28 July 2011

ProPhotonix Limited
("ProPhotonix" or "the Company")

HALF-YEAR RESULTS

Robust revenue growth, solid margins and increased LED production capacity

Revenue increased 25%; gross margin up to 38.9%

ProPhotonix Limited, (London Stock Exchange - AIM: PPIX and PPIR, OTC: STKR.PK), a designer and manufacturer of LED light engines and laser diodes modules with operations in Ireland and the U.K., today announces its financial results for the second quarter and half-year ended June 30, 2011.

Half-Year 2011:

- Revenue increased 25% to $8.9 million (H1 2010: $7.1 million), up 20% adjusting for impact of currency fluctuation
- LED revenue increased 57% to $4.7 million (H1 2010: $3.0 million)
- Gross profit increased 31% from $2.6 million to $3.5 million
- Gross profit margin improved to 38.9% (2010: 37.1%)
- EBITDA profit of $0.3 million vs. $0.2 million loss in 2010 (excluding AIM flotation expenses and facility lease termination charges)
- Order bookings of $9.6 million
- Percentage revenue by market sectors: industrial 73%, medical 19%, and homeland security & defense 8%
- Percentage revenue by geography: 57% Europe, 35% North America and 8% Rest of World.

Second Quarter 2011:

- Revenue increased by 25% to $4.6 million (Q2 2010: $3.7 million), up 15% adjusting for impact of currency fluctuation
- Revenue up 6% sequentially versus the first quarter of 2011
- LED revenue increased 41% to $2.4 million (Q2 2010: $1.7 million)
- Gross profit increased 25% from $1.5 million to $1.8 million
- Gross profit margin 39.7% (Q2 2010: 39.8% & Q1 2011: 38.0%)
- EBITDA profit of $0.2 million vs. break-even, net of AIM expenses, in 2010, and break-even in Q1, 2011
- Order bookings of $4.6 million; ending backlog of $6.5 million
- Percentage revenue by market sectors: industrial 69%, medical 24%, and homeland security & defense 7%

- Percentage revenue by geography: 59% Europe, 31% North America and 10% Rest of World
- Appointment of Luster LightTech as the Company's exclusive distributor of machine vision illumination products in China and Hong Kong

"We delivered a strong second quarter with 25% revenue growth and 6% sequential growth, which represents the seventh consecutive quarter of revenue growth and significant improvement in overall profitability," said Mark W. Blodgett, Chairman & CEO. "At the end of the period, ProPhotonix achieved break-even at the operating income level and its first meaningful EBITDA profit. The Company continued to see excellent momentum in its growth initiatives, particularly selling LED products into the medical, solar and homeland security markets," added Blodgett.

Recent Highlights:

- Raised $5.1 million (£3.3million), in July 2011, through the placement of new common shares at $0.22 (14 pence) per share with institutional investors.

ProPhotonix will host a conference call at 14:30 B.S.T (09:30 E.D.T.) on 28 July 2011. The conference call title is 'ProPhotonix – Interim Results Conference Call' and the details are as follows:

	Local number	Toll free
United Kingdom	+44 (0) 208 515 2301	+44 (0) 800 358 5271
United States	+1 480 629 9677	+1 877 941 1467

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A copy of the half year results is available on the Company's website.

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 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 2011 Financial Results

Total first half revenue for 2011 was $8.9 million, an increase of 25% (20%, adjusting for currency fluctuation) compared with $7.1 million in H1 2010. Gross profit was $3.5 million, an increase of 31% compared to $2.6 million in H1 2010. Gross profit margin increased to 39% from 37% in H1 2010 due to higher volumes, a more favorable product mix, and productivity improvement initiatives. Foreign currency exchange impact on gross profit margin was $0.1 million.

Operating expenses, excluding intangible amortization, totaled $3.5 million versus $3.4 million, net of approximately $0.6 million of charges related to the London Stock Exchange AIM flotation and a former production facility lease termination charge, in Q1 2010. The operating loss was $0.2 million, as compared to $1.0 million loss in 2010, excluding the AIM flotation expenses and facility lease termination charges. The EBITDA profit was $0.3 million versus a 2010 EBITDA loss of $0.2 million which excludes the AIM flotation expenses and facility lease termination charges. Net loss was $0.5 million as compared to the 2010 net loss of $2.3 million, which includes a loss on sale of discontinued operations in the amount of $0.1 million and a loss from discontinued operations in the amount of $0.1 million, as well as the AIM flotation expenses and facility lease termination charges of $0.6 million.

