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.

March 25, 2021

ProPhotonix Limited

("ProPhotonix" or the "Company")

RESULTS FOR THE YEAR ENDED DECEMBER 31, 2020 and
NOTICE OF POSTING 2020 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 2020 financial results and notice of availability on the Company's web site.

2020 Summary Results

Revenue for 2020 was $13.6 million (2019: $15.0 million) and operating income was $0.6 million (2019: $1.1 million). Operating income for 2019 includes a benefit of stock option compensation of $1.2 million whereas operating income for 2020 includes a stock option compensation charge of $58,000. Operating income and net income for 2020 include the benefit of $0.5 million relating to cost offsets from local government wage subsidy schemes in effect as a result of Covid-19 whereas no such benefit existed in 2019.

Cash and cash equivalents at December 31, 2020 was $2.6 million (2019: $1.5 million). The Company generated $2.1 million of cash from its operating activities for the year ended December 31, 2020; repaid net debt of $0.9 million; and increased the cash position by $1.1 million from December 31, 2019. Detailed financial results and notes follow.

Key metrics

• Order bookings of $13.4 million (2019: $16.5 million)
• Book-to-Bill ratio of 0.99 (2019: 1.09)
• Percentage revenue by market sectors: 81% industrial, 18% medical and 1% security & defense
(2019: 75% industrial, 23% medical and 2% security & defense)
• Percentage revenue by geography: 44% Europe, 54% North America and 2% Rest of World
(2019: 37% Europe, 61% North America and 2% Rest of World)

Tim Losik, President & CEO, commented:

Financial

"Overall, we are pleased with the year 2020. Though our revenue declined by 9%, largely from Covid-19, we were able to mitigate the reduction with an outstanding result. Most importantly, cash ended the year at $2.6 million, representing an increase of $1.1 million. The balance sheet strengthened not only from the increase in cash but also from a significant reduction in debt of $0.9 million. A measure of this improvement is the current ratio which improved to 2.0 from 1.7. We look forward to the opportunity that the future holds as we come through the pandemic to more prosperous times.

Product Development

"During 2020, we developed and announced new products including: several variants of the MultiSpec product family addressing the multispectral and hyperspectral industrial markets; a deep UV (UVC, 265 nanometer) FX product targeted to the biomedical and curing markets; several variants of the Prodigii laser product family (from UV to Near Infrared wavelengths) addressing the industrial markets. Additionally, numerous OEM specific projects have been undertaken to address specific applications and use cases for existing and new customers. Product development, accomplished by our experts at ProPhotonix, is focused on applications in growing markets and OEM projects requiring unique attributes that are not attainable in the general market. Specific use cases include applications such as: Algae growth, eye health, railway inspection, and 3D printing."

Covid-19

The outbreak of the COVID-19 pandemic and the measures adopted by local governments to mitigate its spread impacted the Company from March 2020 onwards. The outbreak of the pandemic caused the Company to shut down its facilities for brief periods in 2020. Risks in the supply chain became evident though to-date there have been no substantial delays or negative consequences to the business relating to the supply chain.

Posting of Results

The Company will publish and post its final audited results for the year ended December 31, 2020 on or before June 30, 2021. The Annual Report and Accounts will be available on the Company's website on or before March 31, 2021, at www.prophotonix.com.

Trading update

Given the inherent uncertainties surrounding COVID-19, the Board continues to believe it is inappropriate to provide forward looking guidance to investors and analysts at the current time.

For further information:

ProPhotonix Limited	
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WH Ireland Limited	
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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.

Chief Executive Officer and Non-Executive Chairman Statement:
Our business was not untouched by the outbreak of the COVID-19 pandemic in 2020 with our manufacturing plants in U.K. and Ireland closed for several weeks during the year, our customers' operations slowed as well and our revenue declined. As the breadth of the pandemic became apparent, we took a series of measures to mitigate the downside effect on our business. We cut back on operating costs through temporary pay reductions and, in some cases, elimination of certain personnel. We participated in government job retention schemes and took advantage of other government support measures and we deferred lease and loan payments where possible. These efforts led to generating cash from operating activities and put us in a position to make further investments in the business so that we may achieve our objectives.

We operate a subsidiary in the United Kingdom (UK) with implications relating to Brexit. In December 2020, the UK and the European Union entered into a trade and cooperation agreement. The agreement settles the uncertainty of trading between the two geographies though still leaves considerable uncertainty regarding the logistics and ease of movement of goods. During the period of transition, January 1, 2020 to December 31, 2020, and early in the first quarter of 2021 we have not experienced any substantive operational issues relating to Brexit.

Financial Summary:

Revenue decreased by $1.4 million, or 9%, for the year ended December 31, 2020 compared to the same period in 2019 and operating income decreased by $0.5 million over the same two periods. The decline in revenue was offset by significant reductions in operating costs and the benefit of $0.5 million of local government Covid-19 related support. Operating income for the year ended December 31, 2019 includes a benefit of stock option compensation of $1.2 million whereas operating income for the year ended December 31, 2020 includes a charge of stock option compensation of $58,000.

We generated $2.1 million of cash from our operating activities for the year ended December 31, 2020; repaid net debt of $0.9 million; and increased the cash position by $1.1 million compared to December 31, 2019. The net cash position (cash minus term debt and capital leases) was positive $1.9 million at December 31, 2020 compared to negative $0.1 million at December 31 2019. We ended the year with $2.6 million of cash and a current ratio of 2.0 compared to 1.7 for the prior year.

Strategy:

The first part of our strategy relates to getting our operations back up to the point where we can meet what we expect to be more buying demand from our customers in 2021 and beyond. Our customer relationships are vitally important and we provide solutions to them to achieve their own 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 our strategy remains established in our OEM heritage as well as the development of products directed at specific markets. We have 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 fulfillment of our strategies. We continue to concentrate our engineering capacity in defined projects and areas that we believe are poised for fast market expansion.

