 %, 0.6 % and 0.4% respectively. The Company's future effective income tax rate will depend on the apportionment between domestic and foreign taxable income and losses, the statutory rates of the related tax jurisdictions and any changes to the valuation allowance.

A reconciliation of income tax expense computed at the statutory U.S. federal rate to the actual provision for income taxes is as follows:

	2007
Computed benefit at U.S. federal statutory tax rate of 35%	$ (4,102)
(Decrease) increase in valuation allowance	(195)
Effect of foreign subsidiaries subject to a different tax rate	3,049
Previously unrecorded provision (benefit)	944
Permanent differences	263
State income tax, net of federal benefit	4
Other	43
Provision for income taxes	$ 6

In Fiscal 2007, the Company identified net adjustments totaling $0.9 million. In Fiscal 2006, the Company identified net adjustments totaling approximately $0.8 million related to the prior year, primarily related to U.S. operations. In Fiscal 2005, the Company identified an adjustment to its net U.S. operating loss carryforwards with a tax effect of $1.6 million related to prior years. These amounts were fully offset by changes in a valuation allowance in each of Fiscal 2007, Fiscal 2006 and 2005 and would

60

have been similarly offset by changes in a valuation allowance had they been reflected in the appropriate prior periods, which, accordingly, have not been reclassified.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Offices and Warehouses

United States

The Company leases approximately 20,000 square feet of office space at 4000 Hollywood Boulevard, Hollywood, Florida, of which approximately 5,500 square feet was sublet as of August 1, 2006. The Company also leases, but no longer uses, a warehouse of approximately 13,700 square feet in Fort Lauderdale, Florida, which was sublet as of January 7, 2005. The subleases pursuant to which the Company sublets these facilities provide for rental income of approximately $16,000 and $11,000 per month, respectively, with annual increases ranging from

2-3% and 3%, respectively, and expire on January 31, 2009, and January 31, 2014, respectively.

As of July 3, 2004, the Company ceased operations in the Fort Lauderdale warehouse facility. The Company subleased these premises at the prevailing market rate which was $0.1 million lower than the existing contractual rate. Accordingly, at June 30, 2007 and July 1, 2006, the Company had recorded an accrued liability in the accompanying consolidated balance sheets related to the present value of the unfavorable rent differential between the total future lease expense offset by the estimated total future sublease income.

Hong Kong

The Company owns a total of 6,600 square feet of office space on one floor at ADP Pentagon Centre, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong. In the same facility, the Company leases a total of approximately 6,600 square feet of office space of one floor under a lease expiring in November 2009 at a cost of approximately $5,050 per month including rent and maintenance. The land on which the building is situated is subject to a governmental ground lease that will expire in 2047.

The Company leases a warehouse for document storage comprised of approximately 1,760 square feet at Hing Yip Center, Room 1105, 72-76 Texaco Road, Tsuen Wan, Hong Kong for approximately $770 per month including rent and maintenance under a lease expiring November 30, 2007.

PRC Operations

The Company's manufacturing activities are conducted at its facilities located in the Longgang District of Shenzhen, PRC (the "Company Facility"). The Company leases three employee dormitories (the "Dormitories") at a cost of approximately $19,000 per month. The aggregate square footage of the Company Facility and the Dormitories is approximately 600,000 square feet.

The current processing agreement with the PRC expires in October 2016. Pursuant to a land use agreement, the Company has the title and right to use the land upon which the Company Facility is situated through September 22, 2038. At the end of the term, title and ownership to the land and Company Facility transfer to a PRC governmental agency. At that time, the Company may be able to extend the usage term of the PRC land and improvements thereon at then prevailing rates.

Other Jurisdictions

In Fiscal 2005, the Company sold its property in Coalville, England that was previously used in connection with its operations in the United Kingdom. Under the terms of sale, the property was sold for approximately $0.9 million with a carrying value of approximately $0.5 million. The Company received net proceeds of approximately $0.9 million and recorded a gain on the sale of the property in the accompanying consolidated statements of operations of approximately $0.4 million. The Company leases office space in the United Kingdom. The leases for office space in France, Germany and Japan were terminated as of May 31, 2007, December 15, 2006 and September 29, 2006, respectively. The Company's lease for its facility in Canada expired October 31, 2005. The Company relocated its Canadian warehousing activity to a third-party service provider under a contract that was terminated effective September 30, 2006.

Leases

Future minimum rental payments for operating leases as of June 30, 2007 are as follows:

(in thousands)

Fiscal Year	
2008	$ 698
2009	413
2010	340
2011	324
2012	324
Thereafter	521
Total minimum payments	$2,620

Minimum payments have not been reduced by minimum sublease rentals of $0.4 million due in the future under non-cancelable subleases.

Rental expense for operating leases of approximately $1.4 million, $1.8 million and $2.1 million was incurred for Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively.

Employment Agreements and Executive SERPS

Effective as of July 1, 2005, the employment agreement between the Company and Ira B. Lampert was amended (the "Lampert Agreement") to provide a four-year term that expires on July 1, 2009 and to end the Company's obligation to make a $500,000 annual contribution to a Supplemental Executive Retirement Plan and Agreement ("SERP") adopted for the benefit of Ira B. Lampert. The Lampert Agreement provides for an annual base salary of $900,000. Mr. Lampert voluntarily reduced his base salary from $900,000 to $800,000 per annum for the period from July 1, 2004 to June 30, 2005 and also voluntarily reduced the Company's $500,000 annual SERP contribution to $350,000 beginning with the payment that was due on January 1, 2005.

The Lampert Agreement provides that if his employment with the Company is terminated by reason of death or disability, Mr. Lampert or his legal representative would be entitled to receive, in addition to accrued compensation (including, without limitation, any earned but unpaid bonus or long-term incentive awards, any amount of base salary accrued or earned but unpaid, any deferred compensation earned but unpaid, any accrued but unused vacation pay and unreimbursed business expenses (the "Accrued Amounts")), his base salary for the scheduled balance of the term (payable in the case of death in a lump sum), a prorated bonus for the year in which the death or disability occurred, and any other or additional benefits owed to the executive under the then applicable employee benefit plans or policies of the

Company, subject in the case of disability to offset against the base salary payment by the amount of any disability benefits provided to him by the Company or under any disability insurance that the Company provides or pays for.

The Lampert Agreement entitles Ira B. Lampert to participate generally in all pensions, retirement, insurance, savings, welfare and other employee benefit plans and arrangements and fringe benefits and perquisites maintained by the Company from time to time for senior executives of a comparable level. In

addition to any life insurance provided pursuant to one of the Company's plans, Mr. Lampert is also provided with term life insurance, for such beneficiaries as are designated by Mr. Lampert, of $5 million face value, and long-term disability coverage with a $352,000 annual benefit and a $1.0 million lump sum payment payable in the event that Mr. Lampert's employment with the Company is terminated due to his disability (the "Additional Life and Disability Insurance"). In addition, the Company may purchase key man life insurance on the life of Mr. Lampert, which may be used to satisfy the Company's obligations under the Lampert Agreement in the event of Mr. Lampert's death. The Company currently maintains $5 million in key life insurance on the life of Mr. Lampert.

