SELECTED CONSOLIDATED FINANCIAL DATA

The Selected Operations and Balance Sheet Data set forth below have been derived from the Consolidated Financial Statements ofthe Company, which have been audited by PricewaterhouseCoopers LLP, independent accountants. It should be read in conjunction with the information appearing under the heading "Management's Discussion and Analysis of Financial Conditions and Results of Operations" included in this report and the Consolidated Financial Statements and related notes also found in this report.

(in thousands, except per share data)		*Years eneded Decmber 31,* 2000	1999	1998	1997	1996
Operating Summary	Net Sales	36,921	33,311	22,682	17,871	15,576
	Gross profit	15,019	14,333	8,546	7,824	6,544
	As a percent of net sales	40.7%	43.0%	37.7%	43.8%	42.0%
	General and administrative expenses	4,023	2,558	1,675	1,419	1,254
	As a percent of net sales	10.9%	7.7%	7.4%	7.9%	8.1%
	Net income (loss)	(454)	1,413	762	644	511
	As a percent of net sales	(1.2)%	4.2%	3.4%	3.6%	3.3%
	Net income (loss) per share					
	Basic	$ (0.10)	$ 0.35	$ 0.21	$ 0.19	-
	Diluted	$ (0.10)	$ 0.35	$ 0.21	$ 0.18	$ 0.15
	Weighted average shares of common and common stock equivalents outstanding:					
	Basic	4,572	3,986	3,623	3,446	-
	Diluted	4,572	4,080	3,695	3,597	3,468
Financial Position Summary	Total assets	24,619	20,392	18,924	13,124	12,062
	Cash, cash equivalents and short-term investments	1,230	1,904	1,290	5,120	4,835
	Working capital	10,602	8,948	7,423	9,525	8,379
	Current maturities of long-term debt	8	8	107	13	13
	Long-term debt	482	626	667	17	28
	Stockholders' equity	18,560	14,668	13,354	10,708	9,932
	Book value per share	4.35	3.66	3.35	3.05	2.91
	Common shares outstanding	4,289	4,004	3,983	3,510	3,413

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with "Selected Consolidated Financial Data" and the Consolidated Financial Statements and related Notes included elsewhere in this Report.

When used in this discussion, the words "expects," "anticipates," "estimates," and similar expressions are intended to identify forward-looking statements. These statements, which include statements as to the Company's future operating results, expected expenses and capital expenditure levels, expected cash flows, expected inventory levels, the adequacy of capital resources and growth in operations, are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those risks discussed below, as well as our ability to retain and obtain customer and distributor relationships, our ability to maintain relationships with strategic partners and ADLT, our ability to manage expenses and inventory levels, our ability to reduce manufacturing overhead and general and administrative expenses as a percentage of sales, our ability to collect on doubtful accounts receivable, our ability to increase cash balances in future quarters, the cost of accessing or acquiring technologies or intellectual property, the cost of enforcing or defending intellectual property, risks relating to developing and marketing new products, the ability of our lighting products to meet customer expectations, manufacturing difficulties, posible delays in the release of products, risks associated with the evolution and growth of the fiber optic lighting market, trends in price performance and adoption rates of fiber optic lighting products in Europe and the United States, our dependence on a limited number of suppliers for components and distributors for sales, our ability to obtain high-quality components at reasonable prices, the impact of limited energy resources on our manufacturing operations and business, the impact of technological advances and competitive products, and seasonal and other fluctuations in the construction industry; and the matters discussed in "Factors That May Affect Results." These forward-looking statements speak only as of the date hereof. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Results of Operations

Net Sales

Net sales increased 11% to $36,921,000 in 2000 as compared to 1999. The increase was a result of growth in the sales of pool products along with additional revenues from Unison and Lightly Expressed acquisitions which was partially offset by a decline in sales of commercial lighting products. Pool lighting sales grew as a result of increases in sales of in-ground pool lighting products and in spa lighting products. The decline in commercial lighting product sales was due to decreased sales from Europe, primarily in the UK, along with a decline in sales from one significant commercial lighting customer in the US as that customer reached the end of its contract.

Net sales increased 47% to $33,311,000 in 1999 as compared to 1998. The increase was a result of growth in the sales of pool products as well as commercial lighting products. The growth in commercial lighting product sales in 1999 was partially due to an increase in European revenues associated with companies acquired at the end of 1998 and which experienced a full year of sales in 1999 versus a partial year of sales in 1998.

International sales accounted for approximately 28% of net sales in 2000 as compared to 31% of net sales in 1999 and 17% in 1998. The relative decrease in international sales in 2000 from 1999 was due to the decline in sales by the Company's European subsidiaries whichwas partially due to the significant drop in exchange rates for European currencies relative to the US dollar in 2000.

Gross Profit

Gross profit increased to $15,019,000 in 2000, a 5% increase over 1999. The increase in gross profit was less than the revenue increase due to an increase in inventory reserves taken in the fourth quarter along with a relative increase in manufacturing overhead during the year from companies acquired in 2000. The increase in inventory reserves was largely against Catalyst inventories still held at the end of 2000. The Catalyst product, a pool chemical product, has been discontinued by the Company. The Company is working toward selling off this inventory, but at this time it cannot guarantee that such a sale will occur. The increase in manufacturing overhead came as a result of acquiring Unison and Lightly Expressed in 2000. The Company expects to decrease the amount of manufacturing overhead as a percentage of sales in 2001.

Gross profit increased to $14,333,000 in 1999, a 68% increase over 1998. The increase in gross profit was a result of the increased sales and an increase in the gross profit margin. The gross profit margin was 43% in 1999, an increase of 5 percentage points over the 38% gross profit margin

achieved in 1998. The increase in gross margin was primarily due to savings in 1999 on warranty and repair costs as well as cost reductions achieved on some of the Company's higher volume products.