Respectfully submitted,

Tim Losik
President and Chief Executive Officer

Ray Oglethorpe
Non-Executive Chairman

PROPHOTONIX LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands except share data)

December 31	**2020**	**2019**
Assets		
Current assets:		
Cash and cash equivalents	$ 2,641	$ 1,477
Accounts receivable, less allowances of $9 in 2020 and $10 in 2019 (Note 2)	2,216	2,801
Inventories, less allowances of $873 in 2020 and $782 in 2019 (Note 3)	2,651	2,584
Prepaid expenses and other current assets	484	678
Total current assets	7,992	7,540
Net property, plant and equipment (Note 4)	512	573
Operating lease right-of-use asset (Note 13)	190	312
Goodwill (Note 5)	432	397
Intangible assets, net (Note 6)	458	377
Other long-term assets	129	166
Total assets	$ 9,713	$ 9,365
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility (Note 7)	$ —	$ 912
Current portion of long-term debt (Note 7)	329	220
Accounts payable	1,460	1,941
Accrued payroll, benefits and incentive compensation	419	283
Deferred revenue (Note 15)	553	553
Accrued warranty expenses (Note 2)	168	164
Other accrued expenses	562	276
Operating lease liabilities, current (Note 13)	117	119
Current portion of finance lease obligations (Note 13)	43	58
Total current liabilities	3,651	4,526
Deferred revenue, noncurrent (Note 15)	409	227
Operating lease liabilities, noncurrent (Note 13)	73	193
Long term debt obligations, net of current portion (Note 7)	346	387
Long term finance lease obligations, net of current portion (Note 13)	23	40
Total liabilities	4,502	5,373
Stockholders' Equity:		
Common stock, par value $0.001; shares authorized 250,000,000 at December 31, 2020 and 2019; 93,300,402 shares issued and outstanding at December 31, 2020 and 93,150,402 shares issued and outstanding at December 31, 2019	93	93
Additional paid-in capital	112,894	112,838
Deferred compensation	—	(2)
Accumulated deficit	(108,658)	(109,750)
Accumulated other comprehensive income	882	813
Total stockholders' equity	5,211	3,992
Total liabilities and stockholders' equity	$ 9,713	$ 9,365

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,	**2020**	**2019**
Revenue	$ 13,558	$ 14,976
Cost of revenue	(7,862)	(8,969)
Gross profit	5,696	6,007
Research & development expenses	(980)	(1,226)
Selling, general & administrative expenses	(4,126)	(3,686)
Operating income	590	1,095
Other income, net	1	53
Foreign currency exchange gains	161	25
Warrant & debt acquisition expense	(10)	(14)
Interest expense	(71)	(106)
Income before taxes	671	1,053
Income tax benefit/(expense)	421	(57)
Net income	$ 1,092	$ 996
Other comprehensive income:		
Foreign currency translation	69	(69)
Total comprehensive income	$ 1,161	$ 927
Net income per share: basic and diluted:		
Basic net income per share	$0.012	$0.011
Diluted net income per share	$0.011	$0.011
Shares used in per share calculations - basic	93,225,402	93,150,402
Shares used in per share calculations - diluted	101,480,402	93,150,402

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Shares	Par $0.001	Paid in Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
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
Net income	—	—	—	—	1,092	—	1,092
Translation adjustment	—	—	—	—	—	69	69
Deferred compensation	150	—	(2)	2	—	—	—
Share based compensation	—	—	58	—	—	—	58
Balance December 31, 2020	93,300	$ 93	$112,894	$ —	$ (108,658)	$ 882	$ 5,211

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

Years Ended December 31	**2020**	**2019**
Operating activities		
Net income	$ 1,092	$ 996
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation (benefit) / expense	58	(1,229)
Depreciation	230	189
Foreign exchange loss	(157)	214
Amortization of debt discount and financing costs	10	7
Allowance for inventories	41	180
Allowance for bad debt	(1)	9
Other changes in assets and liabilities:		
Accounts receivable	664	(23)
Inventories	58	(471)
Prepaid expenses and other current assets	210	(447)
Intangible assets, net	(48)	(82)
Deferred tax asset	—	454
Accounts payable	(536)	211
Deferred revenue	104	282
Accrued expenses	366	(45)
Other assets and liabilities	49	(42)
Net cash provided by operating activities	2,140	203
Investing activities		
Purchase of property, plant and equipment	(76)	(175)
Net cash used in investing activities	(76)	(175)
Financing activities		
Net proceeds from issuance of debt	152	—
Payments of revolving credit facilities, net	(887)	(163)
Payments for finance leases	(38)	(56)
Principal repayment of long-term debt	(131)	(93)
Net cash (used in) financing activities	(904)	(312)
Effect of exchange rate on cash	4	(178)
Net change in cash and equivalents	1,164	(462)
Cash and equivalents at beginning of period	1,477	1,939
Cash and equivalents at end of period	$ 2,641	$ 1,477
Supplemental cash flow information:		
Cash paid for interest	$ 71	$ 106

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED AND SUBSIDIARIES
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, healthcare, 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 outbreak of the COVID-19 pandemic and the measures adopted by the government in the U.K. and Ireland to mitigate its spread have impacted the Company from March 2020 onwards. The outbreak of the pandemic caused the Company to shut down its U.K. manufacturing plant for a period of three weeks and its Ireland plant for a period of two weeks during 2020. Revenue decreased by $1.4 million, or 9%, for the year ended December 31, 2020 compared to the same period in 2019 due to the impact of the pandemic.

Management acted to mitigate the revenue decline brought by COVID-19 by reducing costs, deferring property rent payments and loan payments, participating in government job retention schemes and availing itself of other government support measures. As a result, the Company’s operating income decreased by $0.5 million for the year ended December 31, 2020 compared to the same period in 2019 despite the $1.4 million decrease in revenue over the same periods. Operating income for the year ended December 31, 2019 includes a benefit of stock option compensation of $1.2 million whereas operating income for the year ended December 31, 2020 includes a charge of stock option compensation of $0.1 million. The Company generated $2.1 million of cash from its operating activities for the year ended December 31, 2020; repaid net debt of $0.9 million; and increased the cash position by $1.1 million from December 31, 2019.