If Mr. Lampert's employment is terminated by the Company without cause or if there is a constructive termination without cause, Mr. Lampert would be entitled to receive the Accrued Amounts, his base salary and continuation of his benefits (or the economic equivalent of such benefits), the Additional Life and Disability Insurance and certain perquisites for the scheduled balance of the term and for an additional twelve months thereafter, and a prorated bonus for the year in which the termination occurred. If such termination followed a change of control of the Company, Mr. Lampert would be entitled to receive the salary continuation benefit as a lump sum payment without any discount and, subject to limited exceptions, any benefits, including options, in which he is not at such time fully vested would become fully vested and any options would remain exercisable for the full stated term of the option. If the automatic extensions of the term of the Lampert Agreement are discontinued at the request of the Company and Mr. Lampert's employment is terminated upon expiration of the term, Mr. Lampert would be entitled to receive the Accrued Amounts, his base salary and continuation of his benefits (or the economic equivalent of such benefits), the Additional Life and Disability Insurance and certain perquisites for twelve months after the end of the term, and a prorated bonus for the year in which the termination occurred. In addition, if the severance payments to Mr. Lampert under the Lampert Agreement follow a change in control and, together with other amounts paid to Mr. Lampert, exceed certain threshold amounts and are determined to constitute a parachute payment (as defined in Section 280G(b)(2) of the Internal Revenue Code), Mr. Lampert is to receive an additional amount to cover the federal excise tax with respect thereto on a "grossed up" basis. If Mr. Lampert is terminated for cause, or he voluntarily resigns, he will only receive the Accrued Amounts and benefits provided in benefit plans.

Pursuant to the Lampert Agreement, the Company adopted a SERP for the benefit of Ira B. Lampert (the "Lampert SERP"). Initially, $500,000 was credited to the Lampert SERP account each year. These yearly credits were 100% vested and not subject to forfeiture. Mr. Lampert voluntarily reduced the amount of the credit to be made in January 2005 from $500,000 to $350,000. Effective as of July 1, 2005, the Company was no longer obligated to make $500,000 annual contributions to the Lampert SERP. However, if a change of control of the Company occurs and Mr. Lampert remains employed by the Company thereafter, the Company will be obligated to pay Mr. Lampert $500,000 within 30 days after the date of the change of control and annually during the remaining term of his employment with the Company on the first business day of each calendar year following the change of control. Pursuant to a one-time grant to Mr. Lampert of $1,549,998 in deferred compensation, made as of April 19, 2000, an additional $1,549,998 was credited to the Lampert SERP. It vested in three equal annual installments beginning January 1, 2001 and, as such, became fully vested on January 1, 2003. Additional credits were made to the Lampert SERP for the Deferred LTCIP Award of August 6, 2003 (described below under "Deferred Long-Term Compensation") and the deferred compensation awarded to him pursuant to the

conditional release program because he prepaid the total amount of the

indebtedness before it was scheduled to be forgiven by the Company.

The Company also has employment agreements with its other executive officers that provide for annual salaries ranging from approximately $220,000 to $275,000, plus certain other fringe benefits. These agreements prohibit the executives from competing with the Company for one year following termination of employment with the Company. These agreements contain, among other things, termination provisions that may result in the Company being obligated to make severance payments equal to four months' or one year's base salary, as the case may be, plus certain other fringe benefits.

In connection with grants of deferred compensation to five of its former and/or current executive officers other than Ira B. Lampert, the Company adopted various SERPs for the benefit of those executives. A total of $1,090,000 was contributed to rabbi trusts established by the Company in connection with the executive SERPs (other than the Lampert SERP), which ranged from $100,000 to $550,000 per executive, before giving effect to the Deferred LTCIP Awards added to the SERPs of those executive officers who were granted a Deferred LTCIP Award on August 6, 2003. Generally, the amounts in the executive SERPs vested in installments over a period of not less than three years, subject to the executive's continued employment, and many provide for accelerated vesting, in whole or in part, if the executive's employment is terminated by the Company without cause. Additionally, Mr. Lampert and another executive officer elected to defer compensation from time to time, pursuant to their respective SERP agreements with the Company.

Each time the Company made an initial credit to an executive's account under a SERP agreement, the Company simultaneously contributed an equal amount to a trust established for the purpose of accumulating funds to satisfy the obligations incurred by the Company pursuant to the SERP.

The SERP and other deferred compensation account balances, including investment earnings, were recorded as a deferred compensation asset and the related vested balances were recorded as a deferred compensation liability.

Deferred Long-Term Compensation

On August 6, 2003, the following former and/or current executive officers were awarded the following amounts of contingent deferred compensation under the Company's Amended and Restated 2002 Long Term Cash Incentive Plan ("2002 LTCIP") with respect to the Fiscal 2002-2003 performance period (the "Deferred LTCIP Awards"): (i) Ira B. Lampert, $670,474; (ii) Brian F. King, $335,237; (iii) Keith L. Lampert, $389,629; (iv) Urs W. Stampfli, $274,021; and (v) Richard M. Finkbeiner, $224,722. The Deferred LTCIP Awards to Keith L. Lampert and Urs W. Stampfli vested, so long as the executive continued to be employed by the Company, in three equal annual installments on August 6, 2004, 2005 and 2006, or immediately upon: (i) a change of control of the Company; or (ii) the executive's death or disability. The Deferred LTCIP Awards to Brian King and Rick Finkbeiner were forfeited when their employment terminated before any vesting had occurred. Ira B. Lampert voluntarily agreed to delay the vesting of his Deferred LTCIP Award by one year, such that it vested in three equal installments on August 6, 2005, 2006 and 2007 instead of August 6, 2004, 2005 and 2006. Otherwise, the Deferred LTCIP Award granted to Ira B. Lampert had substantially the same terms and conditions as the other Deferred LTCIP Awards; however, in addition to the events that will accelerate the vesting of the other Deferred LTCIP Awards, it provides for immediate vesting in the event of termination without cause, a constructive termination of employment without cause, or the non-renewal of his employment contract. The Lampert SERP and the other SERPs were all amended to include appropriate terms to govern the Deferred LTCIP Awards. The Company contributed the foregoing amounts to trusts established for the purpose of holding funds to satisfy the Company's obligations under the Deferred LTCIP Awards. Pursuant to the Separation

Agreement between Mr. Keith Lampert and the Company, the vesting date of the installment of his Deferred LTCIP Award that was to have vested on August 6, 2006, was accelerated

to March 31, 2006, the effective date of the termination of Mr. Keith Lampert's employment with the Company. See "Executive Separation Agreements" below.

Deferred Compensation Distribution Election

Effective April 5, 2005, Ira B. Lampert and Keith L. Lampert, then the Company's Executive Vice President and Chief Operating Officer, made elections to have their vested deferred compensation account balances that were earned and vested prior to December 31, 2004 under their respective Amended and Restated SERPs paid to them in one lump sum payment on the business day following the first anniversary of the effective date of the election. Messrs. Ira Lampert and Keith Lampert advised the Company that they made these elections primarily because of the potential exposure to penalties and the uncertainty of tax consequences related to the deferred compensation arrangements under The American Jobs Creation Act of 2004. The amounts payable to Messrs. Ira Lampert and Keith Lampert under their respective SERPs and Deferred LTCIP Awards were $7.0 million and $1.6 million, respectively. An amount equal to the then current deferred compensation account balances of the SERPS was held in "rabbi trusts" previously established by the Company to fund its obligations under the SERPs.

As disclosed in a Current Report on Form 8-K filed with the SEC on November 29, 2005, on November 28, 2005, the Company entered into amendments to the SERP between the Company and each of executive officers Ira B. Lampert, Keith L. Lampert, Gerald J. Angeli, Harlan I. Press, Alan Schutzman and Urs W. Stampfli. The amendments modified each SERP in response to new Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended, that affects non-qualified deferred compensation plans such as the SERPs. As discussed below under the caption, "Executive Separation Agreements," Messrs. Keith Lampert, Press and Schutzman separated from the Company effective as of April 1, 2006.