Operating Expenses

Research and development expenses were $1,673,000 in 2000, a 13% increase over 1999. The increase was largely due to higher personnel and project costs in 2000. Much of the project work performed in 2000 was in preparation of new products scheduled to be released in 2001. The Company expects its research and development expenses to increase significantly in 2001 as personnel and project costs which were assigned to a development agreement with ADLT and categorized in cost of sales in 2000, will be categorized as a research and development expense in 2001 as a result of the development contract having been completed in 2000. This increase in research and development expenses in 2001 will be partially offset by a credit to such expenses associated with Fiberstars' NIST federal grant. Research and development expenses were 4.5% of sales in 2000, the same percentage of sales as in 1999. Sales and marketing expenses were $9,038,000 in 2000, a 12% increase over $8,044,000 in expenses for 1999. The increase in sales and marketing expenses was due to additional expenses from companies acquired in 2000 of $250,000, higher personnel expenses of $250,000 and higher commissions of $300,000. Sales and marketing expenses were 24% of sales in 2000, the same percentage of sales as occurred in 1999. General and administrative expenses were $4,023,000 in 2000 as compared to $2,558,000 in 1999, representing a 57% increase. The significant increase in general and administrative expenses was largely due to a charge of $800,000 to increase the allowance for doubtful accounts for one of the Company's distributors, which accounts receivable is deemed to be uncollectible. This distributor does not have the ability to pay and disputes the amounts outstanding, and, while the Company continues to work toward a settlement, any amounts receivable against this accountare in doubt. Other increases in general and administrative expenses are due to higher legal fees of $120,000 associated with settling with the distributor, higher amortization of intangibles from the companies acquired in 2000 of $220,000 and higher personnel costs of $230,000. General and administrative expenses were 11% of sales in 2000 as compared to 8% of sales in 1999. Excluding the charge for allowance for doubtful accounts, general and administrative expenses were 9% of sales in 2000. The Company expects to decrease its general and administrative expenses as a percentage of sales in 2001. Included in total operating expenses for 2000 was a write-off of in-process technology acquired of $938,000 as part of the Unisonacquisition in the first quarter. There was no such write-off in total operating expenses in 1999. The $938,000 allocated to in-process technology acquired was for certain lamp and optics technology and certain fiber producing technology the development of which had not yet reached a stage where it was certain that marketable products would result. There is currently no alternative use for this technology as it was designed specifically for the lighting industry. In accordance with generally accepted accounting principles, the amount allocated to in-process technology acquired, which was determined by an independent valuation, was recorded as a charge to expense in the first quarter of 2000.

Research and development expenses were $1,484,000 in 1999, a 16% increase over 1998. The increase was largely due to additional personnel and product development expenses associated with releasing new products in 1999 and product development on products which were to be released in 2000. Research and development expenses were 4.5% of sales in 1999, down from 6% in 1998. Sales and marketing expenses were $8,044,000 in 1999 as compared to $5,381,000 in 1998, an increase of 49%. A portion of the increase was due to $1,908,000 in additional expenses from the companies acquired in 1998 for which there were expenses of $333,400 in 1998. The balance of the increase was largely a result of additional commission expenses paid for sales in Europe in 1999 and as compared to those paid in 1998. Sales and marketing expenses remained constant at 24% of sales in 1999 and 1998. General and administrative costs were $2,558,000 in 1999, an increase of 53% over 1998 costs. This increase was largely a result of higher goodwill amortization expenses in 1999 which were $492,000 as compared to $63,000 for goodwill amortized in 1998. Other increases in general and administrative expenses were associated with moving the Company's corporate offices to a new location in 1999 and with additional administrative costs from the European subsidiaries which were acquired in 1998. Total operating expenses were 36% of sales in 1999 as compared to 37% in 1998.

Other Income and Expenses

Net interest expense was $62,000 in 2000 as compared to net interest income of $26,000 in 1999. The reduction of net interest income to expense was a result of higher borrowings experienced in the first half of 2000 as compared to the first half of 1999.

Other income and expense for 1999 includes interest income and expense, income (loss) from the Company's joint venture as recognized under the equity method, and income from divestitures. Net interest income was $26,000 in 1999 compared to $223,000 in 1998. The decrease was primarily due to lower cash balances in 1999 as compared to 1998 as a result of cash spent to acquire three companies in the second half of 1998. In addition, there was interest expense in 1999 primarily for a bank loan to the Company's German subsidiary. There was no such expense in 1998. The bank loan was obtained for completion of the German subsidiary's primary office outside Munich, Germany. The loss from the Company's joint venture was $18,000 in 1999 versus a loss of $22,000 in 1998. In February 2000 the net assets of the Company's Australian joint venture was sold at book value to the Australian subsidiary of Advanced Technology Lighting, Inc. The divestiture income of $801,000 for 1998 was a result of the Company selling its rights to its phototherapy fiber optic product to Respironics, Inc.

Income Taxes

The income tax (benefit) rate was 36% in 2000 as compared to 37% in 1999 and 37% in 1998. There can be no assurance that the income tax rate in future periods will be maintained at the level experienced in 2000.

Net Income

As a result of the write-off of in-process technology acquired, the increase in reserves for inventory and reserves for accounts receivable, the decreased gross profit margin and the increase in expenses in 2000, there was a net loss for the year of $454,000 as compared to net income of $1,413,000 achieved in 1999. The net income of $1,413,000 in 1999 represented a gain of 85% over net income of $762,000 achieved in 1998.

Total write-offs and increased reserves taken in 2000 can be summarized as follows:

Write-off of in-process technology acquired	$ 938,000
Reserve for accounts receivable deemed not collectable	800,000
Write down certain inventories	350,000
Total write-offs and reserves increases	$ 2,088,000

Excluding the effects of the write-offs and reserves increases, the Company would have had net income of $881,000 for the year as compared to net income of $1,413,000 achieved in 1999.

Liquidity and Capital Resources

For the year ended December 31, 2000, cash and cash equivalents when combined with short-term investments were $1,230,000 as compared to $1,904,000 for the year ended December 31, 1999. There was a net utilization of cash in the amount of $645,000 from operating activities in 2000. This was a result of cash utilized to fund the loss of $454,000 along with cash utilized to fund increases in accounts receivable of $1,785,00 and inventory of $1,369,000. This cash utilized was partially offset by cash contributions from adjustments for non-cash items included in the net loss. These were realized from depreciation and amortization of $1,513,000 and from the write-off of in-process technology of $938,000 acquired as part of the Unison acquisition. In addition, cash for investing activities totaling $856,000 was used to fund acquisitions of fixed assets, $400,000 of which was used to acquire tooling for new products scheduled to be introduced in 2001. Cash from financing activities amounted to $873,000 in 2000 and related mainly to proceeds from issuances of common stock, primarily the exercise of stock options. Total cash utilization in 2000 was $674,000 as compared to net generated cash in 1999 of $614,000. The primary cause of the change in cashflow in 2000 was the utilization of cash in operations in 2000 versus the cash provided from operations in 1999. Cash balances decline during the first quarter of each financial year, but then increase in the

third quarter as a result of the seasonal variance in cash needs of the Company, primarily as a result of the seasonal purchasing and payment patterns in the Pool industry.

In August 2000, the Company increased its unsecured bank line of credit with Wells Fargo Bank for working capital purposes from $2,500,000 to $5,000,000. At the same time it renewed its $500,000 term loan commitment to finance equipment purchases. Both lines expire in August, 2001. As of December 31, 2000, the Company had no borrowings outstanding against either of these lines of credit. Certain covenants associated with the bank line of credit require the Company to remain profitable. The Company was not profitable for the year ended December 31, 2000, however it would have achieved a profit, but for the write-off of in-process technology acquired. The bank has waived this covenant in recognition of the fact that the Company would have been profitable but for this write-off.

The Company also has a $404,000 bank overdraft agreement with Lloyds Bank Plc through its UK subsidiary. There were no net borrowings against the overdraft agreement as of December 31, 2000. In addition, at year end the Company had a total borrowing of $490,000 against a credit facility which totals $747,000 held by its German subsidiary. This borrowing is largely held in order to finance the buildingof new offices owned by the Company in Basching, Germany.

