SOMERO ENTERPRISES, INC

ANNUAL REPORT & ACCOUNTS

2011

Somero Enterprises, Inc.
Annual Report & Accounts 2011

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Who We Are

Somero® designs, manufactures and sells equipment that automates the process of spreading and leveling large volumes of concrete for commercial flooring and other horizontal surfaces, such as paved parking lots. Somero's innovative, proprietary products, including the large SXP®-D, CopperHead®, Mini Screed™ C and the new S-840 Laser Screed® machines employ laser-guided technology to achieve a high level of precision.

Somero's products have been sold primarily to concrete contractors for use in nonresidential construction projects in over 74 countries across every time zone around the globe. Laser Screed equipment has been specified for use in constructing warehouses, assembly plants, retail centers and in other commercial construction projects requiring extremely flat concrete floors by a variety of companies, such as Costco, Home Depot, B&Q, Daimler, various Coca-Cola bottling companies, the United States Postal Service, Lowe's, Toys 'R' Us and ProLogis.

Somero's headquarters and manufacturing operations are located in Michigan, USA with executive offices in Florida, USA. It has sales and service operations in the United Kingdom and China with distributors and direct sales representatives based throughout the world.

Somero has approximately 71 employees and markets and sells its products through a direct sales force, external sales representatives and independent dealers in North America, Latin America, Europe, the Middle East, South Africa, Asia and Australia.

Somero is listed on the Alternative Investment Market of the London Stock Exchange and its trading symbol is SOM.L.

Our Mission

Somero manufactures laser-guided and technologically innovative machinery used in horizontal concrete placement, to advance the productivity, concrete flatness and efficiency of the jobsite. Somero promotes customer training, technical support and continuous innovation for all its products.

Our Vision

The vision for Somero is for our innovative, cutting edge technology and process to be in use wherever a ready-mix truck is discharging concrete for a concrete slab. Somero technology and equipment will enable every installation to be completed faster, flatter and with fewer people. We will continually pass on Somero knowledge and expertise to all our global customers.

Financial Highlights

- Exceeded full year revenue and earnings expectations
- Revenue increased by 4% to US$21.9m (2010: US$21.0m)
- Adjusted EBITDA decreased by 10% to US$0.9m (2010: US$1.0m)[1 2]
- Pre-tax loss of US$2.3m (2010 Pre-tax loss: US$2.4m)
- Received US$0.3m U.S. federal tax refund relating to fiscal 2010
- Adjusted net income/(loss) before amortization of US$0.0m (2010: US$0.1m) [3]
- EPS before amortization of US$0.00 (2010: US$0.00)
- Basic EPS US($0.04) (2010: US($0.04))
- Reduced net debt by US$0.4m[4]
- Passed banking covenants as of December 31, 2011

Business Highlights

- Continued focus on product development with the introduction of the new S-840 machine in November 2011 with US$0.6m in sales in Q4
- Increased investment in emerging markets resulted in a 3% increase in revenue from that region
- Escalating sales and service presence in China
- Increased utilization of our websites to find and interact with customers
- Introduced service agreements in response to customer feedback

1 The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. See further information regarding non-GAAP measures on pages 9 and 10.
2 Adjusted EBITDA as used herein is a calculation of its net income/(loss) plus tax provision/(benefit), interest expense, interest income, foreign exchange gain/(loss), other expense, depreciation, amortization, stock based compensation and the write-down of Goodwill.
3 Adjusted net income/(loss) before amortization is a calculation of net income/(loss) plus amortization of intangibles.
4 Net Debt is defined as total borrowings under bank obligations less cash and cash equivalents.

Chairman's Statement

Overview

Overall sales in 2011 were slightly ahead of 2010. There were some regions with significant growth, such as Latin America and Australia with North America holding steady. China experienced a slow start to the year which led to its full year contribution being below plan, although trading in the second half was strong with good momentum going into 2012. A decrease in Large line sales was more than offset by a sizable Small line sales increase. We are very encouraged with the trend of higher parts sales and greater quote activity which have traditionally been leading indicators for future sales growth**.**

People

2011 was a pivotal year for the Company and the Board recognizes the continued dedication of the Company's employees and thanks them for all their efforts.

In light of the Company's very strong performance in 2011 and recognizing the compensation reductions taken by employees since the beginning of 2009, management recommended that a bonus be paid to employees equal to half the compensation reduction taken during the period. The Board approved the $228,000 bonus to be accrued for in the 2011 financial statements and to be paid out in early 2012. The Company has also reinstated its pension match in 2012 for all eligible employees which will result in the full reversal of the 10% compensation reduction that was implemented in July 2009.

On September 15, 2011 and November 16, 2011, the Board awarded 2,279,349 restricted stock units to 21 key employees under Somero's 2010 Equity Incentive Plan. The awarded stock will vest over a three year period beginning on the date of the grant and require continued employment for the period.

Markets

US construction spending was flat and we continue to see weakness in construction spending in Europe. Conditions in emerging markets, however, were more benign, enabling good performance in this region with sales increasing by 3% in 2011. International sales continue to account for a higher percentage of total group revenue than domestic sales at 54% of total group revenues, as in 2010.

Our China operation is now established with strong management, sales and service operations and our next area for expansion will be India. We have begun implementing our new sales strategy and will dedicate resources for the India market to position ourselves to take advantage of every business opportunity and build an established market presence.

New Product Development

The Company's product innovation culture continued with the introduction of the S-840, the second generation of a ride-on small Laser Screed® machine. This was introduced to the market during Q4, and we have already secured sales of US$0.6m. Following our focused, market-driven product development process, the success of the S-840 Laser Screed model has confirmed our capability to develop products that meet our customers' needs globally. We have a number of interesting new products currently in development for release in 2012 and beyond.

Current Trading & Outlook

2012 revenues to date are consistent with our expectations. We are pleased with the growth in our emerging markets business and are satisfied that the US market is starting to demonstrate growth, but we remain concerned about lack of visibility to recovery in Europe. We continue to focus on every sales opportunity, while maintaining tight controls on cost, and are using available resources to invest in China and India.

The Board remains cautiously optimistic on the outcome for 2012. We are seeing encouraging trends in our market but it is still too early to tell if these will translate into significantly higher levels of activity.

Larry Horsch
Non-Executive Chairman

President and Chief Executive Officer's Statement

Overview

We are pleased with the Company's performance in 2011. Revenues were slightly above plan and we continue to realize the benefits of our previous cost reduction programs. Through the efforts of everyone in the Company we passed our bank covenants at year end and survived the worst economic downturn since the Great Depression.

2011 was a pivotal year for the Company. At a US industry conference in June some contractors reported a 15% uplift in volumes alongside improving margins. At a September US industry conference all contractors reported significant increases in volumes with improving margins. In September, the Company also saw an increase in US activity levels and sales, followed by a slow period in October and November and a very strong December, our best month in years. The Latin and South American region had a strong year. China, Southeast Asia and Australia performed well in the second half while volumes in Europe slowed down in the second half. Our new service contract program generated strong sales in 2011 along with strong spare parts sales of US$3.8m, US$0.7m over last year. The launch of our newest model, the S-840 gave us a big lift late in the year with nine units sold in November & December.

We continue to utilize our website to engage our existing customers in sales, customer service and training. In Q4, we implemented a performance marketing program to increase traffic to somero.com and buyusedscreeds.com. Through research, testing, metrics analysis, content creation, design and other methods, the performance marketing program allows us to better understand the movements of visitors to the websites which in turn helps us to convert the traffic into leads and helps visitors utilize the websites to get the information they need.

Product Development

The Q4 launch of the S-840 Laser Screed model reinforces our long commitment to our customers of developing innovative, state-of-the-art products that meet their ever changing needs. Development of the S-840 machine was a culmination of new breakthroughs with technology and continuous improvement of our product lines. The S-840 uses new technology to achieve improved floor flatness and levelness for the customer on a consistent basis and fits current market projects around the world with speed and less operator fatigue. The S-840 is small, easy to transport and works on a variety of reinforcements in certain spaces – mesh, chaired up rebar, steel and poly fiber. Utilization for the contractor is a key reason for the early success of the S-840 – the machine can also be used as a PowerRake® for fine grading sub grade or spreading concrete and for 3D applications utilizing our 3D Profiler System®.

We were honored to learn that the S-840 Laser Screed® won the *Most Innovative Product* award for 2012 as the Experts' Choice in the Concrete Construction Equipment Category at the World of Concrete tradeshow in January. Held annually at World of Concrete, the MIP Award Program showcases many of the new products exhibited. A panel of industry experts, many of whom serve on the World of Concrete Educational Advisory Board, reviewed and selected MIP award winners in terms of the innovation they bring to the industry. This is the fourth Somero product to receive this prestigious award, the others being the CopperHead® in 2003, the PowerRake® in 2006, and the HoseHog in 2007.

Despite overall cost reductions, we have continued to invest 3% of sales in product development and we remain confident that the new product launches of these products will continue to generate further growth opportunities for Somero over the medium and longer term.

In our continuing effort to get product input, we conducted formal and informal customer surveys during the World of Concrete tradeshow and throughout the year through our customer training sessions and site visits to gather feedback on our products for future product development.

Emerging Markets/Geographic Growth

Emerging markets remain a key growth opportunity for Somero as evidenced by a 3% sales increase over last year. We continue to strategically invest in resources to take advantage of the opportunities in these markets.

The implementation of our emerging markets strategy continues on three core aims:

- To identify international logistics companies, development companies and building operators to ensure Western floor flatness specifications are carried through to new markets;
- To target local contractors tendering for projects for these major international players and local contractors with a Western joint venture partner; and
- To develop a package whereby we can provide in-depth floor construction training, beyond the operator training that we currently provide, and selling this training as part of the overall package of equipment and services to install a concrete floor.