The amendments addressed two types of deferred compensation governed by the SERPs: amounts deferred and vested on or before December 31, 2004 that were not subject to Section 409A ("Grandfathered Amounts") and amounts deferred on or before December 31, 2004 but not vested on such date that were subject to Section 409A ("409A Amounts"). The amendments addressing Grandfathered Amounts terminated each SERP as to all Grandfathered Amounts and provided for the payment of such Grandfathered Amounts to be disbursed during calendar year 2005, except that the SERP between the Company and Ira B. Lampert was amended to permit Mr. Lampert, on or before November 30, 2005, to make an immediately effective election to withdraw his Grandfathered Amounts on January 3, 2006. The amendments addressing 409A Amounts permitted a SERP participant to elect, prior to December 31, 2005, to terminate his participation in his respective SERP as to all or a portion of the 409A Amounts, provided that all such vested 409A Amounts would be disbursed on or before December 31, 2005 or, if not earned and vested on such date, during the calendar year in which such 409A Amounts will be earned and vested.

As disclosed in the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2005, the Grandfathered Amounts were distributed to the SERP participants in accordance with the elections made by each participant. The 409A Amounts were distributed immediately upon vesting.

Executive Separation Agreements

The Company and Brian F. King entered into a separation agreement, dated as of March 29, 2004, pursuant to which Mr. King's employment terminated effective July 1, 2004. Pursuant to this agreement, Mr. King was to receive, among other things, the equivalent of his base salary of $450,000 per annum and auto allowance of $18,000 per annum (in installments in accordance with the normal payroll schedule) through June 30, 2005, in accordance with the severance provisions of his employment agreement.

The Company and Richard M. Finkbeiner entered into a separation agreement, dated as of August 18, 2004, pursuant to which Mr. Finkbeiner's employment terminated effective July 27, 2004. Pursuant to this agreement, Mr. Finkbeiner was to receive, among other things, the equivalent of his base salary of $262,500 per annum (in installments in accordance with the normal payroll schedule) through July 26, 2005, in accordance with the severance provisions of his employment agreement.

Under these separation agreements, Messrs. King and Finkbeiner were required: (a) not to compete with the Company for one year; (b) to provide the Company with certain cooperation and assistance (without receiving additional compensation for same during the period covered by the severance payments); and (c) to execute a release prior to receiving any severance payments.

On December 24, 2005, the Company and each of Keith L. Lampert, Alan Schutzman and Harlan I. Press entered into Separation Agreements, pursuant to which their employment was terminated effective April 1, 2006.

Each Separation Agreement provided that the separating executive was to receive, among other things, in addition to the benefits to which he was entitled under the Company's 401(k) plan and his individual SERP: (a) the equivalent of his base salary per annum plus his auto allowance for a period of twelve (12) months from and after the effective date of his termination other than for "cause" (as defined in his respective Terms of Employment) (March 31, 2006 or the date of any earlier voluntary termination or termination without cause) (the "Post-Employment Period") in accordance with the severance provisions of his Terms of Employment, payable in accordance with the Company's normal payroll practices; (b) his full vacation allotment for calendar year 2006 as though he was in the employ of the Company throughout calendar year 2006; (c) payment for his accrued but unused vacation allotment; (d) reimbursement of premiums for the continuation of his health insurance coverage under COBRA during the Post-Employment Period; and (e) reimbursement of certain agreed upon amounts for life and disability insurance coverage during the Post-Employment Period. Mr. Keith Lampert's Separation Agreement also provided for the acceleration of the vesting date of one of his deferred compensation accounts under his SERP from August 6, 2006 to the earlier of (i) March 31, 2006 or (ii) the effective date of any earlier termination without cause or any earlier voluntary termination.

Under the terms of their respective Separation Agreements, each of Messrs. Keith Lampert, Schutzman and Press (a) was prohibited from competing with the Company for a period of one year following the effective date of his separation from the Company; (b) agreed to provide to the Company certain cooperation and assistance (without additional compensation therefore during the one-year period covered by their severance payments); and (c) agreed to release the Company from any claims each may have against the Company.

License and Royalty Agreements

On May 10, 2004, the Company entered into a twenty year, worldwide trademark license agreement with Jenoptik AG for the exclusive use of the JENOPTIK brand

name and trademark on non-professional consumer imaging products including, but not limited to, digital, single-use and traditional cameras, and other imaging products and related accessories. The license agreement provides for a royalty of one-half of one percent (0.5%) of net sales of non-professional consumer imaging products bearing the JENOPTIK brand name for the first ten (10) years of the license and a royalty of six-tenths of one percent (0.6%) for the second ten (10) years of the license. There are no minimum guaranteed royalty payments.

During Fiscal 2006, the Company recorded an impairment charge of $1.0 million to lower the carrying value of the Jenoptik license. The license's carrying value was reduced to $0.6 million as a result of the impairment.

66

Effective January 1, 2001, the Company entered into a new twenty-year license agreement with Fuji Photo Film Ltd ("Fuji"). Under the new license agreement, Fuji granted the Company a worldwide non-exclusive license (excluding Japan until January 1, 2005) to use certain of Fuji's patents and patent applications related to single-use cameras. The license extends until the later of the expiration of the last of the licensed Fuji patents or February 26, 2021. In consideration of the license, the Company agreed to pay a license fee and certain royalty payments to Fuji. Accordingly, a significant portion of the balance for patents, trademarks and licenses, net in "Other assets" in the accompanying consolidated balance sheets at June 30, 2007 and July 1, 2006, was an asset associated with the Fuji license. The Company also recorded as a liability a corresponding amount that was included in licensing related obligations in "Other liabilities" in the accompanying consolidated balance sheets at June 30, 2007 and July 1, 2006 which was equal to the present value of future license fee payments. The Company amortizes these assets based upon quantities of units produced.

On August 26, 2002, the Company entered into two Polaroid licensing agreements. The two license agreements provided it with the exclusive (with the exception of products already released by Polaroid into the distribution chain), worldwide use of the Polaroid brand trademark in connection with the manufacture, distribution, promotion and sale of single-use and traditional film based cameras, including zoom cameras and certain related accessories. The license agreements did not include instant or digital cameras. Each license agreement included an initial term expiring on February 1, 2006, provided the Company the right to renew the license under the same economic terms for an additional three-year period and provided for the payment by the Company of $3.0 million of minimum royalties, or $6.0 million in total for both license agreements, which were fully credited against percentage royalties. On November 28, 2005, the Company exercised its right to renew the single-use camera license agreement with Polaroid for an additional three-year term expiring on February 1, 2009 in accordance with the same economic terms included in the original agreement. Pursuant to the terms of the single-use camera license agreement, as of July 1, 2007, the Company paid $2.5 million of minimum royalties and recorded the payment as a prepaid asset. The Company amortizes this asset based upon a percentage of net sales of Polaroid branded single-use cameras during the three-year renewal term expiring February 1, 2009. In January 2006, the Company entered into a new license agreement with Polaroid providing it with the exclusive, worldwide use of the Polaroid brand trademark in connection with the manufacture, distribution, promotion and sale of traditional film cameras. The new license agreement is for a term of three years expiring on January 31, 2009 and provided for the payment by the Company of $50,000 of minimum royalties on or before October 31, 2006, which was fully credited against percentage royalties during the first year of the term. There are no minimum guaranteed royalty payments under the traditional film license agreement after the first year of the term.

Additionally, the Company has other license and royalty agreements that require the payment of royalties based on the manufacture and/or sale of certain products. Its license and royalty agreements expire at various dates through Fiscal 2023. Total amortization and royalty expense for all licensing and royalty agreements for Fiscal 2007, Fiscal 2006 and Fiscal 2005 was $6.6 million, $9.4 million and $6.9 million, respectively.