The Company is subject to a financial covenant in relation to its loan facility, being that the historic annual debt service cover ratio shall not be less than 1.30:1. The covenant is tested annually at December 31. The Company complied with this covenant at December 31, 2020. The loan facility is due to be repaid in full on December 31, 2022.

There is still uncertainty over how the future development of the pandemic will impact the Company’s business and customer demand for its products. Therefore, in assessing the going concern position of the Company, the directors have modelled a number of different cash flow forecast scenarios which cover the period until December 31, 2022 (the going concern assessment period). These forecasts take into consideration the anticipated impact of COVID-19 on the cash flow and liquidity of the Company. The Company’s base case scenario forecasts a positive cash position throughout the forecast period with no covenant breaches. In the severe but plausible downside scenario that includes a revenue reduction of 20%, assuming in this scenario that gross profit margins remain consistent when compared to the prior year, variable costs decrease in line with revenue and that mitigating actions are taken such as reducing discretionary capex spend and restricting payroll increases the Company is forecast to breach its loan covenant and therefore may need to repay the outstanding loan balance at that time. However, the Company is still forecast to have sufficient cash in this scenario to repay the outstanding loan balance at this date and to continue its operations. The forecast cash position in this scenario at December 31, 2021 is $1.7 million with an outstanding loan balance of $0.3 million.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities

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

as they fall due for the going concern assessment period and therefore have prepared the financial statements on a going concern basis.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

— Note 1 – going concern: whether there are material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern;
— Note 5 – impairment test of goodwill: key assumptions underlying recoverable amounts;

(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. 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 AND CONCENTRATION OF CREDIT RISK

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's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. 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 periodically reviews the collectability of its accounts receivable. Allowance for doubtful accounts are established for accounts that are deemed uncollectible. The Company also has accounts receivables insurance at its U.K. subsidiary, ProPhotonix Limited, which allows the Company to submit a claim on overdue accounts receivables in excess

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

of 60 days past invoice due date. The Company has not made any claims in either 2020 or 2019. 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 any 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.

Changes in the allowance for doubtful accounts were as follows:

	In thousands	
Years Ended December 31	**2020**	**2019**
Balance at beginning of period	$ 10	$ 49
Benefits from or charges to costs and expenses	(1)	(38)
Account write-offs and other deductions	—	(1)
Balance at end of period	$ 9	$ 10

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

The Company limits its exposure to credit risk from trade receivables by establishing typical and maximum payment periods of 30 days and 90 days, respectively, for its customers. Credit risk is further 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 had one customer accounting for 10% or more of consolidated revenues in each of the years ended December 31, 2020 and 2019. The Company had one customer that accounted for 10% or more of the outstanding accounts receivable balance at December 31, 2020 and two such customers at December 31, 2019.

The Company maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed insured limits. At December 31, 2020 and 2019, the amount in excess of governmental insurance protection was $1.6 million and $1.0 million, respectively. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

INVENTORY

The Company values inventories at the lower of cost or net realizable value using the first in, first-out ("FIFO") method. Manufacturing overhead costs are applied to inventory at period end based upon the estimated added value of overhead in inventory. 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 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 incurred.

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

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.

LEASES

The Company determines if an arrangement is a lease at inception. This determination includes the review of contracts with third parties to identify the existence of potential embedded leases. Operating leases are included in operating lease right-of-use (“ROU”) assets, operating lease liabilities, current and noncurrent operating lease liabilities on the Company’s consolidated balance sheets. Finance leases are included in current and long-term capital lease obligations on the Company’s consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and the corresponding lease liabilities represent its obligation to make lease payments arising from the lease. Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The lease ROU asset is reduced for tenant incentives and excludes any initial direct costs incurred. As the Company’s leases do not provide an implicit rate, the net present value of future minimum lease payments is determined using the Company’s incremental borrowing rate. The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

The Company negotiated concessions in the form of rent payment deferrals for several of its leases as a result of the impact of the COVID-19 pandemic. These concessions affect only the timing, but not the amount, of total lease consideration over the term of the lease and they had no significant effect on the Company’s results of operations for the year ended December 31, 2020. Thus, the Company elected to apply the lease modification guidance from *ASC Topic 842, Leases*, for the concessions which resulted in no change to its operating lease or capital lease liabilities and it classified the payment deferrals as part of other accrued expenses on its consolidated balance sheet.

INCOME (LOSS) PER SHARE

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

As of December 31, 2020, 15,204,198 shares underlying options could potentially have been included in the calculation of diluted shares. However, as the exercise price at December 31, 2020 was $0.07 per share, only 8,180,000 exercisable options were included in the calculation of earnings per share. All other options' exercise price exceeded the market price.

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.

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.

Shipping and handling costs associated with outbound freight, after control over a product has transferred to a customer, are accounted for as a fulfillment cost and are included in cost of goods sold as incurred.

For a small number of contracts revenue is recognized over time, as the manufacturing process progresses, because of the Company's enforceable right to payment for performance completed on customized products for which the Company has no alternative use. Revenue is measured by the costs incurred to date relative to the estimated total direct costs to fulfill each contract (cost-to-cost method). Incurred costs represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, materials and overhead.

Taxes assessed by a government authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from sales.

The Company's primary source of revenue is from sales of its LED and Laser diodes products. It also generates revenue from Non-recurring Engineering ("NRE") services that it provides to its customers. The Company does not act as an agent in any of its revenue arrangements. Contracts with customers generally state the terms of the sale, including the quantity and price of each product purchased. Payment terms and conditions may vary by contract, although terms generally include a requirement of payment within a range of 30 to 60 days after the performance obligation has been satisfied. As a result, the contracts do not include a significant financing component. In addition, contacts typically do not contain variable consideration as the contracts include stated prices. The Company provides assurance type warranties on all of its products, which are not separate performance obligations and are outside the scope of Topic 606. See below for further details on the Company's product warranties.

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.

