

CIRCUIT CITY STORES INC  
Form SC 13D/A  
October 21, 2003

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 13D/A**

**(Amendment No. 1)**

Under the Securities Exchange Act of 1934

**Circuit City Stores, Inc.**

**(Name of Issuer)**

**Common Stock, par value \$0.50 per share**

**(Title of Class of Securities)**

**172737108**

**(CUSIP Number)**

**Rafael Robles Miaja**

**Franck, Galicia y Robles, S.C.**

**Torre del Bosque**

**Boulevard Manuel Avila Camacho No. 24 piso 7**

**Mexico 11000, Distrito Federal**

**52 (55) 5540-9225**

**(Name, Address and Telephone Number of Person**

**Authorized to Receive Notices and Communications)**

Copies to:

**Thomas M. Cerabino, Esq.**

**Willkie Farr & Gallagher LLP**

**787 Seventh Avenue**

**New York, New York 10019**

**(212) 728-8000**

**October 17, 2003**

**(Date of Event which Requires Filing of this Statement)**

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box:

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 1 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Carlos Slim Helu

---

2. Check the Appropriate Box if a Member of a Group

(a)

(b)

---

3. SEC Use Only

---

4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

---

6. Citizenship or Place of Organization

Mexico

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

---

PERSON 9. Sole Dispositive Power

WITH

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0

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10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

---

11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

---

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

---

13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

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14. Type of Reporting Person (See Instructions)

IN

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 2 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Carlos Slim Domit

---

2. Check the Appropriate Box if a Member of a Group

(a)

(b)

---

3. SEC Use Only

---

4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

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5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

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6. Citizenship or Place of Organization

Mexico

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

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PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

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11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

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14. Type of Reporting Person (See Instructions)

IN

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 3 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Marco Antonio Slim Domit

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2. Check the Appropriate Box if a Member of a Group

(a)

(b)

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3. SEC Use Only

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4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

---

6. Citizenship or Place of Organization

Mexico

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

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PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

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11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

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14. Type of Reporting Person (See Instructions)

IN

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 4 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Patrick Slim Domit

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2. Check the Appropriate Box if a Member of a Group

(a)

(b)

---

3. SEC Use Only

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4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

---

6. Citizenship or Place of Organization

Mexico

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

---

PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

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11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

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14. Type of Reporting Person (See Instructions)

IN

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 5 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Maria Soumaya Slim Domit

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2. Check the Appropriate Box if a Member of a Group

(a)

(b)

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3. SEC Use Only

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4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

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6. Citizenship or Place of Organization

Mexico

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NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

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PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

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11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

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14. Type of Reporting Person (See Instructions)

IN

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 6 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Vanessa Paola Slim Domit

---

2. Check the Appropriate Box if a Member of a Group

(a)

(b)

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3. SEC Use Only

---

4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

---

6. Citizenship or Place of Organization

Mexico

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

---

PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

---

11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

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14. Type of Reporting Person (See Instructions)

IN

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 7 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Johanna Monique Slim Domit

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2. Check the Appropriate Box if a Member of a Group

(a)

(b)

---

3. SEC Use Only

---

4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

---

6. Citizenship or Place of Organization

Mexico

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

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PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

---

11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

---

14. Type of Reporting Person (See Instructions)

IN

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 8 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Inmobiliaria Carso, S.A. de C.V.

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2. Check the Appropriate Box if a Member of a Group

(a)

(b)

---

3. SEC Use Only

---

4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

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5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

---

6. Citizenship or Place of Organization

Mexico

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

---

PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

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11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

---

14. Type of Reporting Person (See Instructions)

HC

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 9 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Orient Star Holdings LLC

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2. Check the Appropriate Box if a Member of a Group

(a)

(b)

---

3. SEC Use Only

---

4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

---

6. Citizenship or Place of Organization

Delaware

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

---

PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

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11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

---

14. Type of Reporting Person (See Instructions)

HC

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 10 of 17 Pages**

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1. Name of Reporting Person

I.R.S. Identification No. of Above Person

U.S. Commercial Corp., S.A. de C.V.

