Exhibit 1. Financial Statements.

STOCKERYALE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
In thousands except share and per share data
Unaudited

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 2,835	$ 4,478
Accounts receivable less allowances of $8 at March 31, 2010 and $5 at December 31, 2009	2,008	1,473
Inventories	1,250	1,282
Prepaid expenses and other current assets	455	502
Total current assets	6,548	7,735
Net property, plant and equipment	3,694	3,835
Goodwill	475	508
Acquired intangible assets, net	1,098	1,260
Other long-term assets	37	38
Total assets	$ 11,852	$ 13,376
Liabilities and Stockholders' Deficit		
Current liabilities:		
Revolving credit facility	$ 841	$ 568
Current portion of long-term debt, net of unamortized discount of $330 at March 31, 2010 and $358 at December 31, 2009	3,035	3,798
Current portion of capital and financing lease obligations	383	498
Accounts payable	1,398	1,142
Accrued expenses	994	1,117
Total current liabilities	6,651	7,123
Long-term debt, net of unamortized discount of $121 at March 31, 2010 and $193 at December 31, 2009	3,115	3,281
Capital and financing lease obligations, net of current portion	3,265	3,220
Deferred income taxes, net	-	67
Total liabilities	13,031	13,691
Stockholders' deficit:		
Common stock, par value $0.001; shares authorized 100,000,000; 44,616,458 shares issued and outstanding at March 31, 2010 and December 31, 2009	45	45
Paid-in capital	103,167	103,048
Accumulated other comprehensive income	453	118
Accumulated deficit	(104,844)	(103,526)
Total stockholders' deficit	(1,179)	(315)
Total liabilities and stockholders' deficit	$ 11,852	$ 13,376

See notes to unaudited condensed consolidated financial statements.

STOCKERYALE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
In thousands except per share data
Unaudited

	Three Months Ended March 31,	
	2010	**2009**
Revenue	$ 3,482	$ 2,855
Cost of sales	2,290	2,068
Gross profit	1,192	787
Operating expenses:		
Selling expenses	500	436
General and administrative	1,143	1,239
Research and development	153	138
Amortization of intangibles	99	174
Total operating expenses	1,895	1,987
Loss from operations	(703)	(1,200)
Other expense, net	328	103
Interest expense	194	38
Amortization of debt discount and financing costs	99	465
Loss from continuing operations before income tax benefit	(1,324)	(1,806)
Income tax benefit	64	173
Loss from continuing operations	(1,260)	(1,633)
Income (loss) from discontinued operations, net of tax	(59)	26
Net loss	$ (1,319)	$ (1,607)
Basic and diluted net loss per share from continuing operations	$ (0.03)	$ (0.04)
Basic and diluted net loss per share from discontinued operations	$ (0.00)	$ (0.00)
Basic and diluted net loss per share	$ (0.03)	$ (0.04)
Basic and diluted weighted average shares outstanding	44,163	42,638

See notes to unaudited condensed consolidated financial statements.

STOCKERYALE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Three Months Ended March 31,	
	2010	2009
	In thousands	
Operations		
Net loss	$ (1,319)	$ (1,607)
Income (loss) from discontinued operations, net of tax	(59)	26
Loss from continuing operations	(1,260)	(1,633)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	120	200
Depreciation and amortization	222	311
Amortization of debt discount and financing costs	99	465
Non cash interest expense	-	68
Fair value of warrants	-	(36)
Provision for inventories	7	-
Provision for bad debts	4	-
Deferred income taxes	(64)	(173)
Other change in assets and liabilities:		
Accounts receivable	(640)	160
Inventories	(48)	(13)
Prepaid expenses and other current assets	50	(306)
Accounts payable	322	(519)
Accrued expenses	(101)	230
Net cash used in operating activities	(1,289)	(1,246)
Net cash provided by (used in) discontinued operations	(59)	1,134
Net cash used in operating activities	(1,348)	(112)
Financing		
Net proceeds from sale of common stock	-	9
Borrowing (repayment) of revolving credit facility.	304	(89)
Principal repayment of long-term debt	(903)	(239)
Net cash used in financing activities	(599)	(319)
Net cash used in discontinued operations	-	(3)
Net cash used in financing activities	(599)	(322)
Investing		
Payment of financing obligation	(36)	(82)
Purchase of plant and equipment	(15)	(7)
Net cash used in continuing investing activities	(51)	(89)
Net cash provided by discontinued operations	-	(16)
Net cash used in investing activities	(51)	(105)
Effect of exchange rate on cash	355	103
Net change in cash and equivalents	(1,643)	(436)
Cash and equivalents, beginning of period	4,478	1,635
Cash and equivalents, end of period	$ 2,835	$ 1,199
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 190	$ 35
Issuance of common stock to settle liabilities	$ —	$ 370

See notes to unaudited condensed consolidated financial statements.

