The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.

August 27, 2020

ProPhotonix Limited

(“ProPhotonix” or the “Company”)

RESULTS FOR THE YEAR ENDED DECEMBER 31, 2019 and

NOTICE OF POSTING 2019 ANNUAL REPORT

ProPhotonix Limited (London Stock Exchange - AIM: PPIX, OTC: STKR), a leading technology designer and manufacturer of LED illumination systems and laser diode modules, today announces its 2019 financial results and notice of availability on the Company’s web site.

2019 Summary Results

Revenue for 2019 was $14.98 million (2018: $16.40 million). Operating profit was $1.1 million (2018: loss $1.0 million) mainly due to a stock compensation benefit from the lack of attainment of the vesting criteria on stock options ($1.2 million) versus the expense to the Income Statement in 2018 of $1.1 million. Excluding the effect of stock compensation benefit/expense, the net loss in FY19 was $0.157 million (2018: loss $0.242 million). Cash and cash equivalents at December 31, 2019 was $1.5 million (2018: $1.9 million). Detailed financial results and notes follow.

Shareholders are advised that the Auditors Opinion, while unqualified, contains a material uncertainty as to going concern, due to the matters disclosed in note 1 to the financial statements. The details of the Auditors Opinion are contained the Annual Report and Accounts which will be available on the Company’s website.

Posting of Results

The Company will publish and post its final audited results for the year ended 31 December 2019 on or before September 30, 2020. The Annual Report and Accounts will be available on the Company’s website on or before September 3, 2020, at www.prophotonix.com.

For further information:

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Cautionary Statement

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact, including without limitation, those with respect to ProPhotonix's goals, plans and strategies set forth herein are forward-looking statements. The following important factors and uncertainties, among others, could cause actual results to differ materially from those described in these forward-looking statements: uncertainty that cash balances may not be sufficient to allow ProPhotonix to meet all of its business goals; uncertainty that ProPhotonix's new products will gain market acceptance; the risk that delays and unanticipated expenses in developing new products could delay the commercial release of those products and affect revenue estimates; the risk that one of our competitors could develop and bring to market a technology that is superior to those products that we are currently developing; and ProPhotonix's ability to capitalize on its significant research and development efforts by successfully marketing those products that the Company develops. Forward-looking statements represent management's current expectations and are inherently uncertain. All Company, brand, and product names are trademarks or registered trademarks of their respective holders. ProPhotonix undertakes no duty to update any of these forward-looking statements.

Business Activities:

ProPhotonix and its subsidiaries (ProPhotonix and Company) consists of two business units: an LED systems manufacturing business based in Ireland (Cork), and a laser modules production and laser diode distribution business located in the United Kingdom (Hatfield Broad Oak). Corporate headquarters and the North American sales activities are based in Salem, New Hampshire, USA. The fundamental strategy of the Company is growth in revenue through its existing customers, new customer activity, and new product and market expansion.

ProPhotonix Limited sells its products principally into three markets: industrial (machine vision illumination and UV curing), medical, and homeland security and defense. The Company foresees growth opportunities in all three markets it serves which are briefly described below:

Industrial (Machine Vision)
Within the industrial market, machine vision is the term used to describe computerized analysis for controlling manufacturing processes, for example automated inspection. In terms of quality and speed, lighting is often a critical component in machine vision and the Company manufactures both LED systems and lasers designed specifically for this market. Ultraviolet ("UV") curing is an emerging market for both LED and laser technology. The primary market is curing of material (inks, adhesives, coatings) but also luminescence in biomedical and fluorescing applications.

Medical
The medical and dental market requires many different LED systems and laser modules for unique processes, procedures, and applications. The Company provides a variety of products for medical and dental applications to current customers including, a world leader in stationary imaging equipment, and a portable x-ray equipment and dental imaging manufacturer. The Company views the medical field a strategic market since it offers significant long-term revenue growth opportunities.

Homeland Security & Defence

LED systems, laser modules and laser diodes are used in a wide variety of applications in the security and defence fields. The Company currently supplies defence sighting manufacturers in the US and Europe, as well as leading manufacturers of Auto Number Plate Recognition systems. This market offers significant growth opportunities for ProPhotonix over the next several years and the Company is currently marketing its laser and LED capabilities to additional security and Optical Character Recognition systems companies in this market space.

Chief Executive Officer and Non-Executive Chairman Statement:

Though challenging, 2019 ended the year very strong in the second half. The year represents the tale of two halves. Revenue in the second half increased 8.9% over the first half with bookings increasing 30% over the same period. Cost reductions initiated in the first half carried through the second half contributing to the overall improved profit for 2019. The commitment to investments continues with the award of two patents in early 2020 and we intend to continue making such applications in the future where and when appropriate. During the year, ProPhotonix was awarded a European Union Horizon 2020 Innovation grant to develop innovative reactor solutions for disinfection of water. The expected benefit to the Company from the project is the further development of deep UV (UVC) capability and knowledge for development of future products. We continue to make the necessary investments to achieve our business objectives.

Financial Summary:

As compared to 2018, sales decreased 9% to $14.9 million from a variety of shifts in business specific to each customer. Many of our top accounts reflect increases but offset by decreases, a net decrease. No single factor or loss of account is attributed to the net decline in revenue. Gross profit decreased due to the lower sales volume; and in 2018 the Company reports an operating profit of $1.1 million compared to an operating loss of $1.0 million in 2018. Operating losses, excluding the benefit/expense of stock option compensation in each respective year, were $114,000 for 2019 and $106,000 for 2018.

The balance sheet remains strong with cash at year-end of $1.5 million (2018: $1.9 million) and a current ratio of 1.7 (2018: 1.7).

Strategy:

The first part of our strategy relates to our existing customers and relationships. We consider these relationships vitally important and continue to work with customers to provide solutions to achieve their continued market success. Their success fuels our success and provides us the opportunity to develop new products and market solutions for other customers and applications. The second part of the Company’s strategy remains established in its OEM heritage as well as the development of products directed at specific markets. ProPhotonix has made and will continue to make investments in commercially attractive OEM opportunities and product development including UV, multi-wavelength devices and laser technology advances, in the fulfilment of our strategies. We continue to concentrate our engineering capacity in defined projects and areas that we believe are poised for fast market expansion.

In conclusion, we thank you; co-workers, customers, suppliers, service providers and investors for your continued support.