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

Changes in the warranty reserves were as follows:

	In thousands	
Years Ended December 31	**2020**	**2019**
Balance at beginning of period	$ 164	$ 170
Charges to costs and expenses	(10)	(3)
Account write-offs and other deductions	14	(3)
Balance at end of period	$ 168	$ 164

ADVERTISING EXPENSE

The Company expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2020 and 2019 were $44,000 and $12,000, respectively.

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.

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, 2020 or 2019.

CARES Act and CAA - On March 27, 2020 and December 27, 2020, the President of the United States signed and enacted into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) and the *Consolidated Appropriations Act, 2021* (CAA). Among other provisions, the CARES Act and the CAA provide relief to U.S. federal corporate taxpayers through temporary adjustments to net operating loss rules, changes to limitations on interest expense deductibility, and the acceleration of available refunds for minimum tax credit carryforwards. The CARES Act and the CAA did not have a material effect on the Company’s taxes for the year ended December 31, 2020.

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

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 2020 the Company recognized an expense of $0.1 million of stock-based compensation related to the options and fully vested shares issued to the directors and employees as compensation (See Note 10), all of which were charged to selling, general and administrative expense. 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.

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.

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 accumulated other comprehensive income a separate component of stockholders' equity in the accompanying consolidated balance sheets.

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

FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at

December 31, 2020 and 2019. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Years Ended December 31	**2020**		**2019**	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 2,641	$ 2,641	$ 1,477	$ 1,477
Trade accounts receivable	2,216	2,216	2,801	2,801
Financial liabilities				
Revolving credit facility	—	—	912	912
Trade accounts payable	1,460	1,460	1,941	1,941
Current portion of long-term debt	329	329	220	220
Current portion of finance lease obligations	43	43	58	58
Long-term debt obligations, net of current portion	346	346	387	387
Long-term finance lease obligations, net of current portion	23	23	40	40

The fair values of the financial instruments shown in the above table as of December 31, 2020 and 2019 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents, trade accounts receivable, revolving credit facility, trade accounts payable, current portion of debt and current portion of finance lease obligations: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.
- Long-term debt obligations and long-term finance lease obligations: The fair value of the Company's long-term debt and finance lease obligations are determined by discounting the future cash flows of each instrument at rates that reflect rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk.

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities, excluding accounts payable, over the next 60 days. The company has $2.6 million of cash and $0.7 million of debt and capital lease obligations as of December 31, 2020 as compared to $1.4 million of cash and $1.6

million of debt and capital lease obligations as of December 31, 2019. Additionally, its current ratio improved from 1.7 as of December 31, 2019 to 2.0 as of December 31, 2020. The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

At December 31, 2020 and 2019, the company's trade and other receivables maturing within three months was $2.1 million and $2.3 million, respectively, and the expected cash outflows from trade and other payables due within three months at December 31, 2020 and 2019 were $1.4 million and $1.9 million, respectively. This estimate excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The decrease in expected cash inflows from trade receivables compared with the prior year is largely attributable to the overall decrease in revenue the Company experienced as a result of the COVID-19 pandemic.

The Company availed itself of Government loans relating to liquidity constraints arising from the COVID-19 pandemic. The impact of those steps on the consolidated financial statements is described in the Government Grants section of this footnote.

GOVERNMENT GRANTS

United States PPP Loan - On May 5, 2020, the Company received loan proceeds in the amount of $0.1 million under the Paycheck Protection Program ("PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses. The Company determined it qualified for the PPP loan as its business was negatively impacted by the coronavirus pandemic. The PPP loan and accrued interest are forgivable to the extent the proceeds of the loan are used for eligible expenditures such as payroll and other expenses as described in the CARES Act.

The Company has accounted for the PPP loan in accordance with ASC 450-30, *Contingencies: Gain Contingencies*. The loan amount of $0.1 million is included in short term debt in the accompanying consolidated balance sheet as of December 31, 2020. This loan was forgiven by the U.S. Small Business Association on January 25, 2021, on which date the Company's obligation to repay the loan was effectively eliminated.

Wage Subsidy Schemes - The Company's ProPhotonix (IRL) Limited and ProPhotonix Limited U.K. subsidiaries each received grants related to wage subsidy programs introduced in the United Kingdom and Ireland in response to the COVID-19 coronavirus pandemic. In the United Kingdom, the Company was entitled to the wage subsidy for furloughed or reduced employee hours from March 2020 to December 2020. In Ireland, the Company qualified for the grant due to a reduction in 2020 revenue compared to 2019 resulting from a decline in sales orders and delays in the Company's supply chain. From March to December 2020, the Company received $0.3 million and $0.2 million from the wage subsidy program in Ireland and the United Kingdom, respectively. These grants were recorded as a reduction in cost of revenue and operating expenses of $0.3 and $0.2 respectively for the twelve months ended December 31, 2020. There is no outstanding amount receivable from governments related to these grants as of December 31, 2020. The Company believes the receipt of funds under the schemes meets the qualifications and use requirements of the programs.

Horizon Research In November 2018, the Company entered into a European Union (EU) funded Horizon 2020 Research to Innovation Grant to partner with other participants in the development of a high quality water enhancement system. During 2019, the Company received advanced funding of $0.4 million. During the years ended December 31, 2020 and 2019, the Company used $0.2 million and $27,000, respectively, of the grant and recorded it as a reduction in its operating expenses. At December 31, 2020, the Company held $0.2 million of unspent grant cash recorded as a concurrent liability on its consolidated balance sheet.

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

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.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

Additionally, in 2018 through 2020, the FASB issued the following Topic 842-related ASUs:

• 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, which clarifies the applicability of Topic 842 to land easements and provides an optional transition practical expedient for existing land easements.

• 2018-10, *Codification Improvements to Topic 842, Leases*, which makes certain technical corrections to Topic 842.

• 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows companies to adopt Topic 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease and non-lease components of a contract if certain criteria are met.

• 2019-01, *Leases (Topic 842): Codification Improvements*, which provides guidance for certain lessors on determining the fair value of an underlying asset in a lease and on the cash flow statement presentation of lease payments received. ASU 2019-01 also clarifies disclosures required in interim periods after adoption of ASU 2016-02 in the year of adoption.