In 2011 we increased our involvement with our two strategic partnerships – World Tech Floor and Concrete Floors Asia (CFA). Both organizations are international consortia of companies, whose key objectives are to bring new information and expertise to contractors that are involved in the design, construction and delivery process of concrete floors as well as owners and operators who use concrete floors. In 2011 CFA delivered five seminars in five Southeast Asia cities on 'World's Best Practice'. The world's best practice is about using the best current practices, technology and equipment to produce the most appropriate flatness, levelness, durability and longevity in floors.

We were encouraged by activity at our annual industry tradeshow, the World of Concrete, and indications from attendees were that activity levels are increasing. We will look to continuing development of new and innovative products to satisfy our customers' needs and to expand our presence in emerging markets.

It has been a very long journey which has required talented, hard-working people to work as a team, adapt to change and take on new responsibilities in order to overcome great obstacles. I thank and commend every employee for their determination and loyalty to the Company during this challenging period.

Jack Cooney
President and Chief Executive Officer

Financial Review

Summary of Financial Results

	Year ended December 31, 2011 US$ 000	Year ended December 31, 2010 US$ 000
Revenue	21,872	21,035
Cost of sales	11,656	11,182
Gross profit	10,216	9,853
Operating expenses		
Selling expenses	4,402	4,394
Engineering expenses	580	531
General and administrative expenses	6,989	6,586
Total operating expenses	11,971	11,511
Operating income/(loss)	(1,755)	(1,658)
Other income (expense)		
Interest expense	(454)	(477)
Interest income	1	0
Foreign exchange gain/(loss)	(120)	(269)
Other	13	0
Income/(loss) before income taxes	(2,315)	(2,404)
Provision/(benefit) income taxes	19	(180)
Net income/(loss)	(2,334)	(2,224)
Other data		
Adjusted EBITDA	932	1,012
Adjusted net income/(loss)before amortization	(1)	108
Depreciation expense	264	288
Amortization of intangibles	2,333	2,332
Capital expenditures	133	42

Notes:

1. Adjusted EBITDA and Adjusted net income/(loss) Before Amortization are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income/(loss), operating income/(loss) or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted Net Income/(loss) Before Amortization are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.
2. Adjusted EBITDA as used herein is a calculation of its net income/(loss) plus tax provision/(benefit), interest expense, interest income, foreign exchange gain/(loss), other expense, depreciation, amortization, and share based compensation.
3. Adjusted Net Income/(loss) Before Amortization as used herein is a calculation of Net Income/(loss) plus Amortization of Intangibles.
4. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

NET INCOME/(LOSS) TO ADJUSTED EBITDA RECONCILIATION AND ADJUSTED NET INCOME/(LOSS) BEFORE AMORTIZATION RECONCILIATION

	12 months ended 31-Dec-11 US$ 000	12 months ended 31-Dec-10 US$ 000
Adjusted EBITDA reconciliation		
Net income/(loss)	(2,334)	(2,224)
Tax provision/(benefit)	19	(180)
Interest expense	454	477
Interest income	(1)	0
Foreign exchange (gain)/loss	120	269
Other income	(13)	0
Depreciation	264	288
Amortization	2,333	2,332
Share based compensation	90	50
Adjusted EBITDA	932	1,012
Adjusted net income/(loss) before amortization reconciliation		
Net income/(loss)	(2,334)	(2,224)
Amortization	2,333	2,332
Adjusted net income/(loss) before amortization reconciliation	(1)	108

Notes: References to "Adjusted Net Income/(loss) Before Amortization" in this document are to Somero's net income/(loss) plus amortization of intangibles. Although Adjusted Net Income/(loss) Before Amortization is not a measure of operating income/(loss), operating performance or liquidity under US GAAP, this financial measure is included because management believes it will be useful to investors when comparing Somero's results of operations both before and after the Somero Acquisition, including by eliminating the effects of increases in amortization of intangibles that have occurred as a result of the write-up of these assets in connection with the Somero Acquisition. Adjusted Net Income/(loss) Before Amortization should not, however, be considered in isolation or as a substitute for operating income/(loss) as determined by US GAAP, or as an indicator of operating performance, or of cash flows from operating activities as determined in accordance with US GAAP. Since Adjusted Net Income/(loss) Before Amortization is not a measure determined in accordance with US GAAP and is thus susceptible to varying calculations, Adjusted Net Income/(loss) Before Amortization, as presented, may not be comparable to other similarly titled measures of other companies. A reconciliation of net income/(loss) to Adjusted EBITDA and Adjusted Net Income/(loss) Before Amortization is presented above.

Revenues

The Company's consolidated revenues increased by 4% to US$21.9m (2010: US$21.0m). Company revenues consist primarily of sales from new Large line products (the SXP-D Large Laser Screed and its predecessors), sales from new Small line products (the CopperHead and PowerRake) and other revenues, which consist of, among other things, revenue from sales of spare parts, refurbished machines, Topping Spreaders, Mini Screeds, 3D systems and accessories. The overall increase for the year was driven by an increase in Small line sales. The following table shows the breakdown between Large line sales, Small line sales and other revenues during the 12 months ended December 31, 2011 and 2010:

	12 months ended December 31, 2011		12 months ended December 31, 2010	
	(US$ in millions)	Percentage of net sales	(US$ in millions)	Percentage of net sales
Large line sales	5.4	24.7%	5.8	27.5%
Small line sales	6.2	28.3%	5.4	25.8%
Other revenues	10.3	47.0%	9.8	46.7%
Total	21.9	100.0%	21.0	100.0%

Large line sales decreased to US$5.4m (2010: US$5.8m) as a result of a 14% decrease in volume to 18 units (2010: 21), Small line sales increased to US$6.2m (2010: US$5.4m) as volumes increased to 112 units (2010: 110) and other revenues, including sales of spare parts, refurbished machines, Topping Spreaders, Mini Screeds, 3D systems and accessories, increased to US$10.3m (2010: US$9.8m).

Revenue breakdown by geography								
	North America		EMEA		RoW		Total	
US$ Millions	2011	2010	2011	2010	2011	2010	2011	2010
Large Screed	2.4	2.7	0.6	0.9	2.4	2.2	5.4	5.8
Small Screed	3.0	2.3	1.8	1.5	1.4	1.6	6.2	5.4
Other	4.8	4.8	2.7	2.4	2.8	2.6	10.3	9.8
Total	10.2	9.8	5.1	4.8	6.6	6.4	21.9	21.0

Units breakdown by geography								
	North America		EMEA		RoW		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Large Screed	8	10	2	3	8	8	18	21
Small Screed	52	48	30	29	30	33	112	110

Sales to customers located in North America contributed 47% of total revenue (2010: 46%), sales to customers in EMEA (Europe, Middle East & South Africa) contributed 23% (2010: 23%) and sales to customers in RoW (Asia, Australia, and Latin America & Pacific) contributed 30% (2010: 31%).

Sales in North America generated US$10.2m (2010: US$9.8m) which is up 4% primarily due to higher Small line (52 Small line units in 2011 vs. 48 in 2010). Sales in EMEA generated US$5.1m (2010: US$4.8m) which is up 6% primarily due to higher Small line sales (30 Small line units in 2011 vs. 29 in 2010) and higher Other sales including refurb sales. Sales in RoW generated US$6.6m (2010: US$6.4m) which are up 3% primarily due to higher Other sales (primarily higher refurbished sales).

Gross Profit
Gross profit increased to US$10.2m (2010: US$9.9m), with gross margins remaining at 47% (2010: 47%). Gross margins percentages were flat between 2011 and 2010.

Operating Expenses
Operating expenses increased by 4% to US$12.0m (2010: US$11.5m). This increase was driven primarily by investments made in Emerging markets and the bonus that was based on one half the amount employees had given up during the compensation reduction period. Total employment remained flat at 71 people for both 2011 and 2010.

Other Income (Expense)
Other expenses were US$0.6m (2010: US$0.7m) consisting of interest income, interest expense, foreign exchange gains and losses and gains and losses on the disposal of assets.

Provision/(benefit) for Income Taxes
The provision/(benefit) for income taxes was US$0.0m in 2011 as compared to US($0.2m) in 2010 due to net losses. Overall, Somero's effective tax rate changed from 7.5% to (0.9%) due to a net loss and a valuation allowance.

Net Income/(loss)
Net income/(loss) decreased to US$(2.3m) from US$(2.2m) in 2011. The primary cause of the decrease in net income/(loss) was the absence of a provision/(benefit) for income taxes in 2011. Basic earnings/(loss) per share represents income available to common shareholders divided by the weighted average number of shares outstanding during the period. Diluted earnings/(loss) per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding share options. Earnings/(loss) per common share have been computed based on the following:

	2011 US$ 000	2010 US$ 000
Net income/(loss)	(2,334)	(2,224)
Basic weighted shares outstanding	56,425,598	56,425,598
Net dilutive effect of share options and RSU's	-	-
Diluted weighted average shares outstanding	56,425,598	56,425,598

The Company had 56,425,598 shares outstanding at December 31, 2011.

Earnings/(loss) Per Share

Earnings/(loss) per share at December 31, 2011 is as follows:

	US$
Basic earnings/(loss) per share	(0.04)
Diluted earnings/(loss) per share	(0.04)
Adjusted net income/(loss) before amortization	0.00

Board of Directors

Lawrence L. Horsch
Non-Executive Chairman of the Board

Mr. Horsch, age 77, came to Somero in October, 2009 with extensive experience having served on 26 company boards, invested in 30 venture projects and conducted four corporate turnarounds. He co-founded SciMed Life Systems prior to its merger with Boston Scientific Corporation, after which he served on the Boston Scientific Corporation board. Lawrence currently serves as the Chairman of Leuthold Funds Inc. and Pioneer Sales Group, and in the past five years has also served on the board of Medical CV Inc. and Gillette Children's Specialty Healthcare. Mr. Horsch has been a business consultant since 1990 and is a graduate of the University of St. Thomas, received an MBA in Finance from Northwestern University, and is a Chartered Financial Analyst.