Second Quarter 2011 Financial Results

Total revenue for the second quarter of 2011 of $4.6 million increased 25% (up 15%, adjusting for currency fluctuation) from Q2 2010. The growth in revenue comprised an increase in the Company's LED segment of $0.7 million (+41%) over last year and an increase in the laser segment of approximately $0.2 million (+11%). The impact of foreign currency exchange year-on-year was approximately $0.4 million. Bookings for the second quarter of 2011 were $4.6 million and the order backlog was $6.5 million at June 30, 2011.

Gross profit was $1.8 million for Q2 2011, an increase of 25% compared to $1.5 million in the Q2 2010. Q1 gross profit margin was 39.7% compared with 39.8% in the comparable quarter in 2010. Foreign currency exchange negatively impacted gross profit margin by approximately 0.5%.

Operating expenses, excluding intangible amortization, totaled $1.7 million, flat to the $1.7 million in Q2 2010, net of AIM flotation expenses of $0.5 million. Selling expenses increased approximately 11%, R&D expenses increased approximately 15%, offset by administration expenses which decreased by approximately 7%, net of the AIM flotation expenses of $0.5 million. The Operating income was break even as compared to an operating loss of $0.4 million for the second quarter 2010, net of the AIM flotation expenses of $0.5 million in 2010.

EBITDA profit of $0.2 million for the quarter compares to a break-even EBITDA for Q2 2010, net of the AIM expenses. The net loss of $0.2 million compares to the 2010 net loss of $1.0 million, which includes a loss on sales of discontinued operations of approximately $58,000 and a loss from discontinued operations of approximately $50,000, as well as the AIM flotation expenses of $0.5 million.

Outlook

The Company continues to exhibit significant improvement in its overall financial performance as compared to last year benefiting from the rapid growth of its LED business in diverse markets, improved productivity in both the laser module and LED production facilities and ongoing vigilant cost management, particularly with regard to continuing general and administrative expenditures. During the first half, the Company reorganized its direct sales force along geographic rather than product lines to improve penetration into new OEM accounts. Further, it rationalized distributor channels in those markets where the Company does not sell direct and most recently added significant distribution capability in Asia with the appointment of China's leading distributor of machine vision products, Luster LightTech, which has a rapidly growing sales force knowledgeable in the sales of the Company's products.

Having completed, on July 13 2011, a $5.1 million placement of new common shares with several leading institutional investors, the Company intends to make further investments in product management, particularly medical and industrial illumination, our direct sales force and R & D to further expand the Company's product offering and generate long term revenue growth. ProPhotonix's continues to benefit from growth in the medical, solar and home land security markets, and with these proposed investments we look to expand our customer base in Europe, US and Asia.

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 EBITDA to net loss for the second quarter and half-year ended 2011 is as follows:

	Three Months Ended		Six Months Ended	
	($ in thousands) (Unaudited)			
	June 30,			
	2011	**2010**	**2011**	**2010**
Net Loss	$(219)	$(983)	$(482)	$(2,301)
Loss on sale of discontinued operations	-	58	-	58
(Income) /loss from discontinued operations	(30)	50	19	109
Plus:				
Interest and other expense/(income), net	176	(103)	197	418
Depreciation	89	123	167	248
Intangible asset amortization	75	96	156	195
Stock based compensation	85	162	148	282
Taxes	73	(1)	73	(65)
Amortization of Debt Discount & Financing Costs	-	94	-	193
EBITDA Profit / (Loss)	249	(504)	278	(863)
AIM Listing expenses	-	511	-	511
Facility lease termination charge	-	-	-	115
Adjusted EBITDA Profit (Loss)	$249	$7	$278	$(237)

Consolidated Statement of Operations

(Unaudited)

