

PHOTONIC PRODUCTS GROUP INC  
Form 10-Q  
August 13, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended JUNE 30, 2010

OR

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

For the transition period from to

Commission file number 0-11668

PHOTONIC PRODUCTS GROUP, INC.  
(Exact name of registrant as specified in its charter)

New Jersey  
(State or other jurisdiction of incorporation  
or organization)

22-2003247  
(I.R.S. Employer  
Identification Number)

181 Legrand Avenue, Northvale, NJ 07647  
(Address of principal executive offices)  
(Zip Code)

(201) 767-1910  
(Registrant's telephone number, including area code)

(Former name, former address and formal fiscal year, if changed since last report)

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  No

Edgar Filing: PHOTONIC PRODUCTS GROUP INC - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  The Registrant is not yet subject to this requirement.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer, accelerated filer and smaller reporting company” in Rule 12b-2 of the exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

Common shares of stock outstanding as of August 13, 2010:

11,556,729 shares

---

## PHOTONIC PRODUCTS GROUP, INC AND SUBSIDIARIES

## INDEX

Part I.	CONDENSED FINANCIAL INFORMATION	
Item 1.	Consolidated Financial Statements:	2
	Condensed consolidated balance sheets as of June 30, 2010 (unaudited) and December 31, 2009 (audited)	2
	Condensed consolidated statements of operations for the three and six months ended June 30, 2010 and 2009 (unaudited)	3
	Condensed consolidated statements of cash flows for the three and six months ended June 30, 2010 and 2009 (unaudited)	4
	Notes to condensed consolidated financial statements (unaudited)	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	14
Item 4.	Controls and Procedures	14
Part II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	16
Item 1A.	Risk Factors	16
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	16
Item 3.	Defaults upon Senior Securities	16
Item 4.	[Reserved]	16
Item 5.	Other Information	16
Item 6.	Exhibits	16
Signatures		17

PHOTONIC PRODUCTS GROUP, INC AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,463,112	\$ 4,069,310
Accounts receivable (net of allowance for doubtful accounts of \$15,000 in 2010 and 2009)	1,338,065	1,927,672
Inventories, net	2,129,564	2,265,973
Other current assets	168,964	164,081
<b>Total current assets</b>	<b>8,099,705</b>	<b>8,427,036</b>
<b>Plant and equipment:</b>		
Plant and equipment, at cost	14,666,997	14,604,728
Less: Accumulated depreciation and amortization	(12,444,850)	(12,016,247)
<b>Total plant and equipment</b>	<b>2,222,147</b>	<b>2,588,481</b>
Precious Metals	157,443	157,443
Deferred Income Taxes	408,000	408,000
Goodwill	311,572	311,572
Intangible Assets, net	633,734	673,016
Other Assets	48,284	45,192
<b>Total Assets</b>	<b>\$ 11,880,885</b>	<b>\$ 12,610,740</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Current portion of other long term notes	\$ 9,000	\$ 9,000
Accounts payable and accrued liabilities	1,815,561	1,632,650
Customer advances	118,953	346,429
Related party convertible notes payable due within one year	2,500,000	—
<b>Total current liabilities</b>	<b>4,443,514</b>	<b>1,988,079</b>
Related Party Convertible Notes Payable	—	2,500,000
Other Long Term Notes, net of current portion	340,436	344,946
<b>Total liabilities</b>	<b>4,783,950</b>	<b>4,833,025</b>
<b>Commitments</b>		
<b>Shareholders' Equity:</b>		
Common stock: \$.01 par value; 60,000,000 authorized shares; 11,561,329 shares issued at June 30, 2010 and 11,443,347 issued at December 31, 2009	115,613	114,433
Capital in excess of par value	17,315,278	17,073,871
Accumulated deficit	(10,319,006)	(9,395,639)
	7,111,885	7,792,665
Less - Common stock in treasury, at cost (4,600 shares)	(14,950)	(14,950)
<b>Total shareholders' equity</b>	<b>7,096,935</b>	<b>7,777,715</b>

Total Liabilities and Shareholders' Equity	\$ 11,880,885	\$ 12,610,740
--	---------------	---------------

See Notes to Condensed Consolidated Financial Statements (Unaudited)

PHOTONIC PRODUCTS GROUP, INC AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Total revenue	\$ 2,164,491	2,620,437	\$ 4,972,537	\$ 5,435,534
Cost and expenses:				
Cost of goods sold	1,908,779	2,201,339	4,176,330	4,634,749
Selling, general and administrative expenses	869,695	879,852	1,649,690	1,786,931
	2,778,474	3,081,191	5,826,020	6,421,680
(Loss) from operations	(613,983)	(460,754)	(853,483)	(986,146)
Other expense:				
Interest expense—net	(34,915)	(32,244)	(69,884)	(64,632)
Gain on sale of precious metals	—	—	—	7,371
	(34,915)	(32,244)	(69,884)	(57,261)
Net (loss) before income taxes	(648,898)	(492,998)	(923,367)	(1,043,407)
Income tax benefit	—	156,000	—	392,000
Net (loss)	\$ (648,898)	\$ (336,998)	\$ (923,367)	\$ (651,407)
Net (loss) per common share— basic and diluted	\$ (0.06)	\$ (0.03)	\$ (0.08)	\$ (0.06)
Weighted average shares outstanding—basic and diluted	11,556,729	11,333,477	11,494,929	11,286,263

See Notes to Condensed Consolidated Financial Statements (Unaudited)

PHOTONIC PRODUCTS GROUP, INC AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Six Months Ended June 30,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net (loss)	\$ (923,367)	\$ (651,407)
<b>Adjustments to reconcile net (loss) to cash provided by operating activities:</b>		
Depreciation and amortization	470,281	504,694
401K common stock contribution	154,535	179,068
Gain on sale of precious metals	—	(7,371)
Deferred income taxes	—	(392,000)