John T. (Jack) Cooney
President, Chief Executive Officer and Director

Mr. Cooney, age 65, joined Somero in December 1997 and has served as its Chief Executive since that time. He has been a director of the Company since August 2005. Mr. Cooney has 33 years of experience in various senior management and sales and marketing positions. From 1995 to 1997, Mr. Cooney served as the chief executive officer of Advance Machine Company, a US$145m industrial equipment manufacturer located in Minneapolis, Minnesota, USA. From 1990 to 1995, he was the vice president of sales and marketing, as well as the vice president of manufacturing, at Ganton Technologies, an aluminum die caster and precision machine business located in Wisconsin, USA. Mr. Cooney has an Associate's degree in Industrial Engineering from Central New England College and a Master of Business Administration degree from College of St. Thomas.

Michael F. Niemela
Chief Financial Officer, Secretary and Director

Mr. Niemela, age 47, joined Somero in 1997 as manager of information systems and led Somero's implementation of its current enterprise resource planning system and other information technology infrastructure. In 2000, he began managing Somero's accounting and information systems functions and was named treasurer and controller in 2001 and in 2006 was named Chief Financial Officer and Vice President of Finance. In 2010 responsibility for the Somero Customer Service Group was added to Mr. Niemela. Mr. Niemela is also responsible for the Company's Human Resources and Administration functions. Mr. Niemela earned a Bachelor of Science degree in Business Management from Keene State College. Mr. Niemela is the Secretary of the Company and joined the Board shortly prior to admission. Mr. Niemela is also a director of Somero Enterprises Limited, Somero Enterprises SRL and Somero Enterprises GmbH.

Thomas M. Anderson
Non-Executive Director
Mr. Anderson, age 60, retired after 30 years of service as president and chief executive officer of Schwing America, Inc. to become the president and managing partner of Schwing Bioset, Inc. Since 1989, he has served as the president and managing partner of Concrete Pump Repair. Mr. Anderson participated in compensation decisions for all three companies. He is also a partner in Engineered Chassis Systems, a specialty truck manufacturer. He spent 22 years on the board of directors of the American Concrete Pumping Association and five years as the president of the Concrete Pump Manufacturers Association. Mr. Anderson previously served on the board of directors of Somero Enterprises, Inc. from 1997 to 1999 prior to the sale of the Company to Dover Corporation.

Ronald Maskalunas
Non-Executive Director
Mr. Maskalunas, age 71, is a self-employed corporate consultant, focused on performing due diligence on corporate acquisitions, serving as an expert witness in litigation matters, performing forensic investigations and financial and operating reviews of companies, and assisting in the implementation of Sarbanes-Oxley controls and procedures for a company listed on the New York Stock Exchange. Mr. Maskalunas retired in 2001 after serving as a partner at PricewaterhouseCoopers LLP for 24 years. Mr. Maskalunas earned a Bachelor of Science degree from Purdue University and a Master of Business Administration from University of Chicago. He is also a Certified Public Accountant.

Directors' Report

The directors present their Annual Report and the audited financial statements for the year ended December 31, 2011.

Activities

The principal activity of the Company is to design, manufacture and sell equipment that automates the process of spreading and leveling large volumes of concrete for flooring and other horizontal surfaces, such as paved parking lots and provide support services for the same to its customers throughout the world. Somero's headquarters and manufacturing operations are located in Michigan, USA with executive offices in Florida, USA. It has sales and service operations in the United Kingdom and China with distributors and direct sales representatives based throughout the world.

Review of Business

A fair review of the Company's progress for the period reported, its future prospects and a description of the principal risks and uncertainties facing the Company are set out in the Chief Executive's Statement on pages 6 to 8, the Financial Review on pages 9 to 12, the Directors' Report on pages 15 to 22 and the Corporate Governance Report on pages 23 to 28.

The Directors' Report is prepared for the members of the Company and should not be relied upon by any other party for any other purpose. The Directors' Report (including the Chief Executive's Statement, the Financial Review and the Corporate Governance Report) contain certain forward-looking information and statements in relation to the Company's operations, economic performance and financial conditions. These statements are made by the directors in good faith based on the information available to them at the time of the approval of this report and, although they believe that the expectations reflected in such forward-looking statements are reasonable, they should be treated with caution due to their inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements or information.

Results and Dividends

The audited results for the year are set out in detail on pages 32 to 51. No dividends were declared or paid during 2011.

Share Capital

	Ordinary shares	
	January 1, 2011	December 31, 2011
J. T. Cooney	3,455,502	3,455,502
M. F. Niemela	108,166	108,166
Larry Horsch	128,000	128,000
T. M. Anderson	–	–
R. Maskalunas	–	–

Somero stock is traded on the LSE AIM exchange and is therefore quoted in Pounds Sterling. The market price of the shares at December 31, 2011 was 10p. The range during the 2011 period of trading was 7p to 25p. The Graph on page 31 shows share movement in the year.

Apart from the shareholdings listed below the Company has not been notified of any shareholdings which are 3% or more of the total issued ordinary shares of the Company.

Shareholders who hold more than 3% as of March 2, 2012	**Amount**	**% Holding**
Polar Capital Partners Ltd.	8,400,000	14.89
Ennismore Fund Management Ltd.	6,085,845	10.79
Artemis Investment Management Ltd.	4,719,830	8.36
BT Pension Scheme	4,580,037	8.12
ORA (Guernsey) Limited	4,060,000	7.20
Henderson Global Investors Ltd	3,779,273	6.70
John T Cooney *	3,455,502	6.12
Paul Compton	3,354,150	5.94
Rupert Lowe	3,354,150	5.94
River & Mercantile Asset Management LLP	1,903,800	3.37

* Director

Directors' Stock Options

Director	January 1, 2011	Awarded (exercised)	Cancelled	December 31, 2011	Exercise price US$	Earliest date from which exercisable	Expiry date
J.T. Cooney	249,394			249,394	$0.24	Jan 19, 2010	Jan 20, 2019
M.F. Niemela	125,058			125,058	$0.24	Jan 19, 2010	Jan 20, 2019
J. T. Cooney	1,000,000			1,000,000	$0.47	Feb 16, 2011	Feb 17, 2020
M. F. Niemela	300,227			300,227	$0.47	Feb 16, 2011	Feb 17, 2020
T. M. Anderson	85,704			85,704	$0.47	Feb 16, 2011	Feb 17, 2020
R. Maskalunas	85,704			85,704	$0.47	Feb 16, 2011	Feb 17, 2020
L. Horsch	154,268			154,268	$0.47	Feb 16, 2011	Feb 17, 2020
J. T. Cooney	0	62,715	-	62,715	$0.47	Jan 3, 2012	Jan 3, 2021

Restricted Stock Units

Director	January 1, 2011	Awarded (exercised)	Cancelled	December 31, 2011	Weighted Average Grant date Fair market value	Date from which earliest exercisable	Fully vested date
J.T. Cooney	0	327,476		327,476	$0.16	Sep 14 2012	Sep 14 2014
M.F. Niemela	0	164,212		164,212	$0.16	Sep 14 2012	Sep 14 2014

Risks and Uncertainties

The key risks and uncertainties facing the Company are considered as part of the Company's established process for identifying, evaluating and managing risk. Impacts of significant risks and their mitigation are monitored at Board meetings throughout the year and are subject to annual review by the Audit Committee. The key risks facing the business and the processes in place to manage those risks are:

Bank Obligations

In January 2011 the Company entered an amended and restated agreement with the bank to extend its loan facilities out to July of 2013. The Company successfully met its bank covenants in each quarter in 2011.

Employee Retention

The Company has reinstated its pension match in 2012 for employees up to 6% of their income. This will fully complete the reinstatement of the 10% compensation reduction that was implemented in July 2009. The Company has budgeted a bonus program for 2012 provided it meets certain profitability targets. On September 15, 2011 and November 16, 2011, the Board approved awards to 21 key employees under the terms of Somero's 2010 Equity Incentive Plan at a price of 10p per restricted share unit (RSU) for a total grant of 2,279,349 units. The awarded share units will vest over a three year period beginning on the date of the grant and require continued employment for the period.

Economic and Industry Conditions

Somero's financial performance is affected by a number of factors, including the cyclical nature of the non-residential concrete construction industry, as well as the varying economic conditions of the geographic markets Somero serves, primarily North America and Western Europe. Somero also has a growing presence in Asia, Eastern Europe, Australia, the Middle East, Africa and Latin America. Demand in these markets continues to fluctuate in response to overall economic conditions and to the amount of private sector spending on commercial construction projects, especially by retailers such as WalMart and Costco, where Somero's Large Laser Screed products have been utilized.

New Product Innovation

The new S-840 allows for faster elevation, SLS response, proportional valving, live calibration and has three interchangeable head options. The ride-on Small line Laser Screed® and raking machine, can now be used in a variety of applications on the jobsite, giving the contractor more flexibility and value for his investment. Increased utilization of Small line products on new concrete and sub-grade applications and new product development to address the needs of developing markets is our focus for 2012.

Product Replacement Demand

The Company's financial performance is also dependent on the replacement or refurbishment of older products as they reach the end of their expected life cycles. Somero equipment is in a period of demand for replacement and refurbishment, as older machines reach the end of their lifecycles. Somero's level of replacement demand is also dependent on its ability to continue developing enhanced models that encourage customers to replace older machines. In 2011, replacement required taking in trade-in equipment in order to facilitate new sales.

Geographic Expansion

Somero's financial performance is also dependent upon its ability to successfully enter and penetrate geographic markets outside the US. Currently, Europe and Canada represent Somero's primary markets outside the US, and Somero is focusing efforts on China, India, Asia, Eastern Europe, Australia, the Middle East, Africa and Latin America. We continue to promote acceptance of the Company's technology, methods and products through our education and marketing efforts in emerging markets.