The Company believes that existing cash balances, together with the Company's bank lines of credit and funds that may be generated from operations, will be sufficient to finance the Company's currently anticipated working capital requirements and capital expenditure requirements for at least the next twelve months.

Recent Pronouncements

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, of SFAS 138, "Accounting for Certain Derivative Instruments and Hedging Activities— an amendment of FASB No. 133". SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive income, depending on the type of hedging relationship that exists. SFAS 133, as amended will be effective for fiscal years beginning after June 15, 2000. The Company does not currently hold derivative instruments or engage in hedging activities.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. SAB No. 101 expresses the views of the SEC staff in applying generally accepted accounting principles to certain revenue recognition issues. SAB 101 did not have a material import on the Company's financial position, results of operations, or cash flows.

Factors that May Affect Results

Our quarterly operating results are subject to fluctuations caused by many factors, which could result in decreased revenues and a drop in the price of our common stock.

Our quarterly operating results can vary significantly depending upon a number of factors. It is difficult to predict the lighting market's acceptance of our products on a quarterly basis, and the level and timing of orders received can fluctuate substantially. Our sales volumes also fluctuate. Historically we have shipped a substantial portion of our quarterly sales in the last month of each of the second and fourth quarters of the year. Our product development and marketing expenditures may vary significantly from quarter to quarter and are made well in advance of potential resulting revenue.

Significant portions of our expenses are relatively fixed in advance based upon our forecasts of future sales. If sales fall below our expectations in any given quarter, we will not be able to make any significant adjustment in our operating expenses and our operating results will be adversely affected.

Our sales are dependent upon new construction levels and are subject to seasonal trends.

Sales of our pool and spa lighting products, which currently are available only with newly constructed pools and spas, depend substantially upon the level of new construction of pools. Sales of commercial lighting products also depend significantly upon the level of new building construction and reno-

vation. Construction levels are affected by housing market trends, interest rates, and the weather. Because of the seasonality of construction, our sales of swimming pool and commercial lighting products, and thus our overall revenues and income, have tended to be significantly lower in the first quarter of each year. Various economic and other trends may alter these seasonal trends from year to year, and we cannot predict the extent to which these seasonal trends will continue. The U.S. economy has been softening at the end of 2000 and the beginning of 2001. If this trend continues, as appears likely, we may experience difficulties collecting accounts receivable, sales and demand for our products may decrease and our operating results will probably suffer.

If we are not able to successfully develop, manufacture, market and sell our new products, our operating results will decline.

In 2001, the Company will be introducing several new products in the downlight, neon replacement, display case and pool markets. We could have difficulties manufacturing these new products as a result of our inexperience with them. Also, it is difficult to predict whether the market will accept these new products. If any of these new products fail to meet expectations, our operating results will be adversely affected.

We operate in markets that are intensely and increasingly competitive.

Competition is increasing in a number of our markets. A number of companies offer directly competitive products, including fiber optic lighting products for downlighting, display case and water lighting, and neon and other lighted signs. Our competitors include some very large and well-established companies such as Philips, Schott, 3M, Bridgestone, Mitsubishi and Osram/Siemens. All of these companies have substantially greater financial, technical and marketing resources than we do. We anticipate that any future growth in fiber optic lighting will be accompanied by continuing increases in competition, which could adversely affect our operating results if we cannot compete effectively.

We rely on intellectual property and other proprietary information that may not be protected and that may be expensive to protect.

We were awarded our twenty-third patent in the fourth quarter of 2000. There can be no assurance, however, that our issued patents are valid or that any patents applied for will be issued. We have a policy of seeking to protect our intellectual property through, among other things, the prosecution of patents with respect to certain of our technologies. There are many issued patents and pending patent applications in the field of fiber optic technology, and certain of our competitors hold and have applied for patents related to fiber optic lighting. Although, to date, we have not been involved in litigation challenging our intellectual property rights or asserting intellectual property rights of others, we have in the past received communications from third parties asserting rights in our patents or that our technology infringes intellectual property rights held by such third parties. Based on information currently available to us we do not believe that any such claims involving our technology or patents are meritorious. However, we may be required to engage in litigation to protect our patent rights or to defend against the claims of others. In the event of litigation to determine the validity of any third party claims or claims by us against such third party, such litigation, whether or not determined in our favor, could result in significant expense and divert the efforts of our technical and management personnel, regardless of the outcome of such litigation.

We rely on distributors for a significant portion of our sales and terms and conditions of sales are subject to change with very little notice.

Most of the Company's products are sold through distributors and the Company does not have long-term contracts with its distributors. Some of these distributors are quite large, particularly in the pool products market. If these distributors significantly change their terms with the Company or change their historical pattern of ordering products from the Company, there could be a significant impact on the Company's revenues and profits.

We depend on key employees in a competitive market for skilled personnel, and the loss of the services of any of our key employees could materially affect our business.

The Company's future success will depend to a large extent on the continued contributions of certain employees, many of whom would be difficult to replace. The future success of the Company also will depend on its ability to attract and retain qualified technical, sales, marketing and management personnel, for whom competition is intense. The loss of or failure to attract and retain any such persons could delay product development cycles, disrupt the Company's operations or otherwise harm the Company's business or results of operations.

We depend on a limited number of suppliers from whom we do not have a guarantee to adequate supplies, increasing the risk that loss of or problems with a single supplier could result in impaired margins, reduced production volumes, strained customer relations and loss of business.

Mitsubishi is the sole supplier of the Company's fiber, other than the large core fiber the Company now manufactures followingthe Unison acquisition. The Company also relies on sole source for certain lamps, reflectors, remote control devices and power supplies. The loss of one or more of the Company's suppliers could result in delays in the shipment of products, additional expense associate with redesigning products, impaired margins, reduced production volumes, strained customer relations, loss of business or otherwise harm the results of operations.

We may experience power blackouts and higher electricity prices as a result of California's current energy crisis, which could disrupt our operations and increase our expenses.

California is in the midst of an energy crisis that could disrupt our operations and increase our expenses. We rely on the major Northern California public utility, Pacific Gas & Electric Company, or PG&E, to supply electric power to our facilities in Northern California. Due to problems associated with the de-regulation of the power industry in California and shortages in wholesale electricity supplies, customers of PG&E have been faced with increased electricity prices, power shortages and, in some cases, rolling blackouts. If blackouts interrupt our power supply, we may be temporarily unable to continue operations at our facilities. Any such interruption in our ability to continue operations at our facilities could delay our ability to develop, manufacture or market our products, which could damage our reputation and result in lost revenue, either of which could substantially harm our business and results of operations.

Other factors

Our business is subject to additional risks that could materially and adversely affect our future business, including:

...... manufacturing risks, including the risks of shortages in materials or components necessary to our manufacturing and assembly operations, and the risks of increases in the prices of raw materials and components;

...... sales and distribution risks, such as risks of changes in product mix or distribution channels that result in lower margins;

...... risks of the loss of a significant distributor or sales representative;

...... risks of the loss of a significant customer or swimming pool builder;

...... risks of the effects of volume discounts that we grant from time to time to our larger customers, including reduced profit margins;

...... risks of product returns and exchanges: we cannot be assured that we will not experience component problems in the future that could require increased warranty reserves and manufacturing costs;

...... risks associated with product development and introduction problems, such as increased research, development and marketing expenses associated with new product introductions; and

...... risks associated with delays in the introduction of new products and technologies, including lost sales and loss of market share.