Respectfully submitted,

Tim Losik	Ray Oglethorpe
President and Chief Executive Officer	Non-Executive Chairman

CONSOLIDATED FINANCIAL STATEMENTS

PROPHOTONIX LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

December 31	**2019**	**2018**
Assets		
Current assets:		
Cash and cash equivalents	$ 1,477	$ 1,939
Accounts receivable, less allowances of $10 in 2019 and $49 in 2018 (Note 2)	2,801	2,872
Inventories, less allowances of $782 in 2019 and $615 in 2018 (Note 4)	2,584	2,399
Prepaid expenses and other current assets	678	289
Total current assets	7,540	7,499
Net property, plant and equipment (Note 5)	573	646
Operating lease right-of-use asset	312	—
Deferred tax assets (Note 9)	—	454
Goodwill (Note 6)	397	405
Intangible assets, net (Note 7)	377	295
Other long-term assets	166	128
Total assets	**$ 9,365**	**$ 9,427**
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility (Note 8)	$ 912	$ 1,075
Current portion of long-term debt (Note 8)	220	188
Accounts payable	1,941	1,791
Accrued payroll, benefits and incentive compensation	283	399
Deferred revenue (Note 16)	553	498
Accrued warranty expenses (Note 2)	164	170
Operating lease liabilities, current	119	—
Other accrued expenses	276	291
Current portion of finance lease obligations	58	63
Total current liabilities	4,526	4,475
Deferred revenue, noncurrent	227	—
Operating lease liabilities, noncurrent	193	—
Long term debt obligations, net of current portion (Note 8)	387	581
Long term finance lease obligations, net of current portion	40	94
Total liabilities	**5,373**	**5,150**
Stockholders' Equity:		
Common stock, par value $0.001; shares authorized 250,000,000 at December 31, 2019 and at December 31, 2019; 93,150,402 shares issued and outstanding at December 31, 2019 and 93,000,402 shares issued and outstanding at December 31, 2018	93	93
Additional paid-in capital	112,838	114,067
Deferred compensation	(2)	(19)
Accumulated deficit	(109,750)	(110,746)
Accumulated other comprehensive income	813	882
Total stockholders' equity	**3,992**	**4,277**
Total liabilities and stockholders' equity	**$ 9,365**	**$ 9,427**

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands except share and per share data)

	Years Ended December 31	
	2019	**2018**
Revenue	$ 14,976	$ 16,401
Cost of Revenue	(8,969)	(10,057)
Gross Profit	6,007	6,344
Research & Development Expenses	(1,226)	(1,011)
Selling, General & Administrative Expenses	(3,686)	(6,327)
Operating Income (Loss)	1,095	(994)
Other Income, net	53	20
Foreign Currency Exchange Gains (Losses)	25	(232)
Warrant & Debt Acquisition Expense	(14)	(11)
Interest Expense	(106)	(91)
Income (Loss) Before Taxes	1,053	(1,308)
Income Tax Expense	(57)	-
Net Income (Loss)	$ 996	$ (1,308)
Other Comprehensive Income:		
Foreign currency translation	(69)	(132)
Total Comprehensive Income (Loss)	$ 927	$ (1,440)
Net Income (Loss) Per Share: Basic and diluted:		
Basic net income (loss) per share	$0.011	$(0.014)
Diluted net income (loss) per share	$0.011	$(0.014)
Shares used in per share calculations - Basic	93,150,402	92,782,902
Shares used in per share calculations - Diluted	93,150,402	92,782,902

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock						
	Shares	Par $0.001	Paid in Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance December 31, 2017	**92,565**	**$93**	**$112,987**	**($18)**	**($109,438)**	**$1,014**	**$4,638**
Net loss	-	-	-	-	(1,308)	-	(1,308)
Translation adjustment	-	-	-	-	-	(132)	(132)
Exercise of options	135	-	4	-	-	-	4
Deferred compensation	300	-	49	(49)	-	-	-
Share based compensation	-	-	1,027	48	-	-	1,075
Balance December 31, 2018	**93,000**	**93**	**114,067**	**(19)**	**(110,746)**	**882**	**4,277**
Net income	-	-	-	-	996	-	996
Translation adjustment	-	-	-	-	-	(69)	(69)
Deferred compensation	150	-	(17)	17	-	-	-
Share based compensation	-	-	(1,212)	-	-	-	(1,212)
Balance December 31, 2019	93,150	**$93**	**$112,838**	**($2)**	**($109,750)**	**$813**	**$3,992**

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years Ended December 31	**2019**	**2018**
Cash flows from operating activities		
Net income (loss)	**$ 996**	**$ (1,308)**
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation (income) / expense	(1,229)	1,075
Depreciation	189	169
Foreign exchange loss	214	77
Amortization of debt discount and financing costs	7	10
Allowance for inventories	180	5
Allowance for bad debt	9	37
Other changes in assets and liabilities:		
Accounts receivable	(23)	68
Inventories	(471)	(235)
Prepaid expenses and other current assets	(447)	(62)
Intangible assets, net	(82)	(229)
Deferred tax asset	454	-
Accounts payable	211	233
Accrued expenses	237	(389)
Other assets and liabilities	(42)	46
Net cash provided by (used in) operating activities	**203**	**(503)**
Investing		
Purchase of property, plant and equipment	(175)	(200)
Net cash used in investing activities	**(175)**	**(200)**
Financing		
Proceeds from exercise of options and warrants	-	4
Net proceeds from issuance of debt	-	875
Borrowings of revolving credit facilities, net	(163)	(151)
Payments for finance leases	(56)	(138)
Principal repayment of long-term debt	(93)	(88)
Net cash (used in) provided by financing activities	**(312)**	**502**
Effect of exchange rate on cash	(178)	(10)
Net change in cash and equivalents	(462)	(211)
Cash and equivalents at beginning of period	1,939	2,150
Cash and equivalents at end of period	**$ 1,477**	**$ 1,939**
Supplemental cash flow information:		
Cash paid for interest	**$ 106**	**$ 91**

See the notes to consolidated financial statements.

(1) ORGANIZATION AND BASIS OF PRESENTATION

ProPhotonix Limited (Parent Company) and its subsidiaries (referenced in this document collectively as "ProPhotonix", "we", or the "Company") operates in two segments: as an independent designer and manufacturer of LED systems through ProPhotonix (IRL) Limited; and as a manufacturer of laser modules and a distributor of laser diodes through ProPhotonix Limited, a U.K. subsidiary. The operating units are ProPhotonix (IRL) Limited based in Cork, Ireland, ProPhotonix Limited, a U.K. subsidiary based near Stansted, United Kingdom and ProPhotonix Limited, based in Salem, New Hampshire, U.S.A. The Company's products serve a wide range of applications and industries including machine vision and industrial inspection, biomedical, defense and security, and other commercial applications.

ProPhotonix Limited was incorporated on March 27, 1951 in the Commonwealth of Massachusetts and is currently incorporated in the state of Delaware. The Company's common stock, $.001 par value per share (the "Common Stock"), now trades on the OTC Market in the U.S. under the trading symbol "STKR" and is also traded on the London Stock Exchange, plc (AIM listing), under the trading symbol "PPIX".

The accompanying consolidated financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons. As shown in the consolidated financial statements, during the years ended December 31, 2019 and 2018, the Group recorded net income of $1.0 million in 2019 and a net loss of ($1.3 million) in 2018. Operating losses, excluding the benefit/expense of stock option compensation in each respective year, were $114,000 for 2019 and $106,000 for 2018. Net cash provided by and used in operating activities for the same time periods were $0.2 million and ($0.5 million), respectively.