Interest Rates

Somero's financial performance is also linked to prevailing interest rates. See "Liquidity and Capital Resources" below. In January 2011 the Company amended and extended its loan facility out until July, 2013.

Liquidity and Capital Resources

Liquidity

The Company's principal liquidity needs are for payroll, lease obligations, purchases of component parts and trade-in inventory (as part of making new sales), and interest and principal payments on its long-term debt. The Company's primary sources of liquidity are cash balances, cash provided by operations and its available revolving line of credit with Citizens Bank of up to US$6.0m. Operations are primarily funded through excess cash or draw-downs under the Citizens' revolving line of credit.

Capital Resources

Currently, the Company's capital expenditure plans include 3D software upgrades, ERP system upgrade, and other replacement information technology. One element of Somero's strategy is to identify and acquire businesses that have complementary products and services. Somero may finance such future acquisitions from internally generated funds, bank borrowings, public or private securities offerings, or some combination of these methods. In addition, the Company may issue debt or equity securities as some or all of the consideration for such acquisitions.

Somero cannot predict the level of financing that may be required in connection with future acquisitions. As of December 31, 2011, the Company had US$3.0m in aggregate principal amount outstanding in term loans under its Citizens Bank Financing Agreement, and US$1.8m drawn under the revolving portion of its Citizens Bank Financing Agreement.

The strong, open relationship with its bank has enabled the Company to amend and extend its loan facility out until July, 2013. The extension, along with simplified covenants, allow management to focus on implementation of its strategic plan, successfully introduce new products into the market and maximize opportunities from investments in emerging markets.

The Company's financing agreement with Citizens Bank imposes various restrictions and covenants on the Company which could potentially limit its ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities. The restrictive covenants include limitations on the incurrence of additional indebtedness, limitations on the creation of liens and limitations on asset sales and other fundamental changes, limitations on payment of dividends and limitations on the redemption or repurchase of outstanding capital stock, among other restrictions. The covenants also include financial measures such as a minimum debt service ratio and a minimum net tangible asset ratio. The Company was in compliance with all debt covenants at the end of 2011. The directors believe that funds generated from operations, together with existing cash, will be sufficient to meet the Company's debt obligations over the next 12 months. The directors also expect that existing cash and available funds from the financing agreement with Citizens Bank and funds generated from operations will be sufficient to meet anticipated operating requirements and to fund planned capital expenditures for the remainder of 2012.

Somero had capital expenditures of US$0.13m in 2011 and US$0.04m in 2010. The majority of this expenditure was related to software and hardware upgrades for AutoCAD applications within the Engineering Department and vehicle additions. The directors will, from time to time, evaluate opportunities to sell equity or debt securities, and/or obtain credit facilities from lenders, which could result in dilution to the Company's shareholders and increased interest expense.

Other Financial Arrangements

Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates because it funds its operations through long- and short-term borrowings and receives revenues and incurs expenses in a variety of foreign currencies. The Company does not currently hedge against the risk of exchange rate fluctuations. A summary of the Company's primary market risk exposures follows.

Foreign Currency Risk

The Company's foreign sales and results of operations are subject to the impact of foreign currency fluctuations because it receives revenues and incurs expenses in a variety of foreign currencies. Although Somero does not engage in hedging against currency exchange risk, it mitigates this risk by increasing its list prices in foreign currencies in order to maintain the price level when converted into US dollars. Historically, Somero has been able to increase prices to accommodate for fluctuations in exchange rates that would otherwise negatively impact its prices when converted into US dollars. In 2012, the Company began a move towards pricing its products and services in US dollars around the world in order to significantly reduce its exposure to foreign currency risk.

Payments to Creditors

The Company's policy is to set payment terms when agreeing the terms of each transaction. It is the Company's general policy to pay suppliers according to the set terms, to insure suppliers are informed of the terms of payment and to abide by these terms whenever possible.

Corporate Social Responsibility

Somero Enterprises believes, as a good corporate citizen, it must care about the communities it is involved in, keep the environment healthy, provide a safe and rewarding place to work and behave ethically in all its business dealings.

Donations

During the year the Company made no political donations. Charitable donations were made in the amount of US$1,000 for 2011.

Employment Policies

The Company supports equal opportunities in employment and advancement and opposes all forms of unlawful or unfair discrimination on the grounds of color, race, religion, age, nationality, gender or marital status. Full and fair consideration is given to applications for employment from disabled people. As an equal opportunities employer, all our benefits are accessible to every staff member and we encourage and support personal and professional development.

The Company has well established structures to communicate with employees at every level and to encourage their involvement regarding the Company's performance and future activities. As an organization Somero Enterprises, Inc. prides itself on its honesty, integrity and high professional standards to deliver its services to its customers and in dealing with its staff and the public. It also demands the maintenance of these high standards in everything that it does. To this end, the Company has devised this policy and procedure in order to give encouragement and support to employees in coming forward and reporting certain types of conduct or activities that will fall short of these high standards.

Under the Public Interest Disclosure Act 1998, employees who report wrongdoing of certain kinds have specific protection. The Company aims to ensure that by adherence to this policy and through proper use of the procedure, as far as possible, any such report shall be made internally in the first instance by making it possible for all employees to approach an appropriate person within the Company in order to draw their concerns to the attention of someone who has authority to act. This policy and procedure is aimed at ensuring that any employee who wishes to voice a concern regarding potential or actual wrongdoing on the part of the Company or anyone with whom the Company is associated feels sufficiently comfortable to do so.

Director Training

After receiving formal AIM compliance training in August 2007, Messrs. Cooney, Horsch and Niemela received their annual update and refresher on AIM rules in early 2012.

Health and Safety

The Board considers health and safety a key priority and believes it essential to conduct business to ensure the health, safety and welfare of all our employees and all other persons who may be affected by our activities. This includes members of the public, customers and trade contractors we may employ. Our internal Safety Committee monitors these issues and reports to senior management monthly. We maintain ISO 9001 certification for quality.

Environment

It is our intention to take all reasonable measures to conduct our business activities so that damage to the environment and pollution is minimized.

Annual General Meeting

The notice of the AGM is included on page 53 in the Annual Report. Approved by the Board of Directors and signed on behalf of the Board.

Michael F. Niemela
Company Secretary
March 13, 2012

Corporate Governance

While the Company is not required to comply with the provisions of the Combined Code and the UK Corporate Governance Code, it is the intention of the directors that the Company will indeed comply with both codes. With the exception of the following matters, the Company is in compliance with the June 2008 edition of FRC Combined Code on Corporate Governance and the June 2010 UK Corporate Governance Code.

A.1.2 Senior independent director has not been named.

C.3.5 Allowing for the size of the Company, there is currently no internal audit function as suggested by the Combined Code. The finance function continues to carry out regular and random internal checks on all systems and procedures to insure internal compliance. We do not feel the need, therefore, to appoint separate staff to carry out an internal audit function.

A.6.1 Also, the Board has not undertaken a formal evaluation of its own performance and that of its committees and individual directors. As suggested by the Combined Code, as of the end of 2011, relationships with the majority of all major shareholders have been maintained on a regular basis keeping them fully informed regarding the trading of the Company and any new developments.

Auditor's fees related to 2011 were US$142,000 and for 2010 were US$185,000.

Board of Directors

The Company is controlled through the Board of Directors which is comprised of five members, three of whom are non-executive directors. The Board considers that the Non-Executive Chairman of the Board, Mr. Horsch, as well as Messrs Anderson and Maskalunas, who have been appointed as non-executive directors, are each independent in character and judgment and accordingly considers each of them to be an independent director for the purposes of the Combined Code. The names and biographical details of the directors are located on pages 13 and 14 of this report.

The Company holds monthly Board meetings and more frequently as required. There is a separation of roles and responsibilities of the Chairman and the Chief Executive. As the Non-Executive Chairman, Mr. Horsch is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda; ensuring that the directors receive accurate, timely and clear information, and appropriate induction and training; ensuring effective communication with shareholders; and facilitating the effective contribution of non-executive directors in particular, and ensuring constructive relations between the executive and non-executive directors. Non-executive directors are responsible for constructively challenging and helping to develop proposals on strategy; scrutinizing the performance of management in meeting agreed goals and objectives, and monitoring the reporting of performance; satisfying themselves on the integrity of financial information, and that financial controls and systems of risk management are robust and defensible; and responsibility for determining appropriate levels of remuneration of executive directors, and having a prime role in appointing, and where necessary removing, executive directors, and in succession planning. The directors are provided with regular and timely information on the financial performance of the Company together with other reports from functional areas within the Company as requested.

During the year there were 12 regularly scheduled monthly Board meetings, two Audit Committee meetings, three Remuneration Committee meeting and one Nominations Committee meeting, with perfect attendance.

The Board is responsible for overall Company strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks, considers environmental and employee issues and key appointments. It ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. A budget is established for this purpose. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has three committees, the Audit Committee, the Remuneration Committee and the Nominations Committee with formally delegated rules and responsibilities. Each of these committees meets regularly, at least once each year.

The Audit Committee is comprised of Messrs Maskalunas, Anderson and Horsch, and is chaired by Mr. Maskalunas. The Audit Committee determines and examines any matters relating to the financial affairs of the Company, including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. In addition, it ensures that the financial performance, position and prospects of the Company are properly monitored and reported on. The Audit Committee has unrestricted access to the Company's auditors.

The Remuneration Committee is comprised of Messrs Anderson, Maskalunas and Horsch, and is chaired by Mr. Anderson. The Remuneration Committee measures the performance of the executive directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards, and awards of share options to the Board for final determination. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees.

The Nominations Committee is comprised of Messrs Horsch, Anderson and Maskalunas and is chaired by Mr. Horsch. The Nominations Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and makes recommendations to the Board with regard to any changes; gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future; and is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Company adopted a code for directors' and applicable employees' share dealings. The directors will comply with Rule 21 of the AIM rules relating to directors' dealings and will take all reasonable steps to ensure compliance by Somero's applicable employees.