Supplementary Financial Information

The following table sets forth selected unaudited financial information for the Company for the eight quarters in the period ended December 31, 2000. This information has been prepared on the same basis as the audited financial statements and, in the opinion of management, contains all adjustments necessary for a fair presentation thereof.

Quarterly Financial Data

(in thousands, except per share data)	*DEC. 31*	*SEP. 30*	*JUN. 30*	*MAR. 31*
2000 Quarterly ended				
Net sales	$ 10,056	$ 8,249	$ 9,834	$ 8,782
Gross profit	4,030	3,294	4,003	3,692
As a percent of net sales	40.1%	39.9%	40.7%	42.0%
Net income (loss)	(340)	9	255	(378)
As a percent of net sales	(3.4)%	0.1%	2.6%	(4.3)%
Net income (loss) per share:				
Basic	$ (0.07)	$ 0.00	$ 0.06	$ (0.09)
Diluted	$ (0.07)	$ 0.00	$ 0.05	$ (0.09)

Note: Included in these results are a $938,000 write-off of in-process technology acquired in the quarter ending March 31, 2000, and an $800,000 addition to reserves for doubtful accounts receivable and $350, 000 write-down of certain inventories in the quarter ending December 31, 2000.

	DEC. 31	*SEP. 30*	*JUN. 30*	*MAR. 31*
1999 Quarterly ended				
Revenue	$ 9,228	$ 8,056	$ 8,845	$ 7,182
Gross profit	4,219	3,399	3,739	2,976
As a percent of net sales	45.7%	42.2%	42.3%	41.4%
Net income	497	319	437	160
As a percent of net sales	5.4%	4.0%	4.9%	2.2%
Net income per share:				
Basic	$ 0.12	$ 0.08	$ 0.11	$ 0.04
Diluted	$ 0.12	$ 0.08	$ 0.11	$ 0.04

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share amounts)		December 31, 2000	1999
	ASSETS		
Current assets:	Cash and cash equivalents	$ 1,230	$ 1,904
	Accounts receivable, net of allowances for doubtful accounts of $1,356 in 2000 and $428 in 1999	7,329	6,533
	Notes and other receivables	125	250
	Inventories, net	5,672	4,269
	Prepaids and other current assets	411	428
	Deferred income taxes	1,412	662
	Total current assets	16,179	14,046
	Fixed assets, net	2,888	2,242
	Goodwill, net	5,150	3,800
	Other assets	245	218
	Deferred income taxes	157	86
	Total assets	$ 24,619	$ 20,392
	LIABILITIES		
Current liabilities	Accounts payable	$ 3,513	$ 2,572
	Accrued liabilities	2,056	2,518
	Current portion of long-term debt	8	8
	Total current liabilities	5,577	5,098
	Long-term debt, less current portion	482	626
	Total liabilities	6,059	5,724
	Commitments and contingencies (Note 8).		
	SHAREHOLDERS' EQUITY		
Preferred stock, par value $0.0001 per share	Authorized: 2,000,000 shares in 2000 and 1999		
	Issued and outstanding: no shares in 2000 and 1999		
Common stock, par value $0.0001 per share	Authorized: 30,000,000 shares in 2000 and 1999		
	Issued and outstanding: 4,288,514 shares in 2000 and 4,003,514 shares in 1999	1	0
	Additional paid-in capital	15,721	13,973
	Value of warrants outstanding	2,722	0
	Notes receivable from shareholder	(75)	(75)
	Accumulated other comprehensive loss	(278)	(153)
	Retained earnings	469	923
	Total shareholders' equity	18,560	14,668
	Total liabilities and shareholders' equity	$ 24,619	$ 20,392

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share amounts)		For the years ended December 31, 2000	1999	1998
	Net sales	$ 36,921	$ 33,311	$ 22,682
	Cost of sales	21,902	18,978	14,136
	Gross profit	15,019	14,333	8,546
Operating expenses	Research and development	1,673	1,484	1,283
	Sales and marketing	9,038	8,044	5,381
	General and administrative	4,023	2,558	1,675
	Write-off in-process technology acquired	938		
	Total operating expenses	15,672	12,086	8,339
	Income (loss) from operations	(653)	2,247	207
Other income (expense)	Equity in joint venture's income (loss)	4	(18)	(22)
	Divestiture			801
	Interest and other income	30	71	224
	Interest expense	(92)	(45)	(1)
	Income (loss) before income tax	(711)	2,255	1,209
	Benefit from (provision for) income taxes	257	(842)	(447)
	Net income (loss)	$ (454)	$ 1,413	$ 762
	Net income (loss) per share – basic	$ (0.10)	$ 0.35	$ 0.21
	Shares used in per share calculation – basic	4,572	3,986	3,623
	Net income (loss) per share – diluted	$ (0.10)	$ 0.35	$ 0.21
	Shares used in per share calculation – diluted	4,572	4,080	3,695

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in thousands)		For the years ended December 31, 2000	1999	1998
	Net income (loss)	$ (454)	$ 1,413	$ 762
Other comprehensive loss	Foreign currency translation adjustments	(196)	(239)	0
	Income tax benefit	71	86	0
	Comprehensive income (loss)	$ (579)	$ 1,260	$ 762

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2000, 1999 and 1998

(Amounts in thousands)	*Common Stock* Shares	*Common Stock* Amount	*Additional Paid-in Capital*	*Value of Warrants Outstanding*	*Notes Receivable from Shareholder*	*Accumulated Other Comprehensive Loss*	*(Accumulated Deficit) Retained Earnings*	*Total*
Balances, January 1, 1998	3,510	$ -	$ 12,035	$	$ (75)	$	$ (1,252)	$ 10,708
Exercise of common stock options	46		164					164
Issuance of common stock under employee stock purchase plan	10		35					35
Issuance of common stock pursuant to exercise of warrants	12		11		(11)			-
Issuance of common stock for acquisitions	405		1,685					1,685
Net income							762	762
Balances, December 31, 1998	3,983	-	13,930	-	(86)	-	(490)	13,354
Exercise of common stock options	13		11					11
Issuance of common stock under employee stock purchase plan	8		32					32
Issuance of common stock pursuant to exercise of warrants					11			11
Foreign exchange rate translation adjustment						(153)		(153)
Net income							1,413	1,413
Balances, December 31, 1999	4,004	-	13,973	-	(75)	(153)	923	14,668
Exercise of common stock options	180	1	777					778
Tax benefit from exercise of stock options			174					174
Issuance of common stock under employee stock purchase plan	4		22					22
Issuance of common stock for acquisitions	100		775					775
Warrants issued during the year				2,722				2,722
Foreign exchange rate translation adjustment						(125)		(125)
Net loss							(454)	(454)
Balances, December 31, 2000	4,288	$ 1	$ 15,721	$ 2,722	$ (75)	$ (278)	$ 469	$ 18,560

