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CONCORD CAMERA CORP
Form 10-K
November 07, 2008

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

Form 10-K

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

For the fiscal year ended June 28, 2008

Commission File No. 0-17038

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

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

13-3152196
(I. R. S. Employer
Identification No.)

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

33021
(Zip Code)

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

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

Common Stock, no par value per share

Nasdaq Global Market

(Title of class)

(Name of each exchange on which registered)

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 28, 2007, the last day of business of our most recently completed second fiscal quarter, was approximately \$12,380,901 based on the closing price for the registrant's common stock as traded on the NASDAQ Global Market of The NASDAQ Stock Market LLC on such date of \$3.11 per share. Solely for the purpose of this calculation, shares held by directors, executive officers and 10% shareholders of the registrant have been excluded.

As of November 3, 2008, there were 5,913,610 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2008 Annual Meeting of Shareholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K.

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PART I

Unless the context indicates otherwise, when used in this report, "we," "us," "our," "Concord" and the "Company" refer to Concord Camera Corp. and its subsidiaries. Our fiscal year ends on the Saturday closest to June 30. Fiscal 2008 refers to the fiscal year ended June 28, 2008; fiscal 2007 refers to the fiscal year ended on June 30, 2007; fiscal 2006 refers to the fiscal year ended July 1, 2006; fiscal 2005 refers to the fiscal year ended July 2, 2005; and fiscal 2004 refers to the fiscal year ended July 3, 2004. Also, for reference purposes, the Company's fiscal year ending on June 27, 2009 is designated as "fiscal 2009."

Cautionary Statement Regarding Forward-Looking Statements

The statements contained in this report that are not historical facts are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995), which can be identified by the use of forward-looking terminology such as: "estimates," "projects," "anticipates," "expects," "intends," "believes," "plans," "forecasts" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors. For a discussion of some of the factors that could cause actual results to differ, see the discussion under "Risk Factors" below and subsequently filed reports. We wish to caution the reader that these forward-looking statements, including, without limitation, statements regarding the dissolution and liquidation of our company, the amount and timing of any liquidating distributions, expected cost reductions, anticipated or expected results of the implementation of our cost-reduction initiatives, anticipated revenues or capital expenditures, the expected market size for 35 mm single-use and traditional film cameras, our expected fulfillment of backlog orders, our assessment of and estimates of royalty payments in connection with intellectual property claims, the sufficiency of our working capital and cash to fund our operations in the next twelve months, our belief regarding the lack of merit in pending litigations and our expectation that there is no material tax exposure to the company on account of our operations in the People's Republic of China ("PRC"), and other statements contained in this report regarding matters that are not historical facts, are only estimates or predictions. No assurance can be given that future results will be achieved or that future liquidating distributions will be made. Actual events or results may differ materially as a result of risks facing us or actual results differing from the assumptions underlying such statements. In particular, our expected results could be adversely affected by, among other things, production difficulties or economic conditions negatively affecting our suppliers, customers or the market for our products, by our inability to develop and maintain relationships with suppliers, customers or licensors by our inability to negotiate favorable terms with our suppliers, customers or licensors, by our inability to liquidate our assets or settle our liabilities on favorable terms or, subject to shareholder approval, our decision to dissolve and liquidate our Company. Any forward-looking statements contained in this report represent our estimates only as of the date of this report, or as of such earlier dates as are indicated herein, and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the

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future, we specifically disclaim any obligation to do so, even if our estimates change.

Item 1. Business.

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

In fiscal 2004, we initiated a strategic review process to determine how we may better compete in the digital camera market, increase sales of our popular single-use cameras and reduce our operating costs.

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The strategic review, which continued through fiscal 2007, led to our initiating a restructuring plan and cost-reduction initiatives and resulted in our exiting the digital camera market in fiscal 2007. In addition, in Fiscal 2008, we ceased our new business initiatives.

On August 14, 2006, our Board of Directors (the "Board") established a committee ("the Special Committee") consisting of three independent directors, to investigate, evaluate and/or analyze strategic alternatives for us and make any recommendations to our Board with respect to such strategic alternatives that the Special Committee determines to be appropriate. With the assistance of its financial advisor, the Special Committee considered several alternative strategies, including: (i) continuing current operations; (ii) making strategic acquisitions; (iii) a sale or other disposition of all or a significant part of our Company or our business; (iv) a "going-private" transaction; and (v) a liquidation of our Company. The Special Committee authorized their financial advisor and management to conduct discussions and negotiate with potential strategic and financial investors who expressed an interest in making an investment in or acquiring us. However, to date, efforts by management and the financial advisor to engage in a transaction with any of these third parties have not been successful.

Accordingly, based on the Special Committee's review of strategic alternatives and recommendation, on October 29, 2008 our Board recommended our dissolution and the adoption of a plan of liquidation. The dissolution and plan of liquidation are subject to approval by our shareholders at the 2008 annual meeting of shareholders (the "Annual Meeting"), which is expected to be held in December. Pending our shareholder's vote on the dissolution and plan of liquidation, in order to protect shareholder value, we have ceased manufacturing products, purchasing materials and products and undertaking commitments for sales of our products except for those products that we have remaining in inventory.

If our shareholders approve our dissolution and the plan of liquidation, we will file a certificate of dissolution with the Department of Treasury of the State of New Jersey. Thereafter, we will not engage in any business activities except for the purpose of preserving the value of our assets, prosecuting and defending lawsuits by or against us, winding up our business and affairs, selling and liquidating our properties and assets, including our intellectual property and other intangible assets, paying or otherwise settling our liabilities, including contingent liabilities, terminating commercial agreements and relationships and

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preparing to make distributions to our shareholders, in accordance with the plan of liquidation.

If our shareholders do not approve our dissolution and the plan of liquidation, our Board will explore the alternatives then available for the future of our Company. We believe the value of our business will be materially and adversely impacted after the announcement of the recommendation of our dissolution and adoption of a plan of liquidation by our Board. In particular, pending our shareholders' vote on our dissolution and plan of liquidation, we have ceased manufacturing products, purchasing materials and products and undertaking commitments for sales of our products except for those products that we have remaining in inventory and, as a result, we believe that many, if not all, of our customers, including our major customers, will transition their business to our competitors. Therefore, if our shareholders do not approve our dissolution and plan of liquidation, we will not be able to continue to operate our business as it existed prior to our Board's approval of our dissolution and plan of liquidation and may not be able to operate our business at all.

You can find more information on our fiscal 2008 results of operations and our Board's decision to recommend our dissolution and plan of liquidation to our shareholders in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

The mailing address of our headquarters is 4000 Hollywood Boulevard, 6th Floor, North Tower, Hollywood, Florida 33021, and our telephone number is (954) 331-4200. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and our proxy statements are available free of charge on our Internet website, at <http://www.concord-camera.com>, as soon as reasonably practicable after such reports are electronically filed with or furnished to the

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Securities and Exchange Commission ("SEC"). The information found on our website is not part of this or any other report we file with or furnish to the SEC.

The Market for our Film Camera Products

Our products include 35mm single-use and traditional film cameras to our RSD customers.

- o Single-use cameras - Our single-use cameras are inexpensive, easy-to-use cameras that are sold preloaded with 35mm silver halide film and batteries and are designed to be used for only one roll of film by the consumer. After use, the consumer returns the entire camera to the photo processor. The processor then extracts the film and either disposes of the used camera or returns and/or sells it for recycling uses.
- o Traditional film cameras - Our traditional film cameras are inexpensive, easy-to-use cameras that are designed to be reloaded with 35mm silver halide film multiple times by the consumer.

Film Camera Market Trends

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

- o Single-use cameras - Based on our estimates of available third-party market research data, after years of robust growth, the North

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America single-use camera market reached its peak of 218 million units sold in calendar year 2004. Total North America sales of single-use cameras declined to 202 million units in calendar year 2005, declined to 172 million units in calendar year 2006, declined to an estimated 129 million units in calendar year 2007 and are projected to decline to 91 million units in calendar year 2008.

- o Traditional film cameras - Traditional film cameras are being displaced by digital cameras. Based on available third-party market research data, in the U.S. market, digital cameras began to outsell film cameras in calendar year 2005. The calendar year 2005 traditional film camera sales in the United States were reported at 4.3 million units, a 36% decrease from the previous year. The decline of traditional film cameras continued during calendar year 2006 at approximately 53% and during calendar year 2007 at approximately 45% and is projected to decline during calendar 2008 a further 54%, with sales projected at 0.5 million units.

Film Camera Products

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

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

Our traditional film cameras consist of two entry-level models and models used by certain RSD customers to support loyalty programs offered to their customers.