Relations with Shareholders
The directors are committed to maintaining good communications with the shareholders and quickly respond to all queries received.

All shareholders have at least 20 working days' notice of the AGM at which all directors and committee chairs are introduced and available for questions. Institutional investors and analysts are invited to briefings by the Company immediately after the announcement of the Company's full year results and all shareholders are encouraged to participate in the Company's AGM.

Accountability and Audit

Financial Reporting
A review of the performance and financial position of the Company is included in the financial review. The Board uses this, together with the Chairman's Statement, the Chief Executive's Statement and the Directors' Report to present a balanced and understandable assessment of the Company's position and prospects. The statement of directors' responsibilities for the financial statements is described on page 24.

Internal Control
An ongoing process for identifying, evaluating and managing the significant risks faced by the Company has been established and that process is regularly reviewed by the Board and accords with the Internal Control Guidance to directors on the Combined code. Steps continue to be taken to embed internal control and risk management further into the operations of the business and deal with areas of improvement coming to management and Board attention. The Board implemented a review of 18 key risk areas starting in 2007 where one of the risk areas was reviewed with results reported to the entire Board. In 2008 there was one additional risk area reviewed with a report of the results to the Board. In 2009 and 2010, due to the ongoing restructurings, none of the 18 risk areas were formally reported on to the Board. In 2011, three additional risk areas were examined with results reported to the entire Board.

The reporting systems include formal consideration of all significant business risks at the monthly Board meetings and are still subject to continuous review by the Board throughout the year. The monthly management information includes some key risk indicators with the emphasis on early warning systems. Risk management principles are embedded within all significant projects.

The directors are responsible for the system of internal control and reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable but not absolute assurance against material misstatement or loss.

The key risk management activities are described under the following headings:

Strategic control – The Board reviews the Company's strategic plans each year. On a regular basis, the Company's significant risks are updated and appropriate control strategies and accountabilities are agreed.

Allocation of responsibilities and control environment – The Board has set clear terms of reference for each of its committees and the Company has an organizational structure with clearly defined and documented delegation of authority to executive management and reporting systems for financial results, risk exposure and control assessment.

Financial control – The Company has a comprehensive system for reporting financial results to the Board.

Quality and integrity of personnel – The Company is committed to competence and integrity of management and staff at all levels, through its values statement, comprehensive recruitment, training and appraisal programs.

IT Systems – The Company has established controls and procedures over the security of data held on computer systems and has put in place suitable disaster recovery arrangements.

Controls over central functions – A number of the Company's key functions, including treasury and taxation, are dealt with centrally. The Chief Financial Officer reports on an as needed basis to keep the Board updated.

Internal audit – There is no dedicated resource for internal audit functions which is considered sufficient for the Company due to its size.

Role of the Executive Committee – Day-to-day management of the Company's activities is delegated to senior management which is considered sufficient for the Company.

Risk management reporting and Board review – The Board has overall responsibility for identifying, evaluating and managing major business risks facing the Company. It annually reviews all operating unit assessments of business risk exposure and control, including compliance assessments, and determines appropriate action, taking into account the recommendations of senior management.

An ongoing review of the effectiveness of the system of internal control for the year ended December 31 2011 has been maintained and has taken account of any material developments since the year end.

Audit Committee
A summary of the process the Board (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control is set out as follows:

During the year, the Audit Committee of the Board, comprising three non-executive directors;

a. meets regularly with the external auditors and executive directors attending by invitation;
b. receives and considers reports relating to the monitoring of the adequacy of the Company's internal controls, the suitability of its accounting policies and financial reporting and matters arising from the external auditors work;
c. monitors the nature and extent of non-audit work undertaken by the external auditors; and
d. makes recommendations to the Board on these matters.

In forming their opinion of the independence and objectivity of the external auditors, the Audit Committee takes into account the safeguards operating within the external auditors and that the level of auditor fee is sufficient to enable them to fulfill their obligations in accordance with the audit Letter of Engagement. The Chairman of the Audit Committee makes a report to the Board following each committee meeting and the Board receives the minutes of all Audit Committee meetings.

The following table summarizes audit, tax and other fees paid by the Company to its auditor in 2011 and 2010.

	2011	2010
Audit	US$142,000	US$185,000
Tax	-	-
Other	-	-

Going Concern Basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Director's report on pages 15 to 22. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Director's report on pages 15 to 22. After making enquiries, the directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Compliance Statement

Although not required to, the Board reports on compliance with the Combined Code throughout the accounting period. Save for the exceptions outlined below, the Company has complied throughout the accounting period ended December 31, 2011 with the provisions set out in Section 1 of the Combined Code. The exceptions to the Combined Code were as follows:

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the Company in accordance with US Generally Accepted Accounting Principles ("US GAAP"). The Company believes it is in full compliance with all laws of the USA where it is incorporated.

The finance function continues to carry out regular and random internal checks on all systems and procedures to insure internal compliance. We do not feel the need, therefore, to appoint separate staff to carry out an internal audit function.

The AIM rules require the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with US GAAP of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period and comply with US GAAP. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report has been approved by the Board and adopted for submission for ratification by the shareholders. This report is unaudited.

Directors' Remuneration Report

The members of the Remuneration Committee during the year were Tom Anderson (Chairman), Ron Maskalunas and Larry Horsch. The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each of the executive directors.

	Salary Paid 2011	Bonus[1] Paid 2011	Salary 2012	Bonus Opportunity 2012	Options held	Restricted Stock Units Held
Larry Horsch	$91,790	--	$91,790		154,268	
Ron Maskalunas	$65,550	--	$65,550		85,704	
Tom Anderson	$65,550	--	$65,550		85,704	
Jack Cooney	$345,000	--	$345,000	50% - 100% of salary	1,312,109	327,476
Michael Niemela	$173,000	--	$173,000	40% - 80% of salary	425,285	164,213

[1] No bonuses were paid in 2011.

Remuneration Policy

The Company's policy is to provide executive remuneration packages which are designed to attract, motivate and retain directors of the high caliber required and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package are undertaken by the Remuneration Committee consisting solely of non-executive directors. The remuneration of the non-executive directors is determined by the full Board.

In framing remuneration policy the Remuneration Committee has given consideration to the requirements of the Combined Code.

Components of Remuneration

The components of remuneration are:

a. basic salary and benefits determined by the Remuneration Committee and reviewed annually;
b. performance related bonuses having regard to profitability of the Company; and
c. share option incentives.

Basic Salary
An executive director's basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility.

Cash Compensation

In the year ended December 31, 2011, the executive directors received no bonuses as shown in the table.

Directors' Contracts

The Company has entered into employment agreements with certain members of senior management. The terms of these agreements range from six to 18 months and include non-compete and non-disclosure provisions as well as providing for defined severance payments in the event of termination or change in control. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating the net loss of salary and contractual benefits for the unexpired notice period. The Remuneration Committee will seek to ensure that the director fulfills his obligation to mitigate his losses and will also give consideration to phased payments where appropriate.

With the approval of the Remuneration Committee, executive directors are entitled, under their service agreements to perform duties outside the Company and to receive fees for those duties.

Equity Incentives

The Remuneration Committee approves the grant of equity awards to executive directors under the Company's discretionary equity incentive schemes. In 2010, the Remuneration Committee adopted Somero's 2010 Equity Incentive Plan that made 5.6 million shares available to be granted which is 10% of the 56 million shares that are issued and outstanding. At that time, all other equity incentive plans were abandoned. Other than as disclosed above, the equity awards issued to executive directors do not have any performance criteria attached to them. At the time they were first issued, it was not felt that performance criteria were appropriate. For more information, see Note #14 on pages 49 to 51within the Notes to the Financial Statements.

Restricted Stock Units

On September 15, 2011 and November 16, 2011, the Board of the Company approved awards to 21 key employees under the terms of Somero's 2010 Equity Incentive Plan at a price of 10p per restricted stock unit (RSU) for a total grant of 2,279,349 units. The awarded stock will vest over a three year period beginning on the date of the grant and require continued employment for the period.

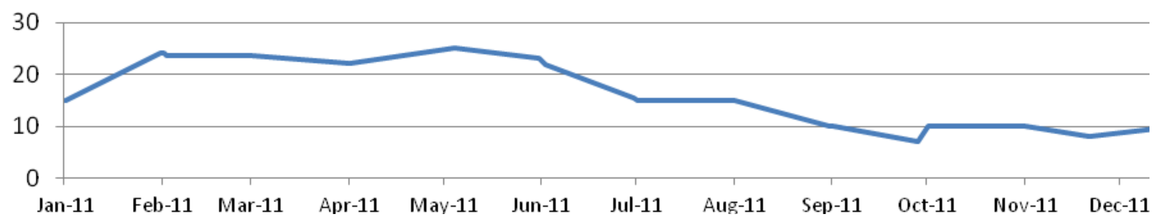
Share Options

An initial grant was made in February 2010 for 2.3 million shares as replacements for grants under the old option plan which were cancelled and the old plan was abandoned. The grants have a three year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining shares will only be issued for new key employees and superior performance.

Directors and Officers Insurance

The Company maintains customary D&O insurance.

Performance Graph
For the 12 months of 2011 Company stock traded at a high of 25p and a low of 7p and ended trading December 31, 2011 at 10p which represented a 33% decrease over the December 31, 2010 price of 15p.



The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association, and is based upon independent surveys of fees paid to non executive directors of similar companies. The remuneration paid to each non-executive director in the year to December 31, 2010 was subject to Board approval. The letters of appointment and terms are listed in the chart below.

Director	Date of appointment	Termination date
Larry Horsch	June 28, 2011	2014 AGM
Ron Maskalunas	June 29, 2010	2013 AGM
Tom Anderson	June 28, 2011	2014 AGM
Jack Cooney	June 18, 2009	2012 AGM
Mike Niemela	June 29, 2010	2013 AGM

Approved by the Board of Directors and signed on behalf of the Board.