In assessing the going concern position of the Group, the directors have prepared a cash flow forecast which covers a period of 12 months from the date of approval of these financial statements. These forecasts take into consideration the anticipated impact of COVID-19 on the cash flow and liquidity of the Group, over the next 12 months. The current economic conditions resulting from the COVID-19 pandemic have had an impact on the Group's activities from March 2020 onwards. The Group is subject to financial covenants in relation to its loan facilities, being the historic annual debt service cover ratio should not be less than 1.30:1. The covenants are tested annually for the 12 months financial statements. The Group complied with its covenant in 2019 and for the first two quarters of 2020. At December 31, 2019 the Group cash position was $1,477,000 and the loan outstanding at this date was $607,000 out of a total original balance of $865,000. At July 31, 2020 the Group cash position was $2,071,000 and the loan outstanding was $550,000.

This base case scenario includes the benefits of actions already taken by management to mitigate the trading downsides brought by COVID-19, including cost reduction exercises, property rent deferrals, loan repayment deferrals and participating in the government's job retention scheme and taking advantage of other government support measures. The base case scenario forecasts a positive cash position throughout the forecast period with no covenant breaches. Notwithstanding this however, there remains a risk that there is a continued down-turn in the economy as a result of COVID-19 and there are uncertainties associated with future potential lockdowns and/or a second wave of infection. In certain severe but plausible downside scenarios such as further revenue reductions above those included in the base case, decrease in gross margins and increase in debtor days, there is risk that the Group will breach its loan covenant and therefore there becomes uncertainty in relation to the future funding of the Group.

(1) ORGANIZATION AND BASIS OF PRESENTATION (cont.)

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern and, therefore, to continue realizing its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and reflect the application of the Company's most significant accounting policies as described in this note and elsewhere in the accompanying consolidated financial statements and notes. In preparing these consolidated financial statements, management has made judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis for items such as revenue recognition where long term contracts are entered into, recognition of deferred tax assets, inventory allowances, warranty provisions and accruals. Revisions to estimates are recognized prospectively.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, ProPhotonix (IRL) Limited, StockerYale (UK) Ltd., which owns 100% of ProPhotonix Limited, a U.K. subsidiary, and ProPhotonix Holdings, Inc., which holds all of the outstanding shares of StockerYale Canada. All intercompany balances and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade receivables are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company reviews the financial condition of new customers prior to granting credit. After completing the credit review, the Company establishes a credit line for each customer. Periodically, the Company reviews the credit line for major customers and adjusts the credit limit based upon an updated financial condition of the customer, historical sales and payment information and expected future sales. The Company has a large number of customers; therefore, material credit risk is limited.

The Company periodically reviews the collectability of its accounts receivable. Allowance for doubtful accounts are established for accounts that are potentially uncollectible. The Company also has accounts receivables insurance at ProPhotonix Limited, a U.K. subsidiary, which also covers most of the larger customers at the ProPhotonix (IRL) Limited subsidiary, and allows the Company to submit a claim on overdue accounts receivables in excess of 60 days past invoice due date. The Company has not made any claims in either 2019 or 2018. Determining adequate allowances for accounts receivable requires management's judgment in combination with Company policies and procedures. Management's assessment includes customer payment trends, as well as discussions with customers over past due amounts. Conditions impacting the collectability of the Company's receivables could change causing actual write-offs to be materially different than the reserved balances.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Changes in the allowance for doubtful accounts were as follows:

Years Ended December 31	2019	2018
	In thousands	
Balance at beginning of period	$ 49	$ 14
Benefits from or charges to costs and expenses	(38)	37
Account write-offs and other deductions	(1)	(2)
Balance at end of period	$ 10	$ 49

INVENTORY

The Company values inventories at the lower of cost or net realizable value using the first in, first-out ("FIFO") method. The Company periodically reviews the quantities of inventory on hand and compares these amounts to the expected usage for each particular product or product line. The Company records as a charge to cost of sales any amounts required to reduce the carrying value amount of the inventory to net realizable value. Actual results could be different from management's estimates and assumptions.

CAPITALIZATION OF SOFTWARE DEVELOPMENT FOR SALE

The Company's capitalizes software development for sale in accordance with ASC 350-40. All costs associated with establishing technical feasibility are expensed. Once technical feasibility has been established, the costs of coding the software are capitalized and amortized over the expected life of the product. Once the product is release to production, all future software de-bug costs are expensed in the period.

INTANGIBLE ASSETS

The Company's intangible assets consist of capitalized software development costs and goodwill. Capitalized software development costs are being amortized over their useful lives and are assessed for impairment when triggering events occur. Goodwill is tested for impairment on an annual basis, and between annual tests when indicators of impairment are present and written down when and if impaired. The Company has elected the end of the fourth quarter to complete its annual goodwill impairment test.

LONG-LIVED ASSETS

The Company reviews the recoverability of its long-lived assets including property, plant and equipment and amortizing intangible assets when events or changes in circumstances occur that indicate that the carrying value of the assets may not be recoverable. This review is based on the Company's ability to recover the carrying value of the assets from expected undiscounted future cash flows. If impairment is indicated, the Company measures the loss based on the difference between the carrying value and fair value of the asset using various valuation techniques including discounted cash flows. If the asset is determined not to be recoverable, the amount of the loss will be recorded in the consolidated statements of operations. It is possible that future events or circumstances could cause these estimates to change.

INCOME (LOSS) PER SHARE

The Company calculates basic and diluted net income (loss) per common share by dividing the net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding.

As of December 31, 2019, 17,350,044 shares underlying options could potentially have been included in the calculation of diluted shares. However, the exercise price for all of the underlying options and warrants exceeded the market price or were unvested, thus none of those shares were included in the calculation of earnings per share.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

As of December 31, 2018, 30,064,867 shares underlying options and 500,000 shares underlying warrants could potentially have been included in the calculation of diluted shares. However, as the exercise price at December 31, 2019 was $0.06 per share, only 8,105,000 exercisable options were included in the calculation of earnings per share. All other options and warrants exercise price exceeded the market price or were unvested.

REVENUE RECOGNITION

The Company only has revenue from customers. The Company recognizes revenue when it satisfies performance obligations under the terms of its contracts, and control of its products is transferred to its customers in an amount that reflects the consideration the Company expects to receive from its customers in exchange for those products. This process involves identifying the customer contract, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. A performance obligation is considered distinct from other obligations in a contract when it (a) provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and (b) is separately identified in the contract. The Company considers a performance obligation satisfied once it has transferred control of a good or product to a customer, meaning the customer has the ability to use and obtain the benefit of the product.