Intellectual Property Claims

From time to time, the Company receives patent infringement claims which it analyzes and, if appropriate, takes action to avoid infringement, settle the claim or negotiate a license. Those claims for which legal proceedings have been initiated against the Company are discussed in Note 15, Litigation and Settlements. The Company has also received notifications from two entities, one of which was a significant customer, alleging that certain of the Company's digital cameras infringe upon those entities' respective patents. The Company has engaged in discussions with these entities regarding resolution of the claims.

67

Based on the Company's initial assessment of these claims, infringement of one or more patents is probable if the patents are valid. Based upon the licensing discussions to date, the Company preliminarily estimates the potential royalties due to these two claimants for digital camera sales through June 30, 2007 to be between $0 and approximately $6.7 million in the aggregate. The actual royalty amounts, if any, for past and future sales are dependent upon the outcome of the negotiations. The Company has notified certain of its suppliers of its right to be indemnified by the suppliers if it is required to pay royalties or damages to either claimant. The Company is unable to reasonably estimate the amount of the potential loss, if any, within the range of estimates relating to these claims. Accordingly, the Company has not accrued any amounts related to these claims as of June 30, 2007.

German Income Tax Contingencies

During the fourth quarter of Fiscal 2007, the Company reviewed certain tax positions of its German subsidiary in conjunction with a German tax audit. Although the Company maintains that these tax positions should be sustained, the Company cannot guarantee that they will be sustained following the audit. Based upon the Company's evaluation of these tax positions, if all of its positions are not sustained, the Company preliminarily estimates that the potential taxes due to the German taxing authority could be up to $ 3.5 million in the aggregate. The actual tax amounts due, if any, are dependent upon the outcome of the audit and any negotiations or appeals related thereto. The Company is unable to reasonably estimate the amount of the potential loss, if any, within the range of estimate. Accordingly, the Company has not accrued any amounts related to these taxes as of June 30, 2007.

Purchase Commitments

At June 30, 2007, the Company had $13.5 million in non-cancelable purchase commitments relating to the procurement of raw materials, components and finished goods inventory from various suppliers. In the aggregate, such commitments are not at prices in excess of current marker values and typically do not exceed one year.

NOTE 15 - LITIGATION AND SETTLEMENTS

In July 2002, a class action complaint was filed against the Company and certain of its officers in the United States District Court for the Southern District of Florida by individuals purporting to be holders of the Company's Common Stock. In January 2003, an amended class action complaint (the "Amended Complaint") was filed adding certain of the Company's current and former directors as defendants. On August 27, 2004, the court dismissed the claims against the newly added current and former directors. On September 8, 2005, the court granted the plaintiffs' motion for class certification and certified as plaintiffs all persons who purchased the Common Stock between January 18, 2001 and June 22, 2001, inclusive, and who were allegedly damaged thereby (the period January 18, 2001 through June 22, 2001 hereinafter referred to as the "Class Period"). The allegations remaining in the Amended Complaint were centered around claims that the Company failed to disclose, in periodic reports it filed with the SEC and in press releases it made to the public during the Class Period regarding its operations and financial results, that a large portion of its accounts receivable was represented by a delinquent and uncollectible balance due from then customer, KB Gear Interactive, Inc. ("KB Gear"), and that a material portion of its inventory consisted of customized components that had no alternative usage. The Amended Complaint claimed that such failures artificially inflated the price of the Common Stock. The Amended Complaint sought unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. On October 13, 2006, a Stipulation of Settlement was filed with the court and on January 26, 2007, the court issued a Final Judgment and Order of Dismissal approving the settlement set forth in the Stipulation of Settlement and dismissing the case with prejudice. The Company sought coverage from its insurance carrier for this lawsuit under its directors and officers liability insurance policy. The settlement amount is within the policy limits and was approved and paid by the Company's insurance carrier. On September 17, 2002, the Company was advised by the staff of the SEC that it was conducting an informal

inquiry related to the matters described above and requested certain information and materials related thereto. On October 15, 2002, the staff of NASDAQ also requested certain information and materials related to the matters described above and to matters related to the previously reported embezzlement of Company funds by a former employee, uncovered in April 2002. The Company provided the requested information to the staff of the SEC and NASDAQ and has not received any further communication from the staff of the SEC with respect to the informal inquiry or from NASDAQ with respect to its request since the Company last responded in February 2003.

In September 2004, a class action complaint was filed against the Company and certain of its officers in the United States District Court for the Southern District of Florida by individuals purporting to be holders of the Company's Common Stock. In August 2005, an amended consolidated complaint (the "Amended Complaint") was filed adding a former officer of the Company as a defendant. The lead plaintiff under the Amended Complaint seeks to act as a representative of a class consisting of all persons who purchased the Company's Common Stock during the period from August 14, 2003 through August 31, 2004, inclusive. On March 23, 2007, the court granted the plaintiff's motion for class certification and certified as plaintiffs all persons who purchased the Common Stock between August 14, 2003 and August 31, 2004, inclusive, and who were allegedly damaged thereby (the period August 14, 2003 through August 31, 2004 hereinafter referred as the "Class Period"). The allegations in the Amended Complaint are centered around claims that the Company failed to disclose, in periodic reports it filed with the SEC and in press releases it made to the public during the Class Period regarding its operations and financial results, (i) the full extent of the Company's excess, obsolete and otherwise impaired inventory; (ii) the departure

from the Company of the aforementioned former officer defendant until several months after his departure; and (iii) that Eastman Kodak Company ("Kodak") had notified the Company that it would stop purchasing cameras from the Company under its two design and manufacturing services ("DMS") contracts with the Company due to the Company's alleged infringement of Kodak's patents. The Amended Complaint also alleged that the Company improperly recognized revenue contrary to generally accepted accounting principles due to an alleged inability to reasonably estimate digital camera returns. The Amended Complaint claimed that such failures artificially inflated the price of the Common Stock. The Amended Complaint sought unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. The Company has reached an agreement in principle with the plaintiffs on the settlement of this lawsuit. The settlement is subject to the negotiation and execution of a mutually agreeable settlement agreement and approval by the class shareholders and the court. The Company has sought coverage from its insurance carrier for this lawsuit under its directors' and officers' liability insurance policy and the insurance carrier is defending the action under a reservation of rights. The agreed upon pending settlement amount is within the policy limits and the insurance carrier has agreed to pay such amount. Although the Company believes the settlement will be consummated and approved by the court, the Company cannot guarantee this result and if the lawsuit continues and is adversely determined, the Company's ultimate liability, which could be material, cannot be ascertained. In a letter dated November 19, 2004, the Company was advised by the staff of the SEC that it is conducting an investigation related to the matters described above. The Company has provided the requested information to the staff of the SEC and has not received any further communication from the SEC with respect to its request since the Company last responded in May 2005.

On November 16, 2004, a shareholder derivative suit was filed against certain of the Company's current and former officers and directors, and the Company as a nominal defendant, in the United States District Court for the District of New Jersey by an individual purporting to be a holder of the Company's Common Stock. The complaint alleged that the individual defendants breached their duties of loyalty and good faith by causing the Company to misrepresent its financial results and prospects, resulting in the class action complaints described in the immediately preceding paragraph. The complaint sought unspecified damages, repayment of salaries and other remuneration from the individual defendants, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. In March 2005, the court granted a motion by the individual defendants and the Company to transfer the action to the United States District Court for the Southern District of Florida where the related class action suit is

currently pending. In May 2005, the court consolidated this case with the related class action suit for discovery purposes only. Although the Company believes this lawsuit is without merit, its outcome cannot be predicted, and if adversely determined, the ultimate effect on the Company, which could be material, cannot be ascertained. The Company has sought coverage from its insurance carrier for this lawsuit under its directors' and officers' liability insurance policy, and the insurance carrier is defending the action under a reservation of rights.