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)		For the years ended December 31, 2000	1999	1998
Cash flows from operating activities	Net income (loss)	$ (454)	$ 1,413	$ 762
	Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
	Depreciation and amortization	1,513	937	647
	Write-off in-process technology acquired	938		
	Provision for doubtful accounts receivable	936	97	77
	Deferred income taxes	(821)	(154)	135
	Equity in joint venture	(4)	18	22
	Changes in assets & liabilities:			
	Accounts receivable, trade	(1,785)	(1,518)	(1,072)
	Inventories	(1,369)	(152)	(275)
	Prepaid and other current assets	63	(60)	36
	Other assets	(222)	177	(463)
	Accounts payable	926	58	240
	Accrued liabilities	(366)	350	671
	Total adjustments	(191)	(247)	18
	Net cash provided by (used in) operating activities	(645)	1,166	780
Cash flows from investing activities	Sale of short-term investments			4,597
	Acquisition of business, net of cash acquired			(3,232)
	Loans made under notes receivable			(610)
	Repayment of loans made under notes receivable	79	656	
	Acquisition of fixed assets	(935)	(1,308)	(479)
	Net cash provided by (used in) investing activities	(856)	(652)	276
Cash flows from financing activities	Proceeds from issuances of common stock	974	54	199
	Repayment of long-term debt	(101)	(270)	(488)
	Proceeds from line of credit	1,500		
	Repayment of line of credit	(1,500)		
	Proceeds from additional long-term debt		257	
	Net cash provided by (used in) financing activities	873	41	(289)
	Effect of exchange rate changes on cash	(46)	59	
	Net increase (decrease) in cash and cash equivalents	(674)	614	767
	Cash and cash equivalents, beginning of period	1,904	1,290	523
	Cash and cash equivalents, end of period	$ 1,230	$ 1,904	$ 1,290
Supplemental information	Interest paid	$ 93	$ 45	$ 1
	Income taxes paid	$ 577	$ 669	$ 66

The Company purchased certain businesses during 2000 and 1998. In conjunction with the acquisitions, assets and liabilities were assumed as follows:

	2000	1999	1998
Fair value of assets acquired	$ 3,497		$ 7,649
Cash paid for capital stock			(3,232)
Capital stock and warrants issued	(3,497)		(1,685)
Liabilities assumed	$ 0		$ 2,732

The accompanying notes are an integral part of these financial statements.

1

Nature of Operations

Fiberstars, Inc. (the "Company") develops and assembles lighting products using fiber optic technology for commercial lighting and swimming pool and spa lighting applications. The Company markets its products for worldwide distribution primarily through independent sales representatives, distributors and swimming pool builders.

2

Summary of Significant Accounting Policies

Basis of Consolidation The consolidated financial statements include the accounts of Fiberstars, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash Equivalents The Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

Inventories Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Investments in Joint Ventures The Company records its investments in joint ventures under the equity method of accounting.

Fair Value of Financial Instruments Carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and other accrued liabilities approximate fair value due to their short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of long-term debt obligations also approximates fair value.

Revenue Recognition The Company recognizes sales upon shipment. Sales and related costs of sales are recognized when persuasive evidence of an arrangement exists, delivery has occurred, price is fixed or determinable, and collectibility is probable. The Company's products are generally subject to warranties, and the Company provides for the estimated future costs of repair, replacement or customer accommodation in costs of sales. Fees for research and development services are determined on a cost-plus basis and are recognized as revenue when performed.

Depreciation and Amortization Fixed assets are stated at cost and depreciated by the straight-line method over the estimated useful lives of the related assets (two to five years). Leasehold improvements are amortized on a straight-line basis over their estimated useful lives or the lease term, whichever is less. Intangible assets from acquisitions are amortized on a straight-line basis over the estimated life of the assets acquired, but in no case for a period longer than 10 years. When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down to market value or discounted cash flow is required.

Certain Risks and Concentrations The Company invests its excess cash in deposits and high-grade short-term securities with two major banks.

The Company sells its products primarily to commercial lighting distributors and residential pool distributors and pool installation contractors in North America, Europe and the Far East. The Company performs ongoing credit evaluations of its customers and generally does not require col-

lateral. Although the Company maintains allowances for potential credit losses that it believes to be adequate, a payment default on a significant sale could materially and adversely affect its operating results and financial condition. At December 31, 2000, one customer accounted for 9% of accounts receivable and at December 31, 1999, one customer accounted for more than 20% of accounts receivable.

One customer accounted for 9%, 10% and 13% of net sales in 2000, 1999 and 1998, respectively.

The Company currently buys all of its fiber, the main component of its products, from one supplier. Although there is a limited number of fiber suppliers, management believes that other suppliers could provide fiber on comparable terms. A change in suppliers, however, could cause delays in manufacturing and a possible loss of sales which would adversely affect operating results.

The Company also relies on sole source suppliers for certain lamps, reflectors, remote control devices and power supplies. Although the Company cannot predict the effect that the loss of one or more of such suppliers would have on the Company, such loss could result in delays in the shipment of products and additional expenses associated with redesigning products and could have a material adverse effect on the Company's operating results.

Research and Development

Research and development costs are charged to operations as incurred. In 2000 the Company received a federal grant under NIST for up to $2,000,000 over three years for research and development of solid core fiber for lighting purposes. This award provides the company with $520,000 in funding for the year beginning November 2000, $75,000 of which had been recorded by December 31, 2000.

Income Taxes

Deferred tax assets or liabilities are recognized for the expected tax consequences of temporary differences between the income tax bases of assets and liabilities and the amounts reported for financial reporting purposes. Deferred tax balances are calculated at the balance sheet date using current tax laws and rates in effect.

Earnings Per Share

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of incremental shares upon exercise of stock options.

A reconciliation of the numerator and denominator of basic and diluted EPS is provided as follows:

(in thousands, except per share amounts)	*Years Ended December 31,* 2000	1999	1998
Numerator - Basic and Diluted EPS			
Net income (loss)	$ (454)	$ 1,413	$ 762
Denominator - Basic EPS			
Weighted average shares outstanding	4,572	3,986	3,623
Basic earnings (loss) per share	$ (0.10)	$ 0.35	$ 0.21
Denominator - Diluted EPS			
Denominator - Basic EPS	4,572	3,986	3,623
Effect of dilutive securities:			
Stock options and warrants		94	72
	4,572	4,080	3,695
Diluted earnings (loss) per share	$ (0.10)	$ 0.35	$ 0.21

Options and warrants to purchase 1,662,861 shares, 985,335 shares and 584,626 shares of common stock were outstanding at December 31, 2000, 1999 and 1998, respectively, but were not included in the calculations of diluted EPS because their exercise prices were greater than the average fair market price of the common shares.