STOCKERYALE, INC.

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

(in thousands)

	Common Stock				Accumulated Other Comprehensive	Total Stockholders'	
	Shares	Par $0.001	Paid in Capital	Accumulated Deficit	Income	Equity (Deficit)	Comprehensive Income (Loss)
Balance December 31, 2009	44,616	$ 45	$ 103,048	$ (103,526)	$ 118	$ (315)	
Issuance of restricted stock, net of forfeitures, and share-based compensation	-	-	120			120	
Cumulative translation adjustment					335	335	335
Net loss.....................................				(1,319)		(1,319)	(1,319)
Comprehensive net loss for the year ended March 31, 2010.........							$ (984)
Balance March 31, 2010	44,616	$ 45	$ 103,168	$ (104,845)	$ 453	$ (1,179)	

See the notes to consolidated financial statements.

STOCKERYALE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by StockerYale, Inc. (the "Company") and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of (i) the results of operations for the three month periods ended March 31, 2010 and 2009, (ii) the financial position at March 31, 2010 and December 31, 2009, and (iii) the cash flows for the three month periods ended March 31, 2010 and 2009. These interim results are not necessarily indicative of results for a full year or any other interim period.

The accompanying consolidated financial statements and notes are condensed as permitted and do not contain certain information included in the annual financial statements and notes of the Company. These statements are prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis through improved operations and/or additional financing. As a result of the Company's reduced debt levels and its focus on two core business segments, management believes that it has adequate capital to sustain current operations through December 31, 2010. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report.

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

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

(2) USE OF ESTIMATES

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

(3) RECENT ACCOUNTING PRONOUNCEMENTS

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

In February 2010, the FASB issued ASU No. 2010-09, "Amendments to Certain Recognition and Disclosure Requirements" ("ASU 2010-09"), which is included in the FASB Accounting Standards Codification (the "ASC") Topic 855 (Subsequent

Events). ASU 2010-09 clarifies that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued. ASU 2010-09 is effective upon the issuance of the final update and did not have a significant impact on the Company's financial statements.

(4) LOSS PER SHARE

The Company calculates basic and diluted net loss per common share by dividing the net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding. Common stock equivalents that were outstanding as of March 31, 2010 and 2009, but were considered anti-dilutive securities and excluded from the diluted net income per share calculations, were as presented below:

	March 31,	
	2010	**2009**
Options outstanding	2,476,866	5,505,539
Warrants outstanding	8,042,938	8,022,850
Unvested restricted stock grants	453,189	1,273,147
Total potentially dilutive common stock equivalents	10,972,993	14,801,536

Approximately 646,000 of the outstanding options, and approximately 235,000 shares of the unvested restricted stock outstanding as of the date of the sale of the North American operations were cancelled as a result of the sale.

(5) REVENUE RECOGNITION

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

Revenues from funded research and development and product development are recognized based on contractual arrangements, which may be based on cost reimbursement models. Revenue from reimbursement contracts is recognized as services are performed.

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

(6) WARRANTY

The Company provides warranties on most products for periods of up to one year. The warranty is limited to the cost of the product and the Company will repair or replace the product as required. The Company monitors the actual warranty repair costs and trends versus the reserve as a percent of sales. The Company adjusts the warranty provision based on actual experience and for any particular known instances.

Warranty Reserves:

Quarters Ended March 31	2010	2009
	In thousands	
Balance at December 31	$ 98	$ 116
Charges to costs and expenses	6	12
Account write-offs and other deductions	(9)	(18)
Balance at March 31	$ 95	$ 110

(7) INVENTORIES

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

	March 31, 2010	December 31, 2009
	In thousands	
Finished goods	$ 219	$ 204
Work-in-process	96	131
Raw materials	935	947
Net inventories	$1,250	$ 1,282

(8) STOCK BASED COMPENSATION PLANS AND STOCK-BASED COMPENSATION EXPENSE

The Company has stock-based compensation plans for its employees, officers, and directors. The plans permit the grant of a variety of awards with various terms and prices as determined by the Governance, Nominating and Compensation Committee ("GNCC") of the Company's Board of Directors. The grants vest over terms of two to four years and are priced at fair market value or in certain circumstances 110% of the fair market value, of the common stock on the date of the grant. The options are generally exercisable after the period specified in the option agreement, but no option may be exercised after 10 years from the date of grant.