Tom Anderson
Chairman of Remuneration Committee

Independent Auditors' Report

To the Board of Directors and Stockholders of
Somero Enterprises, Inc.

We have audited the accompanying consolidated balance sheets of Somero Enterprises, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to, nor have we been engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Somero Enterprises, Inc. and subsidiaries, as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Whitley Penn LLP

Dallas, Texas
March 13, 2012

Consolidated Balance Sheets

As of December 31, 2011 and 2010

	2011 US$ 000	2010 US$ 000
Assets		
Current Assets:		
Cash and cash equivalents	89	96
Accounts receivable - net	3,440	2,176
Inventories	5,717	6,393
Prepaid expenses and other assets	612	567
Income tax receivable	0	284
Total current assets	9,858	9,516
Property, plant and equipment - net	3,551	3,701
Intangible assets - net	9,872	12,205
Goodwill	2,878	2,878
Deferred financing costs	135	17
Deferred tax asset	0	4
Other assets	31	24
Total assets	26,325	28,345
Liabilities and stockholders' equity		
Current liabilities:		
Notes Payable - current portion	511	460
Accounts payable	1,618	1,659
Accrued expenses	866	357
Income tax payable	44	0
Total current liabilities	3,039	2,476
Notes payable, net of current portion	4,244	4,665
Other liabilities	27	67
Total liabilities	7,310	7,208
Stockholders' equity		
Preferred stock, US$.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	0	0
Common stock, US$.001 par value, 80,000,000 shares authorized, 56,425,598 shares issued and outstanding at December 31, 2011 and December 31, 2010	26	26
Additional paid in capital	28,165	28,075
Retained earnings/(Accumulated deficit)	(8,215)	(5,881)
Other comprehensive loss	(961)	(1,083)
Total stockholders' equity	19,015	21,137
Total liabilities and stockholders' equity	26,325	28,345

See notes to consolidated financial statements.

Consolidated Statements of Operations

For the years ended December 31, 2011 and 2010

	Year ended December 31 2011 US$ 000 except per share data	Year ended December 31 2010 US$ 000 except per share data
Revenue	21,872	21,035
Cost of sales	11,656	11,182
Gross profit	10,216	9,853
Operating expenses		
Selling expenses	4,402	4,394
Engineering expenses	580	531
General and administrative expenses	6,989	6,586
Total operating expenses	11,971	11,511
Operating income/(loss)	(1,755)	(1,658)
Other income (expense)		
Interest expense	(454)	(477)
Interest income	1	0
Foreign exchange gain/(loss)	(120)	(269)
Other	13	0
Income/(loss) before income taxes	(2,315)	(2,404)
Provision/(benefit) for income taxes	19	(180)
Net income/(loss)	(2,334)	(2,224)
Earnings/(loss) per common share		
Basic	(0.04)	(0.04)
Diluted	(0.04)	(0.04)
Weighted average number of common shares outstanding		
Basic	56,425,598	56,425,598
Diluted	56,425,598	56,425,598

See notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2011 and 2010

Common Stock

	Shares	Amount US$000	Additional paid in Capital US$000	Retained earnings/ Accumulated deficit US$000	Other Comprehensive income (loss) US$000	Total stockholders equity US$000
Balance - January 1, 2010	56,425,598	26	28,025	(3,657)	(1,049)	23,345
Cumulative translation adjustment	-	-	-	-	(138)	(138)
Change in fair value of derivative instruments	-	-	-	-	104	104
Net income/(loss)	-	-	-	(2,224)	-	(2,224)
Share based compensation	-	-	50	-	-	50
Balance - December 31, 2010	56,425,598	26	28,075	(5,881)	(1,083)	21,137
Cumulative translation adjustment	-	-	-	-	18	18
Change in fair value of derivative instruments	-	-	-	-	104	104
Net income/(loss)	-	-	-	(2,334)	-	(2,334)
Share based compensation	-	-	90	-	-	90
Balance - December 31, 2011	56,425,598	26	28,165	(8,215)	(961)	19,015

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	Year ended December 31 2011 US$ 000	Year ended December 31 2010 US$ 000
Cash flows from operating activities:		
Net income/(loss)	(2,334)	(2,224)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Deferred taxes	4	0
Depreciation and amortization	2,597	2,620
Amortization of deferred financing costs	83	0
Share based compensation	90	50
Working capital changes:		
Accounts receivable	(1,264)	(24)
Inventories	676	(216)
Prepaid expenses and other assets	(45)	153
Other assets	(7)	11
Accounts payable, accrued expenses and other liabilities	428	(349)
Income taxes receivable/payable	329	944
Net cash provided by/(used in) operating activities	557	965
Cash flows from investing activities:		
Proceeds from sale of property and equipment	20	0
Property and equipment purchases	(133)	(42)
Net cash provided by/(used in) investing activities	(113)	(42)
Cash flows from financing activities:		
Borrowings from additional financing	15,240	12,042
Loan origination fees	(203)	0
Repayment of notes payable	(15,610)	(12,870)
Net cash provided by/(used in) financing activities	(573)	(828)
Effect of exchange rates on cash and cash equivalents	122	(33)
Net increase/(decrease) in cash and cash equivalents	(7)	62
Cash and cash equivalents:		
Beginning of year	96	34
End of year	89	96

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements
As of December 31, 2011 and 2010

1. Organization and Description of Business

Nature of Business Somero Enterprises, Inc. (the "Company" or "Somero") designs, manufactures, refurbishes, sells and distributes concrete levelling, contouring and placing equipment, related parts and accessories, and training services worldwide. The operations are conducted from a corporate office in Houghton, Michigan, executive offices in Fort Myers, Florida, a European distribution office in the United Kingdom, and sales offices in Canada, Germany and China.

2. Summary of Significant Accounting Policies

Basis of Presentation The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation The consolidated financial statements include the accounts of Somero Enterprises, Inc. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Cash and Cash Equivalents Cash includes cash on hand, cash in banks, and temporary investments with a maturity of three months or less when purchased.

Accounts Receivable and Allowances for Doubtful Accounts Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company's accounts receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of December 31, 2011 and 2010, the allowance for doubtful accounts was approximately US$280,000 and US$225,000, respectively. Bad debts expense/(income) was US$54,000 and US$33,000 in 2011 and 2010, respectively.

Inventories Inventories are stated at the lower of cost, using the first in, first out ("FIFO") method, or market. Provision for potentially obsolete or slow-moving inventory is made based on management's analysis of inventory levels and future sales forecasts.

Deferred Financing Costs Deferred financing costs incurred in relation to long-term debt, are reflected net of accumulated amortization and are amortized over the expected remaining term of the debt instrument. These financing costs are being amortized using the effective interest method.

Intangible Assets and Goodwill Intangible assets consist principally of customer relationships and patents, and are carried at their fair value when acquired, less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of three to twelve years, which is their estimated period of economic benefit. Goodwill is not amortized but is subject to impairment tests on an annual basis, and the Company has chosen December 31 as its periodic assessment date. Goodwill represents the excess cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities. Goodwill arose from the Company's prior sale from Dover Corporation to The Gores Group in 2005. The Company did not incur a goodwill impairment loss for the year ended December 31, 2011, or for the year ended December 31, 2010 (see Note 4 for more information.)

The Company evaluates the carrying value of long-lived assets, excluding goodwill, whenever events and circumstances indicate the carrying amount of an asset may not be recoverable. For the year ended December 31, 2011, the Company did not incur a goodwill impairment loss and tested its other intangible assets including customer relationships and technology for impairment and found no impairment. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset (or asset group) are separately identifiable and less than the asset's (or asset group's) carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. (See Note 4 for more information.)

Revenue Recognition The Company recognizes revenue on sales of equipment, parts and accessories when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. For product sales where shipping terms are F.O.B. shipping point, revenue is recognized upon shipment. For arrangements which include F.O.B. destination shipping terms, revenue is recognized upon delivery to the customer. Standard products do not have customer acceptance criteria. Revenues for training are deferred until the training is completed unless the training is deemed inconsequential or perfunctory.

Warranty Liability The Company provides warranties on all equipment sales ranging from 60 days to three years, depending on the product. Warranty liabilities are estimated net of the warranty passed through to the Company from vendors, based on specific identification of issues and historical experience.

Property, Plant and Equipment Property, plant and equipment is stated at estimated market value based on an independent appraisal at the acquisition date or at cost for subsequent acquisitions, net of accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed on buildings using the straight-line method over the estimated useful lives of the assets, which is 31.5 to 40 years for buildings (depending on the nature of the building), 15 years for improvements, and 2 to 10 years for machinery and equipment.

Income Taxes The Company determines income taxes using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items reflected in the financial statements. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance, if necessary, to the extent that it appears more likely than not, that such assets will be unrecoverable.

In June 2006, the Financial Accounting Standards Board (FASB) issued accounting guidance to create a single model to address accounting for uncertainty in tax positions. This guidance clarifies that a tax position must be more likely than not of being sustained before being recognized in financial statements. The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions. This involves a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision/(benefit) for income taxes in general and administrative expenses in the accompanying consolidated financial statements. The Company is subject to a three year statute of limitations by major tax jurisdictions.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock Based Compensation The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services in exchange for an award based on the grant-date fair value of the award.

Transactions in and Translation of Foreign Currency The functional currency for the Company's subsidiaries outside the United States is the applicable local currency. Balance sheet amounts are translated at December 31 exchange rates and statement of operations accounts are translated at average rates. The resulting gains or losses are charged directly to accumulated other comprehensive income/(loss). The Company is also exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and some assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies other than the designated functional currency. Gains and losses from transactions are included as foreign exchange gain (loss) in the accompanying consolidated statements of operations.