• 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), Effective Dates*, which defers the effective date of ASU 2016-02 and all related Topic 842 ASUs by one year to January 1, 2021, with early adoption permitted.

The ASUs issued in 2018 and 2019 for Topic 842 are effective for the Company at the same time as it adopts ASU 2016-02. However, ASU 2018-01 and the amendments related to lessors in ASU 2018-11 and ASU 2019-01 did not have a material effect on the Company's 2020 and 2019 consolidated financial statements because the Company does not enter into land easement arrangements and it is not a lessor. The Company adopted ASU 2016-02 on January 1, 2019 using a modified retrospective transition approach as of the effective date as permitted by the amendments in ASU 2018-11. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption (i.e. January 1, 2019). The Company has elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized. The Company did not elect the practical expedient to use hindsight for leases existing at the adoption date.

The adoption of ASU 2016-02 had a material effect on the Company's consolidated balance sheet but did not materially affect the consolidated statement of income. The most significant changes to the consolidated balance sheet relate to the recognition of new ROU assets and lease liabilities for operating leases. The Company's accounting for finance leases remains substantially unchanged. The adoption of ASU 2016-02 also had no material effect on operating, investing, or financing cash flows in the consolidated statement of cash flows. However, ASU 2016-02 has significantly affected the Company's disclosures about noncash investing and financing activities. Additionally, the Company's lease-related disclosures have significantly increased as of and for the year ended December 31, 2020 as compared to prior years. See Note 13.

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

As a result of adopting ASU 2016-02, the Company recognized additional operating liabilities of $0.3 million (of which $0.1 million was current and $0.2 million was noncurrent) with corresponding ROU assets of the same amount as of January 1, 2019.

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 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 adoption of ASU 2017-04 did not have a material effect on the Company's consolidated financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. ASU 2019-12 is effective for the Company's annual periods beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the effect the adoption of ASU 2019-12 will have on its consolidated financial statements.

(3) 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:

	In thousands	
Years Ended December 31	**2020**	**2019**
Finished goods	$ 459	$ 722
Work-in-process	607	456
Raw materials	2,458	2,188
Gross inventories	$ 3,524	$ 3,366
Inventory reserves	(873)	(782)
Net inventories	$ 2,651	$ 2,584

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.

(4) PROPERTY, PLANT AND EQUIPMENT

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

	In thousands	
Years Ended December 31	**2020**	**2019**
Buildings and building improvements	$ 263	$ 249
Computer equipment	513	477
Machinery and equipment	2,472	2,257
Furniture and fixtures	549	488
Property, plant and equipment	$ 3,797	$ 3,471
Less accumulated depreciation	(3,285)	(2,898)
Net property, plant and equipment	$ 512	$ 573

Depreciation expense from operations was $0.2 million for each of the years ended December 31, 2020 and 2019.

(5) GOODWILL

The Company adopted ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) ("ASU 2017-04") related to measurements of goodwill during the year ended December 31, 2020. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill and instead allows entities to record an impairment charge based on the excess of a reporting unit's carrying value over its fair value.

The Company operates in two reporting units: LED's (light emitting diode systems) and Laser & Diodes. Goodwill as of December 31, 2020 and 2019 relates to the LED reporting unit. The forecasts of discounted cash flows used in estimating the fair value of the LED reporting unit requires that certain assumptions and estimates be made regarding industry economic factors and future profitability of the reporting unit to assess the need for an impairment charge. This approach used multiple cash flow projections taking into consideration assumed probabilities of different future events and/or scenarios instead of a single cash flow scenario. While many scenarios and probabilities may exist, management ultimately believes that the three scenarios detailed below (downside, base case and upside) reflect a representative sample of possible outcomes.

The calculations use cash flow projections that are based on financial budgets and business plans prepared by management and approved by the board of directors. The budgets and business plans are updated to reflect the most recent developments as at the reporting date. Management's expectations reflect performance to date and are based on its experience in times of recession and consistent with the assumptions that a market participant would make.

For each scenario, management has assigned probability weights. The recoverable amount was estimated by calculating the present value of the probability-weighted expected cash flows. The fair value measurement was categorized as a Level 3 fair value based on the inputs and the valuation technique used.

In 2020, the Company changed its valuation technique used to estimate the recoverable amount from the traditional approach (the discount rate adjustment method), which uses a single cash flow scenario, to the expected cash flow approach, which uses multiple, probability-weighted cash flow scenarios. The change in valuation technique is due to the significantly higher degree of estimation uncertainty and wider range of possible cash flow projections following the impact of the COVID-19 pandemic.

The upside scenario reflects a 22% revenue increase in 2021 and then that growth rate decreases over the ensuing three years such that the average growth rate over the period from 2021 to 2024 is 10%. The 22% increase in revenue for 2021 is based on a statistical forecast of the LED reporting unit's revenue from the periods before the COVID-19 pandemic. The budgeted operating profit margin for these scenarios are 10% (2020: 5%) due to the increase in revenue.

The base case scenario reflects an 11% increase in 2021 revenue and a 6% average growth rate in revenue from 2021 to 2024. This reflects a return to the pre-crisis levels of revenue. The budgeted operating profit margins for these scenarios are 3% due to the flat revenue compared to pre-crisis revenue levels.

The downside scenario reflects a continuing negative impact of COVID-19 on the LED reporting unit's revenue wherein 2021 revenue decreases by a further 6% as compared to the already crisis reduced revenue of 2020 resulting in an average revenue from 2021 to 2024 that is below the pre-crisis revenue. The budgeted operating profit margin is 0% due to the decrease in revenue.

The cash flow projections for the upside, base case and downside scenarios included specific estimates for four years and a terminal growth rate thereafter. The key assumptions used in estimating the estimated fair value at December 31, 2020 are set out on the following page.

(5) GOODWILL (cont.)

