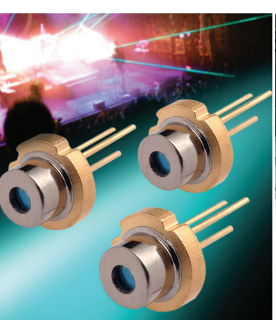
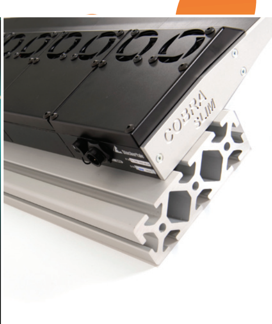
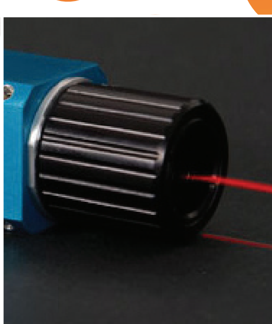
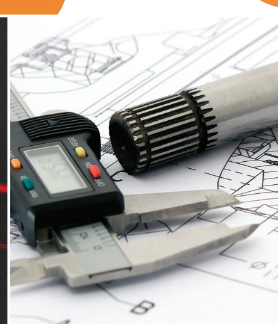
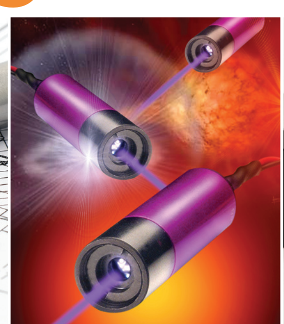
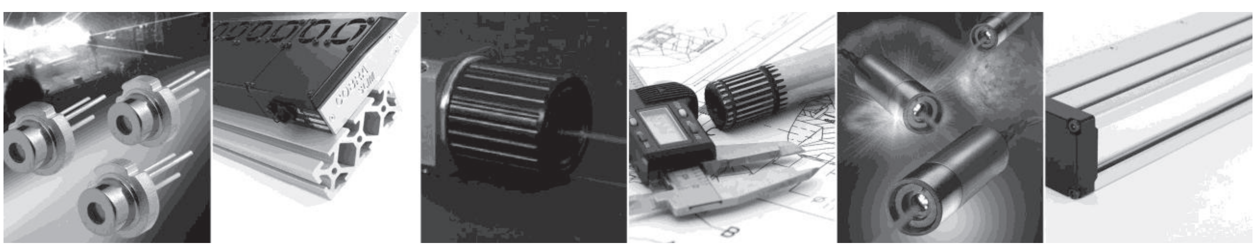
PRO PHOTONIX

2010 ANNUAL REPORT


PROPHOTONIX



Solutions for LEDs

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Little Island
Cork, Ireland
+353-21-5001300

Solutions for Lasers

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Hatfield Broad Oak
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Corporate

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+1-603-893-8778

CHAIRMAN'S LETTER

Dear Fellow Shareholders:

2010 was a transformational year for ProPhotonix Limited. We launched new product families for both lasers and LEDs; expanded into new markets; made significant investments in our LED business; floated on the London Stock Exchange's AIM market; and amended the Company's term debt on favorable terms, all of which contributed to our improved financial performance.

The Company's focus during 2010 was on growing & improving the profitability of the UK laser and Irish LED businesses. I'm happy to report that our actions and investments, as well as a recovering economy, have produced significantly improved results.

Both the LED and laser business achieved significant growth during 2010. On the LED front, 2010 was a record year in terms of both sales growth and profitability. Customer demand exceeded capacity and we added production shifts until we were able to install new production equipment late in the fourth quarter. As a result of this significant investment, our LED operations have a threefold increase in production capacity as of the end of the fourth quarter. We also launched a new line of LED lights for the line-scan market, which includes thin film, aluminum, steel and textile inspection, where the customer requires high performance, compact and energy efficient lighting systems. In our laser division, we launched the InViso™ laser product line for the machine vision market, and are expecting this product line to help fuel our growth for 2011 and beyond. Finally, during Q4, we also began distributing laser diodes from two leading diode manufacturers in Korea and Taiwan, which complement our diode offering from Opnext, Sanyo and Sony.

With the further expansion and growth of both our Irish and the UK operations, we made the decision to float on the London Stock Exchange's AIM, which was completed in late December. The Company sold approximately 3.8 million shares of common stock to raise $1.2 million and a primary significant debt holder converted an additional $1.3 million of debt to common stock, at the placing price for an issuance of an additional 4.0 million shares of common stock. Listing and issuance costs totaled approximately $1.0 million.

In addition to the Placing Proceeds and debt conversion, the Company significantly amended the payment obligations of its remaining term debt. Our debt position has improved from approximately $7.6 million due at the end of 2009 and was $4.6 million due at December 31, 2010. These obligations have been amended for repayment through the period ending June 2015.

Financially, I want to emphasize that the Company has now achieved four straight quarters of sequential revenue growth, had a fourth quarter increase of 56% in sales and a total year increase in sales of 45%, with our LED business leading the way with an 86% year over year sales growth. In addition, the Company improved its gross margin rates (US GAAP) from 30% in 2009 to 38% in 2010.

Longer term, we see significant growth opportunities for our LED technology in the general illumination market. LED lighting currently represents less than 3% of the $100 billion lighting market and is expected to increase significantly over the next decade due to both energy efficiency and long life. Since we are experienced at manufacturing high performance LED light engines, which means very compact, high-brightness light sources, for the industrial inspection and medical markets, we are positioned to commercialize this technology to certain segments of the general illumination market.

Lastly, I would like to mention the appointments of our two new Non-Executive Directors which were announced in March 2011. Both Tim Steel and Vincent Thompson have deep experience in capital markets and their input and expertise will be invaluable to ProPhotonix as the Company continues to grow and prosper.

In closing, I extend my sincere thanks to you, our shareholders, for your confidence and support.

Sincerely,

Mark W. Blodgett
Chairman & Chief Executive Officer
April 15, 2011

Director Remuneration Report

For the year ended December 31, 2010

Executive Director Compensation - Executive Director Compensation is reviewed by the Independent Non-Executive Directors. Mr. Blodgett and Mr. Losik each agreed to a 10% reduction in their basic compensation in 2009.

Non-Executive Director compensation is established periodically.

						Expensed in 2010 based on FAS123r criteria without forfeitures				
Executive Director	**Salary**	**Bonus**	**Pension**	**Other (1)**	**Total Cash Compensation**	**Options**	**RSA's**	**Total**	**Total All Compensation 2010**	**Total All Compensation 2009**
Mark Blodgett	369,000	52,500	4,125	9,050	434,675	87,883	103,550	191,433	626,108	668,794
Tim Losik	180,000	32,500	5,504	525	218,529	21,579	25,125	46,704	265,233	302,847
Total Executive Compensation	**549,000**	**85,000**	**9,629**	**9,575**	**653,204**	**109,462**	**128,675**	**238,137**	**891,341**	**971,641**
<u>Non-Executive Director</u>										
Duncan Byatt				14,375	14,375	5,709	-	5,709	20,084	-
Dieter Klenner				15,000	15,000	24,610	11,250	35,860	50,860	35,060
Ray Oglethorpe				15,000	15,000	30,451	13,125	43,576	58,576	39,863
Total Non-Executive Comp				**44,375**	**44,375**	**60,770**	**24,375**	**85,144**	**129,519**	**74,923**

Director Share Options:

Director	Options @ 12/31/09	Options Granted	Options Forfeited	Options @ 12/31/10
Mark Blodgett	1,404,050	1,000,000	(40,000)	2,364,050
Tim Losik	200,000	200,000	-	400,000
Duncan Byatt	-	244,166	-	244,166
Dieter Klenner	174,926	314,926	-	489,852
Ray Oglethorpe	242,920	382,920	(24,000)	601,840
Total All Directors	**2,021,896**	**2,142,012**	**(64,000)**	**4,099,908**

(1) Other compensation for Executive Directors is for paid life insurance for the benefit of the director.
Other compensation for Non-executive directors represents cash payments expensed in the current year.

ProPhotonix Limited

Consolidated Financial Statements

Years Ended December 31, 2009 and 2010

FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

McGladrey & Pullen, LLP
Certified Public Accountants

McGladrey

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
ProPhotonix Limited
Salem, New Hampshire

We have audited the accompanying consolidated balance sheet of ProPhotonix Limited (formerly known as StockerYale, Inc.) and subsidiaries (the Company) as of December 31, 2010, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive loss, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of StockerYale, Inc. and subsidiaries for the year ended December 31, 2009, were audited by Caturano and Company, Inc., independent accountants, certain of whose shareholders became partners of McGladrey & Pullen, LLP on July 20, 2010. Caturano and Company, Inc.'s report dated March 31, 2010, expressed an unqualified opinion of those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United Sates of Amercia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2009, the Company adopted Accounting Standards Codification ("ASC") topic 815-40-15 and changed its accounting for certain warrants.

