Annual Report & Accounts 2009

SOMERO ENTERPRISES, INC

Table of Contents

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®, and new Mini Screed™ C 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 non-residential construction projects in over 60 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. It has a sales and service office in Chesterfield, England.

Somero has approximately 56 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.

Business Highlights

- Use of proceeds from June 2009 placing reduced net debt from US$9.7m at the end of 2008 to US$5.9m at 31 December 2009.[1]
- Successful modification of bank agreements providing added covenant flexibility throughout 2010.
- Operating costs (excluding depreciation and amortization) in 2010 expected to be around $8.6 million, down from a level of $23.3 million in 2008. Cost reductions included a 10% reduction in employee compensation.
- Continued focus on product development with the introduction of the new PowerRake® 3.0 in November 2009, the new Mini Rake and the introduction of 3D Profiler System® capability to our Small line equipment in January 2010.
- First full year of sales for the Mini Screed™ Commercial accounted for 6.3% of total Company revenues.
- Increased investment in Asia as a result of continued strong interest and results.
- Increased focus on opportunities for growth in international markets supported by the re-launch of our website in over 50 languages.
- Implemented a new share option plan to retain and incentivize management.
- Lawrence Horsch appointed Non-Executive Chairman in October 2009.

Financial Highlights

- Full year revenue and operating results in line with management's expectations following 23 November 2009 trading update
- Revenue decreased by 53% to US$24.2m (2008: US$51.9m)
- Adjusted EBITDA decreased by 87% to US$0.8m (2008: US$6.0m) which includes a US$0.2m restructuring charge [2 3]
- Pre-tax loss at US$16.6m (2008 Pre-tax income: US$2.2m)
- Adjusted net income/(loss) before amortization decreased to US$(13.1m) (2008: US$4.0m)[2 4]
- EPS before amortization US($0.29) (Basic EPS: US($0.34)) vs. US$0.12 in 2008 (Basic EPS: US$0.05)
- Non-cash write down of US$13.5m Goodwill

1Net Debt is defined as total borrowings under bank obligations less cash and cash equivalents.
2The 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 6 and 7.
3Adjusted EBITDA as used herein is a calculation of its net income/(loss) plus tax provision/(benefit), interest expense, interest income, foreign exchange gain, other expense, depreciation, amortization, stock based compensation and the write-down of Goodwill.
4Adjusted net income/(loss) before amortization is a calculation of income/(loss) plus Amortization of Intangibles.

Chairman's Statement

Overview
In my short time as Chairman, I have become very familiar with the serious issues facing the Company and have been impressed with the management team's rapid response to these challenges.

The Company is focused on maintaining profitability and its solid relationship with its lending bank. This focus has allowed the Company to continue to implement its strategic plan, successfully introducing new products into the market and maximizing opportunities from investments in emerging markets.

Our lending bank remains supportive and we have re-set a 2009 year-end covenant and quarterly covenants in 2010 so that they are aligned with Somero's 2010 budget. The first quarter of 2010 was within bank covenants.

Markets
Despite the global recession and a 53% reduction in revenues, our emerging market operations performed well in 2009 with international sales accounting for 47% of total Group revenues, down from 50% in 2008. Following this strong result, the Company intends to continue its program of investment in emerging markets in 2010. Mature market revenue declines were driven by lower levels of business for our customers.

New Product Development
Following its introduction in late 2008, the Mini Screed™ Commercial generated 6.3% of total Company revenues in its first full year of sales. In 2009, new product development focused on Small line equipment with the introduction of a more powerful PowerRake®, a lower-cost Mini Rake and the new development of utilizing the 3D Profiler System® on Small line Laser Screed® equipment. We also introduced a new Large line machine, the SXP-D, which quickly gained market recognition due to its new diagnostic capabilities and the Somero Total Care program, an innovative three year total warranty program.

Our refurbished program continued to be successful in 2009 with Small line refurbished equipment sales increasing by 84% over 2008 with more than 62% of sales from North America.

Board
On behalf of the Board, I would like to thank Stuart Doughty, the former non-executive Chairman who stepped down from the Board in the second half of 2009, for his years of service to the Company.

People
The Board would like to take this opportunity to thank all employees for their performance, commitment and dedication throughout the past year. We commend their sacrifice to the Company by accepting a 10% compensation reduction.

Non-cash charge
The Company's analysis of its Goodwill accounts resulted in a one-time, non-cash write down of US$13.5m.

Current Trading & Outlook
2010 revenues to date are consistent with our previously indicated expectations. We believe our markets are at or near their bottom and we continue to focus on every sales opportunity, while maintaining tight controls on cost. We have seen some increase in sales activity in selected regions. We are confident that Somero is well positioned to grow as we pursue the increasing internationalization of our business and focus on new product development. Notwithstanding encouraging trends, the Board remains cautious on the outcome for 2010.

Larry Horsch
Non-Executive Chairman

President and Chief Executive Officer's Statement

Overview

The unprecedented depth and length of the worldwide recession required considerable focus on our bank relationship and covenants. The management team reacted promptly making swift and significant reductions to our cost structure. Despite these cost reductions, the Company remained true to its strategic plan which includes focusing on product development and growing the Company's presence in emerging markets. During the restructuring there was minimal reduction in sales personnel recognizing the critical requirement to retain key staff in order to take advantage of opportunities as markets start to grow.

We pursued our product development with a single-minded focus to introduce new products. We introduced the new PowerRake® 3.0 in November 2009, and the new Mini Rake and the 3D Profiler System® capability for our Small line equipment in January 2010. As we came into 2009 we introduced the As Is program, which utilized some of our trade-in machines, the SXP®-D, a new Large line machine, and the Somero Total Care program, an innovative three year total warranty program for the SXP®-D. These new programs have had a significant impact on revenues.

New equipment sales are very dependent on taking trade-ins. Recognizing trade-ins increase our inventory, we introduced a program of selling that equipment in As Is condition. This program has been very effective in minimizing our inventory growth. The As Is program allowed us to continue taking customer trade-ins and, along with the Somero Total Care program, drove new equipment sales that would not have happened without these programs.