---

2. Check the Appropriate Box if a Member of a Group

(a)

(b)

---

3. SEC Use Only

---

4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

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6. Citizenship or Place of Organization

Mexico

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NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

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OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

---

PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

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11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

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13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

---

14. Type of Reporting Person (See Instructions)

HC

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**SCHEDULE 13D**

**CUSIP No. 172737108**

**Page 11 of 17 Pages**

---

1. Name of Reporting Person

I.R.S. Identification No. of Above Person

Commercial LLC

---

2. Check the Appropriate Box if a Member of a Group

(a)

(b)

---

3. SEC Use Only

---

4. Source of Funds

WC (see Item 3 of the Initial Schedule 13D)

---

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)

---

6. Citizenship or Place of Organization

Delaware

---

NUMBER OF 7. Sole Voting Power

SHARES

BENEFICIALLY 0

---

OWNED BY 8. Shared Voting Power

EACH

REPORTING 15,100,000 (see Item 5(b) of this Schedule 13D)

---

PERSON 9. Sole Dispositive Power

WITH

0

---

10. Shared Dispositive Power

15,100,000 (see Item 5(b) of this Schedule 13D)

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11. Aggregate Amount Beneficially Owned by Each Reporting Person

15,100,000 (see Item 5(a) of this Schedule 13D)

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12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ..

---

13. Percent of Class Represented by Amount in Row (11)

7.2% (see Item 5(a) of this Schedule 13D)

---

14. Type of Reporting Person (See Instructions)

HC

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This Amendment No. 1 to Schedule 13D ( Amendment ) is being filed on behalf of Carlos Slim Helu, Carlos Slim Domit, Marco Antonio Slim Domit, Patrick Slim Domit, Maria Soumaya Slim Domit, Vanessa Paola Slim Domit and Johanna Monique Slim Domit (collectively, the Slim Family ), and Inmobiliaria Carso, S.A. de C.V., a Mexican sociedad anonima de capital variable ( Inmobiliaria ), Orient Star Holdings LLC, a Delaware limited liability company ( Orient ), U.S. Commercial Corp., S.A. de C.V., a Mexican sociedad anonima de capital variable ( USCC ), and Commercial LLC, a Delaware limited liability company ( Commercial ) and, together with the Slim Family, Inmobiliaria, Orient and USCC, the Reporting Entities ) and amends the Schedule 13D filed by the Reporting Persons on June 26, 2003 (the Initial Schedule 13D ). This Amendment relates to the common stock, par value \$0.50 per share (the Company Common Stock ), of Circuit City Stores, Inc., a Virginia corporation (the Company ). Prior to filing the Initial Schedule 13D with the Securities and Exchange Commission (the Commission ), the Slim Family, Inmobiliaria and Orient jointly filed with the Commission on March 9, 2001 a Statement of Beneficial Ownership on Schedule 13G with respect to the Company Common Stock, as amended on February 8, 2002, December 26, 2002 (the December 2002 Amendment ) and February 13, 2003. Commencing with the December 2002 Amendment, USCC and Commercial were included as reporting persons with respect to the Company Common Stock in the joint filings on Schedule 13G made by the Slim Family, Inmobiliaria and Orient. All capitalized terms not defined herein shall have the meaning ascribed to them in the Initial Schedule 13D. This Amendment is being filed pursuant to Rule 13d-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

The Reporting Entities are making this single joint filing because they may be deemed to constitute a group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Each Reporting Entity disclaims beneficial ownership of all of shares of Company Common Stock, other than those reported herein as being owned by it.

**Item 5. Interest in Securities of the Issuer.**

Item 5(a) is hereby amended and restated in its entirety as follows:

(a) As of the close of business on October 17, 2003, (i) Orient Star directly owns 8,100,000 shares of Company Common Stock (the Orient Owned Shares), (ii) Inmobiliaria, as the sole member of Orient, is deemed to beneficially own indirectly the Orient Owned Shares owned directly by Orient, and (iii) the Slim Family, which directly and indirectly owns all of the outstanding voting securities of Inmobiliaria, is deemed to beneficially own indirectly the Orient Owned Shares deemed indirectly beneficially owned by Inmobiliaria and which are directly owned by Orient. The Orient Owned Shares represent approximately 3.9% of the outstanding class of Company Common Stock, based on a total of 209,467,002 shares of Company Common Stock outstanding as of August 31, 2003, as represented by the Company in its Quarterly Report on Form 10-Q (the Quarterly Report), filed with the Commission on October 14, 2003.