Pursuant to the Company's Certificate of Incorporation, as amended, the personal liability of the Company's directors is limited to the fullest extent permitted under the New Jersey Business Corporation Act ("NJBCA"), and the Company is required to indemnify its officers and directors to the fullest extent permitted under the NJBCA. In accordance with the terms of the Certificate of Incorporation and the NJBCA, the Board of Directors approved the payment of

expenses for each of the current and former officers and directors named as defendants (the "individual defendants") in the above described class action and derivative action litigations (collectively, the "actions") in advance of the final disposition of such actions. The individual defendants have executed and delivered to the Company written undertakings to repay the Company all amounts so advanced if it shall ultimately be determined that the individual defendants are not entitled to be indemnified by the Company under the NJBCA.

On October 6, 2004, a patent infringement complaint was filed by Honeywell International, Inc. and Honeywell Intellectual Properties, Inc., against 27 defendants, including the Company, in the United States District Court for the District of Delaware. The complaint asserted that the defendants have conducted activities which infringe U.S. Patent No. 5,280,371, entitled, "Directional Diffuser for a Liquid Crystal Display." The complaint sought unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. The proceedings in this action against the Company and other similarly situated defendants were stayed by the court pending the resolution of the infringement actions against the liquid crystal display manufacturers. It is too early to assess the probability of a favorable or unfavorable outcome or the loss or range of loss, if any, and therefore, no amounts have been accrued relating to this action. The Company has notified several third parties of its intent to seek indemnity from such parties for any costs or damages incurred by the Company as a result of this action.

In June 2006, St. Clair Intellectual Properties Consultants, Inc. filed a patent infringement complaint against 22 defendants, including the Company, in the United States District Court for the District of Delaware. The complaint asserted that the defendants conducted activities which infringe U.S. Patent Nos. 5,138,459, 6,094,219, 6,233,010 and 6,323,899. The complaint sought injunctive relief, unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. The proceedings in this action against the Company and the other defendants were stayed by the court until further order of the court. It is too early to assess the probability of a favorable or unfavorable outcome or the loss or range of loss, if any, and, therefore, no amounts have been accrued relating to this action. The Company is assessing potential claims of indemnification against certain of its suppliers with respect to this action.

The Company is also involved from time to time in routine legal matters incidental to its business. Based upon available information, the Company believes that the resolution of such matters will not have a material adverse effect on its financial position or results of operations.

NOTE 16 - OTHER CHARGES

Cost-Reduction Initiatives

The Company continues to evaluate its cost structure and implement cost-reduction initiatives as appropriate. During Fiscal 2007, cost-reduction initiatives included, among other things, the elimination

of certain employee positions. As a result, during Fiscal 2007, the Company recorded total charges of $0.9 million related to severance costs for the elimination of certain employee positions.

During the fourth quarter of Fiscal 2006, the Company began implementing an operating strategy designed to significantly de-emphasize the sale of digital cameras and increase its focus on the sales of single-use and 35mm traditional

film cameras. In connection with this strategy, the Company has realigned its operations in Europe, including ceasing its operations in France and Germany. As a result of the France and Germany office closures in Fiscal 2007, the Company recorded charges of approximately $0.4 million for severance costs. In addition, as a result of the de-emphasis of digital camera sales, the Company reduced its outsourcing organization in Asia and recorded a total of $0.1 million for employee severance costs. The Company also recorded impairment charges totaling $1.8 million related to the impairment of certain long-lived assets that included a reduction in the carrying value of a license used primarily in the branding of digital cameras and certain machinery held for sale in the amounts of $1.0 million and $0.8 million, respectively.

Table I -- Other Charges Liability reconciles the beginning and ending balances of the other charges liability.

(in thousands)

Other Charges Liability

	Severance	Retention
Balance as of July 2, 2005	$ 190	$ 129
Charges	1,630	177
Reversals	--	(24)
Payments	(645)	(275)
Balance as July 1, 2006	$ 1,175	$ 7
Charges	943	9
Reversals	(44)	(7)
Payments	(1,838)	--
Balance as June 30, 2007	$ 236	$ 9

Table II -- Other Charges presents the related expenses and their classification in the consolidated statements of operations.

(in thousands)

Other Charges	Severance	Retention	Long As Impa
Fiscal 2007			
Cost of products sold	$ 341	$ --	$
Selling expense	470	(7)	
General and administrative expense	88	9	

Total	$ 899	$ 2	$
Fiscal 2006			
Cost of products sold	$ 29	$ 96	$
Selling expense	357	14	
General and administrative expense	1,244	43	
Total	$1,630	$ 153	$
Fiscal 2005			
Cost of products sold	$ --	$ 142	$
Selling expense	107	47	
General and administrative expense	153	147	
Total	$ 260	$ 336	$

As a result of the cost-reduction initiatives implemented in Fiscal 2006 and Fiscal 2007, the Company expects to make cash payments totaling $0.2 million during Fiscal 2008 related to severance.

NOTE 17 - OTHER INCOME, NET

Included in the accompanying consolidated statements of operations under the caption, "Other income, net" is the following:

(in thousands)

	Fiscal Year		
	2007	2006	2005
Investment income	$(1,927)	$(1,525)	$ (947)
Gain on sale of securities	--	--	(1,124)
Gain on sale of building	--	--	(450)
Foreign currency loss, net	105	276	426
Other (income) expense, net	(177)	107	325
Other income, net	$(1,999)	$(1,142)	$(1,770)

NOTE 18 - GEOGRAPHIC AREA AND SIGNIFICANT CUSTOMER INFORMATION

Pursuant to SFAS No. 131, Disclosure About Segments of a Business Enterprise and Related Information, the Company is required to report segment information. The Company operates in only one business segment, imaging equipment, and sells only one type of product, image capture devices. Accordingly, the

Company's reported consolidated annual net sales reflect the revenue from the sale of such image capture devices from external customers and no additional segment reporting is required. SFAS No. 131 also requires certain revenue disclosures of geographic information based upon the Company's determination as to which regions such revenues were attributed. Accordingly, for purposes of

this disclosure, the Company attributed sales to the region where the customer's home office was located. A summary of selected financial information regarding the Company's geographic operations is set forth below. The Americas consist of the United States, Canada and Latin America; Europe consists of Germany, the United Kingdom, France and certain other countries in the European Union; Asia consists of Hong Kong, Japan and the PRC.

(in thousands)

Sales made to unaffiliated customers:	Fiscal Year 2007	2006	2005
Americas	$ 66,767	$ 88,167	$ 87,211
Asia	4,829	813	18,860
Europe	15,057	48,549	68,277
Total	$ 86,653	$137,529	$174,348

Identifiable assets:	June 30, 2007	July 1, 2006
Americas	$ 51,733	$ 54,396
Asia	29,096	45,326
Europe	1,675	5,020
Total	$ 82,504	$104,742

Product groups:	(Percentage of net sales) Fiscal Year 2007	2006	2005
Single-use cameras	89.0%	60.4%	45.9%
Digital cameras	2.5%	28.3	41.1
35mm traditional film cameras	8.5%	11.3	13.0
Total	100.0%	100.0%	100.0%

During Fiscal 2007, each of the following customers accounted for at least 10% of the Company's net sales: Wal-Mart Stores, Inc. ("Wal-Mart") and Walgreen Co. ("Walgreens"). These companies represented the Company's two largest customers generating sales in Fiscal 2007 of approximately $35.5 million (40.9% of total net sales) and $18.0 million (20.8% of total net sales), respectively.

During Fiscal 2006, each of the following customers accounted for at least 10% of the Company's net sales, Wal-Mart and Walgreens. These companies represented the Company's two largest customers generating net sales in Fiscal 2006 of approximately $46.5 million (33.8% of total net sales) and $20.9 million (15.2% of total net sales), respectively.