	Downside	Base case	Upside
Probability Weights	20%	70%	10%
Discount rate (post-tax)	16.6%	16.6%	16.6%
Average operating profit margin (2021-22)	-2%	1%	9%
Average operating profit margin (2023-24)	3%	5%	12%
Terminal value growth rate	1.5%	1.5%	2.0%

The key assumptions in the table above are based on the following.

— Probability weights: Management has subjectively assigned probability weights to each scenario based on its experience in times of recession and its expectations for the economy under and following the COVID-19 pandemic. Management believes that the probability weight assignment presents a reasonable assessment of the likelihood of the scenarios, taking into account the potential for a more robust recovery on the upside and the risk of bankruptcy on the downside.

— Discount rate: The discount rate used is the weighted-average cost of capital (WACC). The discount rate does not reflect risks for which the estimated cash flows have been adjusted. The discount rate is a post-tax measure based on the rate of 20-year government bonds issued by the most creditworthy government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the risk of the LED reporting unit.

— Average operating profit margin (2021–22): The average operating profit margins were estimated taking into account potential further reductions in operating expenses in 2021 under the downside scenario. The average operating profit margins are based on the revenue growth rates in 2021–23, which have been determined considering the expected economic conditions in 2021–23 under each scenario.

— Average operating profit margin (2023-24): The average operating profit margins reflect the expected revenue growth rates in 2023–24. The pre-crisis operating profit margin is -1% for the LED reporting unit.

— Terminal value growth rate: The long-term growth rate into perpetuity has been determined as the compound annual EBITDA growth rate estimated by management. The terminal growth rate for the base case and downside scenarios of 1.5% has been reduced to reflect potential long-term effects of the crisis on GDP.

The assumptions used in estimating the recoverable amount are consistent with the assumptions that a market participant would make.

The estimated fair value of the LED reporting unit exceeded its carrying amount by $0.1 million in the downside scenario. Further reduction in revenue from that which was used in the downside scenario would eventually lead to impairment. However, the estimated fair value exceeded its carrying amount by $1.2 million in the base case scenario, which management believes to be most likely, so no adjustment is required for impairment.

The changes in the carrying amount of goodwill for the years ended December 31, 2020 and 2019 were as follows:

	In thousands	
Years Ended December 31	**2020**	**2019**
Balance at beginning of period	$ 397	$ 405
Effect of exchange rate	35	(8)
Balance at end of period	$ 432	$ 397

(6) INTANGIBLE ASSETS

Intangible assets consists of capitalized software development costs. The Company capitalizes these costs in accordance with ASC-350; 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

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of December 31, 2020 and 2019. The gross carrying values and the accumulated amortization values are impacted by the foreign currency translation adjustment.

	In thousands	
Years Ended December 31	**2020**	**2019**
Gross carrying amount of capitalized software development costs	$ 585	$ 439
Accumulated amortization	(127)	(62)
Net balance	$ 458	$ 377

(7) DEBT

		In thousands	
Years Ended December 31		**2020**	**2019**
Senior Fixed Rate Secured Term Note with KKV ("KKV Note"), maturing on December 31, 2022 with an interest rate of 10%, at December 31, 2020.	Total debt less unamortized debt issuance costs	$ 519	$ 607
PPP loan with Enterprise Bank and Trust Company maturing on May 5, 2025 with an interest rate of 1% at December 31, 2020	Total debt	86	
Bounce Back Loan with HSBC UK Bank plc maturing on May 5, 2026 with an interest rate of 2.5% at December 31, 2020	Total debt	68	—
Borrowings under Revolving Credit facility with Barclays Bank Sales Financing with an interest rate of 2.0% above Barclays' base rate at December 31, 2020 (2.25% as of December 31, 2019).	Principal Amount	—	912
		673	1,519
	Less: Revolving Credit Facility		(912)
	Less: current portion of long-term debt	(338)	(220)
	Long-term debt less unamortized discount and debt issuance costs	$ 335	$ 387

The Company made $0.1 million in interest payments during 2020 and is expected to make $45,000 in interest payments during the year ended December 31, 2021. Scheduled future maturities of debt, excluding interest payments and the effect of unamortized debt issuance costs, for the next five years are as follows:

	In thousands					
Due by period	2021	2022	2023	2024	2025+	Total
Debt obligations	$ 344	$ 289	$ 14	$ 14	$ 18	$ 679

(7) 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, from KKV Investment Management Ltd., formerly SQN Secured Income Fund PLC, ("KKV Note") in the original principal amount of £0.7 million ($0.9 million at June 14, 2018) secured by certain assets of ProPhotonix (IRL) Limited.

The Company received a six-month deferral of loan principal payments during the year ended December 31, 2020 which extended the loan maturity to December 31, 2022. During the six-month deferral period, the Company continued to make interest payments totaling $26,000 as scheduled. The Company has determined that the loan modification does not meet the criteria for troubled debt restructuring under ASC 470-50, Debt—Modifications and Extinguishments, and that the terms of the modified loan are not substantially different from the original terms of the loan. Therefore, the Company accounted for the loan modification as a continuation of the loan and there was no material impact to its consolidated financial statements.

The company did not breach its debt covenant ratio as of December 31, 2020 or 2019.

PPP loan

On May 5, 2020, the Company received loan proceeds in the amount of $0.1 million under the Paycheck Protection Program ("PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses. The Company determined it qualified for the PPP loan as its business was negatively impacted by the coronavirus pandemic.

The loan bears interest at a rate of 1% and is payable in monthly installments of principal and interest over two years, beginning six months from the date of the note. The loan may be repaid at any time with no prepayment penalty. On June 3, 2020, the Paycheck Protection Program Flexibility Act of 2020, was enacted which extended the repayment period from two years to five years and the deferral payment period from six months to ten months.

The Company has accounted for the PPP loan in accordance with ASC 450-30, *Contingencies: Gain Contingencies*. The loan amount of $0.1 million is included in short term debt in the accompanying consolidated balance sheet as of December 31, 2020. This loan was forgiven by the U.S. Small Business Association on January 25, 2021, on which date the Company's obligation to repay the loan was effectively eliminated.