McGladrey & Pullen, LLP

Boston, Massachusetts
April 13, 2011

FINANCIAL STATEMENTS

PROPHOTONIX LIMITED

(formerly known as StockerYale, Inc.)

CONSOLIDATED BALANCE SHEETS

In thousands
(except share and per share data)

Years Ended December 31	**2010**	**2009**
Assets		
Current assets:		
Cash and cash equivalents	$ 1,811	$ 4,478
Accounts receivable, less allowances of $47 in 2010 and $5 in 2009	2,023	1,473
Inventories	1,892	1,282
Prepaid expenses and other current assets	229	502
Total current assets	5,955	7,735
Net property, plant and equipment	906	3,835
Goodwill	468	508
Acquired intangible assets, net	610	1,260
Other long-term assets	66	38
Total assets	$ 8,005	$ 13,376
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current portion of long-term debt, net of unamortized discount of $0 in 2010 and $358 in 2009	$ 600	$ 3,798
Revolving credit facility	641	568
Capital lease obligations	24	85
Current portion of financing lease obligations	-	413
Accounts payable	2,003	1,142
Accrued expenses	1,368	1,117
Total current liabilities	4,636	7,123
Long-term debt, net of unamortized discount of $0 in 2010 and $193 in 2009	3,407	3,281
Capital lease obligations, net of current portion	-	24
Financing lease obligations, net of current portion	-	3,196
Other long term liabilities	150	-
Deferred income taxes	-	67
Total liabilities	8,193	13,691
Commitments and contingencies (Note 15)		
Stockholders' deficit:		
Common stock, par value $0.001, shares authorized 100,000,000; 52,510,174 shares issued and outstanding at December 31, 2010 and 44,616,458 shares at December 31, 2009	53	45
Paid-in capital	105,678	103,048
Accumulated deficit	(106,175)	(103,526)
Accumulated other comprehensive income	256	118
Total stockholders' deficit	(188)	(315)
Total liabilities and stockholders' deficit	$ 8,005	$ 13,376

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED

(formerly known as StockerYale, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS
In thousands
(except per share amounts)

Years Ended December 31	2010	2009
Revenue	$ 15,194	$ 10,456
Cost of sales	9,384	7,298
Gross profit	5,810	3,158
Operating expenses:		
Selling	2,151	1,598
General and administrative	5,064	4,082
Amortization of intangibles	390	694
Research and development	750	555
Asset impairment	226	4,377
Total operating expenses	8,581	11,306
Other income	688	928
Interest expense	(552)	(393)
Amortization of debt discount and financing costs	(551)	(1,704)
Loss from continuing operations before income tax benefit	(3,186)	(9,317)
Income tax benefit	(111)	(3,966)
Loss from continuing operations	(3,075)	(5,351)
Loss from discontinued operations, net of tax	(116)	(701)
Gain on sale of discontinued operations, net of tax	542	4,875
Income from discontinued operations	426	4,174
Net loss	$ (2,649)	$ (1,177)
Basic and diluted net loss per share from continuing operations	$ (0.07)	$ (0.12)
Basic and diluted net loss per share from discontinued operations	$ (0.00)	$ (0.02)
Basic and diluted net income per share from gain on sale of discontinued operations	$ 0.01	$ 0.11
Basic and diluted net loss per share	$ (0.06)	$ (0.03)
Basic and diluted weighted average shares outstanding	44,951	43,641

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED

(formerly known as StockerYale, Inc.)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY / (DEFICIT) AND COMPREHENSIVE LOSS

(in thousands)

	Common Stock				Accumulated Other Comprehensive Income	Total Stockholders' Deficit	Comprehensive Loss
	Shares	Par $0.001	Paid in Capital	Accumulated Deficit			
Balance December 31, 2008	43,464	$ 43	$ 103,270	$ (103,552)	$ 2,518	$ 2,279	
Cumulative effect of change in accounting principle – January 1, 2009 reclassification of warrants to liability (Note 2)			(1,495)	1,203		(292)	
Sale of common stock with warrants, net of issuance costs of $0.............	10	-	13			13	
Issuance of warrants for financings…………………	-		38			38	
Reclassification of warrant liability to equity (Note 2)			242			242	
Cancellation of previously issued restricted stock, and share-based compensation, net of forfeitures	(338)	-	612			612	
Issuance of common stock to settle liabilities	1,480	2	368			370	
Recognition of currency translation adjustment upon sale					(2,601)	(2,601)	
Cumulative translation adjustment					201	201	$ 201
Net loss				(1,177)		(1,177)	(1,177)
Comprehensive net loss for the year ended December 31, 2009.............							$ (976)
Balance December 31, 2009	44,616	$ 45	$ 103,048	$ (103,526)	$ 118	$ (315)	
Sale of common stock with warrants, net of issuance costs of $359..........	3,825	4	859			863	
Share-based compensation, net of forfeitures	(13)	-	501			501	
Issuance of common stock to settle liabilities / debt.....................................	4,082	4	1,270			1,274	
Cumulative translation adjustment					138	138	$ 138
Net loss				(2,649)		(2,649)	(2,649)
Comprehensive net loss for the year ended December 31, 2010.............							$ (2,511)
Balance December 31, 2010	52,510	$ 53	$ 105,678	$ (106,175)	$ 256	$ (188)	

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED
(formerly known as StockerYale, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ In thousands)

Years Ended December 31	2010	2009
Operations		
Net loss	**$ (2,649)**	**$ (1,177)**
Loss from discontinued operations, net of tax	(116)	(701)
Gain on sale of discontinued operations, net of tax	542	4,875
Loss from continuing operations	**(3,075)**	**(5,351)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	501	514
Depreciation and amortization	917	1,213
Amortization of debt discount and financing costs	551	1,704
Non cash interest (income) / expense	(7)	211
Gain on disposal of assets	(632)	(29)
Asset impairment	226	4,377
Provision for inventories	37	39
Provision for bad debts	49	16
Change in fair value of warrant liability	-	(50)
Deferred taxes	(113)	(3,944)
Other change in assets and liabilities:		
Accounts receivable	(669)	175
Inventories	(698)	153
Prepaid expenses and other current assets	278	(303)
Accounts payable	901	(1,791)
Accrued expenses	276	590
Other assets and liabilities	-	18
Net cash used in continuing operations	**(1,458)**	**(2,458)**
Net cash used in discontinued operations	(116)	(17)
Net cash used in operating activities	**(1,574)**	**(2,475)**
Investing		
Proceeds from disposal of assets	3	-
Financing obligation payments	(136)	(271)
Purchase of property, plant and equipment	(464)	(64)
Net cash used in continuing operations	**(597)**	**(335)**
Net cash provided by discontinued operations	692	13,010
Net cash provided by investing activities	**95**	**12,675**
Financing		
Net proceeds from sale of common stock	863	13
Borrowings of revolving credit facilities, net	57	(3,372)
Proceeds from long-term debt issuance	-	500
Principal repayment of long-term debt	(2,248)	(4,658)
Decrease in restricted cash	-	7
Payment of debt acquisition costs	-	(400)
Net cash used in continuing activities	**(1,328)**	**(7,910)**
Net cash used in discontinued operations	-	(62)
Net cash used in financing activities	**(1,328)**	**(7,972)**
Effect of exchange rate on cash	140	615
Net change in cash and equivalents	(2,667)	2,843
Cash and equivalents at beginning of year	4,478	1,635
Cash and equivalents at end of year	**$ 1,811**	**$ 4,478**
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 564	$ 450
Taxes	$ -	$ -
Non-cash investing and financing activities:		
Common stock and warrants issued in connections with financings	$ -	$ 528
Issuance of common stock to settle liabilities / debt	$ 1,274	$ 370
Common stock issued in connection with financings	$ 16	$ -
Warrants issued in connection with financings	$ 24	$ 38
Assets acquired under lease arrangements	$ -	$ 371
Write-off of assets from sale-leaseback transaction	$ 2,821	$ -
Write-off of finance lease from sale-leaseback transaction	$ (3,450)	$ -

See the notes to consolidated financial statements.

PROPHOTONIX LIMITED

(formerly known as StockerYale, Inc.)

NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION AND BASIS OF PRESENTATION

On May 27, 2010, the shareholders of the Company approved by a majority vote of all of the outstanding shares of the Company's Common Stock to change its name from StockerYale, Inc. to ProPhotonix Limited.

ProPhotonix Limited (also referred to in this document as "ProPhotonix", "we", or the "Company") operates in two segments: as an independent designer and manufacturer of LED systems; and as a distributor of laser diodes and manufacturer of laser modules through its ProPhotonix Limited subsidiary. The Company's products serve a wide range of applications and industries including machine vision and industrial inspection, biomedical, defense and security, and other commercial applications.

ProPhotonix Limited was incorporated on March 27, 1951 under the laws of the Commonwealth of Massachusetts. In December 1995, the Company completed the registration of its common stock with the U.S. Securities and Exchange Commission and its stock now trades on the Pink OTC Market under the trading symbol "STKR.PK"

On October 13, 2009, the Company and its wholly owned subsidiary, StockerYale Canada, Inc. ("SYC"), sold substantially all North American assets and rights of SYC and the Company's specialty optical fiber product line to Coherent Inc. The sale price consisted of a cash payment of $15,000,000 (of which $750,000 was placed in escrow for one year, and received on October 13, 2010 (See Note 14)), and the assumption of certain liabilities, including approximately $3,425,000 of accounts payable, accrued expenses and other obligations associated with the assets sold. Proceeds from the transaction were used to pay off in full all obligations owed to Laurus Master Fund, Ltd. and its related entities (approximately $7,900,000 including fees), fees related to the transaction of approximately $1,100,000, the settlement of various obligations of approximately $950,000, and for working capital and general corporate purposes for the Company's ongoing and future operations. In addition, the financial statements present the entities sold as discontinued operations. As a result of the sale, the Company recognized a gain of approximately $2,601,000 related to the deferred currency translation adjustmentof StockerYale Canada, Inc. subsidiary at the time of the sale. This is reported as a part of the gain from discontinued operations. Accordingly, the consolidated financial statements present the sold entities as discontinued operations.

Prior to the sale, the Company reported three segments: lasers, Photonic Products, and optical components. The entire optical components segment and a portion of the laser segment were sold. The Company will continue to operate its LED systems and Photonic Products businesses, which are based in Ireland and the United Kingdom.

On May 27, 2010, the shareholders of the Company approved by a majority vote of all of the outstanding shares of the Company's Common Stock to grant the Directors the discretionary authority to, at any time and from time to time until the next annual meeting of Shareholders, amend the Articles and increase the authorized Common Shares by up to an additional 150,000,000 shares.

On December 23, 2010, the Company gained admission to the London Stock Exchange, plc (AIM listing), raising approximately £765,000 ($1,200,000) through an equity placement, before expenses of approximately $1,000,000, and converting approximately $1,275,000 of debt to equity. The net proceeds of the capital raise will be used to provide additional working capital for the business.

During 2010, the Company renegotiated the payment terms of all of its then outstanding term debt with its two primary debt holders, which generally provide for extending the required obligations, some due originally within the calendar year 2010, for payment in the future over 24 to 60 months (See Note 8).

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the consolidated financial statements, during the years ended December 31, 2010 and 2009, the Company recorded net losses of $2,649,000 and $1,177,000, respectively. Net use of cash flow from continuing operations for the same time periods were $1,458,000 and $2,458,000, respectively. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. As a result of the Company's cash balance, reduced debt levels, refinanced debt agreements and its focus on two core business segments, management believes that it has adequate capital to sustain current operations through December 31, 2011.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements 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.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, ProPhotonix (IRL) Limited, StockerYale Waterloo Acquisition Inc., StockerYale (UK) Ltd., which owns 100% of ProPhotonix Limited, and Lasiris Holdings, Inc., which holds all of the outstanding shares of StockerYale Canada. See Note 14 for information about the Company's sale of the assets in 2009, including those of StockerYale Canada. All intercompany balances and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

The Company considers cash equivalents to consist of highly liquid investments with original maturities of three months or less when purchased.

ACCOUNTS RECEIVABLE

The Company reviews the financial condition of new customers prior to granting credit. After completing the credit review, the Company establishes a credit line for each customer. Periodically, the Company reviews the credit line for major customers and adjusts the credit limit based upon an updated financial condition of the customer, historical sales and payment information and expected future sales. The Company has a large number of customers; therefore, material credit risk is limited.

The Company periodically reviews the collectability of its accounts receivable. Provisions are established for accounts that are potentially uncollectible. Determining adequate reserves for accounts receivable requires management's judgment. 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:

Years Ended December 31	2010	2009
	In thousands	
Balance at beginning of period	$ 5	$ 18
Charges to costs and expenses	71	16
Account write-offs and other deductions	(29)	(29)
Balance at end of period	$ 47	$ 5

INVENTORY

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

INTANGIBLE ASSETS

The Company's intangible assets consist of goodwill, and other intangibles assets, which consist of trademarks, acquired patents and patented technologies, distributor and customer relationships and related contracts, technology design and programs, non-compete agreements and other intangible assets, which are being amortized over their useful lives. The Company is monitoring the operating performance of its reporting units and other market factors. Goodwill is tested for impairment on an annual basis, and between annual tests in certain circumstances, and written down when 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 an impairment loss exists, 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.

LOSS PER SHARE

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

As of December 31, 2010, 4,638,408 shares underlying options and 7,963,188 shares underlying warrants were excluded from the calculation of diluted shares, as their effects were anti-dilutive. Unvested shares of restricted stock, totaling 196,024, were also not included in the calculation as their effect would be anti-dilutive.

As of December 31, 2009, 3,005,098 shares underlying options and 8,042,938 shares underlying warrants were excluded from the calculation of diluted shares, as their effects were anti-dilutive. Unvested shares of restricted stock, totaling 490,689, were also not included in the calculation as their effect would be anti-dilutive.

REVENUE RECOGNITION

The Company recognizes revenue from product sales at the time of shipment and when persuasive evidence of an arrangement exists, performance of our obligation is complete, the price to the buyer is fixed or determinable, and collectability is reasonably assured. Custom products are designed and supplied to original equipment manufacturers and produced in accordance with a customer-approved design. Custom product revenue is recognized when the criteria for acceptance has been met. Title to the product generally passes upon shipment, as products are generally shipped FOB shipping point. In certain limited situations, distributors have the right to return products. Such rights of return have not precluded revenue recognition because we have a long history with such returns and accordingly are able to estimate a reserve for their cost.

Revenues from funded research and development and product development are recognized based on contractual arrangements, which may be based on cost reimbursement or fixed fee-for-service models. Revenue from reimbursement contracts is recognized as services are performed. On fixed-price contracts, revenue is generally recognized on a percentage of completion basis based on proportion of costs incurred to the total estimated costs of the contract or under the proportional method. Over the course of a fixed-price contract, the Company routinely evaluates whether revenue and profitability should be recognized in the current period. The Company estimates the proportional performance on their fixed-price contracts on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If the Company does not have a sufficient basis to measure progress toward completion, revenue is recognized upon completion of performance, subject to any project management assessments as to the status of work performed. This method is used because reasonably dependable estimates of costs and revenue earned can be made based on historical experience and milestones identified in any particular contract. When the current estimates of total contract revenue and contract costs indicate a loss, a provision for the entire loss on the contract is recorded.

If a contract involves the provision of multiple elements and the elements qualify for separation, total estimated contract revenue is allocated to each element based on the relative fair value of each element provided. The amount of revenue allocated to each element is limited to the amount that is not contingent upon the delivery of another element in the future. Revenue is then recognized for each element as described above.

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 versus the reserve as a percent of sales. The Company adjusts annually the warranty provision based on actual experience and for any particular known instances.

Warranty Reserves:

	Years Ended December 31,	
	2010	**2009**
	In thousands	
Balance at beginning of period	$ 98	$ 116
Charges to costs and expenses	90	29
Account write-offs and other deductions	(33)	(47)
Balance at end of period	$ 155	$ 98

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at the lower of cost or estimated carrying values. The Company provides for depreciation on a straight-line basis over the assets estimated useful lives or lease terms, if shorter. The following table summarizes the estimated useful lives by asset classification:

Asset Classification	Estimated Useful Life
Building and building improvements	10 to 40 years
Computer equipment	3 to 5 years
Machinery and equipment	5 to 10 years
Furniture and fixtures	3 to 10 years

Total depreciation expense from continuing operations of property, plant and equipment was approximately $0.5 million in 2010 and 2009. Maintenance and repairs are expensed as incurred.

