13 August 2012

ProPhotonix Limited
(“ProPhotonix” or “the Company”)

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2012

ProPhotonix Limited (London Stock Exchange - AIM: PPIX and PPIR, OTC: STKR.PK), a designer and manufacturer of LED light engines and laser diode modules with operations in Ireland and the U.K., today announces its unaudited interim results for the six months ended 30 June 2012.

Financial Highlights

- Revenue decreased 24% to $6.8 million (FY 2011: $8.9 million); majority of reduction due to decline in solar sales
- LED revenue decreased 37% to $2.9 million (FY 2011: $4.7 million)
- Gross profit decreased 39.2% to $2.1 million (FY 2011: $3.5 million)
- Gross profit margin lower at 31.1% (FY 2011: 38.9%)
- Operating loss increased to $1.7 million (FY 2011: loss of $0.2 million)
- EBITDA loss of $1.4 million vs. EBITDA of $0.3 million in 2011
- Order bookings of $7.7 million (FY 2011: $9.6 million)
- Percentage revenue by market sectors: industrial 76%, medical 17%, and homeland security & defense 7%
- Percentage revenue by geography: 57% Europe, 28% North America and 15% Rest of World
- Cash balances of $2.9 million (30 June 2011: $0.6 million)

Operational Highlights

- Global sales force staffing in USA, UK, Germany and Switzerland completed July 2012
- Sales distributors appointed in Germany, Taiwan and the USA
- Introduction of expanded line of high performance LED illuminators for OEMs and machine vision market in June 2012

Mark W. Blodgett, Chairman & CEO, Commented:

“Despite a number of accomplishments during the first half of the year, the period was challenging due to the previously reported dramatic decline in the Company’s sales of LED systems to solar equipment manufacturers which started in the autumn of 2011. The loss of the solar business, which now represents less than 2% of sales versus 15%, derives from excess capacity in the solar industry. With the build-out of our global sales force over the last seven months, we are moving expeditiously to replace solar sales and we are pleased with the positive book to bill for the first half of the year. Since the expansion of the sales organization, North American laser and diode bookings are up 37% versus the first half of 2011.

"In the meantime, management continues aggressively to manage costs and excluding planned sales expenditures which increased 25% year over year, other operating expenses declined in the first half versus the prior year 2011. Furthermore, customer activity is increasing and our engineering team has never been busier working on new OEM driven opportunities. With the expansion of the sales force, we expect a significant sequential increase in revenues in the second half of the year versus the first half of 2012 and a corresponding improvement in overall financial performance of the Company," added Blodgett.

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About ProPhotonix

ProPhotonix Limited, (formerly StockerYale, Inc.) headquartered in Salem, New Hampshire, is an independent designer and manufacturer of diode-based laser modules and LED systems for industry leading OEMs and medical equipment companies. In addition, the Company distributes premium diodes for Opnext, QSI, Sanyo, and Sony. The Company serves a wide range of markets including the machine vision, industrial inspection, defense, sensors, and medical markets. ProPhotonix has offices and subsidiaries in the U.S., Ireland, U.K., and Europe. For more information about ProPhotonix and its innovative products, visit the Company's web site at www.prophotonix.com.

Half Year 2012 Financial Results

Revenue for the half year ended 30 June 2012 was $6.8 million, a decrease of 24% compared with $8.9 million in 2011. Gross profit was $2.1 million, a decrease of 39% compared to $3.5 million in 2011. Gross profit margin decreased to 31.1% from 38.9% in 2011 due to a shift in product mix and lower volumes. The decline in sales, gross profit and margin rate was principally due to absence of sales to several large German solar equipment customers. Foreign currency exchange negatively impacted gross profit margin by $0.2 million.

