

**August 29, 2014**

**PROPHOTONIX LIMITED  
("ProPhotonix" or the "Company")**

**ADOPTS STOCKHOLDER RIGHTS AGREEMENT  
AND AMENDS BY-LAWS**

ProPhotonix Limited, (London Stock Exchange - AIM: PPIX and PPIR; OTC: STKR), a designer and manufacturer of LED illumination systems and laser diode modules with operations in Ireland and the United Kingdom, today announces that its Board of Directors has adopted a stockholder rights agreement (the "Rights Plan") and declared a dividend distribution of one common stock purchase right on each outstanding share of its Common Stock. The Board of Directors, in accordance with Delaware law, approved the adoption of the Rights Plan and determined that it is in the best interest of all the Company's stockholders. As set out on the Company's website, the Company is not subject to the City Code on Takeovers and Mergers.

The rights are designed to ensure that all stockholders of the Company realize the long-term value of their investment in the Company; that they receive fair and equal treatment in the event of a potential takeover of the Company; that they are protected in the event of any of a two-tier or partial tender offer, open market accumulations and other tactics designed to gain control of the Company without the payment of a fair price by an offeror; and to enhance the Board of Directors' ability to negotiate with a prospective acquiror.

Among other benefits, the Rights Plan enables the Company to continue to conduct an orderly, thorough and deliberative process of reviewing the Company's strategic alternatives and is designed to reduce the likelihood that any person or group of affiliated or associated parties would accumulate 20% or more of the stock or engage in takeover tactics without paying a fair price to all stockholders. The issuance of the rights under the Rights Plan is not intended to prevent a transaction that is determined by the Board of Directors to be fair, advisable and in the best interests of all Company stockholders.

Each right will initially entitle stockholders to buy one share of Common Stock of the Company, par value \$0.001 per share, at an exercise price of \$0.30, in the event the rights become exercisable, subject to adjustment and the terms of the Rights Plan. In general, the rights will become exercisable if a person or group of affiliated or associated parties becomes the beneficial owner of 20% or more of the outstanding Common Stock of the Company or announces a tender offer for 20% or more of the outstanding Common Stock of the Company. The recent share purchase by 600 Group plc ("600 Group") of 26% of the Company's outstanding shares is not a triggering event because it is an ownership position existing prior to the adoption of the Rights Plan. In the event 600 Group acquires any additional shares, a triggering event will take place. The Board of Directors will in general be entitled to cause the redemption of the rights at \$0.001 per right at any time before the triggering ownership threshold is crossed.

In the event that the rights become exercisable due to the triggering ownership threshold being crossed, each right will entitle its holder to purchase a number of shares of Common Stock (or cash, other assets, debt securities of the Company, or any combination thereof equivalent in value thereto) with an aggregate value equal to twice the exercise price (i.e., purchase a number of shares of Common Stock with an aggregate market value of \$0.60 as of the triggering event for \$0.30). Rights held by the triggering person(s) or group of affiliated or associated parties will become void and will not be exercisable to purchase shares at the reduced purchase price. After the rights have become exercisable, the Board of Directors may choose to exchange the rights (other than rights owned by the triggering person which will have become void), in whole or in part, for shares of Common Stock at an exchange ratio of one share of Common Stock (or cash, other assets, debt securities of the Company, or any combination thereof equivalent in value thereto) per right.

A summary of the terms of the Rights Plan will be mailed to stockholders of record and will be available, together with the Rights Plan, on the Company's website at <http://www.prophotonix.com/investors/Stockinfo.aspx>.

The dividend distribution of rights under the Rights Plan was paid on August 28, 2014, to stockholders of record as of the close of business on August 28, 2014. The rights are not currently tradeable, and should a stockholder sell the underlying holding of ProPhotonix shares, these rights will transfer to the new owner of those shares. In addition, any new shares of Common Stock of the Company that become outstanding between August 28, 2014 and the earlier of a triggering event or the termination of the Rights Plan, will receive the same right under the Rights Plan. The rights will expire on August 28, 2017, unless the rights are earlier redeemed or exchanged by the Company. The rights distribution is not taxable to stockholders.

Simultaneously with the adoption of the Rights Plan, and in accordance with Delaware law, the Company amended and restated its By-laws to, among other things, add an advance notice provision relating to stockholder action at meetings, a procedural provision governing stockholder action by written consent and a provision relating to stockholder ownership disclosure requirements. A copy of the amended and restated By-laws is available on the Company's website at <http://www.prophotonix.com/investors/Corporate-Governance/by-laws.aspx>.

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## **About ProPhotonix**

ProPhotonix Limited, 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 Oclaro, Osram, QSI, Panasonic, and Sony. The Company serves a wide range of markets including the machine vision, industrial inspection, security, 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](http://www.prophotonix.com).

## **Forward Looking Information**

This news release contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainty. These forward-looking statements include statements as to the intent of the Rights Plan to enable the Company's stockholders to realize the long-term value of their investment in the Company, the potential outcome and impact of the Company's ongoing review of strategic alternatives, and the anticipated impact of the Rights Plan on the Company's strategic alternatives review process. There can be no assurance that the Rights Plan will have the intended impact, or that the Company's review of strategic alternatives will lead to any transaction, result in increased value to its stockholders or the realization of long-term value by stockholders. Economic, business, market, regulatory, technology and other factors could cause our actual future results to differ materially from those expressed in our forward-looking statements.