Comprehensive Income/(loss) Comprehensive income/(loss), is the combination of reported net income/(loss) and other comprehensive income/(loss) ("OCI"). OCI is changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources not included in net income/(loss). OCI was composed of the following for the years ended December 31, 2011 and 2010. Total comprehensive income/(loss) for the years was approximately US$(2,212,000) and US$(2,258,000), respectively.

	2011 US$000	2010 US$000
Net Income/(loss)	(2,334)	(2,224)
Cumulative Translation Adjustment	18	(138)
Change in fair value of derivative instruments – net of income taxes	104	104
Total Comprehensive Income/(loss)	(2,212)	(2,258)

Earnings/(loss) Per Share Basic earnings/(loss) per share represents income/(loss) available to common stockholders divided by the weighted average number of common shares outstanding during the year. Diluted earnings/(loss) per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options. All common stock equivalents were anti-dilutive at December 31, 2011. Earnings/(loss) per common share have been computed based on the following:

	2011 US$ 000	2010 US$ 000
Net income/(loss)	(2,334)	(2,224)
Basic weighted shares outstanding	56,425,598	56,425,598
Net dilutive effect of stock options and RSU's	-	-
Diluted weighted average shares outstanding	56,425,598	56,425,598

Fair Value Measurements The Company uses fair value measurements in areas that include, but are not limited to: impairment testing of goodwill and long-lived asset and share-based compensation arrangements. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. The carrying value of our long-term debt approximates fair value due to the variable nature of the interest rates under our Credit Facility.

The FASB has issued accounting guidance on fair value measurements. This guidance provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it.

This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. These valuation techniques may be based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy.

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3 – Unobservable inputs for the asset or liability which are supported by little or no market activity and reflect the Company's assumptions that a market participant would use in pricing the asset or liability.

Fair Value Measurements at Reporting Date

Assets:	December 31, 2011 and 2010 US$000	Quoted Prices In Active Markets for Identical Assets (Level 1) US$000	Significant Other Observable Inputs (Level 2) US$000	Significant Unobservable Inputs (Level 3) US$000
Goodwill	2,878			2,878

New Accounting Pronouncements

In May 2011, the FASB issued guidance to amend Fair Value Measurement (Topic 820). The amendments result in common fair value measurement and disclose the requirements in U.S. GAAP and IFRS's (International Financial Reporting Standards). The guidance for this update is effective during the first interim or annual period beginning after December 15, 2011, and is not expected to have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued guidance to amend Comprehensive Income (Topic 220). The main objective is to eliminate the option of presenting the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, and is not expected to have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued guidance to amend Topic 350, Intangibles-Goodwill and Other. The objective of this update is to simplify how entities test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with earlier implementation permitted. The Company implemented this guidance when performing its impairment evaluation at December 31, 2011 (See Note 4).

In December 2011, the FASB issued guidance to amend Comprehensive Income (Topic 220). This amendment defers the effective date pertaining to reclassification adjustments out of accumulated other comprehensive income in Accounting Standards Update 2011-05 Comprehensive Income (Topic 220) Presentation of Comprehensive Income until the Board is able to reconsider the paragraphs. The guidance is not expected to have a material impact on the Company's consolidated financial statements.

3. Inventories

Inventories consisted of the following at December 31, 2011 and 2010:

	2011	2010
	US$ 000	US$ 000
Raw materials	1,828	1,713
Finished goods and work in process	1,772	2,094
Refurbished	2,117	2,586
Total	5,717	6,393

4. Goodwill and Intangible Assets

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. The Company is required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a unit may be below its carrying value.

The Company adopted the amendments to Topic 350, Intangibles-Goodwill and Other, for the fiscal year ended December 31, 2011, which permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350.

The results of the qualitative assessment indicated that Goodwill was not impaired as of December 31, 2011 and that the value of intangible assets including customer relationships and technology was not impaired as of December 31, 2011. Prior to December 31, 2011, there were US$13.5m in accumulated impairment losses.

The following table reflects Other intangible assets:

	Weighted average Amortization Period	**2011 US$000**	**2010 US$000**
Capitalized cost			
Customer relationships	8 years	6,300	6,300
Patents	12 years	18,538	18,538
Other intangibles	3 years	4	4
		24,842	24,842
Accumulated amortization			
Customer relationships	8 years	5,053	4,266
Patents	12 years	9,913	8,368
Other intangibles	3 years	4	3
		14,970	12,637
Net carrying costs			
Customer relationships	8 years	1,247	2,034
Patents	12 years	8,625	10,170
Other intangibles	3 years	0	1
		9,872	12,205

Amortization expense associated with the intangible assets for the years ended December 31, 2011 and 2010 was approximately US$2,333,000 and US$2,332,000, respectively. Future amortization on intangible assets is expected to be as follows for the years ended:

	December 31 US$ 000
2012	2,332
2013	2,004
2014	1,545
2015	1,545
2016	1,545
	8,971
Thereafter	901
	9,872

5. Property, Plant and Equipment

Property, plant and equipment consist of the following at December 31:

	2011	2010
	US$ 000	US$ 000
Land	207	207
Buildings and improvements	3,572	3,572
Machinery and equipment	1,500	1,450
	5,279	5,229
Less: accumulated depreciation and amortization	(1,728)	(1,528)
	3,551	3,701

Depreciation expense for the years ended December 31, 2011 and 2010, was approximately US$264,000 and US$288,000, respectively.

6. Notes Payable

The Company's debt obligations consisted of the following at December 31:

	2011	2010
	US$ 000	US$ 000
Bank debt:		
30 month secured reducing revolving line of credit	1,782	3,515
30 month secured term loan	2,973	1,610
Less debt obligations due within one year	(511)	(460)
Obligations due after one year	4,244	4,665

Amended Credit Facility The Company completed the amendment of its loan agreement in early 2011. The new agreement matures July 2013.

- US$3,500,000 July 2013 amended, secured revolving line of credit
- US$1,540,000 July 2013 amended, secured reducing term loan
- US$2,500,000 July 2013 new, secured revolving line of credit
- US$1,900,000 July 2013 new, secured reducing term loan

The Company restructured its original revolving loan up to a maximum of US$3,500,000. The interest rate on this loan will be adjusted Libor plus 4.0%. The Company restructured its original term loan equal to US$1,540,000. The interest rate on this loan will be adjusted Libor plus 4.0%. The Company has a new maximum revolving loan facility equal to US$2,500,000 secured by substantially all of its assets and supported by the Export-Import Bank of the United States. The interest rate on this loan will be adjusted Libor plus 4.0%. The Company has a new term loan facility equal to US$1,900,000 secured by substantially by all of its business assets. Each of the Company's loans is secured by a mortgage. The interest rate on this loan will be adjusted Libor plus 4.5%. The change fee paid to the bank was US$25,000 and the fee paid to the Export-Import Bank of the United States was US$37,500.

Future Payments The future payments by year under the Company's amended loan are as follows:

	December 31
	US$ 000
2012	511
2013	4,244
2014	-
2015	-
2016	-
Total payments	4,755

Interest

Interest expense on the notes payable for the years ended December 31, 2011 and 2010, was approximately US$454,000 and US$477,000, respectively, related to the debt obligations. Interest expense includes US$104,000 in 2011 and 2010, respectively, related to the loss on cash flow hedges as a result of paying off interest rate swaps in 2009 that were recognized in the statement of operations as interest expense and removed from other comprehensive income/(loss).

7. Retirement Program

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the Internal Revenue Code ("IRC"). This savings and retirement plan provides for voluntary contributions by participating employees, not to exceed maximum limits set forth by the IRC. The Company match vests immediately. The Company matched 100% of the employee's contribution up to the first 6% of the employee's compensation through June 30, 2009. Since then, the Company suspended the match. The Company reinstated its 401k match in 2012 for employees up to 6% of their income. The Company contributed approximately US$0 to the savings and retirement plan during the years ended December 31, 2011 and 2010, respectively.

8. Operating Leases

The Company leases property, vehicles and office equipment under leases accounted for as operating leases without renewal options. Future minimum payments by year under non-cancellable operating leases with initial terms in excess of one year were as follows:

	December 31
	US$ 000
2012	173
2013	96
2014	17
2015	10
2016	-
Total	296

The Company's existing lease on its Executive offices in Florida is set to expire June 30, 2013. The Company is currently negotiating an extension.

9. Supplemental Cash Flow and Non-Cash Financing Disclosures

	2011	2010
	US$ 000	US$ 000
Cash paid for interest	259	332
Cash paid/(received) for taxes	(355)	(1,176)
Non-cash financing activities – Change in fair value of derivative instruments	(104)	(104)
Inventory received in lieu of payment	119	274

10. Business and Credit Concentration

The Company's line of business could be significantly impacted by, among other things, the state of the general economy, the Company's ability to continue to protect its intellectual property rights, and the potential future growth of competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At December 31, 2011 and December 31, 2010, the Company had two customers which represented 30% and 40% of total accounts receivables; respectively.

11. Commitments and Contingencies

The Company has entered into employment agreements with certain members of senior management. The terms of these are for renewable one year periods and include non-compete and nondisclosure provisions as well as providing for defined severance payments in the event of termination or change in control.

The Company is subject to various unresolved legal actions which arise in the normal course of its business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses, the Company believes these unresolved legal actions will not have a material effect on its consolidated financial statements.

12. Income Taxes

During 2011, the Company had gross tax expense of US$19,026.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company began business in 2005. The statute of limitations for all federal, foreign and state income tax matters for tax years from 2008 forward are still open. The Company has no federal, foreign or state income tax returns currently under examination.