INCOME TAXES

The Company accounts for income taxes under the 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 determined based on the difference between the financial reporting and tax basis of the assets and liabilities using tax rates expected to be in place when the differences reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. Effective January 1, 2009, the Company adopted guidance that clarifies the accounting for uncertainties in tax positions. Under these provisions, 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. It did not have any interest and penalties related to uncertain tax positions during the years ended December 31, 2010 or 2009. Additional information on the Company's income tax provision and deferred tax assets and liabilities may be found at Note 9.

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 two 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 2010, the Company recognized approximately $501,000 of stock-based compensation related to restricted stock and options, of which approximately $499,000 was expensed to general and administrative expense, and approximately $2,000 was expensed to selling expense. During 2009, the Company recognized approximately $514,000 of stock-based compensation related to restricted stock and options, of which approximately $512,000 was expensed to general and administrative expense, and approximately $2,000 was expensed to selling expense.

Stock Option Awards—The fair value of each option grant is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis 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 was calculated based on the historical volatility of the Company's stock at the time of the award. The average expected option term was 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 no dividends were 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.

During 2010, the Remuneration Committee approved various non-qualified stock option awards to purchase 1,886,396 shares of the Company's common stock to various officers, directors and employees. These options vested over six months from the grant date, provided that the recipient still continued to serve the Company in that capacity until the vesting date. The exercise price for these options is $0.1125 per share.

Also during 2010, the Remuneration Committee approved additional stock option awards to purchase 524,166 shares of the Company's common stock to various officers, directors and employees. These options vest over four years from the grant date, provided that the recipient still continues to serve the Company in that capacity until each such vesting date. The exercise price for these options range from $0.08 to $0.12 per share.

On January 16, 2009, the Remuneration Committee, formerly the Governance, Nominating and Compensation Committee of the Company's Board of Directors (the "GNCC"), adopted a stock option incentive program for 2009. The Remuneration Committee granted performance-based options to purchase shares of the Company's common stock to various executive officers and key employees; all of which are subject to the achievement of performance goals. Options for a total of 1,865,000 shares of common stock were granted under this performance-based program on January 16, 2009. As the performance goals were not met, the options terminated. The Company did not incur any stock compensation expense related to this plan during 2009.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The weighted average assumptions for grants during the years ended December 31, 2010 and December 31, 2009 were as follows:

	Twelve months Ended December 31, 2010	Twelve months Ended December 31, 2009
Volatility………………………………………..	111.6%-112.2%	101.4%-104.8%
Expected option life……………………………	5.5 – 6.08 years	6.08 years
Interest rate (risk free)………………………….	3.05%-3.83%	1.54%-2.86%
Dividends……………………………………….	$0	$0
Weighted average grant date fair value………...	$0.07	$0.12

	Options Outstanding	Weighted Average Exercise Price per Share ($)	Weighted Average Remaining Contractual Term (in Years)
Balance at December 31, 2008	2,987,889	3.45	4.58
Granted	2,906,996	0.15	
Exercised	-	-	
Cancelled	(2,889,787)	0.55	
Balance at December 31, 2009	3,005,098	2.87	5.56
Vested and Exercisable at December 31, 2009	1,810,651	4.44	3.28
Balance at December 31, 2009	3,005,098	2.87	5.56
Granted	2,410,562	0.11	
Exercised	-	-	
Cancelled	(777,252)	4.05	
Balance at December 31, 2010	4,638,408	1.23	7.25
Vested and Exercisable at December 31, 2010	3,349,286	1.65	6.77
Vested and Expected to Vest at December 31, 2010	4,503,224	1.27	7.19

At December 31, 2010, there was $62,000 of total unrecognized compensation cost related to non-vested stock options granted. The cost is expected to be recognized over the next 1.45 years. At December 31, 2009, there was $100,000 of total unrecognized compensation cost related to non-vested stock options granted. The cost was expected to be recognized over the next 1.5 years. Total stock option expense recorded in 2010 and 2009 was approximately $198,000 and $104,000, respectively. There were no options exercised during 2010 and 2009.

Restricted Share Awards— The Company periodically awards restricted shares of common stock to employees. The awards vest in equal annual installments over a period of four years, assuming continued employment, with some exceptions. The fair market value of the award at the time of the grant is amortized over the vesting period. The fair value of the awards is based on the fair market value of the Company's common stock on the date of issue, which is the closing market price on the date of the award. During 2010 and 2009, the Company did not grant any shares of restricted stock.

A summary of the status of the Company's non-vested shares of restricted stock for 2010 and 2009 and changes during 2010 and 2009 are presented below:

	Shares	Weighted Average Grant-Date Fair Value ($)
Non-vested at December 31, 2008	1,368,394	1.17
Granted	-	-
Vested	(539,674)	1.12
Cancelled	(338,031)	1.29
Non-Vested at December 31, 2009	490,689	1.15
Granted	-	-
Vested	(281,735)	1.18
Cancelled	(12,930)	1.26
Non-Vested at December 31, 2010	196,024	1.10

As of December 31, 2010, there was approximately $117,000 of total unrecognized compensation cost related to non-vested restricted share awards. The cost is expected to be recognized over the next 0.62 years. As of December 31, 2010, 1,908,178 shares were vested. As of December 31, 2009, 1,626,443 shares were vested. The total fair value of shares vested during 2010 and 2009 was approximately $332,000 and $604,000. Total compensation from continuing operations recorded in 2010 and 2009 was approximately $303,000 and $410,000, respectively.

TRANSLATION OF FOREIGN CURRENCIES

The Company translates the financial statements of its foreign subsidiaries from local currency into U.S dollars. The functional currency of the foreign subsidiaries is the country's local currency. 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. Accordingly, all assets and liabilities of foreign subsidiaries are translated into U.S. dollars using the foreign currency exchange rate prevailing at the balance sheet date, while income and expense accounts are translated at average exchange rates during the year. All cumulative translation gains or losses from the translation into the Company's reporting currency are included as a separate component of stockholder's equity (accumulated other comprehensive loss) in the accompanying consolidated balance sheets. Foreign currency transaction (gains)/losses from continuing operations were recorded in the statements of operations as other income was approximately $80,000 and $(1,367,000) for 2010 and 2009.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist mainly of cash and cash equivalents, accounts receivable, revolving credit facility, accounts payable and long-term debt. The estimated fair value of these financial instruments, with the exception of fixed rate long-term debt, approximates their carrying value due to the short-term maturity of certain instruments and the variable interest rates associated with certain instruments, which have the effect of re-pricing such instruments regularly. Due to the restructuring of fixed rate long-term debt during 2010, the carrying value of fixed rate long-term debt approximates fair value.

WARRANTS

On October 26, 2006, the Company issued warrants for the purchase of 2,375,000 shares of the Company's common stock, which had exercise price reset features. These warrants have an exercise price of $1.15 and expire in October 2016. The Company adopted Financial Accounting Standards Board "FASB" guidance on January 1, 2009 under which certain warrants that were previously treated as stockholders' equity under the derivative treatment exemption were no longer eligible for equity treatment. Effective January 1, 2009, the fair value of these common stock purchase warrants was reclassified from equity to liability status as if these warrants were treated as a derivative liability since their date of issue in October 2006. On January 1, 2009, the Company reclassified from additional paid-in capital, as a cumulative effect adjustment, $1.2 million to beginning retained earnings and $0.3 million to a long-term warrant liability. On October 31, 2009, the fair market value of these warrants, approximately $242,000, was reclassified as equity, the date the re-pricing feature of the warrant had lapsed per the agreement. The Company recognized a gain of approximately $50,000 from the change in fair value of these warrants for the year ended December 31, 2009. The common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants did not qualify for hedge accounting, therefore all changes in the fair value of these warrants was recognized in earnings until reclassified to equity in October, 2009.

These common stock purchase warrants do not trade in an active securities market, and the Company estimated the fair value of these warrants using the Black-Scholes option pricing model using the following assumptions:

	October 31, 2009	January 1, 2009
Volatility	137.8%	101.4%
Expected option life	7.0 years	7.8 years
Interest rate (risk free)	3.41%	2.46%
Dividends	$0.0	$0.0

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The risk is limited due to the relatively large number of customers composing the Company's customer base and their dispersion across many industries and geographic areas within the United States, Canada, United Kingdom, Europe and Asia. The Company performs ongoing credit evaluations of existing customers' financial condition. The Company has a large number of customers; therefore, concentrated credit risk is limited to only a small number of customers. The Company had no customer accounting for 10% or more of consolidated revenues in either 2010 or 2009. The Company had one customer that accounted for 10% of the outstanding accounts receivable balance at December 31, 2010. No one customer accounted for 10% or more of the outstanding accounts receivable at December 31, 2009.