Our expenditures for product engineering, design and development decreased to \$ 2.2 million in fiscal 2008 from \$2.5 million in fiscal 2007, mainly as a result of our reduction in development of new film camera models. For additional information regarding product development costs, see Item 7,

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

Sales and Marketing

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

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

We have in-house sales and marketing personnel who make the majority of our direct sales to our RSD customers. We also have independent sales

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

Competition in the Film Camera Market

The film camera market is highly competitive with many companies marketing products to the retail market. As a producer and/or marketer of 35mm single-use and traditional film camera products, we encounter substantial competition from a number of companies, many of which have longer operating histories, more established markets and brand recognition, and more extensive research, development and manufacturing capabilities than we have. Our key competitors in the 35 mm single-use camera market are FujiFilm Corporation ("Fuji") and Eastman Kodak Company, both of whom have greater resources than we have or may reasonably be expected to have in the foreseeable future and are our sole suppliers of film for our 35mm single-use and traditional film camera products.

Backlog

Due to the lead time required for production and shipping and the need to build inventory to meet seasonal demand, we may at times have a backlog of orders for products. We define backlog as unfulfilled orders supported by signed contracts or purchase orders for delivery of our products generally within the next six months. Our backlog at June 28, 2008 was approximately \$6.8 million. We experience fluctuations in our backlog at various times during our fiscal year. Approximately \$6.5 million of the unfulfilled orders at June 28, 2008 were shipped during our first quarter of fiscal 2009. Although we believe that our entire backlog consists of firm orders, our backlog as of any particular date may not be indicative of actual revenue for any future period because of the possibility of customer cancellations, order changes, changes in delivery schedules and delays inherent in the shipments of products. No assurance can be given that the current backlog will necessarily lead to revenue in any specific future period.

Major Customers

In fiscal 2008, sales to two of our retail customers represented in excess of 10% of our total net sales: (i) Wal-Mart Stores, Inc. ("Wal-Mart") represented 35.3% of total net sales; and (ii) Walgreen Co. ("Walgreens") represented 15.4% of total net sales. See Note 20, Geographic Area and Significant Customer Information, in the Notes to Consolidated Financial Statements.

Seasonality

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

Licensing Activities

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We have a worldwide non-exclusive license (which excluded Japan until January 1, 2005) to use certain of the single-use camera patents and patent applications of Fuji in connection with the manufacture, remanufacture and sale of single-use cameras. The license extends until the later of February 26, 2021 or the expiration of the last of the licensed Fuji patents and provides for payment of a license fee and certain royalty payments to Fuji. Our ability to manufacture and sell single-use cameras depends on the continuation of our right to use the Fuji patents. As a result, we believe the loss of the Fuji license prior to the expiration of the patents would have a material adverse effect on our financial position and results of operation if our shareholders do not approve our dissolution and plan of liquidation and we seek to continue our single-use camera business.

We have the worldwide, exclusive right to use the Polaroid brand name and trademark in connection with the manufacture, distribution, promotion and sale of single-use and traditional film-based cameras, including zoom cameras and certain related accessories but excluding instant and digital cameras, except for products released by Polaroid Corporation ("Polaroid") into the distribution chain before August 26, 2002. The single-use camera license agreement expires on February 1, 2009 and provides for the payment of \$3.0 million of minimum royalties to Polaroid, which was fully credited against percentage royalties. As of June 28, 2008, our single-use camera percentage royalties exceeded the minimum royalty amount. The traditional film camera license agreement expires on January 31, 2009 and provided for a minimum royalty payment of \$50,000 to Polaroid on or before October 31, 2006, which was fully credited against percentage royalties during the first year of the term ended January 31, 2007. There are no minimum guaranteed royalty payments under the traditional film camera license agreement after the first year of the term. As of July 1, 2006, our traditional film camera percentage royalties exceeded the minimum royalty amount. We have engaged in discussions with Polaroid regarding the renewal of the single-use camera license agreement but have suspended those discussions pending our shareholders' vote on our dissolution and plan of liquidation. If our shareholders do not approve our dissolution and plan of liquidation, it is uncertain whether we will be able to renew the single-use camera license agreement. We believe that the loss of the Polaroid single-use camera license would have a material adverse effect on our financial position and results of operations if our shareholders do not approve our dissolution and plan of liquidation and we seek to continue our single-use camera business.

As part of our acquisition of Jenimage Europe GmbH ("Jenimage") in 2004, we entered into a twenty-year, worldwide trademark license agreement with Jenoptik AG for the exclusive use of the Jenoptik brand name and trademark on non-professional consumer imaging products including, but not limited to, digital, single-use and traditional film cameras, and other imaging products and related accessories. The license provides for the payment of percentage royalties but does not require any minimum guaranteed royalty payments. In August 2008, we entered into an agreement with Jenoptik AG to terminate the Jenoptik trademark license agreement, effective January 1, 2010, in exchange for Jenoptik AG's reimbursement of a portion of the upfront license fee that we paid to Jenoptik AG upon execution of the license agreement in 2004.

For further discussion of our license and royalty agreements, see Note 16, Commitments and Contingencies, "License and Royalty Agreements," and Note 22, Subsequent Events, in the Notes to Consolidated Financial Statements.

Manufacturing

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We conducted all of our manufacturing in the PRC. Our vertically integrated manufacturing facilities include plastic injection molding of lenses and other parts, stamping and machining of metal parts, manufacturing of printed circuit boards ("PCBs"), assembly of PCBs using surface mount technology machinery and manual insertion, quality control, quality assurance, painting and final assembly and testing. Beginning in fiscal 2008, as a result of our previous restructuring plan, our manufacturing facility has focused predominantly on the manufacture of high volume, low cost 35mm single-use cameras.

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

In addition, we outsourced the manufacture of certain of our 35mm single-use and traditional film cameras.

Equipment, Components, Raw Materials and Products from Outsourced Manufacturers

We own the tools and equipment necessary to manufacture a significant number of our 35mm single-use camera products and components used in our 35mm single-use camera products. Manufacturers and suppliers located in the Far East and other parts of the world supply us with raw materials, components and finished products that we do not manufacture. We may experience a shortage of supply of, or a delay in receiving, certain materials, components and products as a result of strong demand, capacity constraints, diminishing sources of supply or other problems experienced by our suppliers. Our net sales, gross profits and margins could be adversely affected if we encounter supplier issues and/or fail to manage supplier issues properly. See Item 1A, Risk Factors.

PRC Operations

Our operations are substantially dependent upon our manufacturing and assembly activities in the PRC. Our current processing agreement with the PRC governmental entities, which allows us to operate in the PRC, was renewed in October 2006 for an additional ten-year term until October 2016. In connection with the recommendation by our Board of our dissolution and the adoption of the plan of liquidation, on November 1, 2008, we provided the required twelve months notice of termination of our processing agreement to the PRC governmental entities. See Item 2, Properties, for information on the leases and land use agreements related to our manufacturing facilities in the PRC. See Note 22, Subsequent Events, in the Notes to Consolidated Financial Statements.

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

Trademarks and Patents

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Our trademarks include, among others, CONCORD, CONCORD EYE Q, GO WIRELESS, FUN SHOOTER, EASYSHOT, LE CLIC, KEYSTONE, APEX and GOLDLINE for cameras sold in the United States and/or numerous foreign countries. We license the POLAROID trademark for exclusive use worldwide in connection with the manufacture, distribution, promotion and sale of single-use and traditional film cameras (excluding instant and digital cameras). We also license the JENOPTIK trademark for exclusive use worldwide for non-professional consumer imaging products and accessories (both digital and film-based). We own numerous patents, some of which are used in our current products. We have applied for, in the United States and foreign countries, patents to protect the inventions and technologies developed by or for us. We do not believe our competitiveness and market share are dependent on the ultimate disposition of our patent applications. We license patents and patent applications related to single-use cameras from Fuji in connection with the manufacture and sale of single-use cameras. See "Licensing Activities" above.

Employee Relations

As of October 1, 2008, we had 85 employees, of whom 59, or 69.4% were located in Hong Kong/PRC, 2, or 2.4%, were located in Europe and 24, or 28.2%, were located in the Americas. During fiscal 2008, pursuant to our agreements with PRC governmental entities, and based upon production demand, approximately 1,300 to 3,300 people worked in our PRC manufacturing facilities. We believe that our relationship with our employees and workers is satisfactory.

In connection with the Board's recommendation of our dissolution and the adoption of a plan of liquidation, we have terminated certain of our employees in Hong Kong and the PRC and, if our shareholders approve the dissolution and plan of liquidation, we will terminate our remaining employees throughout the wind-down period.

Financial Information about Geographic Areas

For financial information about geographic areas, see Note 20, Geographic Area and Significant Customer Information, in the Notes to Consolidated Financial Statements. The risks attendant to our foreign operations are described in Item 1A, Risks Factors, below.

Item 1A. Risk Factors.

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

Risks Related to our Dissolution and Plan of Liquidation

Our shareholders may not approve our dissolution and plan of liquidation.