($ In thousands except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net Sales	$4,576	$3,665	$8,914	$7,147
Cost of Sales	2,759	2,208	5,449	4,498
Gross Profit	1,817	1,457	3,465	2,649
Research & Development Expenses	234	203	473	356
Selling, General & Administrative Expenses	1,508	2,043	3,029	3,686
Amortization of Intangible Assets	75	96	156	195
Operating Loss	-	(885)	(193)	(1,588)
Interest Income & Other Income/(Expense)	(81)	235	(6)	(92)
Amortization of Debt Discount and Financing Costs	-	(94)	-	(193)
Interest Expense	(95)	(132)	(191)	(326)
Loss Before Taxes from Continuing Operations	(176)	(876)	(390)	(2,199)
Tax Provision (Benefit)	73	(1)	73	(65)
Net Loss from Continuing Operations	(249)	(875)	(463)	(2,134)
Loss on Sale of Discontinued Operations, net of tax	-	(58)	-	(58)
Income / (Loss) from Discontinued Operations, net of tax	30	(50)	(19)	(109)
Net Loss	$(219)	$(983)	$(482)	$(2,301)
Loss Per Share				
Basic and diluted net loss per share from continuing operations	($0.00)	($0.02)	($0.01)	($0.05)
Basic and diluted net loss per share from loss on sale of discontinued operations	($0.00)	($0.00)	($0.00)	($0.00)
Basic and diluted net loss per share from discontinued operations	$0.00	($0.00)	($0.00)	($0.00)
Basic and diluted net loss per share	$(0.00)	($0.02)	($0.01)	($0.05)
Basic and diluted weighted average shares outstanding	52,559,499	44,190,092	52,455,575	44,176,681

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

CONSOLIDATED BALANCE SHEETS

(unaudited)

For the Periods Ended June 30, 2011 and December 31, 2010	2011	2010
	In thousands (except share and per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 568	$ 1,811
Accounts receivable, less allowances of $34 in 2011 and $47 in 2010	2,423	2,023
Inventories	2,052	1,892
Prepaid expenses and other current assets	195	229
Total current assets	5,238	5,955
Net property, plant and equipment	838	906
Goodwill	508	468
Acquired intangible assets, net	477	610
Other long-term assets	41	66
Total assets	$ 7,102	$ 8,005
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current portion of long-term debt	$ 600	$ 600
Revolving credit facility	798	641
Capital lease obligations	10	24
Accounts payable	1,469	2,003
Income taxes payable	73	-
Accrued expenses	1,137	1,368
Total current liabilities	4,087	4,636
Long-term debt, net of current portion	3,332	3,407
Other long-term liabilities	178	150
Total liabilities	7,597	8,193
Commitments and contingencies		
Stockholders' deficit:		
Common stock, par value $0.001 150,000,000 shares authorized at June 30, 2011 and 100,000,000 authorized at December 31, 2010; 52,810,174 shares issued and outstanding at June 30, 2011 and 52,510,174 shares issued and outstanding at December 31, 2010	53	53
Paid-in capital	105,923	105,678
Accumulated deficit	(106,657)	(106,175)
Accumulated other comprehensive income	186	256
Total stockholders' deficit	(495)	(188)
Total liabilities and stockholders' deficit	$ 7,102	$ 8,005

PROPHOTONIX LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Periods Ended June 30	**2011**	**2010**
	In thousands	
Operations		
Net loss	**$ (482)**	**$ (2,301)**
Loss from discontinued operations, net of tax	(19)	(109)
Loss on sale of discontinued operations, net of tax	-	(58)
Loss from continuing operations	**(463)**	**(2,134)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	148	282
Depreciation and amortization	323	443
Amortization of debt discount and financing costs	-	193
Non cash interest income	-	(2)
Provision for inventories	27	19
Provision for bad debts	12	37
Deferred taxes	-	(65)
Other change in assets and liabilities:		
Accounts receivable	(283)	(925)
Inventories	(81)	(251)
Prepaid expenses and other current assets	43	264
Accounts payable	(634)	463
Income taxes payable	73	-
Accrued expenses	(294)	329
Other assets and liabilities	(2)	-
Net cash used in continuing operations	**(1,131)**	**(1,347)**
Net cash used in discontinued operations	(19)	(167)
Net cash used in operating activities	**(1,150)**	**(1,514)**
Investing		
Proceeds from disposal of assets	-	3
Financing obligation payments	-	(73)
Purchase of property, plant and equipment	(48)	(79)
Net cash used in investing activities	**(48)**	**(149)**
Financing		
Net proceeds from sale of common stock	98	-
Borrowings of revolving credit facilities, net	134	90
Principal repayment of long-term debt	(314)	(1,351)
Net cash used in financing activities	**(82)**	**(1,261)**
Effect of exchange rate on cash	37	109
Net change in cash and equivalents	(1,243)	(2,815)
Cash and equivalents at beginning of year	1,811	4,478
Cash and equivalents at end of period	**$ 568**	**$ 1,663**
Supplemental of cash flow information:		
Cash paid for interest	$ 191	$ 369
Cash paid for income tax	15	-