The redesign of our website was initiated in late 2009 and launched in January. Enhancements to the technology and design will provide our customers easier access to product information and customer support. By utilizing Google™ translation software on the website, our customers have the ability to roughly translate major portions of the information they need in over 50 languages.

Product Development

The introduction of the new Large line machine, the SXP™-D is a significant success. This new innovation provides full-time electrical system, hydraulic system and engine performance diagnostics alerts to the operator instantly should faults occur during operation. The machine was developed in response to customer feedback and is an excellent example of our close relationship with our customers.

The PowerRake® 3.0 is a new concept for the raking machine that utilizes a two mast system allowing the contractor to place the concrete at more precise levels before screeding. This improves the final floor quality, making the machine an important asset to the contractor.

The new Mini Rake is a complimentary product to the Mini Screed™ Commercial. It is a lower-cost raking machine that levels the concrete in front of the Mini Screed utilizing only one person. It improves the quality of the floor and reduces labor for the contractor.

The introduction of 3D Profiler System® for our Small line equipment gives our customers additional utilization for their equipment. Previously only available on Large line screeds, the 3D system allows the contractor to create parking lots, parking garages, and other three dimensional projects using their small Laser Screed® equipment. The increased utilization of their equipment provides more profit for the contractor.

In our continuing efforts to get customer input, we conducted formal customer surveys during the World of Concrete tradeshow to gather feedback on our products for future product development.

Emerging Markets/Geographic Growth

Emerging markets remain a key growth opportunity for Somero. We will continue to position ourselves to identify and take advantage of opportunities by adding additional investments 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.

We continue to pursue these three core aims as we increase our penetration and investment in emerging markets.

We were encouraged by activity at our annual industry tradeshow, the World of Concrete, and indications from attendees were that activity levels are increasing. In 2010 we will look to continuing development of new and innovative products to satisfy our customers' needs and to expand our presence in emerging markets.

Jack Cooney
President and Chief Executive Officer

Financial Review

Summary of Financial Results[1 2 3 4]

	Year ended 31 December 2008 US$ 000	Year ended 31 December 2009 US$ 000
Revenue	51,941	24,227
Cost of sales	23,116	12,550
Gross profit	28,825	11,677
Operating expenses		
Selling expenses	11,518	5,366
Engineering expenses	1,384	673
General and administrative expenses	12,477	7,636
Restructuring expenses	582	240
Goodwill impairment	0	13,522
Total operating expenses	25,961	27,437
Operating income/(loss)	2,864	(15,760)
Other income (expense)		
Interest expense	(856)	(949)
Interest income	67	3
Foreign exchange gain	99	100
Other	(12)	7
Income/(loss) before income taxes	2,162	(16,599)
Provision/(benefit) income taxes	505	(1,214)
Net income/(loss)	1,657	(15,385)
Other data		
Adjusted EBITDA [1 2 4]	5,984	807
Adjusted net income/(loss) before amortization [1 3 4]	3,989	(13,052)
Depreciation expense	373	339
Amortization of intangibles	2,332	2,333
Capital expenditures	589	49

Notes: 1. Adjusted EBITDA and Adjusted 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 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, other expense, depreciation, amortization, stock 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-08 US$ 000	12 months ended 31-Dec-09 US$ 000
Adjusted EBITDA reconciliation		
Net income/(loss)	1,657	(15,385)
Tax provision/(benefit)	505	(1,214)
Interest expense	856	949
Interest income	(67)	(3)
Foreign exchange gain	(99)	(100)
Other expense	12	(7)
Depreciation	373	339
Amortization	2,332	2,333
Stock based compensation	415	373
Goodwill impairment	0	13,522
Adjusted EBITDA	5,984	807
Adjusted net income/(loss) before amortization reconciliation		
Net income/(loss)	1,657	(15,385)
Amortization	2,332	2,333
Adjusted net income/(loss) before amortization reconciliation	3,989	(13,052)

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

Somero's consolidated revenues decreased by 53% to US$24.2m (2008: US$51.9m). Somero's 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 decrease in revenues for the year was driven by reductions in each of Large line sales, Small line sales and other revenues. The following table shows the breakdown between Large line sales, Small line sales and other revenues during the 12 months ended 31 December 2008 and 2009:

Financial Review *Continued*

	12 months ended 31 December 2008		12 months ended 31 December 2009	
	(US$ in millions)	Percentage of net sales	(US$ in millions)	Percentage of net sales
Large line sales	21.3	41.1%	9.0	37.2%
Small line sales	15.4	29.6%	5.6	23.1%
Other revenues	15.2	29.3%	9.6	39.7%
Total	51.9	100%	24.2	100%

Large line sales decreased to US$9.0m (2008: US$21.3m) as a result of a 55% decrease in volume to 32 units (2008: 71), Small line sales decreased to US$5.6m (2008: US$15.4m) as volumes decreased to 119 (2008: 320) and other revenues, including sales of spare parts, refurbished machines, Topping Spreaders, Mini Screeds, 3D systems and accessories, decreased to US$9.6m (2008: US$15.2m).

Sales to customers located in North America comprise the majority of Somero's revenue, constituting 53% of total revenue (2008: 51%), while sales to customers in Europe, South Africa and the Middle East combined contributed 31% (2008: 40%). The remaining sales in these periods were to customers in Asia, Australia, Central America and South America. Sales in Europe, South Africa and the Middle East generated US$7.6m (2008: US$20.5m) with sales of Large line and Small line products in these regions decreasing by 67% and 72% respectively.

Sales in Asia, Australia and Latin and South America decreased to US$3.7m (2008: US$5.2m) driven by a decrease in Large line volumes to 7 units (2008: 9 units) and in Small line units to 19 (2008: 28 units).

Gross Profit

Gross profit decreased to US$11.7m (2008: US$28.8m), with gross margins declining to 48% (2008: 55%). The decrease in gross margins was a result of several factors including a change in sales mix from higher margin Large line and Small line to lower margin Other and lower production volumes leading to less cost absorption. Increased discounting, particularly on Large line, was also a factor.