Our dissolution in accordance with our plan of liquidation is dependent upon approval by our shareholders. If our shareholders fail to approve our dissolution and plan of liquidation, we will then evaluate the alternatives available to us at that time, including, but not limited to, continuing to operate our business or selling our business, non-cash assets or company. We believe the announcement of the recommendation by our Board of our dissolution and the adoption of the plan of liquidation and the filing of our proxy statement for our Annual Meeting will result in the loss of customers, suppliers and other business relationships. Pending our shareholders' vote on our dissolution and plan of liquidation, we have ceased manufacturing products, purchasing materials and products and undertaking commitments for sales of our products except for those products that we have remaining in inventory. As a result, we believe that many, if not all, of our customers, including our two

major customers, will transition their

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business to our competitors. Therefore, if our shareholders fail to approve our dissolution and plan of liquidation, our business will be materially and adversely impacted and we will not be able to continue to operate our business as it existed prior to the recommendation of our dissolution and the adoption of the plan of liquidation by our Board and may not be able to operate our business at all.

Timing of the dissolution and liquidation is uncertain.

As soon as practicable after the Annual Meeting, if our shareholders approve our dissolution and the plan of liquidation, we intend to file a certificate of dissolution with the Department of Treasury of the State of New Jersey and sell and monetize our remaining non-cash assets. There are a number of factors that could delay our anticipated timetable, including, but not limited to, the following:

- o lawsuits or other claims asserted against us;
- o legal, regulatory or administrative delays;
- o inability to sell and monetize or delays in selling and monetizing certain non-cash assets on terms acceptable to us;
- o delays in settling our remaining liabilities; and
- o delays in liquidating and dissolving subsidiaries in domestic and foreign jurisdictions.

We cannot determine with certainty the amount of the distributions to shareholders.

We cannot determine at this time the amount of distributions to our shareholders pursuant to the plan of liquidation. This determination depends on a variety of factors, including, but not limited to, the amount required to satisfy or settle known and unknown liabilities, the resolution of litigation, including our existing lawsuits, and other contingent liabilities, the net proceeds, if any, from the sale and monetization of our remaining non-cash assets, including our inventory, our property in the PRC and our auction rate securities, and other factors. Examples of uncertainties that could reduce the value of or eliminate distributions to our shareholders include unanticipated costs relating to:

- o the defense, satisfaction or settlement of lawsuits or other claims that may be made or threatened against us in the future;
- o the pending lawsuits and claims against us, including in the event a proposed settlement in a pending lawsuit is rejected by the court or is not effected for any other reason;
- o delays in our liquidation and dissolution, including due to our inability to sell and monetize non-cash assets or settle claims; and
- o delays in our liquidating and dissolving subsidiaries in domestic and foreign jurisdictions.

As a result, we cannot determine with certainty the amount of distributions to our shareholders.

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Continued failure of auctions of our auction rate securities or sales of our auction rate securities below their current carrying value can affect the timing of the dissolution and liquidation and the amount of distributions shareholders receive in the dissolution and liquidation.

As of June 28, 2008, the carrying value of our auction rate securities was \$18.5 million. This carrying value is net of an unrealized loss of approximately \$5.1 million which was recorded as of June 28, 2008 due to our determination that the estimated value of these securities as of that date was less than their par value. During our fiscal year ended June 28, 2008, we received net proceeds of \$6.9 million from the sale

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of auction rate securities at 100% of par value, of which \$1.9 million was received after market uncertainties and liquidity issues arose in the market for auction rate securities. Additionally, we have experienced redemptions of approximately \$1.8 million of our auction rate securities at 100% of par value subsequent to June 28, 2008 and have consented to tender \$2.1 million in par value of our auction rate securities pursuant to an offer by the issuer to purchase such securities for approximately \$1.9 million. However, we are unable at this time to predict whether the purchase of the tendered auction rate securities will be completed or when we will be able to sell our remaining auction rate securities and for what amount. Issuers and market makers are exploring alternatives that may improve liquidity of our auction rate securities and the New York Attorney General and the Securities and Exchange Commission recently entered into an agreement with the investment bank that sold us our auction rate securities under which the investment bank agreed to use its best efforts to facilitate issuer redemptions of auction rate securities of institutional investors such as us. However, we cannot assure you that such efforts will be successful and, therefore, there is a risk that there could be a further decline in value of our auction rate securities. Continued failed auctions may affect the fair value of these securities, and require us to further adjust the carrying value of the investment through an impairment assessment and we may receive less than anticipated proceeds when we sell these securities, which would reduce the amount of distributions shareholders receive in the dissolution and liquidation.

We may not be able to sell our property in the PRC or, if we are able to sell our property, the net proceeds from such sale may be less than the amount estimated.

Our ability to sell our property in the PRC is substantially dependent upon the current real estate market and economic conditions in the area of the PRC where our property is located. The PRC real estate market and business environment is currently under significant pressure, in part due to the worldwide financial crisis. Additionally, we are uncertain what impact our announcement of the recommendation by our Board of our dissolution and the adoption of the plan of liquidation will have on our ability to sell our property. We cannot assure you that we will be able to sell our property in the PRC for the amount estimated or its carrying value for purposes of calculating the potential distributions to shareholders or at all.

We may not be able to settle all of our liabilities to creditors.

We have current and future liabilities to creditors. Our estimated distribution to shareholders takes into account all of our known liabilities and certain possible contingent liabilities and our best estimate of the amount reasonably required to satisfy such liabilities. As part of the wind-down process, we will

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attempt to settle all liabilities with our creditors. We cannot assure you that unknown liabilities that we have not accounted for will not arise, that we will be able to settle all of our liabilities or that they can be settled for the amounts we have estimated for purposes of calculating the range of distribution to shareholders. If we are unable to reach an agreement with a creditor relating to a liability, that creditor may bring a lawsuit against us. Amounts required to settle liabilities or defend lawsuits in excess of the amounts estimated by us will reduce the amount of net proceeds available for distribution to shareholders.

Shareholders could be liable to the extent of liquidating distributions received if contingent reserves are insufficient to satisfy our liabilities.

If we fail to create an adequate contingency reserve for payment of our expenses and liabilities, or if we transfer our assets to a liquidating trust and the contingency reserve and the assets held by the liquidating trust are less than the amount ultimately found payable in respect of expenses and liabilities, each shareholder could be held liable for the payment to creditors of such shareholder's pro rata portion of the deficiency, limited, however, to the amounts previously received by the shareholder in distributions from us or the liquidating trust. Accordingly, you could be required to return some or all distributions made to you. In such an event, you could receive nothing under the plan of liquidation.

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If a court holds at any time that we have failed to make adequate provision for our expenses and liabilities or if the amount ultimately required to be paid in respect of such liabilities exceeds the amount available from the contingency reserve and the assets of the liquidating trust, our creditors could seek an injunction against the making of distributions under the plan of liquidation on the grounds that the amounts to be distributed are needed to provide for the payment of our expenses and liabilities. Any such action could delay or substantially diminish the cash distributions to be made to shareholders and/or holders of beneficial interests of the liquidating trust under the plan of liquidation.

Shareholders may not be able to recognize a loss for federal income tax purposes until they receive a final distribution from us.

As a result of our liquidation, for United States federal income tax purposes, shareholders will recognize gain or loss equal to the difference between (i) the sum of the amount of cash distributed to them and the aggregate fair market value at the time of distribution of any property distributed to them (including transfers of assets to a liquidating trust), and (ii) their tax basis in their shares of our capital stock. Any loss may generally be recognized only when the final distribution has been received from us.

In connection with the dissolution, our stock transfer books will close, after which it may not be possible for shareholders to trade in, or transfer, our stock.

In connection with the dissolution, we intend to delist our common stock from the NASDAQ Global Market, close our stock transfer books and discontinue recording transfers of our common stock at which time our common stock and stock certificates evidencing the common stock will not be assignable or transferable on our books except by will, intestate succession or operation of law.

We expect to terminate registration of our common stock under the Securities Exchange Act of 1934, as amended, which will substantially reduce publicly

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available information about our company.

Our common stock is currently registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which requires that we, and our officers and directors with respect to Section 16 of that Act, comply with certain public reporting and proxy statement requirements thereunder. Compliance with these requirements is costly and time-consuming. We anticipate that, if our shareholders approve our dissolution and plan of liquidation, in order to curtail expenses, we will, after filing a certificate of dissolution, discontinue making filings under the Exchange Act. However, we anticipate that we would continue to file with the SEC current reports on Form 8-K to disclose material events relating to our dissolution and plan of liquidation until the effectiveness of the termination of the registration of our common stock by filing a Form 15 with the Commission.

No further shareholder approval will be required.

Approval of our dissolution and plan of liquidation requires the affirmative vote of a majority of the votes cast at a meeting duly called at which a quorum is present. If our shareholders approve our dissolution and plan of liquidation, we will be authorized to cease operations, sell, license or otherwise dispose of our assets and dissolve the Company and its subsidiaries without further approval of our shareholders, unless required to do so by New Jersey law.