WARRANTY

The Company provides standard warranties for most products for periods up to one year. The warranty is limited to the cost of the product and the Company will repair or replace the product as required. The Company monitors the actual warranty repair costs and trends in relation to the reserve as a percent of sales. The Company adjusts annually the warranty provision based on actual experience and for any particular known instances.

Warranty Reserves:

	Years Ended December 31,	
	2019	**2018**
	In thousands	
Balance at beginning of period	$ 170	$ 184
Charges to costs and expenses	(3)	9
Account write-offs and other deductions	(3)	(23)
Balance at end of period	$ 164	$ 170

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. The Company provides for depreciation on a straight-line basis over the assets estimated useful lives. Plant and equipment held under finance leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Finance leases are initially stated at the present value of minimum lease payments. The following table summarizes the estimated useful lives by asset classification:

Asset Classification	Estimated Useful Life
Building and building improvements	Term of the lease or 10-40 years
Computer equipment	3 to 5 years
Machinery and equipment	5 to 10 years
Furniture and fixtures	3 to 10 years

Maintenance and repairs are expensed as incurred.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ADVERTISING EXPENSE

The Company expenses advertising costs as incurred. Advertising expenses for the years ended 2019 and 2018 were $12,000 and $75,000, respectively.

INCOME TAXES

The Company accounts for income taxes under the asset and liability method. Under this method the Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. With respect to any uncertain tax positions, the Company records interest and penalties, if any, as a component of income tax expense. The Company did not have any interest and penalties related to uncertain tax positions during the years ended December 31, 2019 or 2018.

STOCK-BASED COMPENSATION

The Company has stock-based compensation plans for its employees, officers, and directors. The plans permit the grant of a variety of awards with various terms and prices as determined by the Remuneration Committee of the Company's Board of Directors. Generally, the grants vest over terms of one to four years and are priced at fair market value, or in certain circumstances 110% of the fair market value, of the Common Stock on the date of the grant. The options are generally exercisable after the period or periods specified in the option agreement, but no option may be exercised after 10 years from the date of grant.

Additionally, in the case of incentive stock options, the exercise price may not be less than 100% of the fair market value of the Company's Common Stock on the date of grant, except in the case of a grant to an employee who owns or controls more than 10% of the combined voting power of all classes of the Company's stock or the stock of any parent or subsidiary. In that case, the exercise price shall not be less than 110% of the fair market value on the date of grant. In the case of non-qualified stock options, the exercise price shall not be less than 85% of the fair market value of the Company's Common Stock on the date of grant, except in the case of a grant to an independent director; in which case the exercise price shall be equal to fair market value determined by reference to market quotations on the date of grant.

During 2019 the Company reversed $1.2 million of stock compensation expense to selling, general and administrative expense related to the expiration of performance based stock options that were cancelled due to non-achievement of the performance criteria. During 2018 the Company recognized an expense of $1.1 million of stock-based compensation related to the options and fully vested shares issued to the directors and employees as compensation (See Note 11), all of which were charged to selling, general and administrative expense.

Stock Option Awards—The fair value of each option grant is estimated using the Black-Scholes option pricing model. The fair value is then expensed ratably over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on the historical volatility of the Company's stock at the time of the award. The average expected option term is based on historical trends. The risk-free interest rate is based on U.S. Treasury zero-coupon issues assumed at the date of grant and generally no dividends are assumed in the calculation. The compensation expense recognized for all equity-based awards is net of estimated forfeitures. Forfeitures are estimated based on the historical trends.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

TRANSLATION OF FOREIGN CURRENCIES

The Company's operating results are affected by fluctuations in the value of the U.S. dollar as compared to currencies in foreign countries, as a result of our transactions in these foreign markets. For foreign subsidiaries, whose functional currency is not the U.S. dollar, assets and liabilities are translated using the foreign exchange rates prevailing at the balance sheet date, and income and expense accounts using average exchange rates for the period. Cumulative transaction gains or losses from the translation into the Company's reporting currency are included as a separate component of stockholders' equity (accumulated deficit) (accumulated other comprehensive income) in the accompanying consolidated balance sheets.

Management determined the functional currency of ProPhotonix Limited, a U.K. subsidiary, and ProPhotonix (IRL) Limited is the euro, while the functional currency of ProPhotonix Limited U.S.A. is the U.S. dollar.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist mainly of cash and cash equivalents, accounts receivable, revolving credit facility, accounts payable and long-term debt. The estimated fair value of these financial instruments, with the exception of fixed rate long-term debt, approximates their carrying value due to the short-term maturity of certain instruments and the variable interest rates associated with certain instruments, which have the effect of re-pricing such instruments regularly.

At December 31, 2019, the Company estimated the fair value of long term fixed rate debt to be $0.9 million compared to its carrying value of $0.7 million (2018: fair value of $1.3 million compared to its carrying value of $1.0 million).

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The risk is limited due to the relatively large number of customers composing the Company's customer base and their dispersion across many industries and geographic areas within the United States, Canada, United Kingdom, Europe and Asia. The Company performs ongoing credit evaluations of existing customers' financial condition. The Company believes that its concentrated credit risk is limited to only a small number of customers. The Company had one customer accounting for 10% or more of consolidated revenues in 2019 and one customer accounting for 10% or more of consolidated revenues in 2018. The Company had two customers that accounted for 10% or more of the outstanding accounts receivable balance at December 31, 2019 and no such customers at December 31, 2018. The Company maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed insured limits. At December 31, 2019 and 2018, the amount in excess of governmental insurance protection was $1.0 million and $1.7 million, respectively. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

USE OF ESTIMATES

In preparing these consolidated financial statements in accordance with generally accepted accounting policies, management has made judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognized prospectively.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard supersedes the present U.S. GAAP standard on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease obligations. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual reporting periods. Early adoption is permitted and in the original guidance the modified retrospective application was required, however, in July 2018 the FASB issued ASU 2018-11 which permits entities with another transition method in which the effective date would be the date of initial application of transition. Under this optional transition method, the Company would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted ASU 2016-02 as of January 1, 2019 using the modified retrospective approach and the optional transition method. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward historical lease classifications.

Adoption of the new standard resulted in the recording of operating lease right-of-use assets and operating lease liabilities on its consolidated balance sheets but did not have an impact on the Company's beginning retained earnings, consolidated statement of operations or statement of cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases associated with two leases for office space as described in Footnote 14, “Leases, commitments and contingencies”. The Company also reclassified amounts that were recorded as “Current portion of capital lease obligations” and “Long term capital lease obligations, net of current portion” as of December 31, 2018 to “Current portion of finance lease obligations” and “Long-term finance lease obligations, net of current portion,” respectively, on January 1, 2019. As of January 1, 2019, total right-of-use assets related to the Company’s operating leases was $0.4 million and current and non-current operating lease liabilities were $0.1 million and $0.3 million, respectively. As of December 31, 2019, total right-of-use assets related to the Company’s operating leases was $0.3 million and current and non-current operating lease liabilities were $0.1 million and $0.2 million, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The guidance changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the impact that this guidance will have on its trade receivables and financial arrangements when adopted.