ProPhotonix Limited Bounce Back Loan

On May 6, 2020, the Company received loan proceeds in the amount of $0.1 million under the U.K. government's Bounce Back Loan Scheme (BBL Scheme) which provides loans to small and medium sized business who have been negatively affected by the coronavirus pandemic. The loan bears interest at a rate of 2.5% and is payable in 60 monthly installments beginning 13 months from the date of the loan. $0.1 million of the loan amount is included in long-term debt obligations and $8,000 is included in short-term debt obligations in the accompanying consolidated balance sheet as of December 31, 2020.

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.

(7) DEBT (cont.)

The most recent amendment of February 10, 2017, 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, 2018 with a rolling evergreen provision which extended through April 22, 2020. The Company chose not to renew the facility with Barclays and fully paid the outstanding balance during 2020.

(8) 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, 2020. The Company had deferred tax assets, before considering the full valuation allowance, totaling $13.1 million and $14.4 million as of December 31, 2020 and 2019, 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 some 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. Because of its historical operating losses, the Company has not been subject to income taxes since 1996.

The Company is subject to taxation in the U.S., the United Kingdom, Ireland and various states and local jurisdictions. As a result of the Company’s tax loss position, the tax years 2002 through 2020 remain open to examination by the federal and most state tax authorities in the U.S. In addition, the tax years 2013 through 2020 are open to examination in foreign jurisdictions.

For the years ended December 31, 2020 and 2019, income from continuing operations before taxes consists of the following:

	In thousands	
Years Ended December 31	**2020**	**2019**
U.S. operations	$ 120	$ 1,405
Foreign operations	551	(352)
Net income before provision for income taxes	$ 671	$ 1,053

Income tax benefit attributable to income from continuing operations was $0.4 million for the year ended December 31, 2020 and income tax expense attributable to income from continuing operations was $0.1 million for the year ended December 31, 2019, 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:

(8) TAXES (cont.)

Years Ended December 31	2020 (In thousands)	2019 (In thousands)
Computed "expected" tax expense	$ (142)	$ (222)
Increase (reduction) in income taxes resulting from:		
Change in valuation allowance	737	231
Foreign tax rate differential	39	(33)
Adjustments in respect of prior periods	164	(2)
Non-deductible items	(377)	(31)
Income tax benefit (expense)	$ 421	$ (57)

The significant items comprising the deferred tax asset and liability at December 31, 2020 and 2019 are as follows:

Years Ended December 31	2020 (In thousands)	2019 (In thousands)
Domestic net operating loss carry forwards	$ 12,631	$ 12,649
Foreign net operating loss carry forwards	1,023	1,194
R&D tax credit	525	525
Other	44	589
Valuation allowance	(14,223)	(14,957)
Deferred tax asset	$ —	$ —

As of December 31, 2020, the Company had United States federal net operating loss carry forwards (NOLs) of $60.1 million (2019: $60.2 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.

At December 31, 2019, the Company had Canadian federal NOLs of $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, 2020, the Company has United Kingdom NOLs of $4.0 million (2019: $4.0 million). At December 31, 2020, the Company has an Ireland NOL of $2.5 million (2019: $2.9 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 decreased by $0.7 million for the year ended December 31, 2020 (2019: increased by $0.5 million).

(9) UNREGISTERED SALES OF EQUITY SECURITIES AND WARRANTS OUTSTANDING

WARRANTS

There were no warrants exercised in 2020 or 2019. As of December 31, 2019, 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	2020

As of December 31, 2020, there were no warrants outstanding.

(10) 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.

As of December 31, 2020, there were 17,900,000 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. The Independent Directors voluntarily refused one of their quarterly fee payments during the year ended December 31, 2020 in light of the negative impact that the COVID-19 crisis had on the Company. During the years ended December 31, 2020 and 2019 the Independent Directors each received $22,500 and $30,000 per annum of fees. On November 9, 2020 and May 16, 2019 each Independent Director received a grant of 75,000 fully vested shares of the Company’s Common Stock with a total value of $4,500 and $7,200, respectively. Total directors’ compensation including other benefits are disclosed on pages 17 and 18 of this Annual Report 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, 2020. There was an intrinsic value on the options outstanding, and exercisable, at December 31, 2020 of $0.2 million. There was no intrinsic value of the options outstanding or exercisable as of December 31, 2029 since the fair market value was below the exercise price for all options outstanding as of that date.

(10) STOCK OPTION PLANS (cont.)

There were no options granted during the year ended December 31, 2020 or 2019. The following table summarizes information related to the outstanding and exercisable options during the years ended December 31, 2020 and 2019:

	Options Outstanding	Weighted Average Exercise Price per Share ($)	Weighted Average Remaining Contractual Term (in Years)
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
Balance at December 31, 2019	17,300,044	0.09	3.68
Granted	—	—	
Exercised	—	—	
Cancelled	(2,095,846)	0.15	
Balance at December 31, 2020	15,204,198	0.08	2.78
Vested and Exercisable at December 31, 2020	15,204,198	0.08	2.78
Vested and Expected to Vest at December 31, 2020	15,204,198	0.08	2.78

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	15,204,198	2.78	$ 0.08	15,204,198	$ 0.08

Total stock option expense recorded in 2020 was $58,000. At December 31, 2020, there was no unrecognized compensation cost related to stock options granted. 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. There were no options exercised in either 2020 or 2019.

(11) EMPLOYEE STOCK PURCHASE PLAN

In May 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the Stock Purchase Plan). During the year ended 2019 there were no shares issued under the Stock Purchase Plan and it was ended on April 4, 2019 by the Board of Directors.

(12) 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

(12) EMPLOYEE DEFINED CONTRIBUTION PLANS (cont.)

Company made matching contributions of $18,000 in the year ended December 31, 2020 and $23,000 in the year ended December 31, 2019. The Company incurred costs of $2,200 in 2020 and $1,500 in 2019 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 $96,000 and $98,000 in the years ended December 31, 2020 and 2019. 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 $57,000 and $45,000 in the years ended December 31, 2020 and 2019, respectively. Plan administration costs come out of the plan itself.