Additionally, in the case of incentive stock options, the exercise price may not be less than 100% of the fair market value of the Company's common stock on the date of grant. However, there is an exception in the case of a grant to an employee who owns or controls more than 10% of the combined voting power of all classes of the Company's stock or the stock of any parent or subsidiary. In that case, the exercise price shall not be less than 110% of the fair market value on the date of grant. In the case of non-qualified stock options, the exercise price shall not be less than 100% of the fair market value of the Company's common stock on the date of grant.

Stock Option Awards

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on the historical volatility of the Company's stock, at the time of the award. The average expected option term is estimated based on expected term of the option. The risk-free interest rate is based on U.S. Treasury zero-coupon issues assumed at the date of grant and no dividends were assumed in the calculation. The compensation expense recognized for all equity-based awards is net of estimated forfeitures for the three months ending March 31, 2010 and 2009. Forfeitures are estimated based on the historical trends.

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

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. There were no options granted during the three months ended March 31, 2010. The assumptions for grants during the three months ended March 31, 2009 were as follows:

	Three Months Ended March 31, 2009
Volatility	101.40%-102.24%
Expected option life	6.08
Interest rate (risk free)	1.54% - 2.49%
Dividends	None
Weighted average grant date fair value	$0.13

A summary of option activity as of March 31, 2010 and 2009, and changes during the first quarter is presented below:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2009	3,005,098	$ 2.87	5.56	$ -
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	(528,232)	4.40	—	—
Balance at March 31, 2010	2,476,866	$ 2.54	5.86	$ 2
Exercisable at March 31, 2010	1,429,331	$ 4.22	3.73	—
Vested and Expected to Vest at March 31, 2010	2,328,442	$ 2.67	5.67	$ 2

As of March 31, 2010, there was a total unrecognized compensation cost of approximately $83,000 related to non-vested stock options outstanding. The cost is expected to be recognized over the next 1.41 years. There were no options exercised in the three months ended March 31, 2010. Total expense booked in the quarters ending March 31, 2010 and 2009 was approximately $18,000 and $49,000, respectively.

Restricted Share Awards ("RSAs")

The Company has awarded to a number of employees restricted shares of the Company's common stock. The RSAs vest in equal annual installments over a period of four years. The fair market value of the RSAs is based on the fair market value per share of the Company's common stock on the date of grant and is amortized over the vesting period.

A summary of the status of the Company's RSAs as of March 31, 2010 and 2009, and changes during the first quarter is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at December 31, 2009	490,689	$ 1.15
Granted	-	-.
Vested	(37,500)	0.67
Cancelled	-	-.
Non-vested at March 31, 2010	453,189	$ 1.18

As of March 31, 2010, there was a total unrecognized compensation cost of approximately $335,000 related to non-vested RSAs. The Company expects to recognize the costs over the next 1.2 years. Total expense recorded in the quarters ended March 31, 2010 and 2009 were approximately $102,000 and $151,000, respectively.

(9) COMPREHENSIVE LOSS

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The following table summarizes all components of the Company's comprehensive loss.

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	In thousands	
Net loss	$ (1,319)	$ (1,607)
Other comprehensive income (loss):		
Cumulative translation adjustment	334	(24)
Comprehensive loss	$ (985)	$ (1,631)

(10) INTANGIBLE ASSETS

Intangible assets consist of trademarks, acquired patents and patented technologies, distributor and customer relationships and related contracts, trade and brand names and associated logos, technology design and programs, non-compete agreements and other intangible assets. There are no intangible assets with indefinite lives. Acquired patented technologies and trademarks are amortized over their estimated useful lives of between 3 - 16 years.

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

	Gross Carrying Amount	Accumulated Amortization	Carrying Value
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 1,526	$ (1,500)	$ 26
Trademarks	171	(171)	—
Acquired trade name	456	(194)	262
Acquired customer contracts and relationships	1,852	(1,245)	607
Acquired non-compete agreement	600	(600)	—
Acquired technology design and programs	313	(135)	178
Other	102	(77)	25
Total	$ 5,020	$ (3,922)	$ 1,098

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

	Gross Carrying Amount	Accumulated Amortization	Carrying Value
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 1,526	$ (1,493)	$ 33
Trademarks	171	(171)	-
Acquired trade name	482	(190)	292
Acquired customer contracts and relationships	1,957	(1,253)	704
Acquired non-compete agreement	634	(634)	-
Acquired technology design and programs	331	(132)	199
Other	108	(76)	32
Total	$ 5,209	$ (3,949)	$ 1,260

Amortization expense from continuing operations of intangible assets was $99,000 for the three months ended March 31, 2010 and $174,000 for the three months ended March 31, 2009.