Goodwill Impairment. In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) (“ASU 2017-04”) related to measurements of goodwill. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of today’s goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying value over its fair value (i.e. measure the charge based on today’s Step 1). The standard has tiered effective dates, starting in 2020 for calendar-year public business entities that meet the definition of an SEC filer. Early adoption is permitted for annual and interim goodwill impairment testing after January 1, 2017. The Company does not believe there will be any impact from the new standard on its consolidated financial statements.

(3) RECENT ACCOUNTING PRONOUNCEMENTS (cont.)

Fair Value of Financial Instruments. In August 2018, the FASB issued ASU 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which aims to improve the effectiveness of fair value measurement disclosures. The amendments in this ASU modify the disclosure requirements on fair value measurements based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. This ASU becomes effective for the Company in the year ending December 31, 2020 and early adoption is permitted. The Company has not yet adopted this ASU and is currently assessing the impact that this ASU will have on its consolidated financial statements.

(4) INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value when applicable and include materials, labor and overhead. Inventories are as follows:

Years Ended December 31	**2019**	**2018**
	In thousands	
Finished goods	$ 722	$ 602
Work in-process	456	339
Raw materials	2,188	2,073
Gross inventories	$ 3,366	$ 3,014
Inventory reserves	(782)	(615)
Net inventories	$ 2,584	$ 2,399

Management performs quarterly reviews of inventory and either reserves or disposes of items not required by their manufacturing plan, as well as reduces the carrying cost of inventory to the lower of cost or net realizable value.

(5) PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment were as follows:

Years Ended December 31	**2019**	**2018**
	In thousands	
Buildings and building improvements	$ 249	$ 284
Computer equipment	477	464
Machinery and equipment	2,257	2,220
Furniture and fixtures	488	488
Property, plant and equipment	$ 3,471	$ 3,456
Less accumulated depreciation	(2,898)	(2,810)
Net property, plant and equipment	$ 573	$ 646

Depreciation expense from operations was $0.2 million for each of the years ended December 31, 2019 and 2018.

(6) GOODWILL

The Company uses a three-step approach to a goodwill impairment test. First, ASU 2011-08 allows entities the option to first use an assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If a conclusion is reached that reporting unit fair value is not more likely than not below carrying value, no further impairment testing is necessary. If further testing is necessary, the second step is to estimate the fair value of its reporting units by using forecasts of discounted cash flows and compare that value to the carrying value which requires that certain assumptions and estimates be made regarding industry economic factors and future profitability of reporting units to assess the need for an impairment charge. The methodology the Company uses to allocate certain corporate expenses is based on each unit's use of services and/or direct benefit to its employees. While the Company believes it has made reasonable estimates and assumptions to calculate the fair value of the reporting units and implied fair value of goodwill, the impairment analysis is highly sensitive to actual versus forecast results. Finally, if the estimated value is less than the carrying value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill.

In connection with the annual impairment test of goodwill, performed at the end of the fourth quarter 2019, and at the end of the fourth quarter 2018, the Company concluded that no impairment existed. The conclusion resulted from a combination of the projected discounted cash flows under normal forecasted cash flow projections, as well as from discounted cash flows with a sensitivity analysis showing no growth in revenues.

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
	In thousands	
Beginning of the year	$ 405	$ 424
Effect of exchange rate	(8)	(19)
End of year	$ 397	$ 405

The Company operates in two reporting units: LED's (light emitting diode systems) and Laser & Diodes. Goodwill as of December 31, 2019 and 2018 relates to the LED reporting unit.

(7) INTANGIBLE ASSETS

Intangible assets consists of capitalized software development costs. The Company capitalizes these costs in accordance with FRS 102; all costs associated with establishing technical feasibility are expensed. Once technical feasibility has been established, the costs of coding the software are capitalized and amortized over the expected life of the product. Once the product is released to production, all future software de-bug costs are expensed in the period incurred. There are no intangible assets with indefinite lives. Intangible assets and their respective useful lives are as follows:

	Useful Life
Capitalized software development costs	5 Years

(7) INTANGIBLE ASSETS (cont.)

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of December 31, 2019 and 2018. The gross carrying values and the accumulated amortization values are impacted by the foreign currency translation adjustment.

Years ended December 31:	2019	2018
	In thousands	
Gross carrying amount of capitalized software development costs	439	314
Accumulated amortization	(62)	(19)
Net balance	$ 377	$ 295

(8) DEBT

Years Ended December 31:		2019(1)	2018(1)
		In thousands	
Senior Fixed Rate Secured Term Note to SQN ("SQN Note"), maturing on June 13, 2022 with an interest rate of 10%, at December 31, 2019.	Total debt less unamortized debt issuance costs	$607	$769
Borrowings under Revolving Credit facility with Barclays Bank Sales Financing with an interest rate of 2.0% above Barclay's base rate at December 31, 2019 and at December 31, 2018 (2.25% as of December 31, 2019 and at December 31, 2018).	Principal Amount	$912	$1,075
Total All Debt		$1,519	$1,844
	Less: Revolving Credit Facility	$(912)	$(1,075)
	Less: current portion of long term debt	$(220)	$(188)
	Long-term debt less unamortized discount and debt issuance costs	$387	$581

(1) As of both December 31, 2019 and 2018, the Company had $0.2 million available under the various borrowing facilities.

The Company made $0.1 in interest payments during 2019 and is expected to make $0.1 million in interest payments during the year ended December 31, 2020. Scheduled future maturities of debt, excluding interest payments, for the next five years are as follows:

Due by period	2020	2021	2022	2023	2024+	Total
			In thousands			
Debt obligations	$912	$ -	$ 607	$ -	$ -	$ 1,519

(8) DEBT (cont.)

BORROWING AGREEMENTS

Term Notes:

ProPhotonix (IRL) Limited Senior Fixed Rate Term Note

On June 14, 2018, ProPhotonix (IRL) Limited was issued a four-year 10% Senior Fixed Rate Term Note (“SQN Note”), from SQN Secured Income Fund PLC (“SQN”) in the original principal amount of £0.7 million ($0.9 million at June 14, 2018) secured by certain assets of ProPhotonix (IRL) Limited.

At December 31, 2018, the company breached a calculated debt covenant ratio. Subsequent to year end the company has obtained a waiver from SQN stating the debt will not be called, accordingly no portion of long term debt obligations was reclassified to current portion of long term debt.

Barclays Bank, PLC:

On February 6, 2008, ProPhotonix Limited, a U.K. subsidiary, entered into a Confidential Invoice Discounting Agreement, as amended at various times, with Barclays Bank Sales Financing (“Barclays”). Under the Discounting Agreement, a three-year revolving line of credit was established. The facility requires the maintenance of certain financial covenants including a minimum tangible net worth.