Operating expenses, excluding intangible amortization charges, totaled $3.7 million versus $3.5 million in 2011. Consistent with our objectives, sales and marketing and research and development (R&D) expenses increased 15% in 2012 over 2011, while general and administrative expenses declined 2% over the same period. The operating loss was $1.7 million, as compared to a $0.2 million loss in 2011. EBITDA was a loss of $1.4 million versus EBITDA in 2011 of $0.3 million. Net loss was $1.8 million compared to the 2011 net loss of $0.5 million.

Strategy and Markets

ProPhotonix consists of two business units: an LED systems manufacturing business based in Ireland (Cork), and a laser modules production and laser diode distribution division located in the United Kingdom (Hatfield Broad Oak). Corporate, marketing and the North American sales activities are based in Salem, New Hampshire, United States of America.

The Company is well positioned to make significant progress on in its strategy to combine its expertise in two key areas of optics: LEDs and lasers. The Company intends to capitalise on increasing opportunities in this area by designing and manufacturing high value, high margin components for global manufacturers of equipment.

As announced last week the Company has completed the strategic build out of its global sales force, which now totals 14 personnel. These include experienced regional sales managers based in the US, UK, Germany and Switzerland where they can better service the majority of existing and potential customers. In addition, the Company has expanded its network of distributors mostly in Asia and smaller European markets.

The Company has made significant investments in R&D, including expanding its R&D team in Cork, which now includes a full complement of optical, mechanical and electrical engineers and represents over 20% of the Company's total workforce of 96 employees. They are focused on continuing to develop proprietary products to meet clearly defined demand from our customers and the markets which we serve. In this regard, progress during the first half included the launch of an expanded LED illuminator product line and the development of a range of new laser module and LED OEM opportunities. Currently, the majority of the Company's R&D and product development activities are specifically tied to future customer requirements.

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue	$ 6,787	$ 8,914
Cost of sales	4,679	5,449
Gross profit	2,108	3,465
Operating expenses:		
Selling expenses	1,446	1,160
General and administrative	1,839	1,869
Research and development	428	473
Amortization of intangibles	60	156
Total operating expenses	3,773	3,658
Loss from operations	(1,665)	(193)
Other (income) / expense, net	(22)	6
Interest expense	142	191
Loss from continuing operations before income tax provision (benefit)	(1785)	(390)
Income tax provision (benefit)	(29)	73
Loss from continuing operations	(1,756)	(463)
Loss from discontinued operations, net of tax	-	(19)
Net loss	(1,756)	(482)
Other comprehensive income (loss):		
Foreign currency translation	204	(70)
Total comprehensive loss	$ (1,552)	$ (552)
Net loss for diluted net loss per share	$ (1,756)	$ (482)
Basic and diluted net loss per share from continuing operations	$ (0.02)	$ (0.01)
Basic and diluted net loss per share from discontinued operations	$ (0.00)	$ (0.00)
Basic and diluted net loss per share	$ (0.02)	$ (0.01)
Basic and diluted weighted average shares outstanding	76,060	52,456

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

CONSOLIDATED BALANCE SHEETS

(unaudited)
($ in thousands except share and per share data)

For the Periods Ended June 30, 2012 and 2011	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 2,953	$ 568
Accounts receivable, less allowances of $30 in 2012 and $13 in 2011	1,976	2,423
Inventories	1,835	2,052
Prepaid expenses and other current assets	285	195
Total current assets	7,049	5,238
Net property, plant and equipment	568	838
Goodwill	444	508
Acquired intangible assets, net	265	477
Other long-term assets	35	41
Total assets	$ 8,361	$ 7,102
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Revolving credit facility	$ 752	$ 798
Current portion of long-term debt	1,268	600
Capital lease obligations	10	10
Accounts payable	1,559	1,469
Income taxes payable	-	73
Accrued expenses	921	1,137
Total current liabilities	4,510	4,087
Long-term debt, net of current portion	1,517	3,332
Long-term capital lease obligation, net of current portion	14	-
Other long-term liabilities	178	178
Total liabilities	6,219	7,597
Stockholders' equity (deficit):		
Common stock, par value $0.001; shares authorized 150,000,000 at June 30, 2012 and December 31, 2011; 76,059,477 shares issued and outstanding at June 30, 2012 and 52,810,174 shares issued at June 30, 2011	76	53
Paid-in capital	110,814	105,923
Accumulated deficit	(109,373)	(106,657)
Accumulated other comprehensive income	625	186
Total stockholders' equity (deficit)	2,142	(495)
Total liabilities and stockholders' equity (deficit)	$ 8,361	$ 7,102