Operating Expenses

Operating expenses excluding goodwill impairment decreased by 46% to US$13.9m (2008: US$26.0m). This decrease was driven by the restructurings at the end of 2008 and in 2009, lower sales which resulted in decreased sales commissions, the elimination of some engineering and administrative personnel and fewer projects being worked on in 2009 as compared to 2008. Restructuring expenses amounted to US$0.2m as the Company continued to streamline its operations during the global recession. Total employment is down from approximately 90 to 56 people for the period. The company recorded a US$13.5 non-cash goodwill impairment charge.

Other Income (Expense)

Other expenses were US$0.8m (2008: US$0.7m). Other expenses consisted 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($1.2m) in 2009 as compared to US$0.5m in 2008 due to a net loss. Overall, Somero's effective tax rate changed from 23.4% to 7.3% due to a net loss and a valuation allowance. The Company has filed its 2009 US Federal Tax Return and expects a refund of US$1,041,000 due to the ability to carry the 2009 loss back to previous tax years.

Net Income/(loss)

Net income/(loss) decreased to US$(15.4m) from US$1.7m in 2008. The primary cause of the decrease in net income/(loss) was a non-cash goodwill impairment charge and decreased sales. Basic Earnings/(loss) Per Share represents income available to common stockholders 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 stock options. Earnings/(loss) per common share have been computed based on the following:

	2008	2009
	US$ 000	US$ 000
Net income/(loss)	1,657	(15,385)
Basic weighted shares outstanding	34,281,968	45,748,122
Net dilutive effect of stock options	-	-
Diluted weighted average shares outstanding	34,281,968	45,748,122

The Company had 56,425,598 shares outstanding at 31 December 2009.

Earnings/(loss) Per Share

Earnings/(loss) per share at 31 December 2009 is as follows:

	US$
Basic earnings/(loss) per share	(0.34)
Diluted earnings/(loss) per share	(0.34)
Adjusted Net Income/(loss) Before Amortization	(0.29)

Board of Directors

Lawrence L. Horsch
Non-Executive Chairman of the Board

Mr. Horsch, age 75, 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 63, 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 45, 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. 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 58, retired after 30 years of service as president and chief executive officer of Schwing America, Inc. to became 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 69, 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 31 December 2009.

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. The Company is headquartered in the USA, with Executive Offices in Fort Myers, Florida and manufacturing facilities located in Houghton, Michigan. It has sales and service operations in the United Kingdom, China and Dubai 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 4 and 5, the Financial Review on pages 6 to 9, the Directors' Report on pages 12 to 17 and the Corporate Governance Report on pages 18 to 20.

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 24 to 41. No dividends were declared or paid during 2009.

Share Capital

	Ordinary shares	
	1 January 2009	31 December 2009
J. T. Cooney[1]	243,034	1,655,502
M. F. Niemela	47,339	108,166
T. M. Anderson	–	–
R. Maskalunas	–	–

(1) Subsequent to 31 December 2009 Mr. Cooney purchased 1,200,000 shares.
(2) Subsequent to 31 December 2009 Mr. Horsch purchased 128,000 shares.
(3) Stuart Doughty's share holdings are not reported due to his resignation from the Board of Directors in 2009.

Somero stock is traded on the LSE AIM exchange and is therefore quoted in Pounds Sterling. The market price of the shares at 31 December 2009 was 15p. The range during the 2009 period of trading was 11.5p to 23p. The Graph on page 23 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%	Amount	Percentage of Holding
Polar Capital Partners Ltd.	8,400,000	14.89%
Ennismore Fund Management Ltd.	6,538,600	11.59%
Toscafund Asset Management LLP	5,233,300	9.27%
Royal Mail Pension Trustees (Dup)	4,911,130	8.70%
Artemis Investment Management Ltd.	4,719,830	8.36%
BT Pension Scheme (Dup)	4,580,037	8.12%
The Gores Group	4,213,417	7.47%
Henderson Global Investors Ltd	3,779,273	6.70%
John T Cooney *	2,855,502	5.06%
River & Mercantile Asset Management LLP	1,903,800	3.37%

* Director

	Number of options					
	1 January 2009	Awarded (exercised)	31 December 2009	Exercise price US$	Earliest date from which exercisable	Expiry date
J. T. Cooney	874,190		874,190	$2.34	1 Nov 2007	1 Nov 2016
M. F. Niemela	205,691		205,691	$2.34	1 Nov 2007	1 Nov 2016
T. M. Anderson	85,704		85,704	$2.34	1 Nov 2007	1 Nov 2016
R. Maskalunas	85,704		85,704	$2.34	1 Nov 2007	1 Nov 2016
J. T. Cooney	188,525		188,525	$1.83	19 Feb 2009	19 Feb 2018
M. F. Niemela	94,536		94,536	$1.83	19 Feb 2009	19 Feb 2018
J.T. Cooney		249,394	249,394	$0.24	19 Jan 2010	20 Jan 2019
M.F. Niemela		125,058	125,058	$0.24	19 Jan 2010	20 Jan 2019

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 early 2009, the Company gained new flexibility by revising its loan agreements. Then in June 2009, in connection with an equity placing and partial repayment of the debt, the Company renegotiated the terms of its banking covenants for 2009 and 2010. In early 2010 the Company again renegotiated its loan covenants. The new agreements will allow the Company to maintain covenant compliance at expected trading levels for 2010.

Employee Retention

A temporary 10% compensation reduction was implemented in July 2009. However, key employee retention has been improved by implementing a new incentive stock option plan in early 2010. See note 15 on page 40.

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 South and Central 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. In 2009 all markets continued to face significant weakness with the exception that South America reduced less than other markets.

New Product Innovation
Somero's financial performance is also dependent upon the introduction of new products. The Mini Screed Commercial, introduced in late 2008, generated 6.3% of 2009 Company-wide sales. The introduction of the new PowerRake 3.0 in November 2009 has gained early market acceptance due to increased utilization of the product for the contractor. The introduction of the Mini Rake and the 3D Profiler System capability to our Small line equipment in January 2010 is expected to draw in new customers in different markets. 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 2010.