The most recent amendment of February 10, 2016, included (i) increased the line from £1.4 million to £1.5 million; (ii) reduced service charges and the discount rate from 2.50% plus Barclays base rate to 2.00% plus Barclays base rate (iii) increased the early payment ceiling from 80% to 85% and extended the minimum period of this amendment to 12 months through February 10, 2017 with a rolling evergreen provision which has been extended through April 22, 2020.

The amount outstanding under the facility was $0.9 million as of December 31, 2019 and $1.1 million as of December 31, 2018 reported as a short-term debt under revolving credit facility. As of both December 31, 2019 and 2018, the Company had $0.2 million available under this facility. The Company did not renew the facility with Barclays which expired on April 22, 2020, fully repaying the balance.

(9) TAXES

The Company is required to determine whether its tax positions are “more-likely-than-not” to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. Tax positions not deemed to meet a “more-likely-than-not” threshold would be recorded as a tax expense in the current year. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2019. The Company had deferred tax assets, before considering the full valuation allowance, totaling $14.4 million and $14.9 million as of December 31, 2019 and 2018, respectively.

Realization of the deferred tax assets is dependent upon the Company’s ability to generate sufficient future taxable income and, if necessary, execution of tax planning strategies.

Based on the size of the Company’s historical operating losses, there is doubt as to when, if ever, any of the deferred tax assets related to its operations will be realized. As a result, management has provided a valuation allowance for the net deferred tax assets. In the event management determines that sufficient future taxable income may be generated in subsequent periods and the previously recorded valuation allowance is no longer needed, the Company will decrease the valuation allowance by providing an income tax benefit in the period that such a determination is made. As it relates to a deferred tax impact relative to stock compensation, the Company believes the deferred tax asset being disclosed in the footnote table below reflects the book compensation previously recognized and adjusted for reversals of compensation expense for grants outstanding as of the end of the year (fully or partially vested) times the appropriate tax rate. In 2018, the Company concluded that its Ireland entity should recognize a deferred tax asset of $0.5 million based on forward looking forecast operating profits in relation to its loss carryforwards. Because of its historical operating losses, the Company has not been subject to income taxes since 1996.

(9) TAXES (cont.)

The Company is subject to taxation in the U.S., Canada, the United Kingdom, Ireland and various states and local jurisdictions. As a result of the Company's tax loss position, the tax years 2001 through 2019 remain open to examination by the federal and most state tax authorities in the U.S. In addition, the tax years 2012 through 2019 are open to examination in foreign jurisdictions.

For the years ended December 31, 2019 and 2018, income (loss) from continuing operations before taxes consists of the following:

	2019	2018
	In thousands	
Years Ended December 31,		
U.S. operations	$ 1,405	$ 439
Foreign operations	(352)	(1,747)
Net income (loss) before provision for income taxes	$ 1,053	$ (1,308)

Income tax expense attributable to income from continuing operations was $57,000 and $0 for the years ended December 31, 2019 and 2018, respectively, and differed from the amounts computed by applying the statutory income tax rate of 21%, to pretax income from continuing operations as a result of the following:

	2019	2018
	In thousands	
Years Ended December 31,		
Computed "expected" tax expense (benefit)	$ 222	$ (275)
Increase (reduction) in income taxes resulting from:		
Change in valuation allowance	(345)	208
Foreign tax rate differential	33	58
Non-deductible items	33	9
Income tax expense	$ (57)	$ -

The significant items comprising the deferred tax asset and liability at December 31, 2019 and 2018 are as follows:

Years Ended December 31:

	2019	2018
	In thousands	
Domestic net operating loss carry forwards	$ 12,649	$ 12,543
Foreign net operating loss carry forwards	1,194	1,197
R&D tax credit	525	525
Other	589	690
Valuation allowance	(14,957)	(14,501)
Deferred tax asset	$ -	$ 454

As of December 31, 2019, the Company had United States federal net operating loss carry forwards (NOLs) of $60.2 million (2018: $62.6 million) available to offset future taxable income, if any. These carry forwards expire through 2035 and are subject to review and possible adjustment by the Internal Revenue Service. The Company may be subject to limitations under Section 382 of the Internal Revenue Service Code as a result of changes in ownership.

(9) TAXES (cont.)

At December 31, 2019, the Company also has Canadian federal NOLs of $1.1 million (2018: $1.1 million) available to offset future taxable income, if any. The Canadian entities were dissolved in April 2020 and accordingly no Canadian NOLs exist from that date. At December 31, 2019, the Company has a United Kingdom NOL of $2.8 million (2018: $3.0 million). At December 31, 2019, the Company has an Ireland NOL of $2.6 million (2018: $2.3 million).

The Company's historical operating losses raise considerable doubt as to when, if ever, any of the deferred tax assets will be realized for its operations, even though there have been limited operating profits in each of the last three years. As a result, management has provided a full valuation allowance for the net deferred tax assets. The total valuation allowance against deferred tax assets increased by $0.5 million for the year ended December 31, 2019 (2018: increased by $0.5 million).

(10) UNREGISTERED SALES OF EQUITY SECURITIES AND WARRANTS OUTSTANDING

WARRANTS

There were no warrants exercised in 2019 or 2018. As of December 31, 2018, there were 500,000 common shares outstanding warrants with the following exercise prices and expiration dates:

Number of Common Shares Warrants	Exercise Price	Expiration Date
500,000	$0.10	2019

As of December 31, 2019, there were no warrants outstanding.

(11) STOCK OPTION PLANS

On June 9, 2014, the Company implemented its 2014 Stock Incentive Plan (the "2014 Plan"). Under the 2014 Plan, the Company may issue options, restricted stock, restricted stock units and other stock-based awards to its employees, officers, directors, consultants and advisors. An aggregate of 10,200,000 shares of the Company's Common Stock were initially reserved for issuance under the 2014 Plan, which was increased to 24,200,000 on June 5, 2017. In addition, from 2018 to 2025 there is an automatic annual increase to the number of shares reserved for issuance under the 2014 Plan equal to the lesser of (i) 2,000,000 shares of Common Stock, (ii) 5% of the outstanding shares of Common Stock of the Company, or (iii) an amount determined by the Board of Directors of the Company. On June 5, 2017, the Company amended the 2014 Stock Plan to increase the pool of shares available for issuance and granted new performance-based options.

<u>Remuneration policy for senior management</u>

Summary

In order to incentivize the achievement of its objectives, the Company implemented a remuneration plan for its senior management with the following elements:

- A one-off substantial performance-based option grant to key senior management at market value.
- No further grants intended for senior management through the end of the three-year measurement period.
- Cliff vesting on December 31, 2019 at different levels dependent on achievement against the performance target (zero below 10% up to 150% vesting at 135% attainment) 10-year option term.

(11) STOCK OPTION PLANS (cont.)