During Fiscal 2005, Wal-Mart and Walgreens accounted for at least 10% of the Company's net sales. These companies represented the Company's two largest customers generating net sales in Fiscal 2005 of approximately $39.3 million (22.6% of total net sales) and $20.4 million (11.7% of total net sales), respectively. As previously reported in the Company's Form 10-K for Fiscal 2004, the Company received notification from a third customer, Kodak, of its intent to

cease purchases under its two DMS

contracts with the Company by the end of Second Quarter Fiscal 2005. The winding down of sales to Kodak had a material adverse effect on the Company's results of operations for Fiscal 2005 and Fiscal 2006. The loss of any other significant customer or substantially reduced sales to any other significant customer could have a material adverse impact on the Company's financial condition and results of operations.

No other customer accounted for 10% or more of consolidated net sales of the Company during Fiscal 2007, Fiscal 2006 or Fiscal 2005.

NOTE 19 - QUARTERLY RESULTS (UNAUDITED)
(in thousands, except per share data)

	Quarter E	
Fiscal 2007	Sept. 30, 2006	Dec.30, 2006
Net sales	$ 28,825	$ 19,338
Gross profit	4,503	1,501
Loss before income taxes	(1,623)	(3,529)
Net loss	(1,640)	(3,547)
Basic loss per share	$ (0.28)	$ (0.61)
Diluted loss per share	$ (0.28)	$ (0.61)

	Quarter	
Fiscal 2006	Oct. 1, 2005	Dec. 31, 2005
Net sales	$ 44,586	$ 41,109
Gross profit	4,129	4,021
Loss before income taxes	(5,710)	(5,641)
Net loss	(5,760)	(5,779)
Basic loss per share	$ (0.99)	$ (0.99)
Diluted loss per share	$ (0.99)	$ (0.99)

See Note 16, Restructuring and Other Charges for a description of items that had a significant effect on certain fiscal quarters.

NOTE 20 - SUBSEQUENT EVENTS

On July 2, 2007, the Chairman took delivery of the 66,202 shares held in trust upon the expiration of the extended deferral period, reducing the deferred share arrangement in the stockholders' equity section by $412,825.

The Dah Sing Facilities were extended on their existing terms from August 31, 2007 until October 31, 2007 by letters dated August 27, 2007 and September 25,

2007. For additional information regarding the Dah Sing Facilities, see Note 7, Short-Term Borrowings and Financing Facilities, in the Notes to Consolidated Financial Statements.

The Company has reached an agreement in principle with the plaintiffs on the settlement of the class action lawsuit that was filed in September 2004. The settlement is subject to the negotiation and execution of a mutually agreeable settlement agreement and approval by the class shareholders and the court. The agreed upon pending settlement amount is within the limits of the Company's directors' and officers' liability insurance policy and the insurance carrier has agreed to pay such amount. See Item 3, Legal Proceeding, and Note 15,

74

Litigation and Settlements, in the Notes to Consolidated Financial Statements for more information regarding this class action suit and the agreement in principle.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), designed to ensure that information required to be disclosed in our filings under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including the principal executive officer and the principal financial officer, to allow timely decisions regarding required disclosures.

Our management has reviewed and evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of June 30, 2007, our disclosure controls and procedures were effective in providing reasonable assurance of achieving their objectives in internal control over financial reporting as described above.

Since we are not an accelerated filer, we are not currently required to provide an annual report on internal control over financial reporting required by Item 308(a) of Regulation S-K and our independent registered public accounting firm is not required to issue a separate attestation report on the effectiveness of our internal control over financial reporting under Item 308(b) of Regulation S-K.

As of June 30, 2007, we remediated the previously reported weakness in its internal control over financial reporting related to information technology.

(b) Changes in Internal Control over Financial Reporting. Except for the remediation of the material weakness described above, there was no change in the our internal control over financial reporting that occurred during the period ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information about directors required for this item is incorporated into this report by reference to our definitive proxy statement to be filed in connection with our Annual Meeting of Shareholders that will be held in December 2007 (the "Annual Meeting").

The information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the section in our definitive proxy statement that will be entitled "Section 16 Beneficial Ownership Reporting Compliance."

The information concerning our code of ethics is incorporated by reference to the section in our definitive proxy statement that will be entitled "Code of Conduct."

Item 11. Executive Compensation.

Information required by this item relating to executive compensation will be presented under the caption "Executive Compensation" in our definitive proxy statement in connection with the Annual Meeting. That information is incorporated into this report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

Information required by this item relating to the security ownership of our common stock by our management and other beneficial owners will be presented under the caption "Security Ownership of Certain Beneficial Owners and Management" in our definitive proxy statement in connection with the Annual Meeting. That information is incorporated into this report by reference.

Information required by this item relating to the securities authorized for issuance under our equity compensation plans will be presented under the caption "Equity Compensation Plans" in our definitive proxy statement in connection with the Annual Meeting. That information is incorporated into this report by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this item relating to certain relationships of our directors, executive officers and 5% shareholders and related transactions will be presented under the caption "Certain Relationships and Related Transactions" in our definitive proxy statement in connection with the Annual Meeting. That information is incorporated into this report by reference.

Item 14. Principal Accountant Fees and Services.

Information required by this item relating to the fees charged and services performed by our independent registered public accounting firm will be presented under the caption "Ratification of Appointment of Independent Auditors" in our definitive proxy statement in connection with the Annual Meeting. That

information is incorporated into this report by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) Financial Statements: Consolidated financial statements filed as part of this report are set forth under Part II, Item 8 of this report.

(2) Financial Statement Schedule

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(in thousands)

Column A	Column B	Column C		Column D	Column
		Additions			
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balan at en of per
1. Allowances for sales returns and allowances, discounts, and doubtful accounts					
Fiscal Year:					
2007	$ 3,827	1,766		3,559	$ 2,0
2006	$ 8,111	7,527	--	11,811	$ 3,8
2005	$ 9,731	24,225	--	25,845	$ 8,1
2. Deferred income tax valuation allowance					
Fiscal Year:					
2007	$20,030	--	--	195	$19,8
2006	$18,903	1,127	--	--	$20,0
2005	$12,142	6,761	--	--	$18,9

(3) Exhibits: Each management contract or compensatory plan listed below is identified with an asterisk. The exhibits listed in the accompanying Exhibit Index are filed as part of this report.

No.	Description	Method of Filing
2.1	Purchase of Share and Claims and Transfer Agreement, dated May 10, 2004, by and between Concord Camera GmbH and 4MBO International Electronic AG for the purchase of Jenimage Europe GmbH and Jenimage UK Limited	Incorporated by reference t Current Report on Form 8-K the SEC on May 25, 2004.
3.1	Certificate of Incorporation, as amended through November 3, 2006	Filed herewith.
3.2	Restated By-Laws, as amended through July 12, 2004	Incorporated by reference t Annual Report on Form 10-K year ended July 3, 2004.
4.1	Form of Common Stock Certificate	Incorporated by reference t registration statement on F September 20, 2000.
9.1*	Amended and Restated Voting Agreement, dated February 28, 1997, among the parties signatory thereto, including among others, Ira B. Lampert, Brian King and Arthur Zawodny, as amended on various dates in 1998 to add certain additional shares of the Company's Common Stock owned by Ira B. Lampert, Brian King and Keith Lampert and as further amended on January 6, 2000	Incorporated by reference t 10-K for the year ended Jul
10.1	Second renewal agreement of Master Processing Contract No. (86)507, dated March 15, 1996, and approval notice issued by the Longgang Economic Development Bureau (English translations)	Incorporated by reference t Quarterly Report on Form 10 quarter ended September 30,
10.2	Contract for Grant of State-Owned Land Use Right, Incorporated by reference to the Company's dated November 8, 1994, with the Shenzhen Land 10-Q for the quarter ended September 30, 2000. Bureau (English translation)	