As of the close of business on October 17, 2003, (i) Commercial directly owns 7,000,000 shares of Company Common Stock (the Commercial Owned Shares), (ii) USCC, as the sole member of Commercial, is deemed to beneficially own indirectly the Commercial Owned Shares owned directly by Commercial, and (iii) the Slim Family,

which directly and indirectly owns a majority of the outstanding voting securities of USCC, is deemed to beneficially own indirectly the Commercial Owned Shares deemed indirectly beneficially owned by USCC and which are directly owned by Commercial. The Commercial Owned Shares represent approximately 3.3%, and together with the Orient Owned Shares represent approximately 7.2%, of the outstanding class of Company Common Stock, based on a total of 209,467,002 shares of Company Common Stock outstanding as of August 31, 2003, as represented by the Company in the Quarterly Report.

Item 5(b) is hereby amended and restated in its entirety as follows:

(b) None of the Reporting Entities has the sole power either to vote (or direct the vote) or to dispose (or direct the disposition) of the 15,100,000 shares of Company Common Stock reported herein. The Reporting Entities have shared power to vote (or direct the vote) or to dispose (or direct the disposition) of all 15,100,000 shares of Company Common Stock reported in this Schedule 13D.

Item 5(c) is hereby amended and restated in its entirety as follows:

(c) On October 10, 2003, the Reporting Persons sold an aggregate of 500,000 shares of Company Common Stock in open market transactions at prices ranging from \$10.26 to \$10.47 and at a weighted average price of \$10.34.

On October 13, 2003, the Reporting Persons sold an aggregate of 500,000 shares of Company Common Stock in open market transactions at prices ranging from \$10.52 to \$10.70 and at a weighted average price of \$10.61.

On October 14, 2003, the Reporting Persons sold an aggregate of 525,000 shares of Company Common Stock in open market transactions at prices ranging from \$10.52 to \$10.74 and at a weighted average price of \$10.65.

On October 15, 2003, the Reporting Persons sold an aggregate of 380,000 shares of Company Common Stock in open market transactions at prices ranging from \$10.30 to \$10.82 and at a weighted average price of \$10.54.

On October 16, 2003, the Reporting Persons sold an aggregate of 1,045,000 shares of Company Common Stock in open market transactions at prices ranging from \$10.20 to \$10.50 and at a weighted average price of \$10.33.

On October 17, 2003, the Reporting Persons sold an aggregate of 1,000,000 shares of Company Common Stock in open market transactions at prices ranging from \$10.01 to \$10.22 and at a weighted average price of \$10.10.

From October 10, 2003 through October 17, 2003, the Reporting Persons sold an aggregate of 3,950,000 shares of Company Common Stock in open market Transactions at a weighted average price of \$10.37.

Item 7. Material to be Filed as Exhibits

1. The Powers of Attorney dated as of March 5, 2001 and the Joint Filing Agreement dated as of March 5, 2001, each filed as exhibits to the Schedule 13G filed by the Slim Family, Inmobiliaria and Orient with the Commission on March 12, 2001 are hereby incorporated by reference.

2. The Powers of Attorney dated as of December 24, 2002 and the Joint Filing Agreement dated as of December 24, 2002, each filed as exhibits to the Schedule 13G filed by the Slim Family, USCC and Commercial with the Commission on December 26, 2002 are hereby incorporated by reference.

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SIGNATURES

After reasonable inquiry and to the best of our knowledge and belief, the undersigned certify that the information set forth in this statement is true, complete and correct.