Our Board may abandon or delay implementation of the plan of liquidation even if approved by our shareholders.

Even if our shareholders approve our dissolution and plan of liquidation, our Board has reserved the right, in its discretion, to the extent permitted by New Jersey law, to abandon or delay implementation of the plan of liquidation, in order, for example, to permit us to pursue new business opportunities or strategic transactions.

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We may be the potential target of an acquisition.

Until we dissolve and terminate registration of our common stock under the Exchange Act, we will continue to exist as a public company. We could become an acquisition target, through a hostile tender offer or other means, as a result of our business operations, non-cash assets, cash holdings or for other reasons. If we become the target of a successful acquisition, the Board could potentially decide to either delay or, subject to applicable New Jersey law, revoke our dissolution and plan of liquidation, and our shareholders may not receive any proceeds that would have otherwise been distributed in connection with the liquidation.

Our Board members may have a potential conflict of interest in recommending approval of our dissolution and plan of liquidation.

As a result of the right to acquire shares of our common stock pursuant to stock options that may be exercised, compensation and benefits payable as a result of termination of employment or other events, an indemnification insurance policy purchased for the benefit of directors and our indemnification obligations to directors, members of our Board may be deemed to have a potential conflict of interest in recommending approval of our dissolution and the plan of liquidation.

Risks Related to Our Business

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If our shareholders do not approve our dissolution and plan of liquidation and we seek to continue to operate our business, the following risks will apply.

Our auditor's have expressed substantial doubt as to our ability to continue as a "going concern."

The auditors' report for our consolidated financial statements for the three years ended June 28, 2008 state that since we have ceased manufacturing products, purchasing materials and products and undertaking commitments for sales of our products, except for products that we have remaining in inventory, pending shareholder approval of our dissolution and plan of liquidation, there is substantial doubt about our ability to continue as a going concern. A "going-concern" opinion indicates that although there is substantial doubt, the financial statements have been prepared on a going-concern basis and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

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

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

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

Our primary source of liquidity has been provided by our short-term investments, funds provided by the collection of accounts receivable and borrowing availability under our financing facilities. Our borrowing

capacity under the import facility provided by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") was reduced during calendar year 2005 from \$24.0 million in January 2005 to \$14.0 million in September 2005. In January 2006, the HSBC financing facilities were further reduced to an aggregate of approximately \$8.2 million and we were required to provide cash deposits pledged as security in the amount of approximately \$8.2 million against the facility. During fiscal 2007, we further reduced the HSBC financing facilities by \$3.0 million to \$5.2 million and obtained \$3.0 million of alternative financing from two other Hong Kong-based financial institutions. During fiscal 2008, we eliminated one of the alternative financing facilities, leaving us with an aggregate of approximately \$6.2 million with our Hong Kong-based lenders, and established a demand financing facility with The CIT Group/Commercial Services, Inc. ("CIT") for up to \$15 million and a credit line with Citigroup Global Markets, Inc. ("Citigroup") with a current aggregate credit limit of \$10,925,000. The CIT

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financing facility is secured by a first priority lien on, among other things, our America's accounts receivable and inventory and the Citigroup financing facility is secured by a first priority lien and security interest in our remaining auction rate securities. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Liquidity and Capital Resources," for additional information on our financing facilities.

On November 3, 2008, CIT notified us that an event of default existed under the CIT financing facility as a result of our press release on October 30, 2008 that we have elected to wind down operations and liquidate assets. Currently, CIT has not exercised its rights to accelerate our obligation to repay the CIT financing facility, but has temporarily discontinued making loans under the facility until it receives additional financial information regarding our dissolution and the plan of liquidation. If CIT was to demand repayment at a time when we did not otherwise have sufficient borrowing capacity or liquid assets that would enable us to repay the CIT financing facility in full, CIT would be entitled to foreclose on our America's pledged inventory. This could result in inventory being sold at a significant discount to its carrying value and could have a material adverse effect on our liquidity and our ability to fund our operations.

Due to our recent losses, we may need to increase our reliance on financing facilities, whether through our current lenders or other financial institutions and, as a result, we may face liquidity issues due to potential funding limits and debt service requirements imposed by lenders. Additionally, we may not be able to secure such financing on reasonable terms or at all. A significant increase in our indebtedness could increase our financing costs, interfere with our ability to operate our business effectively and have a material adverse effect on our financial condition and results of operations.

Continued failure of auctions of our auction rate securities can continue to affect our liquidity.

As of June 28, 2008, the carrying value of our auction rate securities was \$18.5 million, of which \$16.8 million were classified as "Long-term investments" on our consolidated balance sheet. Our portfolio of auction rate securities are AAA rated, long-term debt obligations secured by student loans, with approximately 100% of such collateral being guaranteed by the U.S. Government under the Federal Family Education Loan Program. Liquidity for these securities has been provided by an auction process that resets the applicable interest rate at pre-determined intervals usually every 28-35 days. In the past, the auction process allowed investors to obtain immediate liquidity, if needed, by selling the securities at face value. The current disruptions in the credit markets have adversely affected the auction market for these types of securities. As previously reported during Fiscal 2008, we have recently experienced failed auctions for certain of our auction rate securities that have gone to auction resulting in our inability to sell those securities. The auction rate securities continue to pay interest at default interest rates which are generally higher than the current market rate and there has been no change in the ratings of these securities to date. However, in certain instances the interest rate for some of the Company's auction rate securities may reset to a zero percent interest rate due to a feature of the relevant formula for determining the interest rate. To date, only a small percentage of the auction rate securities have reset to a zero percent interest rate. These securities may reset to a higher interest rate in the future. In the event that a greater percentage of the Company's auction rate securities reset to a zero percent interest rate and do not

subsequently reset to a higher interest rate, it could have a material adverse

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effect on the Company's financial condition and results of operations.

Based on our expected operating cash flows and other sources of cash, cash equivalents and short-term investments, it is possible that the potential lack of liquidity in our auction rate security investments could adversely affect our liquidity and our ability to fund our operations. During Fiscal 2008, we received net proceeds of \$6.9 million from the sale of auction rate securities at 100% of par value, of which \$1.9 million was received after market uncertainties and liquidity issues arose in the market for auction rate securities. Additionally, we have experienced redemptions of approximately \$1.8 million of our auction rate securities at 100% of par value subsequent to June 28, 2008 and have consented to tender \$2.1 million in par value of our auction rate securities pursuant to an offer by the issuer to purchase such securities for approximately \$1.9 million. However, we cannot predict whether future auctions for related to auction rate securities will be successful or whether we will otherwise be able to sell such securities. We continue to seek alternative short-term financing sources for reducing our exposure to the auction rate market, but may not be able to identify any such alternative. Although we currently have sufficient working capital to finance our operations in the near term, if our working capital is insufficient in the future and we are not able to monetize some or all of our auction rate securities or other assets at that time, it could have a material adverse effect on our ability to finance our future ongoing operations or other activities.

Continued failure of auctions of our auction rate securities or the foreclosure of our pledged auction rate securities by Citigroup may impair the value of our auction rate securities.

If any of the issuers of the auction rate securities are unable to successfully close future auctions and/or their credit ratings deteriorate and if the market values of our auction rate securities decline further, we may be required to record an additional impairment charge on these investments. Additionally, if Citigroup forecloses on our pledged auction rate securities to repay the Citigroup Facility and sells such securities at a discount to their par value, we may be required to record an other-than-temporary impairment charge on these investments. If we are required to record an other-than-temporary impairment charge on these investments, it could have a material adverse effect on our financial condition and results of operations.

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

Based upon available third-party market research data, the 35mm single-use and traditional film camera markets are in permanent decline and both markets are expected to continue to decline further. See Item 1, Business, "Film Camera Market Trends," above.

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

We purchase certain components from our suppliers and outsource the manufacture of certain of our 35mm single-use and traditional film camera and other products for sale to our customers worldwide. The term "components" includes film, batteries, packaging and any other items used in the manufacture of our products by our company or outsourced manufacturers. Our manufacturing, sales and distribution operations depend on our ability to anticipate our needs for components and products and our suppliers' ability to deliver sufficient quantities of quality components and products at reasonable prices in time to meet critical manufacturing, sales and distribution schedules. Given the variety of products that we offer and might offer in the future, the dispersal of our suppliers and outsourced manufacturers across the globe, the diminishing number

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of our suppliers of certain components and the long lead times that are required to manufacture, assemble and deliver certain components and products, adverse circumstances, issues and problems could arise in planning production, procurement and managing inventory levels that could negatively impact our business and increase our financial exposure and risk. Since we have suspended purchases of materials and components pending our shareholders' vote on our dissolution and

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plan of liquidation, it is not certain whether we will be able to resume purchasing materials and components from our suppliers, or what the terms of such purchases will be, if our shareholders do not approve our dissolution and plan of liquidation and we seek to continue to operate our business. Other supplier problems that we could face include component and product shortages, excess supply and risks related to fixed-price contracts that would require us to pay more than the open market price, as more fully described below.