No.	Description	Method of Filing
10.3	Agreement for Contract Processing among Shenzhen Henggang Investment Co., Ltd., Shenzhen Longgang Henggang Xietao Electronics Factory and Concord Camera HK Limited ("CCHK") dated July 11, 2006 (English translation)	Incorporated by reference t filed with the SEC on Septe
10.4	Debenture, dated June 10, 2004, by CCHK in favor of The Hongkong and Shanghai Banking Corporation Limited ("HSBC")	Incorporated by reference t 10-K for the year ended Jul
10.5	Capitalization and Subordination Agreement dated as of March 31, 2005 between the Company and CCHK	Incorporated by reference t filed with the SEC on Octob
10.6	Subordination Agreement dated as of March 31, 2005	Incorporated by reference t

	between the Company and CCHK	filed with the SEC on Octob
10.7	Letter Agreement between HSBC and CCHK, dated January 4, 2006, relating to the provision of certain financing facilities to CCHK and the conditions thereof	Incorporated by reference t filed with the SEC on Janua
10.8	Renewal of Business License of Concord Camera (Shenzhen) Company Limited, issued by the Shenzhen Municipal Administration for Industry and Commerce on May 17, 2004 (English translation)	Incorporated by reference t 10-K for the year ended Jul
10.9	Special Permitted Business License No. 06999 issued to Concord Camera Henggang Electronic Factory (listed as "Concord Camera H.G. Limited" on the license), Longgang, Shenzhen, valid from October 1991 to October 26, 2016 (English translation)	Incorporated by reference t filed with the SEC on Septe
10.10	Letter agreement between HSBC and CCHK, dated October 18, 2006, relating to the reduction of the financing facilities provided to CCHK and the conditions thereof	Incorporated by reference t 10-Q for the quarter ended
10.11	Letter agreement between Dah Sing Bank Limited ("Dah Sing") and CCHK, dated June 19, 2006, relating to certain financing facilities provided to CCHK and the conditions thereof (the "Dah Sing Facilities")	Incorporated by reference t 10-Q for the quarter ended

10.12	Letter agreement between Shanghai Commercial Bank Ltd. and CCHK, dated June 12, 2006, relating to certain financing facilities provided to CCHK and the conditions thereof	Incorporated by reference t 10-Q for the quarter ended
10.13	Letter agreement between Dah Sing and CCHK, dated June 27, 2006, extending the Dah Sing Facilities until August 31, 2007 under existing conditions	Filed herewith.
10.14	Letter Agreement between Dah Sing Bank Limited and CCHK, dated August 27, 2007, extending the Dah Sing Facilities until September 30, 2007 under existing conditions	Filed herewith.
10.15*	Incentive Plan (1993), as amended through April 24, 2000	Incorporated by reference t for the year ended July 1,
10.16*	Amendments to Incentive Plan (1993) dated as of April 19, 2001 and August 2, 2001	Incorporated by reference t Schedule TO/A-1 filed Augus
10.17*	Amendment to Incentive Plan (1993) dated as of January 20, 2003	Incorporated by reference t 10-Q for the quarter ended
10.18*	Amendments to Incentive Plan (1993) dated as of February 10, 2003 and June 2, 2003	Incorporated by reference t 10-K for the year ended Jun

10.19*	2002 Incentive Plan for Non-Officer Employees, New Recruits and Consultants, and Amendment No. 1 to same dated September 4, 2002	Incorporated by reference t 10-K for the year ended Jun
10.20*	Amendment No. 2 dated as of June 2, 2003 to 2002 Incentive Plan for Non-Officer Employees, New Recruits and Consultants	Incorporated by reference t 10-K for the year ended Jun
10.21*	2002 Incentive Plan for New Recruits, and Amendment No. 1 to same dated as of June 2, 2003	Incorporated by reference t 10-K for the year ended Jun
10.22*	Stock Option (Plan and) Agreement, dated as of May 15, 1998, between Urs W. Stampfli and the Company	Incorporated by reference t 10-K for the year ended Jun

10.23*	Amendment, effective as of February 11, 2003, to Stock Option (Plan and) Agreement, dated as of May 15, 1998, between Urs W. Stampfli and the Company	Incorporated by reference t 10-K for the year ended Jun
10.24*	Amended and Restated Deferred Delivery Plan, as amended through June 30, 2004	Incorporated by reference t 10-K for the year ended Jul
10.25*	Amended and Restated Annual Incentive Compensation Plan, as amended through June 30, 2004	Incorporated by reference t 10-K for the year ended Jul
10.26*	Amended and Restated Long Term Incentive Plan Commencing Fiscal 2004, as amended through June 30, 2004, and 2004-2006 Performance Criteria	Incorporated by reference t 10-K for the year ended Jul
10.27*	Restated Flexible Perquisite Spending Account Program for Corporate Officers, as amended through July 12, 2004	Incorporated by reference t 10-K for the year ended Jul
10.28*	Appendix A, dated June 6, 2002, to Flexible Perquisite Spending Account Program	Incorporated by reference t 10-Q for the quarter ended
10.29*	The Company Executive Management Tax Equalization Policy	Incorporated by reference t 10-K for the year ended Jun
10.30*	Amended and Restated Employment Agreement, dated as of May 1, 1997, between the Company and Ira B. Lampert	Incorporated by reference t 10-K for the year ended Jul
10.31*	Amendment No. 1 dated as of August 25, 1998, Amendment No. 3 dated as of April 19, 2000, and Amendment No. 4 dated as of January 1, 2001, to Amended and Restated Employment Agreement dated as of May 1, 1997, between Ira B. Lampert and the Company	Incorporated by reference t 10-K for the year ended Jun
10.32*	Amendment No. 2, dated as of January 1, 1999, to Amended and Restated Employment Agreement dated as of May 1, 1997, between Ira B. Lampert and the Company	Incorporated by reference t 10-Q for the quarter ended

10.33*	Amendment No. 5, dated as of December 2, 2002, to Amended and Restated Employment Agreement dated as of May 1, 1997, between Ira B. Lampert and the Company	Incorporated by reference t 10-Q for the quarter ended
10.34*	Amendment No. 6, dated February 10, 2003, to Amended and Restated Employment Agreement dated as of May 1, 1997, between Ira B. Lampert and the Company	Incorporated by reference t 10-Q for the quarter ended
10.35*	Memorandum from Ira B. Lampert dated July 28, 2004 to the Company regarding the waiver of certain compensation and modification to vesting dates, along with releases signed by Ira B. Lampert	Incorporated by reference t 10-K for the year ended Jul
10.36*	Amendment No. 7, dated July 1, 2005, to Amended and Restated Employment Agreement dated as of May 1, 1997, between Ira B. Lampert and the Company and Amendment No. 1 to Amended and Restated Supplemental Executive Retirement Plan and Agreement ("SERP") for Ira B. Lampert, dated as of August 18, 2004, between Ira B. Lampert and the Company	Incorporated by reference t filed with the SEC on Septe
10.37*	Terms of Employment between Urs W. Stampfli and the Company, effective as of January 1, 2000	Incorporated by reference t 10-K for the year ended Jun
10.38*	Amendment, dated as of November 20, 2002, to Terms of Employment dated as of January 1, 2000, between Urs W. Stampfli and the Company	Incorporated by reference t 10-Q for the quarter ended
10.39*	Amendment No. 2 dated as of February 26, 2003, and Amendment No. 3 dated as of March 30, 2003, to Terms of Employment dated as of January 1, 2000, between Urs W. Stampfli and the Company	Incorporated by reference t 10-Q for the quarter ended
10.40*	Extension and Amendment of Terms of Employment of Urs W. Stampfli with Concord Camera Corp. effective as of January 1, 2006, by and between the Company and Urs W. Stampfli	Incorporated by reference t filed with the SEC on Decem