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's Large line 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 2009, replacement required taking in trade-in equipment in order to facilitate new sales. Current customer trade-in activity on Small line products holds the potential for the beginning of a replacement cycle.

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 India, Asia, Eastern Europe, Australia, the Middle East, Africa and South and Central 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 2010 the Company renegotiated its loan agreements with Citizens Bank to obtain concessions on its debt service covenant and its funded debt to EBITDA covenant. In return, the Company agreed to an immediate increase of 0.5% in its interest rate which is set at LIBOR plus 4.75% for all of 2010.

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 Citizen's Bank of up to US$5.75m. Operations are primarily funded through excess cash or draw-downs under the Citizen's revolving line of credit.

Capital Resources
Currently, the Company does not have any specific plans for significant capital expenditures. However, 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 31 December 2009, the Company had US$2.1m in aggregate principal amount outstanding in term loans under its Citizens Bank Financing Agreement, and US$3.9m drawn under the revolving portion of its Citizens Bank Financing Agreement. 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 maximum ratio of debt to consolidated EBITDA.

The Company was in compliance with all debt covenants at the end of 2008. It was also in compliance at the end of 2009 after its debt covenants were changed in January 2010. 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 2010. Somero had capital expenditures of US$0.04m in 2009 and US$0.6m for the 12 months ended 31 December 2008. This capital was primarily used for upgrading the Company's website. 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.

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$11,316 primarily to the Concrete Industry Management (CIM) program at Middle Tennessee State University and local charities in Michigan.


SXP-D
SOMERO

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 and 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 an update and refresher on AIM rules in early 2010.

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 9000 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. The Company has an excellent track record of environmental performance supported by our ISO 14000 certification.

Annual General Meeting

The notice of the AGM is included on page 42 in the Annual Report. Approved by the Board of Directors and signed on behalf of the Board.

Michael F. Niemela
Company Secretary
18 May 2010

Corporate Governance

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

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. Also, the Board has not undertaken a formal evaluation of its own performance and that of its committees and individual directors. The Board did not conduct a survey of shareholders in 2009.

As suggested by the Combined Code, as of the end of 2009, 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 remuneration in 2009 was US$228,000 and in 2008 was US$244,000.

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 10 and 11of 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, three Audit Committee meetings, one Remuneration Committee meeting and one Nominations Committee meeting, with nearly 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 18.

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 risks 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, due to the ongoing restructurings, none of the 18 risk areas were formally reported on to the 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.

Corporate Governance *Continued*

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 31 December 2009 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 2009.

	2009	2008
Audit	US$228,000	US$244,000
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 12 to 17. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Director's report on pages 12 to 17. 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 31 December 2009 with the provisions set out in Section 1 of the Combined Code. The exceptions to the Combined Code were as follows:

A.1.1 The Board has not appointed a senior independent director.

A4.6 Due to Mr. Horsh's extensive credentials the Company and its advisors did not believe additional search procedures were warranted, therefore, the appointment of the chairman was done without engaging a search firm and without public advertising.

A.6 The Board has not undertaken a formal evaluation of its own performance and that of its committees and individual directors.

D.1 The Board did not conduct a survey of shareholders in 2009.

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 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.

The following table summarizes all salaries paid and options held by Directors and Officers during 2009 and 2010 projected salaries and bonuses.

Name	Salary Paid 2009	Bonus Paid 2009	Salary 2010	Bonus Opportunity 2010[2]	Options Held
Larry Horsch	$ 19,000	--	$ 82,840	--	154,268
Ron Maskalunas	$ 64,000	--	$ 62,225	--	85,704
Tom Anderson	$ 64,000	--	$ 62,225	--	85,704
Jack Cooney	$ 336,000	$ 56,925	$ 328,000	50-100% of salary	1,312,109
Michael Niemela	$ 169,000	$ 34,600	$ 164,000	40-80% of salary	425,285
Stuart Doughty[1]	$ 60,000	--	--	--	--

[1]Stuart Doughty left the Board on October 15, 2009.

[2]All bonus payments were for exceeding performance goals in 2008.No bonuses were earned in 2009.

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 31 December 2009, the executive directors received bonuses as shown in the table which reflected an amount relating to the financial performance of the year ended 31 December 2008. Bonus awards are earned based upon Company performance and other criteria, after consideration by the Remuneration Committee.

Directors' Contracts

The Company has entered into employment agreements with certain members of senior management. The terms of these agreements range from six months to one year 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.

Share Options

The Remuneration Committee approves the grant of options to executive directors under the Company's discretionary share option schemes. Other than as disclosed above, the share options issued to executive directors do not have any performance criteria attached as at the time they were first issued it was not felt that performance criteria were appropriate. For more information see footnote #14 on page 39 within the Notes to the Financial Statements.

Stock Option Plan

The board felt it was critical to have a meaningful retention/incentive program for key employees while being fair to the shareholders. The Remuneration Committee has developed a substitute Stock Option plan for management retention and incentivizing. This is not expected to have a material impact upon the company's financial position or operations. The plan was authorized by the Board of Directors on 20 January 2010 and implemented 17 February 2010.

There are 5.6 million shares available to be granted under the new plan which is 10% of the 56 million shares that are authorized. The initial grant was 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 3 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.

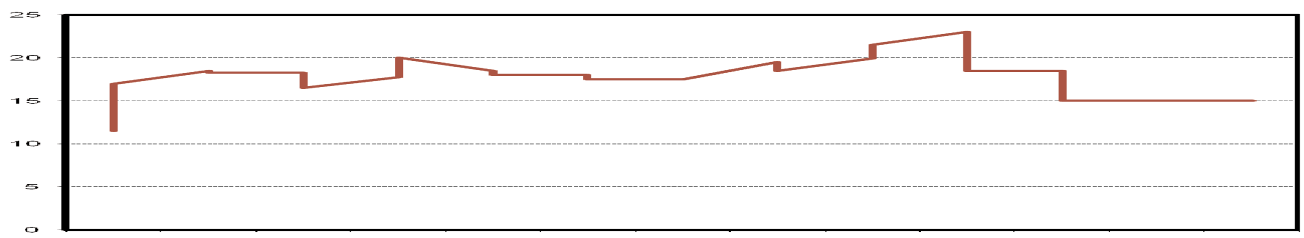
There was discussion on establishing performance targets as well as time for vesting. The board determined that in order for these options to have meaningful value the management would have to generate significant EBITDA growth over what the market will provide and which will benefit shareholders and management.