- o Supply shortages. We may experience a shortage of supply of, or a delay in receiving, certain components and products as a result of strong demand, capacity constraints, diminishing sources of supply or other problems experienced by suppliers. If shortages or delays occur or persist, the price of these components and products may increase, we may be exposed to quality issues or the components and products may not be available at all. We may not be able to secure enough components and/or products at reasonable prices or of acceptable quality to build, sell and distribute new products in a timely manner in the quantities or configurations needed. Accordingly, our revenue, gross profits and margins could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we may have to re-engineer and/or seek other sources for some components and products, resulting in additional costs, delays or insufficient supply of products for our customers. The number of film suppliers has diminished and we currently rely on our two major competitors in the 35mm single-use camera market to supply all of the film used in the manufacture of our single-use cameras. If either of these suppliers reduces or eliminates its supply of film to us and we are unable to secure film from alternative sources at reasonable prices or of acceptable quality, we will not be able to manufacture the quantities of 35mm single-use cameras necessary to fulfill our customer orders and our financial condition and results of operations would be materially adversely affected.

- o Oversupply. In order to secure products or components for the production of products, at times we may make advance payments to suppliers or might purchase components in advance of forecasted requirements, or we may enter into non-cancelable commitments with suppliers. If we fail to properly anticipate customer demand, an oversupply of products and/or components could result in excess or obsolete inventory. Our announcement of the recommendation of our dissolution and the adoption of a plan of liquidation by our Board will likely result in the loss of many, if not all, of our customers, including our major customers and may increase our risk of excess or obsolete inventory. This excess or obsolete inventory may result in lowering the carrying value of these components and/or products by recording an inventory charge which could adversely affect our gross profits and margins.

- o Long-term pricing commitments. As a result of binding price or purchase commitments with suppliers, we may be obligated to purchase components and/or products at prices that are higher than those available in the

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current market and be limited in our ability to respond to changing market conditions. In the event that we become committed to purchase components and/or products in advance of forecasted requirements and/or for prices in excess of the current market price, we may be at a disadvantage to competitors who have access to components and/or products at the times required and/or at lower prices. This excess in component purchases and in purchase price over current market price may result in lowering the carrying value of those components and/or products by recording an inventory charge that could adversely affect our gross profits and margins. Pending our shareholders' vote on our dissolution and plan of liquidation, we have ceased making such component purchase commitments.

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

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

The warehousing and distribution services for our (i) United States and Latin American inventory is handled from two distribution facilities operated by third-party service providers in San Pedro, California and Memphis, Tennessee; and (ii) European inventory is currently handled from a distribution facility operated by a third-party service provider in the United Kingdom. Our products are prepared for shipment and shipped to our customers by such third-party service providers from these distribution facilities. Any failure by these third-party service providers to maintain a regular flow of products from us to our customers or any significant interruption in the business of these service providers or the operation of these distribution facilities due to natural disasters, accidents, system failures, work stoppages or other causes would have a material adverse effect on our business, financial condition and results of operations. Our third-party distribution facility in the United Kingdom has proposed an increase in the costs for their services due to the decrease in volume of our business with such provider. If the cost of the services with any of our third-party distribution facilities increases, our gross profits and margins could decrease. Additionally, our announcement of the approval of our dissolution and plan of liquidation by our Board and the likely resultant loss of many, if not all, of our customers, including our major customers, may result in the loss of services provided by one or more of our third-party distribution facilities due to the decrease in volume of our business.

The camera and photographic products industry is highly competitive.

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

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We are dependent on a small number of customers.

We have a small number of customers that represent a high percentage of our revenues. Our products are sold in very competitive markets. Our competitors may adopt more aggressive policies and devote greater resources to the development, promotion and sale of their products, which could result in a loss of sales or of customers. The loss of sales or of one or more of these important customers could have a material adverse effect on our business, results of operations and financial condition. The loss of Wal-Mart or Walgreens as customers would have a material adverse effect on our financial condition and results of operations. Our announcement of the recommendation of our dissolution and the adoption of a plan of liquidation by our Board and our decision to cease manufacturing and undertaking commitments for sales of our products except for products that we have remaining in inventory pending our shareholders' vote on our dissolution and the plan of liquidation, will likely result in the loss of many, if not all, of our customers, including Wal-Mart, Walgreens and other important customers.

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

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

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operations may be materially adversely affected. One or more of our customers may withhold or delay payment of outstanding receivables after our announcement of the recommendation of our dissolution and the adoption of a plan of liquidation by our Board.

Our strategies may not succeed.

During the normal course of our business, we evaluate, develop and implement various short-term and long-term business strategies. These strategies required, and may continue to require, significant financial and human resources. If our shareholders do not approve our dissolution and plan of liquidation, we will explore the alternatives and strategies, if any, then available to our company. There can be no assurance that any such strategies, if implemented, will be successful. The failure of such strategies could have a material adverse effect on our business.

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

We may pursue strategic acquisitions that we consider reasonable in light of the revenues and the results of operations we believe we will be able to achieve from these acquisitions, once combined and integrated with us. We compete for acquisitions with other industry competitors, some of which have greater financial and other resources than us. Increased demand for acquisitions may result in fewer acquisition opportunities for us as well as higher acquisition prices. Acquisitions involve a number of potential risks, including the potential loss of customers and contracts, increased leverage and debt service requirements, combining disparate company cultures and facilities and operating in geographically diverse markets. An inability to identify and/or integrate

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future acquisitions may have a material adverse effect on our financial condition and results of operations.

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

We have previously identified material weaknesses in our internal control over financial reporting and they all were remediated as of June 30, 2007. We may, however, experience significant deficiencies and material weaknesses in our internal control over financial reporting in the future, which, if not remediated, may render us unable to detect in a timely manner misstatements that could occur in our financial statements in amounts that may be material and which may require significant financial and human resources to address and remediate. Our announcement of the recommendation of our dissolution and the adoption of a plan of liquidation by our Board may result in the loss of certain of our employees, which may impact our ability to detect in a timely manner misstatements that could occur in our financial statements in amounts that may be material.

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

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

On February 19, 2008 and October 1, 2008, we received deficiency notices from NASDAQ indicating that we did not file our Quarterly Report on Form 10-Q for the period ended December 28, 2007 and our Annual Report on Form 10-K for the period ended June 28, 2008, respectively, and, therefore, we were not in compliance with NASDAQ Marketplace Rule 4310(c)(14). The letters stated that our common stock would be subject to delisting unless we requested a hearing before a NASDAQ Listing Qualifications Panel. Since we filed our Quarterly Report on Form 10-Q for the period ended December 28, 2007 on March 31, 2008, Nasdaq notified us that at that time, we were in compliance with the listing requirements. With respect to the delay in filing our Annual Report on Form 10-K for the period ended June 28, 2008, we have requested a hearing before a NASDAQ Listing Qualifications Panel. The hearing is currently scheduled for November 20, 2008. Pending the Panel's decision, our common

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stock will remain listed. However, there can be no assurance the Panel will grant our request for continued listing.

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

If our common stock is de-listed from NASDAQ, we will face a significant reduction in the liquidity of our common stock and a material reduction in the per-share price of our common stock. In addition, any such de-listing could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the loss of confidence in our financial stability by suppliers, customers and employees. If our securities are

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de-listed from the NASDAQ Global Market, we may face a lengthy process to re-list our securities, if we are able to re-list them at all, and the liquidity that NASDAQ provides will no longer be available to investors.

We cannot give investors in our common stock any assurance that we will be able to continue to timely file our annual and quarterly reports with the SEC or maintain compliance with the \$1.00 per-share minimum price requirement for continued listing on NASDAQ or that our stock will not be de-listed by NASDAQ. If our shareholders approve our dissolution and plan of liquidation, we will request that our common stock be delisted from the NASDAQ Global Market.

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

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

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

A number of factors will affect our income tax rate in the future, and the combined effect of these factors could result in an increase in our effective income tax rate as compared to our effective income tax rate in fiscal 2008. This potential increase in future effective income tax rates would adversely affect net income in future periods. We operate in different countries that have different income tax rates. Based upon our apportionment of income, our effective income tax rate could fluctuate. Changes in income tax laws in the United States or countries where we presently have operations may further limit our ability to utilize our net operating losses. Any further limitation on our ability to utilize our net operating losses could adversely affect our financial condition and results of operations.

Our cost-reduction initiatives may not be successful.