Dated: October 20, 2003

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Name: Carlos Slim Helu

Dated: October 20, 2003

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Name: Carlos Slim Domit

Dated: October 20, 2003

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Name: Marco Antonio Slim Domit

Dated: October 20, 2003

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Name: Patrick Slim Domit

Dated: October 20, 2003

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Name: Maria Soumaya Slim Domit

Dated: October 20, 2003

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Name: Vanessa Paola Slim Domit

Dated: October 20, 2003

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Name: Johanna Monique Slim Domit

Dated: October 20, 2003

INMOBILIARIA CARSO, S.A. DE C.V.

By:

\*

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Name:  
Title:

Dated: October 20, 2003

ORIENT STAR HOLDINGS LLC

By: IMMOBILIARIA CARSO, S.A. DE C.V.,  
its sole member

By: \_\_\_\_\_ \*

Name:  
Title:

Dated: October 20, 2003

U.S. Commercial Corp., S.A. de C.V.

By: \_\_\_\_\_ \*

Name:  
Title:

Dated: October 20, 2003

COMMERCIAL LLC

By: U.S. COMMERCIAL CORP., S.A. DE C.V.,  
its sole member

By: \_\_\_\_\_ \*

Name:  
Title:

Eduardo Valdes Acra, by signing his name below, signs this document on behalf of each of the above-named persons specified by an asterisk(\*), pursuant to a power of attorney duly executed by each such person, and filed with the Commission on the date set forth above under Item 7.

/s/ EDUARDO VALDES ACRA

\_\_\_\_\_  
Eduardo Valdes Acra  
Attorney-in-fact

-17-

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**Net income applicable to common shareholders**

\$

434,860

\$

201,653

**Net income per common share basic**

\$

0.06

\$

0.03

**Net income per common share diluted**

\$

0.04

\$

0.02

**Weighted average shares outstanding basic**

7,902,763

7,311,537

**Weighted average shares outstanding diluted**

13,491,585

12,539,640

See Notes to Consolidated Financial Statements (Unaudited)

4

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## PHOTONIC PRODUCTS GROUP, INC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 434,860	\$ 201,653
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>		
Depreciation and amortization	284,136	261,653
401K common stock contribution	166,693	150,501
Stock based compensation	9,105	30,204
<b>Changes in assets and liabilities:</b>		
Accounts receivable	201,232	99,144
Inventories	(235,693 )	(61,052 )
Other current assets	29,075	(131,168 )
Other assets	(2,554 )	(10,950 )
Accounts payable and accrued liabilities	(381,431 )	(120,995 )
Customer advances	(218,072 )	282
Total adjustments	(147,509 )	217,619
<b>Net cash provided by operating activities</b>	<b>287,351</b>	<b>419,272</b>
Capital expenditures	(30,241 )	(800,071 )
<b>Net cash used in investing activities</b>	<b>(30,241 )</b>	<b>(800,071 )</b>
<b>Cash flows from financing activities:</b>		
Proceeds from promissory note		700,000
Principal payments of notes payable	(24,441 )	(59,713 )
Principal payments of capital lease obligations	(62,880 )	(61,396 )
<b>Net cash (used in) provided by financing activities</b>	<b>(87,321 )</b>	<b>578,891</b>
<b>Net increase in cash and cash equivalents</b>	<b>169,789</b>	<b>198,092</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>3,078,052</b>	<b>1,156,563</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,247,841</b>	<b>\$ 1,354,655</b>

See Notes to Consolidated Financial Statements (Unaudited)

**PHOTONIC PRODUCTS GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 1 SUMMARY OF ACCOUNTING POLICIES****Basis of Presentation**

The accompanying unaudited interim consolidated financial statements of Photonic Products Group, Inc. (the Company) reflect all adjustments, which are of a normal recurring nature, and disclosures which, in the opinion of management, are necessary for a fair statement of results for the interim periods. It is suggested that these consolidated financial statements be read in conjunction with the audited consolidated financial statements as of December 31, 2006 and 2005 and for the years then ended and notes thereto included in the Company's report on Form 10-K and Amendment No. 1 on Form 10-K/A, filed with the Securities and Exchange Commission.

**Inventories**

Inventories are stated at the lower of cost (first-in-first-out basis) or market basis (net realizable value). Work in process inventory for the period is stated at actual cost, not in excess of estimated realizable value. Costs include labor, material and overhead.