- Performance measure **-** Performance plan has two vesting components; (i) an Annual vesting component that allows the participant to vest a maximum of 25% of the three year target at 100%, with a lesser amounts eligible to be vested where the annual growth rate is less than a 25% growth over the previous years' Adjusted EBITDA value (earnings before taxes, depreciation, interest, stock compensation and amortization). Each annual vest is earned outright by the individual regardless any prior or subsequent year's Adjusted EBITDA performance and (ii) the cumulative vesting component which is determined on the average total growth over the base Adjusted EBITDA (Base year = 2016) during the three years of 2017 to 2019. The cumulative vesting component allows the individual to vest shares based on the cumulative performance from 2017 to 2019. The maximum vesting under the combined scheme, at the end of three years, is the greater of (a) the sum of the shares vested annually or (b) vesting of shares based on the cumulative three year period.
- This performance plan expired on December 31, 2019. As of that date none of the above performance criteria were met, accordingly no options were awarded under this performance plan.

As of December 31, 2019, there were 16,000,000 shares available to be issued from this plan.

On December 16, 2016, but effective January 1, 2017, the Board of Directors approved the Eighth Amended and Restated Policy Regarding Compensation of Independent Directors, (i) cash compensation is $30,000 per annum paid in arrears each quarter in installments of $7,500; and (ii) a grant of 75,000 fully vested shares of the Company's Common Stock, be automatically issued on the day after the annual meeting to each Independent Director who is serving as director of the Company immediately following the date of each annual meeting of stockholders (or special meeting in lieu thereof) beginning with the 2017 annual meeting. These shares are pursuant to the 2014 Plan terms and conditions. During the years ended December 31, 2019 and 2018 the Independent Directors each received $30,000 per annum of fees. On May 16, 2019 and May 18, 2018 each Independent Director received a grant of 75,000 fully vested shares of the Company's Common Stock with a total value of $7,200 and $49,000, respectively. Total directors' compensation including other benefits are disclosed on pages 18 and 19 of the Company's Annual Report for the year ended December 31, 2019 and that information forms part of the audited financial statements.

In May 2007, the Company adopted the 2007 Stock Option and Incentive Plan (the 2007 Option Plan) for the purpose of issuing both Incentive Options and Nonqualified Options to officers, employees and directors of the company. No further grants are allowed under this plan.

The following table summarizes information about the stock options outstanding as of December 31, 2019. There was no intrinsic value of the options outstanding or exercisable as of December 31, 2019 since the fair market value was below the exercise price for all options outstanding as of that date. There was an intrinsic value on the options outstanding, and exercisable, at December 31, 2018 of $0.2 million and $0.2 million, respectively.

(11) STOCK OPTION PLANS (cont.)

There were no options granted during the year ended December 31, 2019. During 2018, the Remuneration Committee approved various qualified and non-qualified stock option awards to purchase shares of the Company's Common Stock to various officers, directors and employees. There were 1,000,000 options granted during the year ended December 31, 2018. These options vest over a one year, a three year, or a four-year anniversary of the grant date or upon achievement of certain performance objectives as noted above, provided that the recipient continues to serve the company in that capacity until each such vesting or achieves the performance objectives. The weighted average assumptions for grants during the year ended December 31, 2018 used in the Black-Scholes option pricing model were as follows:

	Twelve (12) months Ended December 31, 2018
Volatility……………………………………..	207.74%
Expected option life……………………………	7.8 years
Interest rate (risk free)………………………….	2.77%
Dividends……………………………………….	$0
Weighted average grant date fair value………..	$0.122

The following table summarizes information related to the outstanding and exercisable options during the years ended December 31, 2019 and 2018:

	Options Outstanding	**Weighted Average Exercise Price per Share ($)**	**Weighted Average Remaining Contractual Term (in Years)**
Balance at December 31, 2017	29,488,132	0.15	6.68
Granted	1,000,000	0.12	
Exercised	(135,000)	0.03	
Cancelled	(660,173)	0.32	
Balance at December 31, 2018	30,064,867	0.14	5.92
Vested and Exercisable at December 31, 2018	16,712,367	0.07	3.88
Balance at December 31, 2018	30,064,867	0.15	6.68
Granted	-	-	
Exercised	-	-	
Cancelled	(12,764,823)	0.22	
Balance at December 31, 2019	17,300,044	0.09	3.68
Vested and Exercisable at December 31, 2019	16,907,594	0.08	3.68
Vested and Expected to Vest at December 31, 2019	17,300,044	$0.09	3.68

Range of Exercise Prices	**Options Outstanding**	**Weighted Average Contractual Life (years)**	**Weighted Average Exercise Price**	**Options Exercisable**	**Weighted Average Exercise Price**
$ 0.03 – 0.24	17,350,044	3.4	$ 0.09	16,940,894	$ 0.08

(11) STOCK OPTION PLANS (cont.)

At December 31, 2019, there was $41,000 of total unrecognized compensation cost related to stock options granted. The cost will be recognized in 2020. During 2019 the Company reversed $1.2 million of stock compensation expense to selling, general and administrative expense related to the expiration of performance-based stock options that were cancelled due to non-achievement of the performance criteria. Total stock option expense recorded in 2018 was $1.1 million. There were no options exercised in 2019 and there were 135,000 options exercised in 2018 at an exercise price of $3,661, having a market value of $18,900.

(12) EMPLOYEE STOCK PURCHASE PLAN

In May 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the Stock Purchase Plan). During the years ended December 31, 2019 and 2018 there were no shares issued under the Stock Purchase Plan. On April 4, 2019 the Board of Directors ended this plan.

(13) EMPLOYEE DEFINED CONTRIBUTION PLANS

On January 17, 1994, the Company established the ProPhotonix Limited 401(k) Plan (the Plan). Under the Plan, employees are allowed to make pre-tax retirement contributions. In addition, the Company may make matching contributions, not to exceed 100% of the employee contributions, and profit sharing contributions at its discretion. The Company made matching contributions of $23,000 in the year ended December 31, 2019 and $28,000 in the year ended December 31, 2018. The Company incurred costs of $1,500 in 2019 and $2,000 in 2018 to administer the Plan. The Company also has voluntary contribution pension plans in Ireland and in the United Kingdom. In the United Kingdom, the Company contributes a maximum of 3% of the participating employee salaries, with one exception, where the maximum contribution is 10%. The plan is voluntary, with plan administration costs coming out of the plan itself. The Company made contributions of $98,000 and $61,000 in the years ended December 31, 2019 and 2018. In Ireland, the Company also has a voluntary plan that matches contributions for those participating employees with minimum of 6 months of service. After two years of service, the Company will match up to a maximum of 5% of salary. The Company made contributions of $45,000 and $49,000 in the years ended December 31, 2019 and 2018, respectively. Plan administration costs come out of the plan itself.