Directors and Officers Insurance

The Company maintains customary D&O insurance.

Performance Graph

For the 12 months of 2009 Company stock traded at a high of 23p and a low of 11.5p and ended trading 31 December 2009 at 15p which represented a 30% increase over the 31 December 2008 price of 11.5p.



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 31 December 2009 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	15 October 2009	2011 AGM
Ron Maskalunas	21 June 2007	2010 AGM
Tom Anderson	5 June 2008	2011 AGM
Jack Cooney	18 June 2009	2012 AGM
Mike Niemela	18 June 2007	2010 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., Fort Myers, Florida

We have audited the accompanying consolidated balance sheets of Somero Enterprises, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, 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 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. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Certified Public Accountants
Tampa, Florida
May 17, 2010

Consolidated Balance Sheets

As of 31 December 2008 and 2009

	2008 US$ 000	2009 US$ 000
Assets		
Current Assets:		
Cash and cash equivalents	789	34
Accounts receivable - net	2,434	2,152
Inventories - net	5,819	6,177
Prepaid expenses and other assets	800	720
Income tax receivable	137	1,228
Deferred tax asset	466	0
Total current assets	10,445	10,311
Property, plant and equipment - net	4,260	3,954
Intangible assets - net	16,872	14,538
Goodwill	16,400	2,878
Deferred financing costs	52	10
Deferred tax asset	0	4
Other assets	75	35
Total assets	48,104	31,730
Liabilities and stockholders' equity		
Current liabilities:		
Notes Payable - current portion	1,429	460
Accounts payable	1,960	1,911
Accrued expenses	1,279	414
Other liabilities	360	0
Total current liabilities	5,028	2,785
Notes payable, net of current portion	9,026	5,493
Deferred income taxes	239	0
Other liabilities, net of current portion	422	107
Total liabilities	14,715	8,385
Stockholders' equity		
Preferred stock, US$.001 par value, 50,000,000 shares authorised, no shares issued and outstanding	0	0
Common stock, US$.001 par value, 80,000,000 shares authorised, 34,281,968 and 56,425,598 shares issued and outstanding at December 31, 2008 and December 31, 2009, respectively	4	26
Additional paid in capital	22,759	28,025
Retained earnings	11,728	(3,657)
Other comprehensive loss	(1,102)	(1,049)
Total stockholders' equity	33,389	23,345
Total liabilities and stockholders' equity	48,104	31,730

See notes to consolidated financial statements.

Consolidated Statements of Operations

For the years ended 31 December 2008 and 2009

	Year ended 31 December 2008 US$ 000 except per share data	Year ended 31 December 2009 US$ 000 except per share data
Revenue	51,941	24,227
Cost of sales	23,116	12,550
Gross profit	28,825	11,677
Operating expenses		
Selling expenses	11,518	5,366
Engineering expenses	1,384	673
General and administrative expenses	12,477	7,636
Restructuring expenses	582	240
Goodwill impairment	0	13,522
Total operating expenses	25,961	27,437
Operating income/(loss)	2,864	(15,760)
Other income (expense)		
Interest expense	(856)	(949)
Interest income	67	3
Foreign exchange gain	99	100
Other	(12)	7
Income/(loss) before income taxes	2,162	(16,599)
Provision/(benefit) for income taxes	505	(1,214)
Net income/(loss)	1,657	(15,385)
Earnings/(loss) per common share		
Basic	0.05	(0.34)
Diluted	0.05	(0.34)
Weighted average number of common shares outstanding		
Basic	34,281,968	45,748,122
Diluted	34,281,968	45,748,122

See notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended 31 December 2008 and 2009

	Common Stock		Additional		Other	Total
					Compre-	
			paid In	Retained	hensive	stockholders'
	Shares	Amount	capital	earnings	income (loss)	equity
		US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
Balance - 1 January 2008	34,218,968	4	22,344	12,128	(248)	34,228
Cumulative translation adjustment	-	-	-	-	(625)	(625)
Change in fair value of derivative instruments	-	-	-	-	(229)	(229)
Net income/(loss)	-	-	-	1,657	-	1,657
Share based compensation	-	-	415	-	-	415
Dividend	-	-	-	(2,057)	-	(2,057)
Balance - 31 December 2008	34,281,968	4	22,759	11,728	(1,102)	33,389
Cumulative translation adjustment	-	-	-	-	(185)	(185)
Change in fair value of derivative instruments	-	-	-	-	238	238
Net income/(loss)	-	-	-	(15,385)	-	(15,385)
Share based compensation	-	-	373	-	-	373
Equity issue	22,143,630	22	4,893	-	-	4,915
Balance - 31 December 2009	56,425,598	26	28,025	(3,657)	(1,049)	23,345

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended 31 December 2008 and 2009

	Year ended 31 December 2008 US$ 000	Year ended 31 December 2009 US$ 000
Cash flows from operating activities:		
Net income/(loss)	1,657	(15,385)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Deferred taxes	(100)	223
Depreciation and amortization	2,705	2,672
Amortization of deferred financing costs	42	42
Loss/(gain) on sale of assets	10	(8)
Share based compensation	415	373
Goodwill impairment	0	13,522
Working capital changes:		
Accounts receivable	1,439	86
Inventories	222	(161)
Prepaid expenses and other assets	1	80
Other assets	60	41
Accounts payable and other liabilities	(2,416)	(1,660)
Income taxes payable	(511)	(1,020)
Net cash provided by/(used in) operating activities	3,524	(1,195)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	680	23
Property and equipment purchases	(575)	(49)
Net cash provided by/(used in) investing activities	105	(26)
Cash flows from financing activities:		
Borrowings from additional financing	5,837	37,593
Repayment of notes payable	(10,311)	(42,095)
Payment of dividends	(2,057)	0
Proceeds from equity issue, net of costs	0	4,915
Net cash provided by/(used in) financing activities	(6,531)	413
Effect of exchange rates on cash and cash equivalents	(151)	53
Net (decrease) in cash and cash equivalents	(3,053)	(755)
Cash and cash equivalents:		
Beginning of year	3,842	789
End of year	789	34