Inventories are comprised of the following:

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Raw materials	\$ 720,000	\$ 635,000
Work in process, including manufactured parts and components	1,398,000	1,213,000
Finished goods	454,000	488,000
	<b>\$ 2,572,000</b>	<b>\$ 2,336,000</b>

**Income Taxes**

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

**Net Income Per Share**

The basic net income per share is computed using the weighted average number of common shares outstanding for the applicable period. The diluted income per share is computed using the weighted average number of common shares plus potential common equivalent shares outstanding, including the additional dilution related to the conversion of stock options, warrants, convertible preferred shares, and potential common shares issuable upon conversion of outstanding convertible notes, except if the effect on the per share amounts is anti-dilutive.

The following is the reconciliation of the basic and diluted earnings per share computations required by Statement of Financial Standards ( SFAS ) No. 128 ( Earnings per Share )

	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic Earnings Per Share:</b>						
Net Income Applicable to Common Shareholders	\$ 434,860	7,902,763	\$ 0.06	\$ 201,653	7,311,537	\$ 0.03
<b>Effect of dilutive securities</b>						
Convertible Debt	52,500	3,500,000		52,500	3,500,000	
Convertible Preferred Stock		500,000			500,000	
Warrants		921,457			474,306	
Options		667,365			753,797	
<b>Diluted Earnings Per Share:</b>						
Net Income Applicable to Common Shareholders	\$ 487,360	13,491,585	\$ 0.04	\$ 254,153	12,539,640	\$ 0.02
<b>Stock Based Compensation</b>						

The Company's 2000 Equity Compensation Program, which is shareholder approved, permits the grant of share options to its employees for up to 400,000 shares of common stock as stock compensation per calendar year. All stock options under the Plan are granted at the fair market value of the common stock at the grant date. Employee stock options vest ratably over a three year period and expire 10 years from the grant date.

Effective January 1, 2006, the Company's Plan is accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards( FAS ) No. 123 (revised 2004), Share-Based Payment ( FAS 123(R) ), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ( APB ) No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123 (R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ( SEC ) Staff Accounting Bulletin ( SAB ) No. 107, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Prior to January 1, 2006, the Company accounted for similar transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not

recognized for fixed stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date.

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

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

As a result of the adoption of FAS 123 (R), the Company's results for the three month period ended March 31, 2007 include share-based compensation expense totaling \$9,105. Such amounts have been included in the Consolidated Statements of Operations within cost of goods sold (\$2,442), and selling, general and administrative expenses (\$6,663), as appropriate. For three months ended March 31, 2006, share-based compensation expense was \$30,204 including \$4,398 within cost of goods sold and \$25,806 within selling, general and administrative expense, as appropriate. No income tax benefit has been recognized in the income statement for share-based compensation arrangements due to history of operating losses.

Stock option compensation expense in 2007 and 2006 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period.

The weighted average estimated fair value of stock options granted in the three months ended March 31, 2007 and 2006 was \$1.47 and \$1.43, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. During 2007, the Company took into consideration guidance under SFAS 123R and SEC Staff Accounting Bulletin No. 107 (SAB 107) when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon the contractual term of the options. The Company uses the available rate on zero-coupon government obligations with a remaining term equal to the expected life of the options as the basis for its risk-free interest rate.

The assumptions made in calculating the fair values of options are as follows:

	Three Months Ended			
	March 31, 2007		March 31, 2006	
Expected term (in years)	10		10	
Expected volatility	144.9	%	119.4	%
Expected dividend yield	0	%	0	%
Risk-free interest rate	4.7	%	5.2	%

The Company granted 29,039 options under the Plan during the three months ended March 31, 2007 at an exercise price of \$1.50 per share. In the three months ended March 31, 2006, 67,200 options were granted at an exercise price of \$1.50 per share. Stock grants are issued at a price that is equal to the closing market price on the date of each grant.

The following table represents our stock options granted, exercised, and forfeited during the first three months of 2007.