As a result of our continued evaluation of our cost structure and our announcement of the recommendation by our Board of our dissolution and the adoption of a plan of liquidation, we reduced certain costs including, among other things, employee costs as a result of our eliminating certain employee positions and reducing the size of our operations in the Americas, Europe and Asia. The expected benefits from these initiatives are subject to many estimates and assumptions, including, but not

limited to, assumptions regarding (i) the amount and timing of cost reductions we can achieve; (ii) our ability to develop and maintain relationships with outsourced manufacturers for the design, co-development and purchase of our products; (iii) our ability to meet customer demands and fulfill customer service obligations; and (iv) the costs and timing of activities undertaken in connection with these initiatives. These estimates and assumptions are subject to significant economic, competitive and other uncertainties that are difficult to predict and beyond our control. If these assumptions are not realized, or if

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other unforeseen events occur, the initiatives may not be successful and our financial condition, results of operations and ability to compete could be adversely affected. See Note 18, Other Charges, in the Notes to Consolidated Financial Statements.

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

Our operations are substantially dependent upon our ability to manufacture and assemble our products in the PRC. Our current processing agreement with the PRC governmental entities, which allows us to operate in the PRC, expires in October 2016. As a result of our Board's recommendation of our dissolution and the adoption of a plan of liquidation, we have provided the required twelve months notice of termination of the processing agreement to the PRC governmental entities. If our shareholders do not approve our dissolution and plan of liquidation, and we cannot enter into an arrangement that will permit us to continue to operate in the PRC under similar terms and conditions, our financial condition, results of operations and ability to carry on our business could be materially adversely affected.

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

The continuing viability of our PRC agreements is critical to our business operations. We manufacture a large number of the components used in our cameras and assemble all of our own manufactured finished products at our facility in the PRC. During fiscal 2008, based upon production demand, we had approximately 1,300 to 3,300 workers at our manufacturing facility in the PRC either employed by our PRC subsidiary or provided through our agreements with various PRC government or quasi-government entities. We are responsible for their wages, food and housing and must comply with a variety of local labor and employee benefit laws covering these workers. While we believe we are in substantial compliance with applicable laws as currently enforced, these laws are subject to modification and interpretation by local governmental authorities. We cannot predict the effect of any future modifications to or strict enforcement of the existing laws. In addition, the termination or material modification of any of our agreements with the PRC governmental or quasi-government entities could have a material adverse impact on our financial condition and results of operations. Since we have ceased manufacturing our products pending our shareholders' vote on our dissolution and plan of liquidation, we have terminated the employment of many of the workers at our manufacturing facility. If our shareholders do not approve our dissolution and plan of liquidation and we seek to continue to operate our business, it is uncertain whether we will be able to rehire sufficient, qualified workers to resume our manufacturing operations and what the terms of the agreements with the PRC government or quasi-government entities will be.

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

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

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

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manufacturing, safety and environmental standards;

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

We are reliant on certain authorizations by the PRC to import materials used in the manufacture of our products into our manufacturing facility. Our current authorizations expire between January 13, 2009 and April 8, 2009 and include limitations on our ability to import certain materials into the PRC. We are uncertain whether further authorizations will be issued or what the terms of any such further authorization will be. If our shareholders do not approve our dissolution and plan of liquidation, our inability to obtain further authorizations on reasonable terms, although not expected to impact our ability to manufacture our products, may have a material adverse effect on our results of operations.

Relocation time and expenses could result in substantial losses.

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

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

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

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Third parties also may claim that we, or the customers we indemnify, are infringing upon their intellectual property rights. Even if we believe that the claims are without merit, the claims can be time-consuming and costly to defend and divert management's attention and resources away from our business. Claims of intellectual property infringement also may require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards or cease marketing of certain products subject to the claims. Even if we have an agreement with a third party to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations to us. If we cannot or do not license the infringed technology at all or on reasonable terms or substitute similar technology from another source, our operations could suffer.

Those claims for which legal proceedings have been initiated against us are discussed in Item 3, Legal Proceedings, and in Note 17, Litigation and Settlements, in the Notes to Consolidated Financial Statements. We have also received notifications from two entities, one of which was a significant

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customer, alleging that certain of our digital cameras infringe upon those entities' respective patents. We have engaged in discussions with these entities regarding resolution of the claims.

Based on our initial assessment of these two claims, infringement of one or more patents is probable if the patents are valid. Based upon the licensing discussions to date, we preliminarily estimate the potential royalties due to these two claimants for digital camera sales through June 28, 2008 to be between \$0 and approximately \$6.7 million in the aggregate. The actual royalty amounts, if any, for past and future sales are dependent upon the outcome of the negotiations. We have notified certain of our suppliers of our right to be indemnified by the suppliers in the event we are required to pay royalties or damages to either claimant. We are unable to reasonably estimate the amount of the potential loss, if any, within the range of estimates relating to these claims. Accordingly, no amounts have been accrued related to these claims as of June 28, 2008. If these or other claims are determined to be valid, our financial condition and results of operations could be materially adversely affected.

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

Our business is substantially dependent on our license from Fuji, which granted us a worldwide non-exclusive right to use certain Fuji patents and patent applications related to single-use cameras. The license extends until the later of the expiration of the last of the licensed Fuji patents or February 26, 2021. After the term of the license expires, we expect to continue to be able to manufacture and sell single-use cameras without a license. If, however, the license is terminated prior to the expiration of the patents, we may not be able to continue to manufacture and sell single-use cameras and, as a result, our financial position and results of operations could be materially adversely affected.

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

We currently market and sell our branded single-use and traditional film camera products under the Polaroid brand name pursuant to license agreements with Polaroid which expire on February 1, 2009 and January 30, 2009, respectively. We have engaged in discussions with Polaroid regarding the renewal of the

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single-use camera license agreement, but have suspended these discussions pending our shareholders' vote on our dissolution and plan of liquidation. If our shareholders do not approve our dissolution and plan of liquidation, it is uncertain whether we will be able to renew the single-use camera license agreement. If the single-use camera license agreement is terminated prior to its expiration or if we are unable to renew it upon its expiration, our sales volumes and/or prices will decrease, resulting in lower revenues, gross margins and income and our financial condition and results of operations would be materially adversely affected.

We are exposed to interest rate and exchange rate risk.

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

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

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fluctuations in the exchange rates on the currency revaluation could have a materially adverse effect on our financial position and results of operations.

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

We are dependent on a small group of key personnel.

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

International trade restrictions could adversely affect our business and growth.

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The United States, the PRC, Hong Kong, the European Union or other countries where we do business may impose trade restrictions that could adversely affect our operations. In addition, the United States is currently monitoring various PRC practices, including trade, investment and government procurement, as well as the PRC's compliance with various multilateral and bilateral agreements. We cannot predict whether the United States will take future trade actions against the PRC that may result in increased tariffs against PRC products, including products that we import into the United States.

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

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

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

Our business depends in part on our ability to successfully anticipate and effectively manage these and other risks. Additionally, we are uncertain what impact our announcement of the approval of our

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dissolution and plan of liquidation by our Board will have on these risks or what the impact of these risks might be if our shareholders do not approve our dissolution and plan of liquidation and we seek to continue to operate our business. We cannot assure you that such risks will not have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

In Hollywood, Florida, we lease approximately 20,000 square feet of office space. The lease expires on January 31, 2014. As of August 1, 2006, we sublet approximately 5,500 square feet of our office space. However, in January 2008, our subtenant filed for bankruptcy protection and, in May 2008, the bankruptcy court approved the subtenant's rejection of the sublease. In January 2008, we

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exercised our right to accelerate the termination of the lease to January 31, 2009. We have engaged in discussions with the landlord regarding a lease for a smaller portion of the office space as of February 1, 2009.

In Hong Kong, we lease approximately 6,600 square feet of office space occupying one floor under a lease expiring in November 2009 and lease a warehouse comprised of approximately 1,760 square feet under a lease expiring November 30, 2008. During fiscal year 2008, we sold our Hong Kong office space occupying one floor that was previously collateralized by a mortgage in favor of a certain financing facility. For more information on the financing facility, see Note 9, Short-Term Borrowings and Financing Facilities, in the Notes to the Consolidated Financial Statements. The land on which the office building is situated is subject to a governmental ground lease that will expire in 2047.

The leases for office space in the United Kingdom, France, Germany and Japan were terminated as of July 31, 2008, May 31, 2007, December 15, 2006 and September 29, 2006, respectively.

In the PRC, we own manufacturing facilities in the Longgang District of Shenzhen and we lease several employee dormitories and warehouse space. The size of the entire facility is approximately 600,000 square feet. Pursuant to land use agreements entered into with certain PRC governmental entities, we obtained the title and rights to use approximately eight acres of land for factory buildings, dormitories and related ancillary buildings. Under the land use agreements, we have the right to use the land through September 22, 2038. At the end of the term, a PRC governmental entity will own the facilities and we may have the right to extend the usage term of the land and improvements at then prevailing terms. We are actively marketing our PRC building and land rights for sale and have classified these assets as "Assets held for sale" in the Consolidated Financial Statements. See Note 7, Property, Plant and Equipment, Net in the Notes to the Consolidated Financial Statements.