The Company maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results in the future could vary from the amounts derived from management's estimates and assumptions.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value Measurements and Disclosures

In January 2010, the FASB issued Accounting Standards Update "ASU" No. 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which is included in the ASC Topic 820 (Fair Value Measurements and Disclosures). ASU 2010-06 requires new disclosures on the amount and reason for transfers in and out of Level 1 and 2 fair value measurements. ASU 2010-06 also requires disclosure of activities, including purchases, sales, issuances, and settlements within the Level 3 fair value measurements and clarifies existing disclosure requirements on levels of disaggregation and disclosures about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this standard did not have any effect on our consolidated financial statements.

Revenue Recognition – Milestone Method

In April 2010, the FASB issued ASU No. 2010-17, "Milestone Method of Revenue Recognition" ("ASU 2010-17"), which is included in the ASC topic 605 (Revenue Recognition). ASU 2010-17 is an accounting standard update defining a milestone and determining what criteria must be met to apply the milestone method of revenue recognition for research or development transactions. The update provides guidance on the criteria which must be met to determine if the milestone method of revenue recognition is appropriate, whether a milestone is substantive and the disclosures that must be made if the method is elected. This standard should be applied on a prospective basis for milestones reached in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. However, early adoption is permitted. The Company adopted this standard during 2010 and it did not have any impact on our consolidated financial statements.

(4) INVENTORIES

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

Years Ended December 31	**2010**	**2009**
	In thousands	
Finished goods	$ 413	$ 204
Work in-process	164	131
Raw materials	1,315	947
Net inventories	$ 1,892	$ 1,282

Management performs quarterly reviews of inventory and disposes of items not required by their manufacturing plan and reduces the carrying cost of inventory to the lower of cost or market.

(5) PROPERTY, PLANT AND EQUIPMENT

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

Years Ended December 31	2010	2009
	In thousands	
Land	$ -	$ 306
Buildings and improvements	283	5,897
Machinery and equipment	2,735	2,414
Furniture and fixtures	690	1,029
Property, plant and equipment	$ 3,708	$ 9,646
Less accumulated depreciation	(2,802)	(5,811)
Net property, plant and equipment	$ 906	$ 3,835

Depreciation expense from continuing operations was approximately $527,000 and $510,000 in the years ended December 31, 2010 and 2009, respectively. In 2005, the Company entered into a sale-leaseback transaction on the Company's headquarters which was recorded as a finance lease in accordance with accounting standards. See Note 15 for a description of the transaction and write-off of the assets ($ 2,821,000 net book value) related to the finance lease.

(6) GOODWILL

The Company uses a two-part impairment test in which it first estimates the fair value of its reporting units by using forecasts of discounted cash flows and then compares that value to the carrying value which requires that certain assumptions and estimates be made regarding industry economic factors and future profitability of reporting units to assess the need for an impairment charge. The methodology the Company uses to allocate certain corporate expenses is based on each segments use of services and/or direct benefit to its employees. While the Company believes it has made reasonable estimates and assumptions to calculate the fair value of the reporting segments and implied fair value of goodwill, the impairment analysis is highly sensitive to actual versus forecast results. If the estimated value is less than the carrying value the Company moves to the second step of the impairment test to determine if goodwill is impaired.

In connection with the annual fair value test of goodwill, performed at the end of the fourth quarter 2010, the Company concluded that no impairment existed. In connection with the annual fair value test of goodwill, performed at the end of the fourth quarter 2009, the Company concluded that an impairment of goodwill in the Photonic Products segment existed. The Company determined the carrying value of the reporting unit was in excess of its fair value. Based on the second step, the Company concluded that the entire balance of goodwill was impaired. The Company recorded a non-cash goodwill impairment charge of $4.4 million.

The changes in the carrying amount of goodwill for the years ended December 31, 2010 and 2009 was as follows:

	December 31, 2010	December 31, 2009
	(In thousands)	
Beginning of the year	$ 508	$ 4,410
Effect of exchange rate	(40)	475
Impairment charge	-	(4,377)
End of year	$ 468	$ 508

Goodwill as of December 31, 2010 and 2009 relates to the LED reporting unit.

(7) INTANGIBLE ASSETS

Intangible assets consist of trademarks, acquired patents and patented technologies, distributor and customer relationships and related contracts, technology design and programs, non-compete agreements and other intangible assets. There are no intangible assets with indefinite lives. There were no intangible assets acquired in 2010. During 2010, the Company, including its subsidiaries, changed its name from StockerYale, Inc. to ProPhotonix Limited. As a result of this name change, the Company recorded an impairment charge of approximately $226,000 related to a previously acquired trade name. Intangible assets and their respective useful lives are as follows:

	Useful Life
Acquired patents, patented technology and purchased technology	5 – 8 Years
Acquired customer contracts and relationships	5 – 8 Years
Acquired non compete agreements	3 Years
Acquired technology design and programs	8 Years
Other	3 – 7 Years

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of December 31, 2010 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Net Balances
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 291	$ (284)	$ 7
Acquired customer contracts and relationships	1,901	(1,460)	441
Acquired non compete agreement	616	(616)	-
Acquired technology design and programs	321	(168)	153
Other	105	(96)	9
Total	$ 3,234	$ (2,624)	$ 610

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of December 31, 2009 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Net Balances
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 291	$ (258)	$ 33
Acquired trade name	482	(190)	292
Acquired customer contracts and relationships	1,957	(1,253)	704
Acquired non compete agreement	634	(634)	-
Acquired technology design and programs	331	(132)	199
Other	108	(76)	32
Total	$ 3,803	$ (2,543)	$ 1,260

	Actual Expense		Estimated Future Expense					
	2009	2010	2011	2012	2013	2014	2015	Thereafter
	In thousands							
Amortization expense of intangible assets	$ 694	$ 390	$ 266	$ 123	$ 122	$ 99	$ -	$ -

(8) DEBT

Years Ended December 31	2010	2009
	In thousands	
Bonds payable to the former stockholders of Photonic Products Ltd. maturing on December 31, 2012, with an interest rate of 11%, at December 31, 2010 and with an interest rate of 7% at December 31, 2009.	$ 1,393	$ 2,186
Senior Fixed Rate Secured Bond payable to a private investor, with an interest rate of 10%, net of unamortized discount of $460 at December 31, 2009.	-	2,581
Senior Fixed Rate Secured Bond to a private investor with an interest rate of 8%, maturing on June 30, 2015 net of unamortized discount of $0 at December 31, 2010 and $91 at December 31, 2009	2,614	2,312
Borrowings under Revolving Credit facility with Barclay's Bank Sales Financing with an interest rate of 2.55% above Barclay's base rate (3.05% as of December 31, 2010)	641	568
Sub-total debt	4,648	7,647
Less – revolving credit facility	(641)	(568)
Less—Current portion of long-term debt, net of discount	(600)	(3,798)
Total long-term debt	$ 3,407	$ 3,281

BORROWING AGREEMENTS

Photonic Products Ltd.

StockerYale (UK) Ltd., a wholly owned subsidiary of the Company, issued bonds to each of the former stockholders of Photonic Products Ltd. with an aggregate initial principal amount equal to $2,400,000 (Photonic Bonds). Under the terms of issuance, the outstanding principal accrued interest at an annual rate of 1% above the LIBOR rate as determined on the first business day of each month. All unpaid principal plus accrued but unpaid interest under the bonds was originally due and payable on October 31, 2009.

On October 7, 2009, the Company and StockerYale (UK) Ltd. entered into a Deed of Variation with the bondholders in which the Company and StockerYale (UK) Ltd. agreed: (a) to make principal payments to one of the bondholders of $120,000 on October 31, 2009 and $120,000 on January 8, 2010 plus monthly payments of simple interest at an annual rate of 7% on the outstanding amounts until paid; and (b) to make monthly payments to each of the other two bondholders in the aggregate amount of $47,000 on the last day of each calendar month, beginning on November 30, 2009 and to continue until and including October 31, 2010 plus monthly payments of simple interest at an annual rate of 7% to be made on the last day of each month beginning on November 30, 2009 through November 30, 2010 when a balloon payment of $1,596,000 would be due.