Foreign Currency Translation

The Company's international subsidiaries use their local currency as their functional currency. For those subsidiaries, assets and liabilities are translated at exchange rates in effect at the balance sheet date and income and expense accounts at average exchange rates during the year. Resulting translation adjustments are recorded directly to a separate component of shareholders' equity.

Recent Pronouncements

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, or SFAS 138, "Accounting for Certain Derivative Instruments and Hedging Activities – an amendment of FASB No. 133". SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive income, depending on the type of hedging relationship that exists. SFAS 133, as amended, will be effective for fiscal years beginning after June 15, 2000. The Company does not currently hold derivative instruments or engage in hedging activities.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. SAB No. 101 expresses the views of the SEC staff in applying generally accepted accounting principles to certain revenue recognition issues. SAB 101 did not have a material impact on the Company's financial position, results of operations, or cash flows.

3 Inventories

(in thousands)	*December 31, 2000*	*1999*
Raw materials	$ 3,764	$ 2,736
Finished goods	1,909	1,533
	$ 5,672	$ 4,269

4 Fixed Assets

(in thousands)	*December 31, 2000*	*1999*
Equipment	$ 5,151	$ 3,888
Furniture and fixtures	356	341
Computer software	498	414
Leasehold improvements	731	629
	6,736	5,272
Less accumulated depreciation and amortization	(3,848)	(3,030)
	$ 2,888	$ 2,242

5

Acquisitions

On February 1, 2000 the Company completed the acquistion of selected assets of Unison Fiber Optic Systems, LLC ("Unison"), a joint venture between Advanced Lighting Technologies, Inc. ("ADLT") and Rohm & Haas Company. ADLT is a 24% shareholder of Fiberstars, Inc. common stock. The Company acquired key personnel, technologogy and fixed assets totaling $625,000 and, subject to achievement of development milestones, up to $2 million in development funds from Unison. In exchange for this the Company issued warrants to ADLT for the purchase of up to 1 million shares of the Company's common stock at $0.01 per share. These warrants may not be exercised until the price of the Company's stock reaches certain trading levels on the Nasdaq National Market, as follows: 250,000 will be exercisable when the Company's stock price reaches $6.00; 250,000 when the price reaches $8.00; 250,000 when the price reaches $10.00; and 250,000 when the price reaches $12.00. These prices must be maintained as an average over at least 30 days. In addition, at each price level, certain sales milestones must be reached on products of Unison technology before the warrants can be exercised. At ADLT's option, the warrants may be exchanged by ADLT, regardless of their exercisability, for up to 445,000 newly issued Fiberstars shares. Additionally, the Company agreed to pay royalties on certain products over a 10 year period at rates ranging from 3% to1% over a 10 year period. Also as part of the acquisition agreement for Unison, the Company agreed to provide $2,000,000 in development services to ADLT. The fees earned under this contract were recognized as revenue in 1999 and 2000, with associated development costs included in cost of sales. The Company valued the acquisition based on the value of the warrants. The acquisition was valued at $2,550,000 of which $987,000 was included in goodwill, $625,000 for fixed assets acquired and $938,000 for in-process technology, which was written-off. The $938,000 allocated to in-process technology acquired was for certain lamp and optics technology and certain fiber producing technology the development of which had not yet reached a stage where if was certain that marketable products would result. There is currently no alternative use for this technology as it was designed specifically for the lighting industry. In accordance with generally accepted accounting principles, the amount allocated to in-process technology acquired, which was determined by an independent valuation, was recorded as a charge to expense in the first quarter of 2000.

On April 18, 2000 the Company acquired Lightly Expressed, Ltd ("Lightly Expressed") for 100,000 shares of Fiberstars common stock and warrants to purchase 100,000 additional shares, provided certain operating profits are met in succeeding years. The acquisition was accounted for as a purchase. The Company valued the acquisition based on the value of stock and warrants issued. The value of the acquisition was $947,000 of which $815,000 was for intangibles and $132,000 for net assets acquired.

The following table presents the unaudited pro forma results for the years ended December 31, 2000 and 1999, respectively, assuming the Company had acquired Unison and Lightly Expressed at the beginning of 2000 and 1999. Net loss and diluted loss per share amounts have been adjusted to include goodwill amortization of $197,000 for 2000 and 1999. This information may not necessarily be indicative of the future combined results of the Company.

	Year Ended December 31,	
	2000	*1999*
Revenues	$ 37,121	$ 34,996
Net loss	(551)	(1,829)
Diluted loss per share	(0.12)	(0.40)
Basic loss per share	(0.12)	(0.40)

6

Accrued Liabilities

(in thousands)	December 31, 2000	1999
Sales commissions and incentives	$ 1,074	$ 1,213
Accrued warranty expense	200	305
Accrued legal and accounting fees	139	123
Accrued employee benefits	235	209
Others	408	668
	$ 2,056	$ 2,518

7

Lines of Credit and Long-term Debt

The Company entered into the following borrowing arrangements with its banks:

a) A $5,000,000 revolving line of credit expiring August 1, 2001, bearing interest equal to prime or a fixed rate term option of LIBOR plus 1.75%. Borrowings under this line are uncollateralized, and the Company must maintain a zero balance for at least 30 consecutive days during each fiscal year. There were no borrowings against this facility at December 31, 2000. Certain covenants associated with the bank line of credit require the Company to remain profitable. Since the Company did not achieve a profit for the year ended December 31, 2000 as a result of the write-off of in-process technology acquired, the bank has waived this covenant in recognition of the fact that the Company would have been profitable but for this one-time write-off.

b) A $500,000 term loan commitment to finance equipment purchases, expiring August 1, 2001. Borrowings bear interest at prime plus 0.50% (9% at December 31, 2000). Under this note, the Company may finance up to 80% of the cost of new equipment and 75% of the cost of used equipment. The note is collateralized by a security interest in all equipment financed with the proceeds. Interest only is payable monthly until August 15, 2001, after which, through a refinancing clause the principal plus interest is repayable in 36 monthly installments. There were no amounts outstanding at December 31, 2000. The Company is required to maintain certain financial ratios on a quarterly basis, including specified levels of working capital and tangible net worth.

c) A $374,000 (in UK pound sterling) bank overdraft agreement with Lloyds Bank Plc. There were no borrowings against this facility at December 31, 2000.

d) A $552,000 (in German Deutsche Mark) bank borrowing facility in Germany with Sparkasse Neumarkt Bank for the German office facility. There was $435,000 and $555,000 in borrowings against this facility as of December 31, 2000 and 1999, respectively. $232,000 of this facility terminates in 2003 and $360,000 terminates in 2008. In addition, there is a revolving line of credit of $155,000 (in German Deutsche Mark) with Sparkasse Neumarkt Bank. As of December 31, 2000, there was $55,000 in borrowings against this facility.

8

Commitments and Contingencies

The Company occupies manufacturing and office facilities under operating leases expiring in 2006 under which it is responsible for related maintenance, taxes and insurance. Minimum lease commitments under the leases are as follows:

(in thousands)	*Minimum lease commitments*
2001	$ 844
2002	871
2003	855
2004	881
2005	917
2006	717
Total minimum lease payments	$ 5,085

Rent expense approximated $979,000, $652,000, and $388,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

At December 31, 2000, $250,000 (in German Deutsche Mark) of cash was restricted in terms of a guarantee issued by the Company. The guarantee expired in January 2001.