As of March 31, 2010, the estimated future amortization expense of intangible assets, in thousands, is as follows:

	Estimated Future Expense In thousands					
	2010	2011	2012	2013	2014	2015 & thereafter
Amortization expense of intangible assets	$ 285	$ 315	$ 176	$ 176	$ 146	$ -

(11) DEBT

A summary of the Debt Obligations of the Company is as follows:

	March 31, 2010	December 31, 2009
	In thousands	
Borrowings under Revolving Credit Facility with Barclay's Bank Sales Financing with an interest rate of 2.55% above Barclay's base rate (3.05% at March 31, 2010 and December 31, 2009)	841	568
Senior Fixed Rate Secured Bond to a private investor with an interest rate of 8% at March 31, 2010 and 12% at December 31, 2010, maturing on July 30, 2011 net of unamortized discount of $67 at March 31, 2010 and $91 at December 31, 2009	2,014	2,312
Senior Fixed Rate Secured Bond payable to a private investor, maturing on October 31, 2011 with an interest rate of 8% on March 31, 2010 and 10% at December 31, 2009, net of unamortized discount of $384 at March 31, 2010 and $460 at December 31, 2009.	2,211	2,581
Bonds payable to the former stockholders of Photonic Products Ltd. maturing on November 30, 2010, with an interest rate of 7%, at March 31, 2010 and December 31, 2009.	1,925	2,186
Sub-total debt	6,991	7,647
Less – revolving credit facility	(841)	(568)
Less—Current portion of long-term debt, net of discount	(3,035)	(3,798)
Total long-term debt	$ 3,115	$ 3,281

Private Investor Notes and Bond

Photonic Products Ltd. Financing

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

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

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

On June 9, 2009, the private investor and the Company entered into a Transfer Agreement under which they agreed to transfer $1,000,000 of debt (the "Transfer Amount") from the Bond to the Senior Fixed Rate Secured Bond described below.

On March 9, 2010, the private investor and the Company entered into an amendment to the Bond reducing the interest rate from 10% to 8%, in consideration of an advance payment of $200,000 in principal and a revised prospective principal payment schedule. In addition, the same private investor agreed to reduce to interest rate on the *StockerYale Ireland Senior Fixed Rate Secured Bond* (below) from 12% to 8% as a part of this amendment.

At March 31, 2010, $2,594,920 remained outstanding under the combined note which has been classified as $771,887 short-term debt and $1,823,033 long- term debt and reported net of $383,559 of unamortized debt discount, which has been reported as $270,180 as short-term and $113,379 as long-term.

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

StockerYale Ireland Senior Fixed Rate Secured Bond

On July 24, 2008, StockerYale (IRL) Ltd. issued a three-year 12% Senior Fixed Rate Secured Bond, as amended at various times, to a private investor in the original principal amount of €935,000 ($1,472,905 at July 24, 2008) secured by all of the assets of StockerYale (IRL) Ltd. The bond matures on July 30, 2011. StockerYale (IRL) Ltd. agreed to make payments of principal and interest of approximately €31,000 over the term beginning August 30, 2008. The outstanding principal on the bond accrues interest at an annual rate of 12% (reduced to 8% on March 9, 2010). StockerYale (IRL) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The Company used the net proceeds for working capital.

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

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

Also on June 9, 2009, the Company and private investor entered into a Transfer Agreement under which they agreed to transfer $1,000,000 of debt (the "Transfer Amount") from the StockerYale UK Bond described above to the Senior Fixed Rate Secured Bond. Interest accrues and is payable monthly and the amount is payable on July 30, 2011.

At March 31, 2010, $2,081,413 remained outstanding under the combined note which has been classified as $668,626 short-term debt and $1,412,787 long- term debt and reported net of $67,209 of unamortized debt discount, which has been reported as $60,147 as short-term and $7,062 as long-term.