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements
As of 31 December 2008 and 2009

1. Organization and Description of Business

Nature of Business Somero Enterprises, Inc. (the "Company" or "Somero") designs, manufactures, refurbishes, sells and distributes concrete leveling, 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, Dubai 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 primarily located in the United States. 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 31 December 2008 and 2009, the allowance for doubtful accounts was approximately US$650,000 and US$232,000, respectively. Bad debts expense/(income) was US$313,000 and US$(51,000) in 2008 and 2009, 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 repayment term of the debt instrument, which is four years from the debt inception date. 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, 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 31 December 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 incurred a goodwill impairment loss for the year ended 31 December 2009 (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 31 December 2009, the Company incurred 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 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 the accompanying consolidated financial statements.

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 31 December 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 31 December 2008 and 2009. Total comprehensive income/(loss) for the years was approximately US$803,000 and US$(15,332,000), respectively.

	2008 US$000	**2009 US$000**
Net Income/(loss)	$1,657	$(15,385)
Cumulative Translation Adjustment	(625)	(185)
Change in fair value of derivative instruments – net of income taxes	(229)	238
Total Comprehensive Income/(loss)	$803	$(15,332)

Earnings/(loss) Per Share Basic earnings/(loss) per share represents income/(loss) available to common stockholders divided by the weighted average number of 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 31 December 2009. Earnings/(loss) per common share have been computed based on the following:

	2008 US$000	**2009 US$000**
Net income/(loss)	1,657	(15,385)
Basic weighted average shares outstanding	34,281,968	45,748,122
Net dilutive effect of stock options	-	-
Diluted weighted average shares outstanding	34,281,968	45,748,122

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:	31 December 2009 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

Refer to Footnote 4 for the goodwill impairment impact upon earnings.

New Accounting Pronouncements

In March 2008, the FASB issued accounting guidance on disclosures about derivative instruments and hedging activities. The standards require companies to provide enhanced disclosures about (a) how and why they use derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The Company adopted the new disclosure requirements in the period beginning 1 January 2009.

In June 2008, the FASB issued guidance on accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. The standard is effective for fiscal years beginning after 15 December 2008. The Company adopted the new disclosure requirements in the period beginning 1 January 2009 and there was little impact upon the Company's consolidated financial statements.

The FASB issued guidance on measuring the fair value of certain alternative investments that are effective for periods beginning after 15 December 2009. Its intent is to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share. This guidance is not expected to have any impact upon 2010 financial position and operations.

The FASB issued guidance on accounting for distributions to shareholders with components of stock and cash that are effective for periods beginning after 15 December 2009. It clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected to the EPS prospectively and is not a stock dividend. This guidance is not expected to have any impact upon 2010 financial position and operations.

The FASB issued guidance on accounting and reporting for decreases in ownership of a subsidiary that are effective for periods ending after 15 December 2009. This guidance had no impact upon 2009 financial position and operations and is not expected to have any impact upon 2010 financial position and operations.

The FASB issued guidance on Own-Share Lending Arrangements that are effective for periods beginning after 15 December 2009. The guidance requires an entity that enters into a share-lending arrangement on its own shares (that are classified in equity pursuant to other authoritative accounting guidance) in contemplation of a convertible debt issuance (or other financing) to initially measure the share-lending arrangement at fair value and treat it as an issuance cost and to exclude the shares borrowed under the share-lending arrangement from basic and diluted EPS. This guidance is not expected to have any impact upon 2010 financial position and operations.

The FASB issued guidance on accounting for transfers of financial assets that are effective for periods beginning after 15 November 2009. The objective of this statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This guidance is not expected to have any impact upon 2010 financial position and operations.

The FASB issued guidance on consolidations with variable interest entities that are effective for periods beginning after 15 November 2009. The objective of this statement is to improve the financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This guidance is not expected to have any impact upon 2010 financial position and operations.

The FASB issued guidance on improving disclosures about fair value measurements that are effective for periods beginning after 15 December 2009. It adds new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. This guidance is not expected to have any impact upon 2010 financial position and operations.

The FASB issued guidance on amendments to certain recognition and disclosure requirements that are effective for periods beginning after 15 November 2009. It addresses certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures and is effective immediately. This guidance is not expected to have any impact upon 2010 financial position and operations.

Subsequent events have been evaluated through the date the consolidated financial statements were issued on 17 May 2010. No material subsequent events have occurred since 31 December 2009 that required recognition or disclosure in our consolidated financial statements other than as discussed below in Note 15.

3. Inventories

Inventories consisted of the following at 31 December:

	2008 US$ 000	2009 US$ 000
Raw materials	2,078	1,547
Finished goods and work in process	3,231	2,486
Refurbished	510	2,144
Total	5,819	6,177

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.
As required, the Company performed its annual goodwill impairment analysis by comparing the fair value of the reporting unit with its carrying amount. The Company has one reporting unit which is defined as the consolidated reporting entity. As part of the test under Step 1, the Company computed fair value by preparing a discounted cash flow analysis, a market capitalization analysis and a comparison of its market capitalization to that of other comparable companies.

Under the discounted cash flow analysis, the cash flows were determined based on assumptions for revenue, expenses, working capital requirements, capital expenditures and were discounted at a weighted average cost of capital. These estimates were based on historical results and the available information as of 31 December 2009.

The Company calculated fair value by obtaining market data of comparable companies with similar assets and liabilities. The companies selected for comparison included comparable companies with proprietary technology and similar gross margins to that of the Company.

The results of Step 1 indicated that Goodwill was impaired. The Company then performed Step 2 where it determined the fair value of all of its assets and liabilities. This step resulted in allocating a portion of the impairment from Step 1 to any assets that were below book value. The result of this analysis indicated that Goodwill was impaired by approximately US$13.5m at 31 December 2009 and that the value of its intangible assets including customer relationships and technology was not impaired. Prior to 31 December 2009, there were no accumulated impairment losses.