On October 30, 2010 and December 10, 2010, the Company and the holders of the Photonic Bonds entered into Deeds of Variation of the Photonic Bonds. The amendments required a payment on October 30, 2010 against the principal balance in the amount of $150,000. The Photonic Bonds were amended to pay the outstanding balance as of October 31, 2010 monthly over the period from November 30, 2010 through November 30, 2012 at the rate of $50,000 principal plus simple interest (at 11% per annum). On December 31, 2012 the remaining balance (approximately $243,000) of the Photonic Bonds shall be payable in full. The key repayment terms of the Photonic Bonds, under this amendment, are as follows:

(a) Principal:	$1,443,000
(b) Interest Rate:	11% per annum, payable monthly
(c) Repayment term:	October 31, 2010 to November 30, 2012
(d) Monthly principal:	$50,000
(e) Balloon payment:	$243,000 due December 31, 2012

StockerYale (UK) Ltd. may elect to prepay the bonds at any time, in whole or in part, without penalty or premium. If StockerYale (UK) Ltd. fails to make any payments under the bonds, the former stockholders of Photonic Products Ltd. may have the right to require payment from the Company in the form of newly issued shares of the Company's common stock.

As of December 31, 2010, $1,393,000 was outstanding under the bonds issued to the stockholders of Photonic Products Ltd., which has been recorded as $600,000 current portion of long-term debt, and $793,000 as long-term debt.

As of December 31, 2009, $2,186,000 was outstanding under the bonds issued to the stockholders of Photonic Products Ltd., and was recorded as current portion of long-term debt.

Private Investor Notes and Bond

ProPhotonix Limited Financing

On October 31, 2006, StockerYale (UK) Ltd. issued a 10% Senior Fixed Rate Secured Bond ("SYUK Bond"), as amended at various times, in the original principal amount of $4,750,000 to Eureka Interactive Fund Limited. The bond was due on October 31, 2011. StockerYale (UK) Ltd. agreed to make payments of principal and interest over the term; however, an amount equal to 50% of the original principal sum of $4,750,000 waspayable on October 31, 2011. The outstanding principal on the bond originally accrued interest at an annual rate of 10%. StockerYale (UK) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The bond was secured by all of the equity interests of Photonic Products Ltd. owned by StockerYale (UK) Ltd. The Company used the net proceeds to make the cash payment for the acquisition of Photonic Products Ltd. The remaining proceeds were used for transaction fees and working capital. On August 16, 2007, the Eureka Interactive Fund Limited transferred this bond to a bondholder.

In connection with the issuance of the bond on October 31, 2006, the Company issued a Common Stock Purchase Warrant to Eureka to purchase 2,375,000 shares of its common stock for a purchase price of $1.15 per share. The warrant expires on the tenth anniversary of the date of issuance. The aggregate proceeds of the bond and warrants of $4,750,000 were allocated between the bond and the common stock warrants based upon their relative fair market value. The proceeds price allocated to the bond was $3,255,349 and the proceeds allocated to the common stock warrants was $1,494,651. The difference between the aggregate face amount of the bond of $4,750,000 and the initial carrying value of the bond was recorded as a debt discount of $1,494,651 and was being amortized over the life of the bond. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 4.61%, an expected life of ten years and an expected volatility of 102% with no dividend yield.

On January 13, 2009, StockerYale (UK) Limited, a wholly owned subsidiary of the Company and the bondholder, entered into an agreement to forego the principal payments of $61,674 per month under such bond for six months totaling $370,044 in consideration of the issuance of 1,480,176 shares of common stock of the Company to the bondholder.

On June 9, 2009, the bondholder and the Company entered into a Transfer Agreement under which they agreed to transfer $1,000,000 of debt (the "Transfer Amount") from the SYUK Bond to the ProPhotonix (IRL) Limited ("SYI" Bond) described below.

On December 10, 2010, with an effective date of December 23, 2010, the Company and the bondholder entered into a binding term sheet to amend the terms of all debt owed by the Company to the bondholder. The amendment converted approximately $1,275,000 of the SYUK bond into shares of common stock, at a conversion price of £0.20 ($0.31) per share (see Note 10) and the remaining balance was assigned to and assumed by ProPhotonix (IRL) Limited as part of the SYI Bond.

As of the December 10, 2010 amendment date, the entire balance was transferred or converted and the bond was cancelled. All related debt discount was expensed as a result of the extinguishment.

At December 31, 2009, $3,040,206 remained outstanding under the combined note which has been classified as $1,048,458 short-term debt and $1,991,748 long-term debt and reported net of $459,666 of unamortized debt discount, which has been reported as $283,863 as short-term and $175,793 as long-term. On December 31, 2009, the Company was $308,370 (principal only) in arrears. On March 1, 2010, the bondholder signed a waiver for any breach or default under the agreement.

ProPhotonix (IRL) Limited Senior Fixed Rate Secured Bond

On July 24, 2008, ProPhotonix (IRL) Limited issued a three-year 12% Senior Fixed Rate Secured Bond("SYI Bond"), as amended at various times, to a bondholder in the original principal amount of €935,000

($1,472,905 at July 24, 2008) secured by all of the assets of ProPhotonix (IRL) Limited. The bond originally matured on July 30, 2011. ProPhotonix (IRL) Limited agreed to make payments of principal and interest of approximately €31,000 over the term beginning August 30, 2008. The outstanding principal on the bond accrued interest at an original annual rate of 12%. ProPhotonix (IRL) Limited may prepay the bond at any time, in whole or in part, without penalty or premium. The Company used the net proceeds for working capital.

In connection with the issuance of the bond, the Company issued warrants to the bondholder to purchase 636,404 shares of its common stock for a purchase price of $0.45 per share. The warrant expires on the tenth anniversary of the date of issuance. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 4.03%; an expected life of ten years; and an expected volatility of 98% with no dividend yield. The total value of the warrants was recorded as a debt discount of approximately $220,000 and was amortized over the life of the bond, using the effective interest method.

On June 9, 2009, the same bondholder loaned the company an additional $500,000 payable over the remaining term of the original loan, at the same fixed 12% interest rate. As a part of the agreement, the Company issued to the bondholder additional ten-year common stock warrants to purchase 500,000 shares of common stock at an exercise price per share of $0.10. An additional debt discount was recorded in the amount of $38,086 and is being amortized over the remaining life of the note. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 3.86%, an expected life of seven years, an expected volatility of 105.04% and no dividend yield.

Also on June 9, 2009, the Company and bondholder entered into a Transfer Agreement under which they agreed to transfer $1,000,000 of debt (the "Transfer Amount") from the SYUK Bond described above to the SYI Bond. Interest accrues and is payable monthly and the amount was originally payable on July 30, 2011.

On December 10, 2010, the Company and the bondholder entered into a binding restructuring of the SYI Bond. The amendment provides that ProPhotonix (IRL) Limited shall assume €692,128 ($942,124) of the balance of the SYUK Bond, which was then combined with the existing SYI Bond. This bond is secured by the assets of ProPhotonix (IRL) Limited. The SYI Bond was amended such that interest only shall be paid monthly on the outstanding balance through June 30, 2012 and thereafter equal monthly payments of principal and interest over the three year period July 1, 2012 through June 30, 2015. The Company also paid a restructuring fee of $50,000 to the bondholder. The key repayment terms of the SYI Bond, under this amendment, are as follows:

(a) Principal:	€1,972,523 ($2,614,000)
(b) Interest Rate:	8% per annum
(c) Interest payments only:	present through June 30, 2012
(d) Principal Repayment term:	36 months; July 31, 2012 through June 30, 2015
(e) Monthly principal and interest:	€61,812 ($82,000)

At December 31, 2010, $2,614,184 remained outstanding under the note, which has been classified as long-term debt.

At December 31, 2009, $2,402,620 remained outstanding under the note, which has been classified as $921,170 short-term debt and $1,481,450 long-term debt and reported, net of $90,586 of unamortized debt discount, which has been reported as $73,702 short-term and $16,684 long-term. On December 31, 2009, the Company was $216,731 (principal only) in arrears. On March 1, 2010, the bondholder signed a waiver for any breach or default under the agreement.

Barclays Bank, PLC

On February 6, 2008, the Company's ProPhotonix Limited subsidiary in the U.K. entered into a Confidential Invoice Discounting Agreement with Barclays Bank Sales Financing ("Barclays"). Under the Discounting Agreement, a three-year revolving line of credit was established. The Discounting Agreement provides for a revolving line of credit not to exceed an aggregate principal amount of £700,000 ($1,083,000) and grants a security interest in and lien upon all of ProPhotonix Limited's trade receivables in favor of Barclays. The Company originally could borrow a total amount at any given time up to £700,000, limited to qualifying receivables as defined. The proceeds from this line of credit were used to pay in full the outstanding amount under the overdraft facility between ProPhotonix Limited and Barclays Bank, PLC.