On December 20, 2000, Oklahoma Lighting Sales, LLC ("OLS") filed an action against Fiberstars, Inc. and Sonic Industries, Inc. ("Sonic") in the District Court of Oklahoma County, Oklahoma, claiming breach of oral contract and tortious interference among other things, requesting unspecified damages in excess of $10,000. OLS was the supplier of the Company's products to Sonic Corporation from October 1997 to November 2000. OLS was replaced as the supplier by Sonic in November 2000. The new supplier is a company which Fiberstars was using as a warranty service provider for Sonic stores. OLS claims Fiberstars' use of this warrantly service provider resulted in OLS losing the supplier assignment with Sonic. Fiberstars and Sonic believe that Sonic was acting entirely within its right to hire a new distributor and that the legal action by OLS is without merit.

The Company is engaged in certain legal and administrative proceedings incidental to its normal business activities. While it is not possible to determine the ultimate outcome of these actions at this time, management believes that any liabilities resulting from such proceedings, or claims which are pending or known to be threatened, will not have a material adverse effect on the Company's financial position or results of operations.

9

Shareholders' Equity

Common Stock The notes receivable from shareholders for common stock bear interest at a rate of 9% and are payable ten years from the date of issuance.
Under the terms of certain agreements with the Company, the holders of approximately 1,489,000 shares of common stock have certain demand and piggyback registration rights. All registration expenses generally would be borne by the Company.

Warrants As part of the acquisition of Unison, the Company provided ADLT with warrants to purchase one million shares of the Company's common stock exercisable at one penny per share. These warrants may not be exercised until the price of the Company's common stock reaches certain trading levels on the Nasdaq National Market, as follows: 250,000 will be exercisable when the price of the Company's common stock reaches $6.00; 250,000 when the

price of the Company's common stock reaches $8.00; 250,000 when the price of the Company's common stock reaches $10.00; and 250,000 when the price of the Company's common stock reaches $12.00. These prices must be maintained as an average over at least 30 days. Inaddition, at each price level, certain sales milestones must be reached on products developed from Unison technology before the warrants can be exercised. At ADLT's option, the warrants may be exchanged by ADLT, regardless of their exercisability, for up to 445,000 newly issued shares.

As part of the acquistion of Lightly Expressed, the Company granted the Lightly Expressed shareholders warrants to purchase 100,000 shares which may be exercised in three years if certain operating profits from sales of the products acquired are met.

Warrant activity comprised:

	Shares	Warrants Outstanding Exercise Price	Amount (in thousands)
Balances, December 31, 1997	111,041	$0.90 - $5.40	$ 550
Warrants exercised/cancelled	(11,041)	$0.90 - $5.40	$ (10)
Balances, December 31, 1998	100,000	$5.40	$ 540
Warrants cancelled	(100,000)	$5.40	$ (540)
Balances, December 31, 1999	-		$ -
Warrants granted	1,100,000	$2.00 - $6.00	$ 3,000
Balances, December 31, 2000	1,100,000	$2.00 - $6.00	$ 3,000

At December 31, 2000, there were 1,100,000 warrants outstanding.

1988 Stock Option Plan

Upon adoption of the 1994 Stock Option Plan (see below), the Company's Board of Directors determined to make no further grants under the 1988 Stock Option Plan (the 1988 Plan). Upon cancellation or expiration of any options granted under the 1988 Plan, the related reserved shares of common stock will become available instead for options granted under the 1994 Stock Option Plan.

1994 Stock Option Plan

At December 31, 2000, an aggregate of 1,550,000 shares of the Company's common stock had been reserved for issuance under the 1994 Stock Option Plan to employees, officers, and consultants at prices not lower than the fair market value of the common stock of the Company on the date of of grant in the case of incentive stock options, and not lower than 85% of the fair market value on the date of grant in the case of non-statutory stock options. Options granted may be either incentive stock options or nonstatutory stock options. The plan administrator (the Board of Directors or a committee of the Board) determines the terms of options granted under the plan including the number of shares subject to the option, exercise price, term and exercisability.

1994 Directors' Stock Option Plan

At December 31, 2000, a total of 300,000 shares of common stock had been reserved for issuance under the 1994 Directors' Stock Option Plan. The plan provides for the granting of nonstatutory stock options to nonemployee directors of the Company.

Activity Under the Stock Option Plans

Option activity under all plans comprised:

	Options available for grant (in thousands)	Number of Shares (in thousands)	Weighted average Exercise Price Per Share	Options Outstanding Amount (in thousands)
Balances, December 31, 1997	119	1,031		5,022
Additional shares reserved	550			
Granted	(282)	282	$ 4.04	1,088
Cancelled	18	(18)	$ 4.93	(90)
Exercised		(46)	$ 3.54	(164)
Balances, December 31, 1998	405	1,249		5,856
Additional shares reserved	100			
Granted	(563)	563	$ 3.87	2,411
Cancelled	106	(106)	$ 6.10	(637)
Exercised		(13)	$ 0.93	(11)
Balances, December 31, 1999	48	1693		$ 7,619
Additional shares reserved	200			
Granted	(304)	304	$ 5.69	1,810
Cancelled	149	(149)	$ 5.07	(751)
Exercised		(180)	$ 4.36	(778)
Balances, December 31, 2000	95	1,668		7,900

At December 31, 2000, 1999 and 1998, options to purchase 1,131,892 shares, 869,336 shares and 623,169 shares of common stock, respectively, were exercisable at weighted average fair values of $4.52, $4.71 and $4.78, respectively.

	Options Outstanding			Options Currently Exercisable	
Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	(in thousands)	(in years)		(in thousands)	
$0.90-$0.90	48	1.6	$ 0.90	48	$ 0.90
$3.38-$3.94	274	3.7	$ 3.55	197	$ 3.55
$4.00-$4.88	819	3.0	$ 4.57	585	$ 4.57
$5.13-$5.88	317	2.8	$ 5.44	264	$ 5.44
$6.25-$7.13	210	5.5	$ 6.75	38	$ 6.86

1994 Employee Stock Purchase Plan

At December 31, 2000, a total of 100,000 shares of common stock had been reserved for issuance under the 1994 Employee Stock Purchase Plan. The plan permits eligible employees to purchase common stock through payroll deductions at a price equal to the lower of 85% of the fair market value of the Company's common stock at the beginning or end of the offering period. Employees may end their participation at any time during the offering period, and participation ends automatically on termination of employment with the Company. At December 31, 2000, 51,889 shares had been issued under this plan.