The following table reflects Other intangible assets:

	Weighted average Amortization period	2008 US$000	2009 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	2,691	3,479
Patents	12 years	5,278	6,823
Other intangibles	3 years	1	2
		7,970	10,304
Net carrying costs			
Customer relationships	8 years	3,609	2,821
Patents	12 years	13,260	11,715
Other intangibles	3 years	3	2
		16,872	14,538

Amortization expense associated with the intangible assets for the years ended 31 December 2008 and 2009 was approximately US$2,332,000 and US$2,333,000, respectively. Future amortization on intangible assets is expected to be as follows at:

	31 December US$ 000
2010	2,333
2011	2,331
2012	2,331
2013	2,004
2014	1,545
	10,544
Thereafter	3,994
	14,538

5. Property, Plant and Equipment

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

	2008 US$ 000	2009 US$ 000
Land	207	207
Buildings and improvements	3,572	3,572
Machinery and equipment	1,410	1,423
	5,189	5,202
Less: accumulated depreciation and amortization	(929)	(1,248)
	4,260	3,954

Depreciation expense for the years ended 31 December 2008 and 2009 was approximately US$373,000 and US$339,000, respectively.

6. Notes Payable

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

	2008 US$ 000	2009 US$ 000
Bank debt:		
Five year secured reducing revolving line of credit	2,954	3,883
Five year secured term loan	7,501	2,070
Less debt obligations due within one year	(1,429)	(460)
Obligations due after one year	9,026	5,493

Credit Facility The Company has a credit facility with a bank dated 16 March 2007 that has been amended multiple times and composed of the following at 31 December 2009:

- US$7,000,000 five year secured reducing revolving line of credit
- US$2,070,000 five year secured reducing term loan

The interest rates on the revolver and term loan are Libor 1-month and Libor 3-month, respectively, plus 4.75% per the agreed pricing grid subsequent to 31 December 2009. The interest rates were 4.48% and 4.50% on the revolver and term loan at 31 December 2009. The credit facilities are secured by substantially all of the Company's assets and contain a number of restrictive covenants that among other things limit the ability of the Company to incur debt, issue capital stock, change ownership and dispose of certain assets.

In January 2010, the Company again renegotiated its loan covenants. In return for a change in covenants, the Company agreed to a reduction in its line of credit to US$5,750,000. The change in 2009 covenants allowed it to avoid missing its year end 2009 requirements. The new agreement temporarily suspends the funded debt ratio until December 31, 2010, replaces it with a quarterly EBITDA minimum target, and the change fee was US$30,000.

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

	31 December US$ 000
2010	460
2011	460
2012	5,033
2013	-
2014	-
Total payments	5,953

Interest Interest expense on the credit facility for the years ended 31 December 2008 and 2009, was approximately US$861,000 and US$949,000, respectively, related to the debt obligation. The 2009 expense includes US$380,000 of loss on cash flow hedges as a result of paying off interest rate swaps 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 after one year of service with the Company. The Company matched 100% of the employee's contribution up to the first 6% of the employee's compensation for the year ended 31 December 2008 and matched 100% of the employee's contribution, up to the first 6% of the employee's compensation through 30 June 2009. At mid-year, the Company suspended the match. The Board of Directors at their discretion and within plan limitations may make a discretionary match at a future date to supplement the changes incurred. The Company contributed approximately US$284,000 and US$113,000 to the savings and retirement plan during the years ended 31 December 2008 and 2009, 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:

	31 December US$ 000
2010	331
2011	230
2012	174
2013	82
2014	0
Total	817

9. Supplemental Cash Flow and Non-Cash Financing Disclosures

	2008 US$ 000	2009 US$ 000
Cash paid for interest	856	543
Cash paid for taxes	1,242	(206)
Non-cash financing activities – Change in fair value of derivative instruments	229	(238)
Inventory received in lieu of payment	0	196

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 foreign competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At 31 December 2008 the Company had two customers which represented 16% of total accounts receivables and at 31 December 2009, the Company had two customers which represented approximately 30% of total accounts receivable.

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 entered into a 5 year or minimum purchase obligation of US$625,000 with a supplier in 2007 which it successfully negotiated away so that there is no related contingent liability as of 31 December 2009. 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 financial statements.

12. Income Taxes

Somero adopted guidance from the FASB in 2007 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The guidance also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

At 31 December 2009, the Company had a gross unrecognized tax benefit (including interest and penalties) of US$4,000.

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

	2008 US$ 000	**2009 US$ 000**
Current Income Tax		
Federal	(33)	(951)
State	69	23
Foreign	513	(247)
Total current income tax provision/(benefit)	549	(1,175)
Deferred tax expense		
Federal	62	(119)
State	10	(20)
Foreign	(116)	100
Total deferred tax provision/(benefit)	(44)	(39)
Total provision/(benefit)	505	(1,214)

The components of the net deferred income tax asset at 31 December 2008 and 2009 were as follows:

	2008 US$ 000	**2009 US$ 000**
Deferred tax asset		
Intangibles	833	1,101
Intangibles - Foreign	-	102
Goodwill	-	3,188
Share-based compensation	318	435
Net Operating Loss - State	-	71
Net Operating Loss - Foreign	-	89
Interest Rate Swap	262	-
Other	640	276
Gross deferred tax asset	2,053	5,263
Valuation Allowance	-	(4,823)
Deferred tax asset	2,053	440
Deferred Tax Liability		
Depreciation	(347)	(279)
Prepaids	(174)	(157)
Goodwill	(1,305)	-
Deferred tax liability	(1,826)	(436)
Net deferred tax asset	227	4
Current	466	-
Non-current	(239)	4
Net deferred tax asset	227	4

Rate Reconciliation

	2008 US$ 000	2009 US$ 000
Consolidated Income/(loss) before Tax	2,162	(16,599)
Statutory rate	34%	34%
Statutory tax expense	735	(5,643)
State taxes	52	(8)
IRC Section 199 Deduction	(35)	-
Meals and Entertainment	57	28
Foreign Tax Items	(356)	19
Valuation Allowance	-	4,387
Other	52	3
Tax provision/(benefit)	505	(1,214)

At 31 December 2009, the Company had a 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 31 December 2009 was not sufficiently assured, a valuation allowance for the amount of the 2009 net deferred tax asset was provided. At 31 December 2008, no valuation allowance was necessary; thus the valuation allowance increased approximately US$4,800,000 for the year ended 31 December 2009.