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

We believe that our facilities will be adequate to meet our requirements at least through fiscal 2009.

Item 3. Legal Proceedings.

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

August 31, 2004, inclusive. On March 23, 2007, the court granted the plaintiff's motion for class certification and certified as plaintiffs all persons who purchased the Common Stock between August 14, 2003 and August 31, 2004, inclusive, and who were allegedly damaged thereby (the period August 14, 2003 through August 31, 2004 hereinafter referred as the "Class Period"). The allegations in the Amended Complaint were centered around claims that the Company failed to disclose, in periodic reports it filed with the SEC and in press releases it made to the public during the Class Period regarding its

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operations and financial results, (i) the full extent of the Company's excess, obsolete and otherwise impaired inventory; (ii) the departure from the Company of the aforementioned former officer defendant until several months after his departure; and (iii) that Eastman Kodak Company ("Kodak") had notified the Company that it would stop purchasing cameras from the Company under its two DMS contracts with the Company due to the Company's alleged infringement of Kodak's patents. The Amended Complaint also alleged that the Company improperly recognized revenue contrary to generally accepted accounting principles due to an alleged inability to reasonably estimate digital camera returns. The Amended Complaint claimed that such failures artificially inflated the price of the Common Stock. The Amended Complaint sought unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. On November 15, 2007, a Stipulation and Agreement of Settlement was filed with the court and on June 19, 2008, the court issued a final order approving the settlement set forth in the Stipulation and Agreement of Settlement and dismissing the case with prejudice. The Company sought coverage from its insurance carrier for this lawsuit under its directors' and officers' liability insurance policy and the insurance carrier defended the action under a reservation of rights. The settlement amount is within the policy limits and was approved and paid by the Company's insurance carrier. In a letter dated November 19, 2004, the Company was advised by the staff of the SEC that it is conducting an investigation related to the matters described above. The Company has provided the requested information to the staff of the SEC and has not received any further communication from the SEC with respect to its request since the Company last responded in May 2005.

On November 16, 2004, a shareholder derivative suit was filed against certain of the Company's current and former officers and directors, and the Company as a nominal defendant, in the United States District Court for the District of New Jersey by an individual purporting to be a holder of the Company's Common Stock. The complaint alleged that the individual defendants breached their duties of loyalty and good faith by causing the Company to misrepresent its financial results and prospects, resulting in the class action complaint described in the immediately preceding paragraph. The complaint sought unspecified damages, repayment of salaries and other remuneration from the individual defendants, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. In March 2005, the court granted a motion by the individual defendants and the Company to transfer the action to the United States District Court for the Southern District of Florida where the related class action suit was pending. In May 2005, the court consolidated this case with the related class action suit for discovery purposes only. On March 6, 2008, a Stipulation and Agreement of Settlement was filed with the court and on June 19, 2008, the court issued a final order approving the settlement set forth in the Stipulation and Agreement of Settlement and dismissing the case with prejudice. The Company sought coverage from its insurance carrier for this lawsuit under its directors' and officers' liability insurance policy and the insurance carrier defended the action under a reservation of rights. The settlement amount is within the policy limits and was approved and paid by the Company's insurance carrier.

Pursuant to the Company's Certificate of Incorporation, as amended, the personal liability of the Company's directors is limited to the fullest extent permitted under the New Jersey Business Corporation Act ("NJBCA"), and the Company is required to indemnify its officers and directors to the fullest extent permitted under the NJBCA. In accordance with the terms of the Certificate of Incorporation and the NJBCA, the Board of Directors approved the payment of expenses for each of the current and former officers and directors named as defendants (the "individual defendants") in the above described class action and derivative action litigations (collectively, the "actions") in advance of the final disposition of such actions. The individual defendants executed and delivered to the Company written undertakings to repay the Company all amounts so advanced if it was ultimately determined that the individual defendants were

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not entitled to be indemnified by the Company under the NJBCA.

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

In June 2006, St. Clair Intellectual Properties Consultants, Inc. filed a patent infringement complaint against 22 defendants, including the Company, in the United States District Court for the District of Delaware. The complaint asserted that the defendants conducted activities which infringe U.S. Patent Nos. 5,138,459, 6,094,219, 6,233,010 and 6,323,899. The complaint sought injunctive relief, unspecified damages, interest, attorneys' fees, costs of suit and unspecified other and further relief from the court. The proceedings in this action against the Company and the other defendants were stayed by the court until further order of the court. On October 16, 2008, the Court granted the plaintiff's motion to lift the stay. It is too early to assess the probability of a favorable or unfavorable outcome or the loss or range of loss, if any, and, therefore, no amounts have been accrued relating to this action. The Company is assessing potential claims of indemnification against certain of its suppliers with respect to this action.

The Company is also involved from time to time in routine legal matters incidental to its business. Based upon available information, the Company believes that the resolution of such matters will not have a material adverse effect on its financial position or results of operations. Our announcement of the recommendation by our Board of our dissolution and the adoption of a plan of liquidation and/or the implementation of such plan if it is approved by our shareholders may give rise to legal claims, which may have a material adverse effect on our financial position and results of operation.

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

None.

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PART II

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

Our common stock has been listed on the NASDAQ Stock Market LLC under the symbol "LENS" since July 12, 1988. The following table shows, for each quarter in fiscal 2008 and fiscal 2007, the high and low sales prices per share of our

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common stock as reported by the NASDAQ Global Market.

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

Quarter Ended	High	Low
-----	----	---
June 28, 2008	\$3.94	\$3.18
March 29, 2008	\$4.44	\$2.21
December 29, 2007	\$3.74	\$2.63
September 29, 2007	\$4.59	\$2.76
June 30, 2007	\$4.88	\$3.97
March 31, 2007	\$5.40	\$4.28
December 30, 2006	\$5.00	\$2.20
September 30, 2006	\$3.35	\$2.10

On November 3, 2008, the last reported sale of our common stock as reported on the NASDAQ Global Market was at \$2.00 per share. According to the records of our transfer agent, there were 828 shareholders of record of Concord's common stock at November 3, 2008. Because many of our shares of common stock are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of shareholders represented by these record holders.

In a press release dated February 12, 2008, we announced that we were delaying the filing of our Quarterly Report on Form 10-Q for the second quarter of fiscal 2008. In that press release, we explained that our Special Committee that was established to explore strategic alternatives for us was nearing the conclusion of its work and expected to make its recommendations to the Board within approximately the next sixty days. Because certain of the strategic alternatives being considered by the Special Committee could have impacted our financial statements, we explained that we were delaying the filing of our Form 10-Q for the second quarter of fiscal 2008 until the Special Committee made its recommendations to the Board and the Board determined whether or not to implement such recommendations. On February 19, 2008, we received a notice from NASDAQ indicating that our securities were subject to delisting due to our failure to file our Quarterly Report on Form 10-Q for the second quarter of fiscal 2008. On March 31, 2008, we filed our Quarterly Report on Form 10-Q for the second quarter of fiscal 2008 with the SEC and NASDAQ, thereby regaining compliance with all requirements for continued listing on the NASDAQ Global Market. On April 1, 2008, we received a notice from NASDAQ indicating that our filing delinquency resulting from our delay in filing our Quarterly Report on Form 10-Q for the second quarter

of fiscal 2008 had been cured and therefore, our securities would remain listed on the NASDAQ Global Market.

In a press release dated October 7, 2008, we announced that we received a notice from NASDAQ on October 1, 2008 indicating that our securities were subject to delisting due to our failure to file our Annual Report on Form 10-K for the fiscal year ended June 28, 2008. Upon our filing of this Annual Report on Form 10-K for the fiscal year ended June 28, 2008 with the SEC and NASDAQ, we will have regained compliance with all requirements for continued listing on the NASDAQ Global Market. We have requested a hearing before a NASDAQ Listing

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Qualifications Panel. The hearing is currently scheduled for November 20, 2008. Pending the Panel's decision, our common stock will remain listed. However, there can be no assurance that the Panel will grant our request for continued listing. If our shareholders approve our dissolution and plan of liquidation, we intend to delist our common stock from the NASDAQ Global Market, close our stock transfer books and discontinue recording transfers of our common stock.

Dividend Policy

The Company has never declared or paid any cash dividends. If our shareholders approve, and we implement, the dissolution and plan of liquidation, we expect to make liquidating distributions to our shareholders in the future. See "Item 1A. Risk Factors" above.

Stock Repurchase

We did not repurchase any of our shares during fiscal 2008.

Comparative Stock Performance

The following graph and table compare the cumulative total shareholder return in U.S. dollars on our common stock for the years ended June 30, 2003 through June 30, 2008 with The NASDAQ Stock Market LLC - U.S. Index and a seven-company peer group based on SIC Code 3861 (Photographic Equipment and Supplies) for the same periods. The graph and table assume an investment of \$100 in our common stock, in the NASDAQ Index and in the peer group on June 30, 2003 and the reinvestment of all dividends. The peer group cumulative total return is calculated on a weighted average basis. The stock performance shown is not intended to forecast, and may not be indicative of, future stock performance.