The facility requires the maintenance of certain financial covenants including annual sales and minimum tangible net worth. Barclays also reserves the right to review the facility in the event of losses in any 3-month rolling period. On June 26, 2009, ProPhotonix Limited agreed to amend the terms of the Agreement with Barclays. Under the amended terms, the maximum amount allowed outstanding under the line of credit is £650,000 ($1,006,000 USD). The outstanding principal under the note accrues interest at an annual rate of 2.65% above the Barclays base rate. The interest rate was 3.15% as of December 31, 2010. On March 8, 2010, the Company entered into an amendment to the revolving credit facility agreement, which removed the minimum tangible net worth requirement of £350,000 ($541,000 USD) as of March 31, 2010 and June 30, 2010.

On November 25, 2010, the Company entered into an amendment to the revolving credit facility agreement to extend the minimum period to May 25, 2012 from the original termination date of February 6, 2011.

The amount outstanding under the facility was $641,000 as of December 31, 2010 and $568,000 as of December 31, 2009, all of which was classified as short term debt under revolving credit facility. As of December 31, 2010, the Company had approximately $50,000 available under this facility. The Company was in technical default on December 31, 2009 which Barclays waived as part of the March 8, 2010 amendment.

(9) TAXES

The Company had net deferred tax assets totaling $29.0 million as of December 31, 2010 and $29.6 million as of December 31, 2009. 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.

The Company's historical operating losses raise considerable doubt as to when, if ever, any of the deferred tax assets 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. Because of its historical operating losses, the Company has not been subject to income taxes since 1996. The Company has recorded a deferred tax asset for one of its non-U.S. subsidiaries related to net operating losses.

The Company is subject to taxation in the U.S., Canada, the United Kingdom, Ireland and various states and local jurisdictions. As a result of the Company's tax loss position, the tax years 1999 through 2010 remain open to examination by the federal and most state tax authorities. In addition, the tax years 2002 through 2010 are open to examination in foreign jurisdictions. As of December 31, 2010, the Company did not have any tax examinations in process. In April 2011, the Company was notified by the Canadian Revenue Authority (CRA) that the tax years 2007 – 2009 for SYC will be audited. In addition, ProPhotonix (IRL) Limited was notified by the Ireland Revenue authorities that the tax years 2007 - 2010 VAT 13B filings would be audited.

The components of the provision (benefit) for income taxes of continuing operations are as follows:

Years Ended December 31,

	2010	2009
	In thousands	
Current		
Federal	$ —	$ (3,644)
State	—	—
Foreign	(46)	—
Sub-total	(46)	(3,644)
Deferred		
Federal	—	—
State	—	—
Foreign	(65)	(322)
Sub-total	(65)	(322)
Total	$ (111)	$ (3,966)

The income tax (benefit) / provision included in the accompanying statement of operations is as follows:

Years Ended December 31,

	2010	2009
	In thousands	
Continuing Operations	$ (111)	$ (3,966)
Discontinued Operations	150	3,644
Total	$ 39	$ (322)

The significant items comprising the deferred tax asset and liability at December 31, 2010 and 2009 are as follows:

Years Ended December 31,

	2010	2009
	In Thousands	
Foreign net operating loss carry forwards	4,235	2,683
Financial reporting reserves not yet deductible for tax purpose	16	66
Accelerated depreciation and property-basis differences	57	(771)
Other	911	496
Valuation allowance	(29,276)	(28,701)
Total	$ 232	$ 276
Intangible asset-basis differences	$ (232)	$ (343)
Deferred tax liability, net	$ -	$ (67)

The Company's deferred tax liability relates to the difference in the basis of its intangible assets acquired in a foreign jurisdiction.

As of December 31, 2010, the Company had United States federal net operating loss carry forwards (NOLs) of approximately $61.9 million available to offset future taxable income, if any. These carry forwards expire through 2030 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. The Company's historical operating losses raise considerable doubt as to when, if ever, any of the deferred tax assets will be realized. As a result, management has provided a full valuation allowance for the net deferred tax assets. At December 31, 2010, the Company also has Canadian federal NOLs of approximately $1.6 million available to offset future taxable income, if any. These carry forwards expire through 2030 and are subject to review and possible adjustment by the Canadian Revenue Agency. The Company may be subject to limitations of the use of the Canadian NOLs as a result of changes in ownership. The Company's historical operating losses raise considerable doubt as to when, if ever, any of the deferred tax assets will be realized. As a result, management has provided a full valuation allowance for the net deferred tax assets. At December 31, 2010, the Company also has a United Kingdom NOL of approximately $6.42 million, of which $5.6 million is reserved. The valuation allowance increased / (decreased) by approximately $575,000 and $(415,000) for the years ended December 31, 2010 and 2009.

The Company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not threshold is then measured to determine the amount of benefit to recognize in the financial statements. During 2010, the Company booked a long-term liability of $150,000 relative to the sale of its North American operations to Coherent, Inc.

(10) UNREGISTERED SALES OF EQUITY SECURITIES

On December 24, 2008, the Company entered into a Stock and Warrant Purchase Agreement to a group of private investors, including the Company's Chairman and CEO and three of the Company's directors. Under the terms of the Agreement the Company agreed to issue and sell an aggregate of 4,254,000 shares of common stock, $0.001 par value per shares at a per share purchase price of $0.25, for an aggregate purchase price of $1,063,500. In addition, the investors would also receive warrants to purchase up to an aggregate of 2,127,000 shares of the Company's common stock. The warrants are exercisable at any time after issuance at a per share price of $0.50 and expire on the fifth anniversary of the issue date. As of December 31, 2009, the Company sold and issued for gross proceeds of $563,500, a total of 2,254,000 shares of common stock and issued warrants to purchase 1,127,000 shares of common stock. The Company used the proceeds from the financing for working capital and general corporate purposes.

The Company used the Black-Scholes Model to calculate the fair value of the warrants issued, which totaled approximately $81,000. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 1.54%, an expected life of five years and an expected volatility of 101% with no dividend yield.

On January 29, 2009, pursuant to the terms of the December 2008 Stock and Warrant Purchase Agreement, the Company issued and sold to a director an aggregate of 10,000 shares of common stock at a per share purchase price of $0.25, for an aggregate purchase price of $2,500. The director also received a warrant to purchase up to an aggregate of 5,000 shares of the Company's common stock. The warrant is exercisable at any time at a per share price of $0.50 and expires on the fifth anniversary of the issue date.

On December 23, 2010, the Company listed on the London Stock Exchange-AIM. In the course of this listing, the Company sold 3,825,000 shares of common stock at £0.20 ($0.31 as of December 23, 2010) per share. Also, the Company issued an additional 50,000 shares of common stock for fees associated with the listing in lieu of cash.

On December 23, 2010, pursuant to the terms of the Company's listing on the London Stock Exchange-AIM, the Company issued a warrant to purchase up to an aggregate of 76,500 shares of the Company's common stock to Libertas Capital Corporate Finance Limited. The warrant is exercisable at any time at a per share price of £0.20 and expires on the fifth anniversary of the issue date.

As of December 31, 2010, there were 7,963,188 shares reserved for warrants with the following exercise prices and expiration dates:

No. Warrants	Exercise Price	Expiration Date
102,000	$1.38 –$3.12	2011
18,621	$0.80 –$0.80	2012
1,127,000	$0.50 –$0.50	2013
5,000	$0.50 –$0.50	2014
551,500	$0.31 –$1.44	2015
3,603,000	$1.15 –$3.12	2016
1,150,000	$0.80 –$1.72	2017
906,067	$0.45 –$0.60	2018
500,000	$0.10 –$0.10	2019
7,963,188		

(11) STOCK OPTION PLANS

On May 22, 2007, the shareholders of the Company approved the adoption of the Company's 2007 Stock Incentive Plan (the 2007 Plan). Under this 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 5,300,000 shares of the Company's common stock were initially reserved for issuance under the 2007 Plan. In addition, there is an annual increase to the number of shares reserved for issuance under the 2007 Plan equal to the lesser of (i) 1,000,000 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, 2010, there were 7,300,000 shares reserved for issuance and there were 6,300,000 shares reserved at December 31, 2009.

In May 2010, the Board of Directors approved the Second Amended and Restated Policy Regarding Compensation of Independent Directors, which provided that the $50,000 annual compensation of independent directors be divided into a $15,000 cash payment and an option to purchase shares of common stock that have an aggregate market value of $35,000 and that the prior $5,000 additional annual compensation given to chairs of committees be revoked. In August, 2010, the Board of Directors approved the Third Amended and Restated Policy Regarding Compensation of Independent Directors, which added a provision for an initial grant to new directors of an option to purchase 75,000 shares of common stock. There were no options issued as a part of or after the August 2010 amendment. In March, 2011, the Board of Directors approved the Fourth Amended and Restated Policy Regarding Compensation of Independent Directors, which revoked the provision that provides the initial grant to new directors.