	2011	2010
	US$ 000	US$ 000
Current Income Tax		
Federal	(24)	(121)
State	-	-
Foreign	43	(59)
Total current income tax provision/(benefit)	19	(180)
Deferred tax expense		
Federal	-	(23)
State	-	7
Foreign	-	16
Total deferred tax provision/(benefit)	-	(0)
Total provision/(benefit)	19	(180)

The components of the net deferred income tax asset at December 31, 2011 and 2010 were as follows:

	2011 US$ 000	2010 US$ 000
Deferred Tax Asset		
Intangibles	1,530	1,310
Intangibles - Foreign	121	106
Goodwill	2,336	2,733
Share-based compensation	43	443
Net Operating Loss – State	74	72
Net Operating Loss - Foreign	757	381
Net Operating Loss - Federal	442	75
Foreign Tax Credit Carryover	237	261
Other	216	264
Gross deferred tax asset	5,756	5,645
Valuation Allowance	(5,416)	(5,285)
Deferred tax asset	340	360
Deferred Tax Liability		
Depreciation	(236)	(253)
Prepaids	(104)	(103)
Net deferred tax asset	-	4
Current	-	-
Non-current	-	4
Net deferred tax asset	-	4
Rate Reconciliation		
Consolidated income/(loss) before tax	(2,315)	(2,404)
Statutory rate	34%	34%
Statutory tax expense	(787)	(817)
State taxes	1	5
Revaluation of Deferred Tax Assets	45	134
Meals and Entertainment	22	19
Foreign Tax Items	125	(4)
Valuation Allowance	131	455
Other	482	28
Tax provision/benefit	19	(180)

At December 31, 2011, the Company had no net deferred tax asset. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Since realization of any future tax benefit at December 31, 2011 and December 31, 2010 was not sufficiently assured, a valuation allowance for the amount of the 2011 and 2010 net deferred tax asset was provided for.

The Company has US$6,212,311 in state loss carry forwards with varying expiration dates, US$1,299,585 of federal net operating losses that will expire in 2031 and US$2,704,847 in foreign loss carry forwards with indefinite expiration dates.

13. Revenues by Geographic Region

The Company sells its product to customers throughout the world. The breakdown by location is as follows:

	2011 US$ 000	2010 US$ 000
United States and U.S. possessions	9,124	8,664
Canada	1,027	1,089
Rest of world	11,721	11,282
Total	21,872	21,035

A significant portion of the Company's long-lived assets are located in the United States.

14. Stock Based Compensation

The Company has one share-based compensation plan, which is described below. The compensation cost that has been charged against income/(loss) for the plan was approximately US$90,000 and US$50,000 for the years ended December 31 2011 and 2010, respectively. The income tax effect recognized for share based compensation was approximately a benefit of US$32,000 and a benefit of US$18,000 for the years ended December 31, 2011 and 2010, respectively.

Share Options

An initial grant was made in February 2010 for 2.3 million shares as replacements for grants under the old option plan, which were cancelled and the old plan was abandoned. The grants have a three year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining shares will only be issued for new key employees and superior performance.

Options granted under the Plan have a term of up to 10 years and generally vest over a three-year period beginning on the date of the grant. Options under the Plan must be granted at a price not less than the fair market value at the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected term at the time of grant, volatility is based on the average long-term implied volatilities of peer companies as our Company has limited trading history and the expected life is based on the average of the life of the options of 10 years and an average vesting period of 3 years.

The following table illustrates the assumptions for the Black-Scholes model used in determining the fair value of options granted to employees for the years ended December 31, 2011 and 2010.

	2011	2010
Dividend yield	0.00%	0.00%
Risk-free interest rate	1.29%	2.11%
Volatility	49.3%	48.8%
Expected term	4.0 yrs	4.4 yrs

A summary of option activity under the stock option plan as of December 31, 2011, and changes during the year then ended is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	3,004,630	0.56	8.73	-
Granted	62,715	0.47	9.02	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at December 31, 2011	3,067,345	0.56	7.76	--
Exercisable at December 31, 2011	1,305,174	0.71	7.34	--

The weighted-average grant-date fair value of options granted was US$0.05 for the years ended December 31, 2011 and 2010, respectively.

A summary of the status of the Company's non-vested shares as of December 31, 2011, and changes during the year then ended is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares as of December 31, 2010	2,632,436	0.06
Granted	62,715	0.05
Vested	(932,980)	0.13
Forfeited	-	-
Non-vested shares as of December 31, 2011	1,762,171	0.06

As of December 31, 2011, there was US$51,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plan. Stock option expense will be recognized over 1.2 years which is the weighted average remaining vesting period. The fair value of options vested in 2011 and 2010 was US$55,000 and US$15,000, respectively.

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Market Value US$
Outstanding at January 1, 2011	-	-
Granted	2,279,349	360,154
Vested	-	-
Forfeited	-	-
Outstanding at December 31, 2011	2,279,349	360,154
Vested at December 31, 2011	-	-

The weighted-average grant-date fair value of restricted stock units was US$0.16 and US$0.00 for the years ended December 31, 2011 and 2010, respectively.

A summary of the status of the Company's non-vested restricted stock units as of December 31, 2011, and changes during the year then ended is presented below:

	Shares	Weighted Average Grant Date Fair Market Value US$
Non-vested restricted stock units as of December 31, 2010	-	-
Granted	2,279,349	0.16
Vested	-	-
Forfeited	-	-
Non-vested restricted stock units as of December 31, 2011	2,279,349	0.16

As of December 31, 2011, there was US$327,000 of total unrecognized compensation cost related to non-vested restricted stock units. Restricted stock unit expense will be recognized over 2.73 years which is the weighted average remaining vesting period.

15. Employee Compensation

In light of the very strong performance and recognizing the compensation reductions employees have taken since the beginning of 2009, management recommended the Company provide for a bonus that would be based on one half the amount employees had given up during the period. The Board approved the $228,000 bonus to be accrued for in the 2011 financial statements and to be paid out in early 2012. The Company reinstated its 401k match in 2012 for employees up to 6% of their income. This will fully complete the reinstatement of the 10% compensation reduction that was implemented in July 2009.

Advisers and Corporate Information

Directors

Lawrence Horsch – *Chairman and Non-Executive Director*
John T. Cooney – *President and Chief Executive Officer*
Michael F. Niemela – *Chief Financial Officer and Secretary*
Ron Maskalunas – *Non-Executive Director*
Thomas M. Anderson – *Non-Executive Director*

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Registered Number

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General Corporation Law with
registered number 3589295

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UK

Advisers

Legal
Brown Rudnick LLP
8 Clifford Street
London W1S 2LQ
UK

Auditors
Whitley Penn LLP
Suite 440
8343 Douglas Ave
Dallas, TX 75225

Notice of Annual General Meeting of Stockholders

SOMERO ENTERPRISES, INC. (the "Company")
(Incorporated in the State of Delaware, USA under the Delaware General Corporation Law (the "DGCL") with registered number 3589295)

Notice is given that the Annual General Meeting of Stockholders (the "AGM") of the Company will be held at the offices of Collins Stewart Limited, 88 Wood Street, London EC2V 7QR on 22 May 2012 at 11:00 am local time for the following purposes:

To consider and, if thought fit, to pass the following resolutions:

1. To ratify the Directors' Report and the Annual Report and the Company audited financial statements for the year ended December 31, 2011.
2. To ratify the Directors' Remuneration Report for the year ended December 31, 2011.
3. To re-elect Jack Cooney as a Class III Director.
4. To ratify the appointment of Whitley Penn LLP as the auditors of the Company for the fiscal year ending December 31, 2012.
5. To consider and act upon any matters incidental to the foregoing purposes and any other matters which may properly come before the AGM or any adjourned session thereof.

Please refer to the Annual Report and form of proxy, which forms a part of this Notice and is incorporated in this Notice by reference, for further information with respect to the business to be transacted at the AGM.

Stockholders of record at the close of business on 5 March 2012 are entitled to receive notice of, and vote at, the AGM or any adjournment or postponement of the AGM.

Whether or not you expect to attend the AGM, please complete, date and return the enclosed proxy as promptly as possible in order to ensure your representation at the AGM. To be effective, proxies must be sent to or deposited at the office of the Company's registrars (Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY) so as to be received not later than 48 hours before the time for the AGM (provided that the Company may waive such requirement in its sole discretion). Even if you have given your proxy, you may still vote in person if you attend the AGM.

You may inspect a complete list of the stockholders eligible to vote at the AGM during normal business hours at our offices located at 16831 Link Court, Fort Myers, Florida 33912, USA, during the ten days prior to the date of the AGM and also at the location indicated above during the AGM.

The Board of Directors unanimously recommends a vote "FOR" each of the proposed resolutions.

All stockholders are cordially invited to attend the AGM.

By order of the Board of Directors.

Michael Niemela,
Secretary
March 13, 2012

Notes:

1. The Company's Board of Directors has approved the Annual Report (including the Director's Report and the Directors' Remuneration Report contained therein) and the Company's audited financial statements for the year ended December, 31 2011. Stockholder ratification of the Annual Report (including the Director's Report and the Directors' Remuneration Report contained therein) and the Company's audited financial statements for the year ended December 31, 2011 is not mandatory under Delaware law. However, the Board is submitting the Annual Report (including the Director's Report and the Directors' Remuneration Report contained therein) and the Company's audited financial statements for the year ended December 31, 2011 to the stockholders for ratification as a matter of good corporate practice. If ratification is not approved a majority of the shares of common stock voting at the AGM in person or by proxy, the Board will reconsider its approval thereof.
2. The Company's Board of Directors has selected Whitley Penn LLP to serve as the Company's auditors until the next Annual AGM of Stockholders. Stockholders ratification of the selection of Whitley Penn LLP as the Company's auditors is not mandatory under Delaware law. However, the Board is submitting the selection of Whitley Penn LLP to the stockholders for ratification as a matter of good corporate practice. If ratification is not approved a majority of the shares of common stock voting at the AGM in person or by proxy, the Board will reconsider its approval thereof.
3. In accordance with the Company's Bylaws, the holders of one-third in voting power of all issued and outstanding stock entitled to vote at the AGM, present in person or presented by proxy, shall constitute a quorum for the transaction of business.

ONLINE AT
WWW.SOMERO.COM

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