(13) LEASES, OTHER OBLIGATIONS AND CONTINGENT LIABILITIES

The Company negotiated concessions in the form of rent payment deferrals for several of its leases as a result of the impact of the COVID-19 pandemic. These concessions affect only the timing, but not the amount of, total lease consideration over the term of the lease and they had no significant effect on the Company’s results of operations for the year ended December 31, 2020. Thus, the Company elected to apply the lease modification guidance from *ASC Topic 842, Leases*, for the concessions and accounted for the deferred payments as increases to its operating lease liability and its capital lease liability.

Operating Leases

The Company leases office space under operating leases that expire during 2022. Rent expense on these operating leases is recognized over the term of the lease on a straight-line basis.

ProPhotonix Limited U.K. received a six-month rent deferral from April through September 2020, totaling $50,000 of which $42,000 is included in the Company’s other accrued expense account as the Company has taken the practical expedient approach of ASC 842. The rent deferral resulted in an increase in the monthly lease payment from $8,000 to $10,000 beginning on October 1, 2020 through the end of the lease term.

Finance 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. The current and long-term portion of finance lease obligations are recorded in current and long-term capital lease obligations on the balance sheet, respectively.

Prophotonix (IRL) Limited received a six-month deferral of rent payments on its capital leases, totaling $24,000 beginning in April 2020. The monthly payment amounts remain unchanged on these leases as the maturity date of each lease has been extended by six months.

Total office rent expense for the years ended December 31, 2020 and 2019 was $0.1 million.

(13) LEASES, OTHER OBLIGATIONS AND CONTINGENT LIABILITIES (cont.)

The components of lease expense were as follows:

Years Ended December 31	**In thousands** 2020	2019
Operating lease cost	$ 145	$ 78
Finance lease cost:		
Amortization of right-of-use assets	86	92
Interest on lease liabilities	3	9
Total lease costs	$ 234	$ 179

Other information related to leases was as follows:

Years Ended December 31	**In thousands** 2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 142	$ 142
Operating cash flows from finance leases	41	60
Financing cash flows from finance leases	3	9
Weighted average remaining lease term (in years):		
Operating leases	1.7	2.6
Finance leases	1.4	2.1
Weighted average discount rate:		
Operating leases	10.0%	10.0%
Finance leases	6.3%	6.5%

Future minimum payments for operating and finance lease obligations and purchase commitments are as follows:

	In thousands Finance Leases	Operating Leases
2021	$ 46	$ 163
2022	13	110
2023	11	—
2024	—	—
Thereafter	—	—
Total minimum lease payments	70	273
Less amount representing interest	(4)	(41)
Present value of lease liabilities	66	232
Current portion of finance lease obligations	43	—
Operating lease liabilities, current	—	117
Operating lease liabilities, noncurrent	—	73
Deferred rent	—	42
Long term finance lease obligations, net of current portion	23	—
Total lease liabilities	$ 66	$ 232

(14) 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.

(15) DEFERRED REVENUE

At December 31, 2020 and 2019, the Company had a total of $1.0 million and $0.8 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 2021 through 2022.

(16) SEGMENT INFORMATION

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the Company's chief operating decision-maker. 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 chief operating decision maker and the board of directors of each operating segment review operating profit (loss) to evaluate segment performance and allocate resources to the overall business. They also review revenue, which is included withing operating profit (loss).

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 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 $1.6 million, or 12%, of its total consolidated revenues in 2020 and the same customer accounted for $2.1 million, or 14%, of its total consolidated revenues in 2019. All of this customer's revenues were generated in the Company's Laser & diodes segment.

	In thousands	
Years Ended December 31	**2020**	**2019**
Revenues:		
LEDs	$ 6,909	$ 7,699
Laser & diodes	6,649	7,277
Total revenues	$ 13,558	$ 14,976
Gross profit:		
LEDs	$ 2,936	$ 3,133
Laser & diodes	2,760	2,874
Total gross profit	$ 5,696	$ 6,007
Operating profit (loss):		
LEDs	$ 386	$ 594
Laser & diodes	204	501
Total operating profit (loss)	$ 590	$ 1,095

(16) SEGMENT INFORMATION (cont.)

Years Ended December 31	In thousands 2020	2019
Current assets:		
LEDs	$ 2,793	$ 2,358
Laser & diodes	2,416	3,581
Corporate	2,783	1,601
Total current assets	$ 7,992	$ 7,540
Property, plant & equipment:		
LEDs	$ 251	$ 289
Laser & diodes	254	271
Corporate	7	13
Total property, plant & equipment	$ 512	$ 573
Goodwill:		
LEDs	$ 432	$ 397
Laser & diodes	—	—
Corporate	—	—
Total goodwill	$ 432	$ 397
Other assets:		
LEDs	$ 524	$ 457
Laser & diodes	199	307
Corporate	54	91
Total other assets	$ 777	$ 855
Total assets:		
LEDs	4,000	3,501
Laser & diodes	2,869	4,159
Corporate	2,844	1,705
Total assets	$ 9,713	$ 9,365

Revenues by geographic area are as follows:

Years Ended December 31	In thousands 2020	2019
United States	$ 6,847	$ 5,550
Canada, Mexico and South America	116	323
Europe	4,837	8,962
Asia and rest of world	1,758	1,566
Total	$ 13,558	$ 16,401

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

Years Ended December 31	In thousands 2020	2019
United States and North America	$ 7	$ 13
Europe	683	686
United Kingdom	254	271
Total	$ 944	$ 970

(17) SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 24, 2021, the date which the financial statements were available to be issued. On February 18, 2021, the Company secured a second PPP loan from the U.S. Small Business Administration in the amount of $0.1 million. The loan bears interest at a rate of 1% and is payable in monthly installments of principal and interest over five years, beginning ten months from the date of the note. The loan may be repaid at any time with no prepayment penalty. The loan and accrued interest are forgivable to the extent the proceeds of the loan are used for eligible expenditures such as payroll and other expenses as described in the CARES Act.