In May 2004, the Company adopted the 2004 Stock Option and Incentive Plan (the 2004 Option Plan) for the purpose of issuing both Incentive Options and Nonqualified Options to officers, employees and directors of the company. A total of 2,500,000 shares of common stock were reserved for issuance under this plan. Options were granted under the 2004 Option Plan on terms and prices as determined by the Board of Directors. Each option will be exercisable after the period or periods specified in the option agreement, but no option may be exercised after the expiration of 10 years from the date of grant. No further grants are allowed under this plan.

In May 2000, the Company adopted the 2000 Stock Option and Incentive Plan for the purpose of issuing both Incentive Options and Nonqualified Options to officers, employees and directors of the Company. A total of 2,800,000 shares of common stock were reserved for issuance under this plan. Options were granted under the 2000 Option Plan on terms and at prices as determined by the Board of Directors. Each option will be exercisable after the period or periods specified in the option agreement, but no option may be exercised after the expiration of 10 years from the date of grant. No further grants are allowed under this plan.

The Company had 6,436,693 shares available for future grants of options and restricted shares December 31, 2010. The following table summarizes information about the stock options outstanding as of December 31, 2010. There is no intrinsic value on any of the options at December 31, 2010.

Range of Exercise Prices	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.08 – 0.99	3,785,508	8.5	$ 0.18	2,496,386	$ 0.19
1.00 – 1.99	320,900	3.1	1.25	320,900	1.25
2.00 – 3.99	76,500	3.1	2.35	76,500	2.35
4.00 – 6.99	125,400	1.4	4.85	125,400	4.85
7.00 – 11.99	318,100	0.3	11.67	318,100	11.67
12.00 – 38.00	12,000	0.4	12.59	12,000	12.59
$ 0.08 – 38.00	4,638,408	7.3	$ 1.23	3,349,286	$ 1.65

(12) EMPLOYEE STOCK PURCHASE PLAN

In May 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the Stock Purchase Plan), which permits the eligible employees of the Company and its subsidiaries to purchase shares of the Company's common stock, at a discount, through regular monthly payroll deductions of up to 10% of their pre-tax gross salary. Subject to adjustment for stock splits, stock dividends and similar events, a maximum of 300,000 shares of common stock may be issued under the Stock Purchase Plan. During the years ended December 31, 2010 and 2009, there were no shares issued under the Stock Purchase Plan.

(13) EMPLOYEE BENEFIT PLANS

On January 17, 1994, the Company established the StockerYale, Inc. 401(k) Plan (the Plan). Under the Plan, employees are allowed to make pre-tax retirement contributions. In addition, the Company may make matching contributions, not to exceed 100% of the employee contributions, and profit sharing contributions at its discretion. The Company made matching contributions of $30,000 in each of the years ended December 31, 2010 and 2009. The Company incurred costs of approximately $3,000 in both 2010 and 2009 to administer the Plan.

(14) DISCONTINUED OPERATIONS

On October 13, 2009, the Company and SYC, entered into an agreement and sold substantially all North American assets and rights of SYC and the Company's specialty optical fiber product line to Coherent Inc. The purchase price consisted of a cash payment of $15,000,000 and the assumption of certain liabilities, including approximately $3,425,000 of accounts payable and other obligations associated with the sold assets. A portion of the cash payment, $750,000, was placed in escrow for a one year period. The escrow balance of $750,000 was received on October 13, 2010. The assets to be sold or disposed of and liabilities to be transferred and the results of those operations are classified and included in discontinued operations for all periods presented. Proceeds from the transaction were used to pay the Laurus debt in the amount of $7,900,000 (including fees), expenses associated with the transaction and settlement of various obligations of approximately $2,050,000. These divestitures are reflected as discontinued operations on the accompanying financial statements.

Revenues from the discontinued operations for the years ended December 31, 2010 and 2009 were $0 and $11.2 million, respectively. The loss from discontinued operations for the year ended December 31, 2010 was $(116,000) and the loss from discontinued operations for the year ended December 31, 2009 was approximately $(701,000). Interest expense was allocated to discontinued operations for the year ended December 31, 2009. The Company recorded a gain of approximately $0.5 million on the sale of discontinued operations in 2010 and $8.5 million on the sale of discontinued operations in 2009.

(15) COMMITMENTS AND CONTINGENCIES

Lease obligation treated as financing

On December 30, 2005, the Company closed a sale-leaseback transaction on the Company's Salem, New Hampshire headquarters with 55 Heritage LLC. The terms of the Real Estate Purchase Agreement dated November 29, 2005, as amended on December 22, 2005, between the Company and the buyer were that (i) the Company agreed to sell the property to the buyer for $4,700,000, and (ii) the Company agreed to lease from the buyer (a) approximately 32,000 square feet of the property for an initial term of five years with a rental rate during such period of $192,000 per year in base rent and (b) approximately 63,000 square feet of the property for an initial term of five years with rental rates ranging from approximately $220,500 to $315,000 per year in base rent, plus a pro rata share of all operating costs of the property. Because the transaction did not qualify as a sale for accounting purposes, the net proceeds were classified as a financing lease obligation. Accordingly, the Company carried the value of the building on its balance sheet and recorded depreciation expense until the criteria to record a sale were met on December 31, 2010; the expiration date of the lease. The Company recognized a gain of approximately $660,000 upon completion of the sale at December 31, 2010.

On October 14, 2009, the Company amended the lease, dated December 30, 2005, to reduce the rentable space from approximately 95,000 square feet to approximately 51,000 square feet, which expired on December 31, 2010. This agreement changed the base rent for November and December, 2009 to $16,949 per month, and for the calendar year to approximately $150,000. In addition, the tenant's share of expenses was reduced.

On December 31, 2010, the Company further amended the lease, dated December 30, 2005, to reduce the rentable space from 51,000 square feet to 3,600 square feet. The term of the lease is month to month with a 90 day notice. Base rent was changed to $2,550 per month plus the tenant's share of expense was reduced.

At December 31, 2009, $3,609,000 was recorded on the balance sheet as a financing lease obligation, which has been classified as $413,000 short-term obligation and $3,196,000 long-term obligation, and has been reported net of a $31,500 deposit. The net book value of the building at December 31, 2009 was approximately $3,100,000.

Other obligations and contingent liabilities

On June 12, 2008, StockerYale (IRL) Ltd. entered into a commitment to a new lease of approximately 10,000 square feet for its operations in Cork, Ireland. The lease term began on August 22, 2008 for a term of five years with rent and service charges of €102,000 per year.

ProPhotonix Limited (UK) leases approximately 13,000 square feet of space in Hatfield Broad Oak, Hertfordshire, UK. The lease has a term of nine years ending September 29, 2013. The Bishops Stortford property was assumed by the landlord in September, 2010.

The Company's Canadian subsidiary, StockerYale Canada Inc., was the prime tenant of the property located at 275 Kesmark Street, Montreal, Quebec, Canada. The lease ended in mid January, 2011.

The Company utilizes, or has assumed, capital leases to finance purchases of equipment or vehicles. There was approximately $29,000 and $124,000 payable in principal and interest under these leases at December 31, 2010 and December 31, 2009, respectively. The remaining lease at December 31, 2010 expires in 2011. Monthly payments on the remaining lease are for approximately $2,400 per month and include an interest rate of 9.1%. The Company records depreciation expense on assets acquired under a capital lease in the consolidated statement of operations.

The net book value of assets under capital lease at December 31, 2010 and December 31, 2009, is as follows:

	2010	2009
Assets under capital lease	$ 573,000	$ 593,000
Less—accumulated depreciation	(430,000)	(416,000)
Assets under capital lease, net	$ 143,000	$ 177,000

Scheduled future maturities of debt, operating, financing and capital lease obligations for the next five years:

Due by period	2011	2012	2013	2014	2015	2016+	Total
				in thousands			
Debt obligations	$ 1,241	$ 1,186	$ 836	$ 905	$ 480	$ —	$ 4,648
Operating lease obligations	277	270	165	—	—	—	712
	$ 1,518	$ 1,456	$ 1,001	$ 905	$ 480	$ —	$ 5,360

Due by period	2011	2012	2013	2014	2015	Less interest	Total
				in thousands			
Capital lease obligations	$ 29	$ —	$ —	$—	$ —	$ (5)	$ 24

The Company expensed approximately $369,000 and $309,000 in rent for the years ended December 31, 2010 and 2009, respectively.

(16) LEGAL PROCEEDINGS

The Company is 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.

(17) SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 13, 2011, the date which the financial statements were available to be issued.

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