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

(unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operations		
Net loss	$ (1,756)	$ (482)
Loss from discontinued operations, net of tax	-	(19)
Loss from continuing operations	(1,756)	(463)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	63	148
Depreciation and amortization	208	323
Foreign exchange gain	220	8
Provision for inventories	12	27
Provision for bad debts	25	12
Other change in assets and liabilities:		
Accounts receivable	347	(283)
Inventories	(208)	(81)
Prepaid expenses and other current assets	(4)	43
Accounts payable	147	(634)
Income taxes payable	(29)	73
Accrued expenses	170	(223)
Net cash used in operating activities	(805)	(1,123)
Net cash used in discontinued operations	-	(19)
Net cash used in operating activities	(805)	(1,142)
Financing		
Net proceeds from sale of common stock	-	98
Net borrowing of revolving credit facility.	104	134
Principal repayment of long-term debt	(366)	(314)
Net cash used in financing activities	(262)	(82)
Investing		
Purchase of plant and equipment	(48)	(48)
Net cash used in investing activities	(48)	(32)
Effect of exchange rate on cash	2	29
Net change in cash and equivalents	(1,113)	(1,243)
Cash and equivalents, beginning of period	4,066	1,811
Cash and equivalents, end of period	$ 2,953	$ 568
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 127	$ 191
Assets acquired under lease arrangement	$ 27	$ -
Cash paid for taxes	$ -	$ 15

Notes to unaudited Interim Results

Basis of Presentation

The Company financial reports are issued under United States Generally Accepted Accounting Principles (GAAP). The Accompanying unaudited condensed consolidated financial reports reflect all adjustments of a normal recurring nature necessary for a fair statement of the (i) results of operations and comprehensive income (loss) for the six month periods ended 30 June 2012 and 2011; (ii) the financial position at 30 June 2012 and 30 June 2011; and (iii) the cash flows for the six month period ended 30 June 2012 and 2011. These interim results are not necessarily indicative of results for a full year or any other interim period.

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.

Use of Non-GAAP Financial Measures

The Company provides non-GAAP financial measures, such as EBITDA, to complement its consolidated financial statements presented in accordance with GAAP. Non-GAAP financial measures do not have any standardized definition and, therefore, are unlikely to be comparable to similar measures presented by other reporting companies. These non-GAAP financial measures are intended to supplement the user's overall understanding of the Company's current financial and operating performance and its prospects for the future. Specifically, the Company believes the non-GAAP results provide useful information to both management and investors by identifying certain expenses, gains and losses that, when excluded from the GAAP results, may provide additional understanding of the Company's core operating results or business performance, which management uses to evaluate financial performance for purposes of planning for future periods. However, these non-GAAP financial measures are not intended to supersede or replace the Company's GAAP results.

The Company uses EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation and impairment charges) as a non-GAAP financial measure in this press release. A reconciliation of net loss to EBITDA for the six months ended June 30, 2012 and 2011 is as follows:

	(in thousands)	
	Six Months Ended June 30,	
	2012	**2011**
Net Loss	(1,756)	(482)
Loss from discontinued operations	-	19
Plus:		
Interest and other expense, net	120	197
Depreciation	148	167
Intangible asset amortization	60	156
Stock based compensation	63	148
Tax provision (benefit)	(29)	73
EBITDA gain (loss)	(1,394)	278