Stock Options	Number of Options	Weighted Average Exercise Price per Option	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	1,879,700	\$ 1.25	4.6 years	\$ 0.42
Granted	29,039	\$ 1.50		
Exercised	-0-			
Forfeited/expired	-0-			
Outstanding at March 31, 2007	1,908,739	\$ 1.23	5.09 years	\$ 0.52
Exercisable at March 31, 2007	1,839,618	\$ 1.22	4.87 years	\$ 0.53

The following table represents non-vested stock options granted, vested, and forfeited during the three months ended March 31, 2007.

<b>Non-vested Options</b>	<b>Options</b>	<b>Weighted-Average</b>
		<b>Grant-Date Fair Value</b>
Non-vested January 1, 2007	146,424	\$ 0.85
Granted	29,039	\$ 1.50
Vested	(106,343 )	\$ 0.50
Forfeited	-0-	
Non-vested March 31, 2007	69,120	\$ 1.54

As of March 31, 2007, there was \$89,896 of unrecognized compensation costs, net of estimated forfeitures, related to non-vested stock options, which is expected to be recognized over a weighted average period of approximately 2.8 years. The total fair value of shares vested during the three months ended March 31, 2007 and 2006, was \$65,000 and \$152,000, respectively.

## **NOTE 2 CONVERSION OF CONVERTIBLE PREFERRED SHARES**

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

## **NOTE 3 IMPACT OF UNAUTHORIZED PERSONAL TRANSACTIONS BY FORMER CFO**

As previously reported, over a period of approximately six years, from the second quarter of 2000 through the second quarter of 2006, the Company s former Chief Financial Officer, William Miraglia, had engaged in unauthorized and personal transactions totaling \$860,000.

These transactions were entered by the former CFO into the Company s accounts as Selling, General and Administrative expenses. Although the transactions were unauthorized and personal in nature, based upon a review of the accounting treatment of individual transactions, the Company concluded that all material charges have been reflected as part of the reported expenses, reported net income, earnings per share and cash flows in the appropriate periods. A total of \$47,000 was recorded in Selling, General and Administrative expenses in the first quarter of 2006. A claim to recover a portion of these losses under the Company s employee dishonesty insurance policy was settled in the third quarter of 2006 in the amount of \$300,000, the policy limit, and has been reflected in the Company s financial results for 2006.

As a result of the foregoing discoveries, Mr. Miraglia was terminated for cause from his employment with the Company on June 14, 2006. Upon termination of his employment, Mr. Miraglia signed an agreement to make restitution to the Company. To date, he has repaid \$5,000. In light of a number of factors, the Company does not believe that any significant recoveries from Mr. Miraglia are likely in the near term, but the Company is keeping all of its options open. The Company has been cooperating with the U.S. Attorney s office in its ongoing investigation into this matter.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### **Disclosure: Forward Looking Statements**

This Quarterly Report contains 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*, *anticipate*, *project*, *plan*, *target*, *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.

### **Critical Accounting Policies**

Our significant accounting policies are described in Note 1 of the Consolidated Financial Statements. In preparing our financial statements, we made estimates and judgments that affect the results of our operations and the value of assets and liabilities we report. Our actual results may differ from these estimates under different assumptions or conditions.

For additional information regarding our critical accounting policies and estimates, see the section entitled *Managements Discussion and Analysis of Financial Condition and Results of Operations* in our annual report filed with the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2006.





## Results of Operations

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

## Revenues

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

Product bookings for the quarter ended March 31, 2007 were \$4,960,000 as compared with \$2,271,000 for the same period last year, an increase of 118%. In this year's first quarter, order intake for optical components was especially strong for Laser Optics, while order intake at INRAD and MRC for optical components was moderate. Major OEM customer orders do not usually follow a strict seasonal trend, and major production releases from aerospace/defense industry customers usually occur once or twice per year at irregular intervals. In this year's first quarter, orders from four major OEM customers accounted for 67% of new orders. Of these, one large order for high precision crystal optical components was from a major defense industry OEM customer in the infra-red imaging systems sector, another was for precision X-ray monochrometers from a major multinational manufacturer of X-ray analytical process control and metrology equipment, another was for UV filter crystal components from a defense industry manufacturer of aircraft missile warning sensors and self-protection systems, while the fourth was for laser accessories and specialty laser frequency doubling crystals from a major manufacturer of commercial laser systems. In last year's first quarter, orders from three INRAD and MRC Optics OEM customers accounted in the aggregate for 56% of total new orders. One order was from a major defense industry OEM customer, on a new program, which represented 30% of total bookings for the quarter. Another order, representing 17% of new orders was from another defense industry OEM who issued a follow-on production release for proprietary INRAD filter crystal components used in their anti-aircraft missile warning systems, while the third was from an industrial factory automation sector customer.