10.41*	Amendment No. 5 to Terms of Employment of Urs W. Stampfli with the Company, effective as of January 1, 2007	Incorporated by reference t filed with the SEC on Janua
10.42*	Gerald J. Angeli Terms of Employment with the Company as of April 17, 2000	Incorporated by reference t filed with the SEC on Novem

10.43*	Amendment to Terms of Employment of Gerald J. Angeli with the Company dated as of June 11, 2001	Incorporated by reference t filed with the SEC on Novem
10.44*	Amendment No. 2 to Terms of Employment of Gerald J. Angeli with the Company dated as of August 12, 2002	Incorporated by reference t filed with the SEC on Novem
10.45*	Amendment No. 3 to Terms of Employment of Gerald J. Angeli with the Company dated as of January 1, 2003	Incorporated by reference t filed with the SEC on Novem
10.46*	Amendment No. 4 to Terms of Employment of Gerald J. Angeli with the Company dated as of March 22, 2004 (exclusive of Exhibit A thereto, "the Company Executive Management Tax Equalization Policy" which is incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 29, 2002 and exclusive Exhibit B thereto, "Concord Camera Corp. Code of Conduct," which is posted on the Company's website, www.concord-camera.com)	Incorporated by reference t filed with the SEC on Novem
10.47*	Confidentiality/Intellectual Property Restrictions and Non-Compete (Rev. February 12, 2001) between the Company and Gerald J. Angeli	Incorporated by reference t filed with the SEC on Novem
10.48*	Amendment No. 5 to Terms of Employment of Gerald J. Angeli with the Company dated April 3, 2006	Incorporated by reference t filed with the SEC on April
10.49*	Amendment No. 6 to Terms of Employment of Gerald J. Angeli with the Company, effective as of January 1, 2007	Incorporated by reference t filed with the SEC on Janua
10.50*	Terms of Employment between Blaine Robinson and the Company, effective as of February 11, 2003 and Amendment No. 1 to same dated as of January 7, 2005.	Incorporated by reference t 10-Q for the quarter ended

10.51*	Amendment No. 2 to Terms of Employment of Blaine Robinson with the Company dated April 1, 2006	Incorporated by reference t filed with the SEC on April
10.52*	Amendment No. 3 to Terms of Employment of Blaine Robinson with the Company dated April 1, 2006 (exclusive of Exhibits C, D and E thereto, which were each previously filed with the SEC as exhibits to the Company's Annual Report on Form 10-K for the year ended July 3, 2004)	Incorporated by reference t filed with the SEC on April
10.53*	Terms of Employment of Scott L. Lampert with the Company effective August 1, 2001.	Incorporated by reference t filed with the SEC on April
10.54*	Amendment No. 1 to Terms of Employment of Scott L. Lampert with the Company dated April 1, 2006 (exclusive of Exhibits C, D and E thereto, which were each previously filed with the SEC as exhibits	Incorporated by reference t filed with the SEC on April

	to the Company's Annual Report on Form 10-K for the year ended July 3, 2004)	
10.55*	Amendment No. 2 to Amended and Restated SERP for Ira B. Lampert dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.56*	Amendment No. 3 to Amended and Restated SERP for Ira B. Lampert dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.57*	Amendment No. 1 to Amended and Restated SERP for Keith L. Lampert dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.58*	Amendment No. 2 to Amended and Restated SERP for Keith L. Lampert dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.59*	Amendment No. 2 to SERP for Gerald J. Angeli dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.60*	Amendment No. 3 to SERP for Gerald J. Angeli dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.61*	Amendment No. 3 to SERP for Harlan I. Press dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem

84

10.62*	Amendment No. 1 to SERP for Alan Schutzman dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.63*	Amendment No. 4 to Amended and Restated SERP for Urs W. Stampfli dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.64*	Amendment No. 5 to Amended and Restated SERP for Urs W. Stampfli dated as of November 28, 2005	Incorporated by reference t filed with the SEC on Novem
10.65*	Separation Agreement between the Company and Harlan I. Press dated as of December 24, 2005	Incorporated by reference t 10-Q for the quarter ended
10.66*	Separation Agreement between the Company and Alan Schutzman dated as of December 24, 2005	Incorporated by reference t for the quarter ended Decem
10.67*	Separation Agreement between the Company and Keith L. Lampert dated as of December 24, 2005	Incorporated by reference t 10-Q for the quarter ended 2005.
10.68	Lease Agreement, undated between Prologis Trust, a Maryland real estate investment trust, and the Company	Incorporated by reference t 10-Q for the quarter ended
10.69	Lease Agreement, dated as of August 12, 1998, between CarrAmerica Realty Corp. and the Company	Incorporated by reference t 10-Q for the quarter ended
10.70	First Amendment, dated October 12, 1999, to Lease dated as of August 12, 1998, between CarrAmerica Realty Corp. and the Company	Incorporated by reference t 10-Q for the quarter ended

10.71	Second Amendment, dated January 3, 2000, to Lease dated as of August 12, 1998, between CarrAmerica Realty Corp. and the Company	Incorporated by reference t 10-K for the year ended Jul
10.72	Third Amendment, dated January 6, 2003, to Lease dated as of August 12, 1998, between CRD Presidential, LLC and the Company	Incorporated by reference t 10-Q for the quarter ended
10.73	Letter agreement between Dah Sing and CCHK, dated September 25, 2007, extending the Dah Sing Facilities until October 31, 2007 under existing conditions	Filed herewith.
14.1	The Company Code of Conduct (Rev. 3-30-06)	Incorporated by reference t filed with the SEC on April

85

16.1	Letter from Ernst & Young LLP to the SEC dated June 20, 2005.	Incorporated by reference t filed with the SEC on June
17.1	Resignation of J. David Hakman as a member of the Board of Directors	Incorporated by reference t filed with the SEC on Novem
21	Subsidiaries of the Company	Filed herewith.
23.1	Consent of BDO Seidman, LLP	Filed herewith.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. ss.1350	Filed herewith.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. ss.1350	Filed herewith.

86

SIGNATURES

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

CONCORD CAMERA CORP.

Date: September 27, 2007

By: /s/ Ira B. Lampert

Ira B. Lampert, Chairman, Chief

Executive Officer and President

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

Signature	Title
/s/ Ira B. Lampert Ira B. Lampert	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)
/s/ Blaine A. Robinson Blaine A. Robinson	Vice President - Finance, Treasurer and Assistant Secretary (Principal Financial and Accounting Officer)
/s/ Morris H. Gindi Morris H. Gindi	Director
/s/ Ronald S. Cooper Ronald S. Cooper	Director
/s/ William J. O'Neill, Jr. William J. O'Neill, Jr.	Director

Exhibit Index

No.	Description
3.1	Certificate of Incorporation, as amended through November 3, 2006
10.13	Letter agreement between Dah Sing Bank Limited and CCHK, dated June 27, 2006, extending until August 31, 2007 financing facilities provided to CCHK under existing conditions
10.14	Letter agreement between Dah Sing Bank Limited and CCHK, dated August 27, 2007, extending until September 30, 2007, financing facilities provided to CCHK under existing conditions
10.73	Letter agreement between Dah Sing and CCHK, dated September 25, 2007, extending the Dah Sing Facilities until October 31, 2007 under existing conditions
21	Subsidiaries of the Company
23.1	Consent of BDO Seidman, LLP
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. ss.1350

32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. ss.1350