[GRAPHIC OMITTED]

	6/03 ----	6/04 ----	6/05 ----	
				(dollars)
Concord Camera Corp.	\$100	\$47.41	\$17.96	
Nasdaq Stock Market - U.S. Index	\$100	\$128.30	\$129.70	\$1
Peer Group Index	\$100	\$116.86	\$117.42	\$1

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Item 6. Selected Financial Data.

On October 29, 2008, our Board voted to adopt a plan of dissolution and liquidation subject to shareholder approval. The information presented herein does not include any adjustments necessary to reflect the possible future effects on the recoverability of the assets or settlement of liabilities that may result from adoption of the plan of dissolution and liquidation or our potential inability to complete such a plan in an orderly manner. See Note 1, Liquidation Proposal and Going Concern, in the Notes to Consolidated Financial Statements for further discussion.

(Dollars in thousands, except per share data)

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	As of and for the Fiscal Years Ended		
STATEMENTS OF OPERATIONS DATA:	June 28, 2008	June 30, 2007	July 1, 2006
Net sales	\$ 74,149	\$ 86,653	\$ 137,529
Cost of products sold	66,613	77,452	122,928
Gross profit (deficit)	7,536	9,201	14,601
Operating expenses	22,006 (a)	22,584	34,873
Operating loss	(14,470)	(13,383)	(20,272)
Interest expense	501	336	374
Other income, net	(1,566)	(1,999)	(1,142)
Loss before income taxes and extraordinary item	(13,405)	(11,720)	(19,504)
(Benefit) provision for income taxes	(798)	6	107
Loss before extraordinary item	(12,607)	(11,726)	(19,611)
Extraordinary gain	--	--	--
Net loss	\$ (12,607) =====	\$ (11,726) =====	\$ (19,611) =====
Net loss per common share:			
Basic and diluted:			
Loss before extraordinary item	\$ (2.13)	\$ (1.99) (d)	\$ (3.36) (d)
Extraordinary gain	--	--	--
Loss per common share	\$ (2.13) =====	\$ (1.99) =====	\$ (3.36) =====

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BALANCE SHEET DATA:

As of and for the
Fiscal Years Ended

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	June 28, 2008 -----	June 30, 2007 -----	July 1, 2006 -----
Working capital	\$ 16,931 =====	\$ 39,019 =====	\$ 46,843 =====
Total assets	\$ 70,602 =====	\$ 82,504 =====	\$ 104,742 =====
Total debt	\$ 17,621 =====	\$ 2,756 =====	\$ -- =====
Total stockholders' equity	\$ 33,902 =====	\$ 51,644 =====	\$ 62,967 =====

- (a) Includes \$5.9 million of asset impairment charges.
- (b) Includes \$0.7 million of variable stock-based compensation income. For further discussion, see Note 2 and Note 13, Description of Business and Summary of Significant Accounting Policies and Stock Option Plans, respectively, in the Notes to Consolidated Financial Statements.
- (c) Represents the excess of estimated fair value of net assets acquired over cost (negative goodwill) for the Jenimage acquisition.
- (d) On October 26, 2006, our Board approved, without action by the shareholders, a Certificate of Amendment to our Certificate of Incorporation to implement a one-for-five split of our common stock with an effective date of November 21, 2006. All issued shares of our common stock (including treasury shares and shares held in trust) and per-share and related stock option amounts have been retroactively adjusted for the reverse stock split in the accompanying selected financial data.

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

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

References to fiscal 2008, fiscal 2007 and fiscal 2006 in this section are to fiscal years ended June 28, 2008, June 30, 2007 and July 1, 2006, respectively.

OVERVIEW

We market and sell easy-to-use 35mm single-use and traditional film cameras. We design, develop, manufacture and assemble most of our 35mm single-use cameras and certain of our traditional film cameras at our manufacturing facilities in the Peoples Republic of China ("PRC") and outsource the manufacture of certain of our 35mm single-use and traditional film cameras. In fiscal 2006, we significantly de-emphasized the sale of digital cameras and, in fiscal 2007, we exited the digital camera market. Digital camera sales in fiscal 2007 were not material and we did not sell digital cameras in fiscal 2008. We sell our private

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label and brand-name products to our customers worldwide either directly or through third-party distributors.

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Throughout fiscal 2008, we assessed our ability to continue manufacturing, marketing and/or selling single-use cameras. We determined that it would not be advisable to continue our business as a small public company based on a number of factors, including the continuing single-use and traditional film camera market decline, both in unit volumes and selling prices, the increased cost of certain components and labor, the significant competition in this industry, the lack of market acceptance of our new non-camera products, the likelihood that we would continue to incur significant net losses for an extended period of time, and, that even if successful, the realization of significant returns on our investments in the film camera business or new products was uncertain and could take years to achieve.

Accordingly, based on the Special Committee's review of strategic alternatives and recommendation, on October 29, 2008, our Board recommended our dissolution and the adoption of a plan of liquidation. The dissolution and plan of liquidation are subject to approval by our shareholders at the Annual Meeting which is expected to be held in December 2008. Before we can hold the meeting, we must file our preliminary proxy statement with the SEC for its review. We expect to file our preliminary proxy statement concurrently with this annual report. The filing will be available for free on the SEC web site. Once the SEC review process is complete, we will mail a copy of the definitive proxy statement to our shareholders, together with instructions on voting procedures.

If our shareholders approve our dissolution and the plan of liquidation, we will file a certificate of dissolution with the Department of Treasury of the State of New Jersey. Thereafter, we will not engage in any business activities except for the purpose of preserving the value of our assets, prosecuting and defending lawsuits by or against us, winding up our business and affairs, selling and monetizing our properties and non-cash assets, including our intellectual property and other intangible assets, paying or otherwise settling our liabilities, including contingent liabilities, terminating commercial agreements and relationships and preparing to make distributions to our shareholders, in accordance with the plan of liquidation.

If our shareholders do not approve our dissolution and the plan of liquidation, our Board will explore the alternatives then available for the future of our Company. We believe the value of our business will be materially adversely impacted after the announcement of the recommendation by our Board of our dissolution and the adoption of a plan of liquidation. In particular, pending our shareholders' vote on our dissolution and plan of liquidation, we have ceased manufacturing products, purchasing materials and products and undertaking commitments for sales of our products except for products that we have remaining in inventory and, as a result, we believe that many, if not all, of our customers, including our major customers, will transition their business to our competitors. These factors raise substantial doubt about our ability to continue as a going concern. Consequently, our independent registered public accounting firm has included an explanatory paragraph in their report addressing these factors. Therefore, if our shareholders do not approve our dissolution and plan of liquidation, we will not be able to continue to operate our business as it existed prior to our Board's recommendation of our dissolution and the adoption of a plan of liquidation and may not be able to operate our business at all.

Executive Summary

Year-over-Year Results of Operations

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Our operating loss in fiscal 2008 increased \$1.1 million to \$(14.5) million as compared to an operating loss of \$(13.4) million for fiscal 2007. The increase in our year-over-year operating loss is primarily related to a decrease in gross profit and an increase in general and administrative expenses, together, partially offset by a decrease in selling expenses.

Year-over-year gross profit decreased by a net of \$1.7 million primarily due to (i) asset impairment charges of \$2.5 million related to certain long-lived assets, (ii) an increase of \$0.2 million in severance costs, (iii) a decrease of \$1.3 million related to a decrease in year-over-year sales, together, partially offset

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by (iv) a decrease of \$2.3 million related to unfavorable manufacturing material, labor, and overhead cost variances.

Year-over-year selling expenses decreased a net of \$1.8 million due to (i) lower freight and royalty costs in the amount of \$0.4 million and \$0.3 million, respectively, as a result of a decrease in year-over-year net sales, (ii) lower marketing costs in the amount of \$0.4 million, (iii) lower selling-related employee compensation costs in the amount of \$0.3 million net of severance charges resulting from the elimination of certain positions in connection with our cost reduction initiatives, and (iv) lower selling-related occupancy and other costs in the amount of \$0.4 million.

Year-over-year general and administrative ("G&A") expenses increased a net of \$1.2 million primarily due to (i) asset impairment charges of \$3.4 million related to the lowering of the carrying values related to certain long-lived and other assets, (ii) an increase in professional fees of \$1.0 million incurred in support of our cost reduction initiatives and our evaluation of strategic alternatives related to the Special Committee's activities, together, partially offset by (iii) a decrease in employee compensation costs of \$1.6 million net of severance costs resulting from the elimination of certain positions in connection with our cost reduction initiatives, (iv) a reduction in professional fees of \$0.9 million related to our internal control remediation efforts, and (v) a net reduction of certain othe