Stock-Based Compensation The Company has adopted the disclosure only provision of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." The Company, however, continues to apply APB 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for options granted under the Stock Option Plans nor for shares issued under the Employee Stock Purchase Plan. Had compensation cost for these plans been determined based on the fair value of the options at the grant date for awards in 2000, 1999 and 1998 consistent with the provisions of SFAS 123, the Company's net (loss) incomeand net (loss) income per share would have been reduced (increased) to the pro forma amounts indicated below:

(in thousands, except per share amounts)			*December 31,*
	2000	*1999*	*1998*
Net Income (Loss) - As reported	$ (454)	$ 1,413	$ 762
Net Income (Loss) - Pro Forma	$ (984)	$ 1,072	$ 538
Basic Earnings (Loss) Per Share - As reported	$ (0.10)	$ 0.35	$ 0.21
Basic Earnings (Loss) Per Share - Pro Forma	$ (0.22)	$ 0.27	$ 0.15
Diluted Earnings (Loss) Per share - As reported	$ (0.10)	$ 0.35	$ 0.21
Diluted Earnings (Loss) Per share - Pro Forma	$ (0.22)	$ 0.26	$ 0.15

The fair value of each option grant is estimated on the date of grant using a type of Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2000, 1999 and 1998:

	2000	*1999*	*1998*
Fair value of options issued	$ 3.79	$ 1.60	$ 1.72
Exercise price	$ 6.20	$ 4.30	$ 3.80
Expected life of option	3.95 years	3.95 years	3.88 years
Risk-free interest rate	6.23%	5.69%	4.82%
Expected volatility	78%	37%	50%

10

Income Taxes

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

(in thousands)		*Years Ended December 31,*	
	2000	*1999*	*1998*
Current:			
Federal	$ (424)	$ (783)	$ (265)
State	(69)	(127)	(47)
	(493)	(910)	(312)
Deferred:			
Federal	646	59	(115)
State	104	9	(20)
	750	68	(135)
Benefit from (provision for) income taxes	$ 257	$ (842)	$ (447)

The principal items accounting for the difference between income taxes computed at the United States statutory rate and the provision for income taxes reflected in the statements of operations are as follows:

	Years Ended December 31,		
	2000	1999	1998
United States statutory rate	(34.0)%	(34.0)%	(34.0)%
State Taxes (net of federal tax benefit)	(5.5)%	(5.5)%	(5.5)%
Other	3.4%	2.2%	2.5%
	(36.1)%	(37.3)%	(37.0)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax asset are as follows:

	Years Ended December 31,	
(in thousands)	2000	1999
Allowance for doubtful accounts	$ 339	$ 119
Accrued expenses and other reserves	719	599
Installment sales	—	(125)
In-process research and development	301	—
Foreign currency translation adjustment	157	86
Other	53	69
Total deferred tax asset	$ 1,569	$ 748

The deferred tax is not reduced by a valuation allowance as management believes it will fully realize the benefit from its deferred tax assets. Realization is dependent on generating sufficient future taxable income. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

11

Segments and Geographic Sales

The Company has two primary product lines: the pool and spa lighting product line and the commercial lighting product line, each of which markets and sells fiber optic lighting products. The Company markets its products for worldwide distribution primarily through independent sales representatives, distributors and swimming pool builders in North America, Europe and the Far East.

A summary of geographic sales is as follows:

	Years Ended December 31,		
(in thousands)	2000	1999	1998
U.S. Domestic	$ 26,533	$ 22,972	$ 18,912
U.S. Export	3,727	2,330	3,002
European subsidiaries	6,661	8,009	768
	$ 36,921	$ 33,311	$ 22,682

A summary of sales by market product line is as follows:

(in thousands)		Years Ended December 31,	
	2000	1999	1998
Pool and Spa Lighting	$ 18,987	$ 15,261	$ 11,505
Commercial Lighting	16,235	17,355	10,136
Other	1,699	695	1,041
	$ 36,921	$ 33,311	$ 22,682

12

Employee Retirement Plan

The Company maintains a 401(k) profit sharing plan for its employees who meet certain qualifications. The Plan allows eligible employees to defer up to 15% of their earnings, not to exceed the statutory amount per year on a pretax basis through contributions to the Plan. The Plan provides for employer contributions at the discretion of the Board of Directors; however, no such contributions were made in 2000, 1999 and 1998.

13

Related Party Transactions:

In previous years, the Company advanced amounts to certain officers by way of promissory notes. The notes are collateralized by certain issued or potentially issuable shares of the Company's common stock. The notes bear interest at rates ranging from 6% to 8% per annum and are repayable at various dates through April 2001. At December 31, 2000 and 1999, $80,000 and $159,000 were outstanding and included with notes receivable.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Fiberstars, Inc.
Fremont, California

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows present fairly, in all material respects, the financial position of Fiberstars, Inc. and its subsidiaries (the Company) at December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP
San Jose, California
February 16, 2001

CORPORATE INFORMATION

Executive Officers

David N. Ruckert
President, Chief Executive Officer, and Director

Robert A. Connors
Vice President, Finance, Chief Financial Officer, Secretary

John M. Davenport
Vice President, Chief Technology Officer

Barry R. Greenwald
Senior Vice President and General Manager, Pool and Spa

J. Steven Keplinger
Senior Vice President, Operations and Retail Products

Simon Chen
Vice President, Engineering

J. Arthur Hatley
Vice President and General Manager, Commercial Lighting

Directors

John B. Stuppin [1, 2]
Chairman of the Board
Former founder, Autodesk, Inc.

Theodore L. Eliot, Jr. [1, 2]
Retired State Department, Rank of Ambassador

Michael Feuer, Ph.D. [2]
Former President, Pacific Technology Fund

B.J. Garet [1, 2]
Former Chairman of the Hanson Lighting Group

Wayne R. Hellman
Chairman of the Board and Chief Executive Officer, Advanced Lighting Technologies, Inc.

D. Jonathan Merriman
President, Chief Executive Officer
RateXchange Corporation

David N. Ruckert
President, Chief Executive Officer, Fiberstars, Inc.

Alan J. Ruud
CEO/President, Ruud Lighting, President, Advanced lighting Technologies, Inc.

Philip E. Wolfson, M.D. [2]
Assistant Professor, University of California School of Medicine, San Francisco

[1] Member, Audit and Finance Committee
[2] Member, Compensation Committee

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held at 2:00 p.m. on Wednesday, May 23, 2001, at the Corporate Headquarters of Fiberstars, Inc. 44259 Nobel Drive, Fremont, CA 94538

For More Information

Comments and questions about Fiberstars are welcome, or to request an Annual Report on Form 10-K please direct your request to:

Fiberstars
c/o Investor Relations
44259 Nobel Drive
Fremont, CA 94538
(510) 490-0719

Information on Fiberstars can also be accessed at
http://www.fiberstars.com
on the World Wide Web

Independent Accountants

PricewaterhouseCoopers L.L.P.
San Jose, California

Transfer Agent

Mellon Investor Services
Overpeck Centre
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Ridgefield Park, New Jersey 07660
800-522-6645

Corporate Office

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Solon, OH 44139
Tel. 440-836-7413

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Managing Director
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Fax. (44) 1-635-871879

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Gewerbegebeit Pollanten
Gutenbergstrasse 5
92334 Berching, Germany

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Managing Director
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