The Company has filed its US Federal Tax Return for the year ended 31 December 2009, which reflected the carry back of the 2009 loss to prior years. Included in Income tax receivable on the consolidated balance sheet is US$1,041,000 reflecting the amount of the tax refund intended to be filed by the Company.

The Company has US$2,200,000 in state loss carry forwards with varying expiration dates and US$300,000 in foreign loss carry forwards with indefinite expiration dates.

The Company expenses research and development costs as incurred. Total research and development expense for the research and development tax credit was approximately US$683,000 and US$0 for the years ended 31 December 2008 and 2009, respectively.

13. Revenues by Geographic Region

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

	2008 US$ 000	2009 US$ 000
United States and U.S. possessions	24,656	12,368
Canada	1,455	579
Rest of world	25,830	11,280
Total	51,941	24,227

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$415,000 and US$373,000 for the years ended 31 December 2008 and 2009, respectively. The income tax effect recognized for share based compensation was approximately a benefit of US$148,000 and an expense of US$148,000 for the years ended December 31, 2008 and 2009, respectively.

In October 2006, the Company implemented the 2006 Stock Incentive Plan (the "Plan"). The Plan authorizes the Board of Directors to grant incentive and nonqualified stock options to employees, officers, service providers and directors of the Company for up to 3,428,197 shares of its common stock. Options granted under the Plan have a term of up to ten 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 31 December 2008 and 2009.

	2008	**2009**
Dividend yield	1.64%	0.00%
Risk-free interest rate	2.90%	1.40%
Volatility	25.50%	47.3%
Expected term	4.6	4.6

A summary of option activity under the stock option plan as of 31 December 2009, 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 1 January 2009	2,828,895	2.24	-	-
Granted	602,885	0.24		
Exercised	-	-		
Forfeited	(81,542)	2.04		
Outstanding at 31 December 2009	3,350,238	1.88	7.44	--
Exercisable at 31 December 2009	2,412,439	2.24	5.64	--

The weighted-average grant-date fair value of options granted was US$.33 and US$.09 for the years ended 31 December 2008 and 2009, respectively.

A summary of the status of the Company's non-vested shares as of 31 December 2009, and changes during the year then ended is presented below:

	Shares	**Weighted Average Grant-Date Fair Value**
Non-vested shares as of 31 December 2008	1,182,838	.41
Granted	602,885	.09
Vested	(766,382)	.45
Forfeited	(81,542)	.39
Non-vested shares as of 31 December 2009	937,799	.10

As of 31 December 2009, there was US$103,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plan. That cost is expected to be recognized over the vesting period. The fair value of options vested in 2008 and 2009 was US$375,000 and US$345,000, respectively.

15. Subsequent Events

The board felt it was critical to have a meaningful retention/incentive program for key employees while being fair to the shareholders. The Remuneration Committee has developed a substitute Stock Option plan for management retention and incentivizing. This is not expected to have a material impact upon the company's financial position or operations. The plan was authorized by the Board of Directors on 20 January 2010 and implemented 17 February 2010.

There are 5.6 million shares available to be granted under the new plan which is 10% of the 56 million shares that are authorized. The initial grant was 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 3 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.

As discussed in Note 12, the Company has filed its 2009 US Federal Tax Return and expects a refund of US$1,041,000 due to the ability to carry the 2009 loss back to previous tax years, which is included in income tax receivables on the consolidated balance sheet.

As discussed in Note 6, in January 2010, the Company renegotiated its loan covenants. In return for a change in covenants, the Company agreed to a reduction in its line of credit to US$5,750,000. The change in 2009 covenants allowed it to avoid missing its year end 2009 requirements. The new agreement temporarily suspends the funded debt ratio until December 31, 2010, replaces it with a quarterly EBITDA minimum target, and the change fee was US$30,000.

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

Registered and Head Office

Somero Enterprises, Inc
16831 Link Court
Fort Myers, Florida 33912
USA

Registered Number

Incorporated in the State of Delaware, USA under the Delaware General Corporation Law with registered number 3589295

Advisers

Legal

Brown Rudnick LLP
8 Clifford Street
London W1S 2LQ
UK

Auditors

Deloitte & Touche LLP (US)
Suite 1200
201 East Kennedy Blvd.
Tampa, FL 33602

Registrars

Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey
JE1 1ES
Channel Islands

Nomad

Hawkpoint Partners Limited
41 Lothbury
London EC2R 7AE
UK

Broker

Collins Stewart Limited
9th Floor
88 Wood Street
London EC2V 7QR
UK

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 Collins Stewart Limited, 88 Wood Street, London EC2V 7QR on 29 June 2010 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 31 December 2009.
2. To ratify the Directors' Remuneration Report for the year ended 31 December 2009.
3. To re-elect Ron Maskalunas as a Class I Director.
4. To re-elect Mike Niemela as a Class I Director.
5. To ratify the reappointment of Deloitte & Touche LLP as the auditors of the Company for the fiscal year ending 31 December 2010.
6. 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 21 May 2010 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 Investors Services (Channel Islands) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, Channel Islands) 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
18 May 2010

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 31 December 2009. 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 31 December 2009 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 31 December 2009 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 Deloitte & Touche LLP to continue as the Company's auditors until the next Annual AGM of Stockholders. Stockholders ratification of the selection of Deloitte & Touche LLP as the Company's auditors is not mandatory under Delaware law. However, the Board is submitting the selection of Deloitte & Touche 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.

SOMERO®
ENTERPRISES, INC

Somero Enterprises, Inc.
16831 Link Court
Fort Myers, FL 33912
USA

www.somero.com

T- 1-239-210-6500
F- 1-239-210-6600