(14) LEASES, COMMITMENTS AND CONTINGENCIES

LEASES, OTHER OBLIGATIONS AND CONTINGENT LIABILITIES

On February 24, 2017, the Company signed a 61-month lease, with an effective date of April 1, 2017, to lease 3,200 square feet in an office building, in Salem, New Hampshire, with an average monthly rate of $3,525 plus the tenant’s share of expenses.

ProPhotonix (IRL) Limited rents approximately 10,000 square feet for its operations in Cork, Ireland. The original five year lease term ended on August 22, 2013 and the Company rents the space for its operations on a month to month basis. Base rent is €72,000 per year.

ProPhotonix Limited, a U.K. subsidiary, leases approximately 13,000 square feet of space in Hatfield Broad Oak, Hertfordshire, U.K. The original lease had a term of nine years ending September 29, 2013 at £87,000 per year, at which time the Company renegotiated the lease for an additional 3 years, ending September 30, 2017 at £70,000 per year. The Company has since renegotiated the lease for an additional 6 years at £75,000 per year. The Company has the option to terminate the lease with six months’ notice after September 2017. The Company did not exercise this option during 2019.

The Company accounts for the Salem, New Hampshire and Hertfordshire, U.K. leases as operating leases. The Company utilizes, or has assumed, finance leases to finance purchases of equipment. The Company records depreciation expense on assets acquired under a finance lease in the consolidated statement of income.

(14) LEASES, COMMITMENTS AND CONTINGENCIES (cont.)

The components of lease expense were as follows (in thousands):

	December 31, 2019
Operating lease cost	$ 78
Finance lease cost:	
Amortization of right-of-use assets	92
Interest on lease liabilities	9
Total lease costs	$ 179

Other information related to leases was as follows:

	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities (in thousands)	
Weighted average remaining lease term (in years)	
Operating leases	3.7
Finance leases	2.1
Weighted average discount rate	

Future minimum payments for operating and finance lease obligations and purchase commitments are as follows (in thousands):

	Finance Leases	Operating Leases
2020	$ 63	$ 142
2021	25	143
2022	12	89
2023	4	—
Thereafter	—	—
Total minimum lease payments	104	374
Less amount representing interest	(6)	(62)
Present value of lease liabilities	$ 98	$ 312
Accrued expenses and other current liabilities	$ 58	$ —
Operating lease liabilities, current	—	119
Operating lease liabilities, noncurrent	—	193
Other long-term liabilities	40	—
Total lease liabilities	$ 98	$ 312

(15) LEGAL PROCEEDINGS

The Company is at times party to various legal proceedings generally incidental to its business. Although the disposition of any legal proceedings cannot be determined with certainty, it is the Company's opinion that any pending or threatened litigation will not have a material adverse effect on the Company's results of operations, cash flow or financial condition.

(16) DEFERRED REVENUE

At December 31, 2019 and 2018, the Company had a total of $0.8 million and $0.1 million in deferred revenue, respectively. Recognition of this revenue is subject to performance obligations that exist under the customer contracts associated with this deferred revenue balance. The Company expects to meet the performance obligations and recognize the associated revenue over the period from 2020 through 2022.

(17) SEGMENT INFORMATION

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-maker is the Chief Executive Officer. The Company's accounting policies and method of presentation for segments is consistent with that used throughout the consolidated financial statements.

The Company operates in two segments: LED's (light emitting diode systems) and Laser & Diodes. In the LED segment, the Company designs and manufactures LED systems for the inspection, machine vision, medical and military markets. The Laser & Diodes segment distributes laser diodes and designs and manufactures custom laser diodes modules for industrial, commercial, defense and medical applications. The policies relating to segments are the same as the Company's corporate policies.

The Company evaluates performance and allocates resources based on revenues and operating income. The operating profit / (loss) for each segment includes selling, research and development and expenses directly attributable to the segment. Certain of the Company's indirect overhead costs, which include corporate general and administrative expenses, are allocated between the segments based upon an estimate of costs associated with each segment. Segment assets include accounts receivable, inventory, machinery and equipment, goodwill and intangible assets directly associated with the product line segment.

The Company had one customer account for $2.1 million, or 14%, of its total consolidated revenues in 2019 and $1.7 million, or 10%, of its total consolidated revenues in 2018. All of this customer's revenues were generated in the Company's Laser & diodes segment.

	2019	2018
	In thousands	
Years Ended December 31		
Revenues:		
LEDs	$ 7,699	$ 7,953
Laser & diodes	7,277	8,448
Total revenues	$ 14,976	$ 16,401
Gross profit:		
LEDs	$ 3,133	$ 3,405
Laser & diodes	2,874	2,939
Total gross profit	$ 6,007	$ 6,344
Operating profit (loss):		
LEDs	$ 594	$ (581)
Laser & diodes	501	(413)
Total operating profit (loss)	$ 1,095	$ (994)

(17) SEGMENT INFORMATION (cont.)

	2019	2018
	In thousands	
Years Ended December 31		
Current assets:		
LEDs	$ 2,358	$ 2,316
Laser & diodes	3,581	3,159
Corporate	1,601	2,024
Total current assets	$ 7,540	$ 7,499
Property, plant & equipment:		
LEDs	$ 289	$ 293
Laser & diodes	271	331
Corporate	13	22
Total property, plant & equipment	$ 573	$ 646
Goodwill:		
LEDs	$ 397	$ 405
Laser & diodes	—	—
Corporate	—	—
Total goodwill	$ 397	$ 405
Other assets:		
LEDs	$ 457	$ 767
Laser & diodes	307	103
Corporate	91	7
Total other assets	$ 855	$ 877
Total assets:		
LEDs	3,501	3,781
Laser & diodes	4,159	3,593
Corporate	1,705	2,053
Total assets	$ 9,365	$ 9,427

Years Ended December 31	In thousands	
	2019	2018
Revenues by geographic area:		
United States	$ 6,950	$ 5,550
Canada, Mexico & So. America	172	323
Europe	5,263	8,962
Asia & the rest of the world	2,591	1,566
Total	$ 14,976	$ 16,401

(17) SEGMENT INFORMATION (cont.)

The Company's long-lived assets consist of property, plant and equipment, goodwill and intangible assets located in the following geographic locations:

	2019	2018
	In thousands	
Years Ended December 31		
Long-lived assets by geographic area:		
United States and North America	$ 13	$ 22
Europe	686	698
UK	271	331
Total	$ 970	$ 1,051

(18) SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 21, 2020, the date which the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or disclosure in the financial statements. In the second quarter 2020, the Company secured a PPP Loan from the Small Business Administration (USA) and a Bounce Back Loan (UK) aggregating approximately $150,000. The current global COVID-19 pandemic is expected to negatively impact the Company in 2020 with a likely decrease in revenue. However, measures have been taken to mitigate the cash impact on the Company. There continues to be uncertainties in relation to the ongoing impact of COVID-19 and further details of the potential risks are detailed on pages 10-12 in the risk and uncertainties section of the Company's Annual Report for the year ended December 31, 2019.