PHOTONIC PRODUCTS GROUP INC
Form POS AM
August 03, 2007

As Filed with the Securities and Exchange Commission on August 3, 2007

Registration No. 333-118553

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE

AMENDMENT NO. 2 TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PHOTONIC PRODUCTS GROUP, INC.

(Exact name of registrant as specified in its charter)

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

181 Legrand Avenue

Northvale, New Jersey 07647

(201) 767-1910

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

William Foote

Chief Financial Officer

Photonic Products Group, Inc.

181 Legrand Avenue

Northvale, New Jersey 07647

(201) 767-1910

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

Copies to:

Alan Wovsaniker, Esq.

Lowenstein Sandler PC

65 Livingston Avenue

Roseland, New Jersey 07068

(973) 597-2500

Approximate date of commencement of proposed sale to the public:

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

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

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

(2) Previously paid.

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

Subject to Completion, dated August 3, 2007

PRELIMINARY PROSPECTUS

3,043,425 Shares

Photonic Products Group, Inc.

Common Stock

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

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

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

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

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

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

The date of this prospectus is , 2007

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PROSPECTUS SUMMARY

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

Photonic Products Group, Inc.

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

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

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

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

- Defense/aerospace

- Process control and metrology,

- Laser systems (non-military), and

- Universities and national laboratories.

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

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

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

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

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

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

June 2004 private placement

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

- an aggregate of 1,581,000 shares of common stock, and

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

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

Resale registration

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

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

Use of proceeds

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

Over-the-Counter Bulletin Board symbol: PHPG.

Risk factors

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

RISK FACTORS

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

Risks Relating to Our Company and Industry

a) The Company faces competition

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

b) The Company has exposure to Government Markets

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

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

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

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

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

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

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

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

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

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

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

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

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

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i) The Company s stock price may fluctuate widely

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

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

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

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

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

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

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

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

USE OF PROCEEDS

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

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CAPITALIZATION

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

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

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

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

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

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

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

SELLING SHAREHOLDERS

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

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

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

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

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

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

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

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

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