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

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

## Cost of Goods Sold

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

period last year. For the full year 2006, the actual cost of goods sold percentage was 67.4%.

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

#### **Selling, General and Administrative Expenses**

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

#### **Operating Income**

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

#### **Other Income and Expenses**

Interest expense-net in the first quarter of 2007 was \$75,000, as compared with \$113,000 in the first quarter of last year.

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

#### **Net Income Applicable to Common Shareholders**

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

#### **Liquidity and Capital Resources**

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

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

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

Capital expenditures for the three months ended March 31, 2007 were \$30,000, compared to \$800,000 in the first quarter of 2006. Capital expenditures for all of 2006 were \$987,000. In the first quarter of 2007 these expenditures were primarily for replacement or refurbishment of capital equipment at the

end of its useful life, in addition to the acquisition of new computer hardware and engineering software.

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

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

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

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

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

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

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

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

In 2004, the Company received \$1,000,000 in proceeds from the issuance of a Subordinated Convertible Promissory Note. The note bears an interest rate of 6% and was initially due on March 31, 2007, but its term has been extended to March 31, 2008. Interest accrues yearly and along with principal may be

converted into Common Stock, (and/or securities convertible into common shares). The note is convertible into 1,000,000 Units consisting of 1,000,000 shares of Common Stock and Warrants to acquire 750,000 shares of Common Stock at a price of \$1.35 per share. The note holder is a major shareholder of the Company.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company believes that it has limited exposure to changes in interest rates from investments in certain money market accounts. The Company does not utilize derivative instruments or other market risk sensitive instruments to manage exposure to interest rate changes. The Company believes that a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of the Company's interest sensitive money market accounts at March 31, 2007. Interest on notes and leases are at fixed rates for the term of the debt.

**ITEM 4. CONTROLS AND PROCEDURES**

**a. Disclosure Controls and Procedures**

During the first quarter of 2007, our management, including the principal executive officer and principal financial officer evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) related to the recording, processing, summarization and reporting of information in the reports that we file with the SEC. These disclosure controls and procedures have been designed to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to inherent limitations of control systems, not all misstatements may be detected. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Based upon their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to reasonably ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

**b. Changes in Internal Controls Over Financial reporting**

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

There were no material changes in the risk factors previously disclosed in the Company's Report on Form 10-K for the year ended December 31, 2006 which was filed with the Securities and Exchange Commission on March 30, 2007.

**ITEM 3. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

On May 5, 2004, the Board of Directors amended the By-laws of the Company to eliminate the age restriction for Directors. This information was omitted from the Company's previous filings with the Securities and Exchange Commission.

**ITEM 6. EXHIBITS**

3.1 By-laws

11. An exhibit showing the computation of per-share earnings is omitted because the computation can be clearly determined from the material contained in this Quarterly Report on Form 10-Q.

31.1 Certificate of the Registrants Chief Executive Officer, Daniel Lehrfeld, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of the Registrants Chief Financial Officer, William J. Foote, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of the Registrants Chief Executive Officer, Daniel Lehrfeld, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certificate of the Registrants Chief Financial Officer, William J. Foote, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

16

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**SIGNATURES**

Pursuant to the requirements 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.

**Photonic Products Group, Inc.**

By: */s/ Daniel Lehrfeld*  
**Daniel Lehrfeld**  
**President and Chief Executive Officer**

By: */s/ William J. Foote*  
**William J. Foote**  
**Chief Financial Officer and Secretary**

Date: May 14, 2007