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

Barclay's Bank, PLC

On February 6, 2008, the Company's Photonic Products subsidiary entered into a Confidential Invoice Discounting Agreement with Barclay's Bank Sales Financing ("Barclay's"). Under the Discounting Agreement, a three-year revolving line of credit was established. The Discounting Agreement provides for a revolving line of credit not to exceed an aggregate principal amount of £700,000 ($1,400,000) and grants a security interest in and lien upon all of Photonic Products' trade receivables in favor of Barclay's.

The facility requires the maintenance of certain covenants. The Company may elect to prepay amounts due under the facility at any time, in whole or in part, upon 3 months notice. If the prepayment amount comes before the end of the "Minimum Period of the Agreement", Barclay's reserves the right to charge fees in accordance with the terms and conditions of the agreement. On June 26, 2009, Photonic Products agreed to amend the terms of the Agreement with Barclay's. Under the amended terms, the maximum amount allowed outstanding under the line of credit is £650,000 ($980,000 USD). The outstanding principal under the note accrues interest at an annual rate of 2.65% above Barclay's base rate. The interest rate was 3.15% as of March 31, 2009.

On March 8, 2010, the Company entered into an amendment to the revolving credit facility agreement, which removed the minimum tangible net worth requirement of £350,000 ($528,000 USD) as of March 31, 2010. The amendment further states that if the Company's net worth did not increase in line with projections as provided to Barclay's on January 18, 2010, then Barclay's may in its sole discretion review the terms on which it continues to make the facility available. The amount outstanding under the facility was $841,000 as of March 31, 2010 and $568,000 as of December 31, 2009, all of which was classified as short term debt under revolving credit facility. The Company was in technical default on December 31, 2009. The Company entered into an amendment on March 8, 2010 to waive this default at December 31, 2009. At March 31, 2010, the Company was in compliance with the agreement.

(12) DISCONTINUED OPERATIONS

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

Revenues from the discontinued operations for the quarters ended March 31, 2010 and 2009 were $0.0 million and $3.5 million, respectively. The loss from discontinued operations for the quarter ended March 31, 2010 was $59,000 and the gain from discontinued operations for the quarter ended March 31, 2009 was approximately $26,000. Interest expense was allocated to discontinued operations for the period ending March 31, 2009 only.

(13) COMMITMENTS AND CONTINGENCIES

Lease obligation treated as financing

On December 30, 2005, the Company closed a sale-leaseback transaction on the Company's Salem, New Hampshire headquarters with 55 Heritage LLC. The terms of the Real Estate Purchase Agreement dated November 29, 2005, as amended on December 22, 2005, between the Company and the buyer were that (i) the Company agreed to sell the property to the buyer for $4,700,000, and (ii) the Company agreed to lease from the buyer (a) approximately 32,000 square feet of the property for an initial term of five years with a rental rate during such period of $192,000 per year in base rent and (b) approximately 63,000 square feet of the property for an initial term of five years with rental rates ranging from approximately $220,500 to $315,000 per year in base rent, plus a pro rata share of all operating costs of the property. The Company plans to sublease all or part of the 63,000 square feet block of space to a third party. At the time an opportunity arises to enter into a sublease agreement with a third party, either (i) the Company will enter into a sublease with that party or (ii) the buyer will enter into a direct lease with them. The lease agreement grants the Company the option to extend the initial term for a period of five years. Because the transaction did not qualify as a sale for accounting purposes, the net proceeds were classified as a financing lease obligation. This was primarily due to the terms of the lease agreement. Accordingly, the Company continues to carry the value of the building on its balance sheet and record depreciation expense until the criteria to record a sale are met. The Company expects that it will recognize this sale during the fourth quarter ending December 31, 2010, at which time it will recognize the gain and write-off the finance obligation and associated fixed assets. In the three months ended March 31, 2010, the Company recorded $500 as non-cash interest income and $37,000 as a decrease of the lease obligation due to the annual payments being more than the reduction in the deposit amount left with the landlord of $1,600. In the three months ended March 31, 2009, the Company recorded $68,000 as non-cash interest expense and $14,000 as a decrease of the lease obligation due to a reduction in the deposit amount left with the landlord of $29,000.

On October 14, 2009, the Company amended the lease, dated December 30, 2005, to reduce the rentable space from approximately 95,000 square feet to approximately 51,000 square feet. This agreement changed the base rent for November and December, 2009 to an annualized rate of approximately $203,000 per year, and for the 2010 calendar year to approximately $150,000. In addition, the tenant's share of expenses was reduced.

At March 31, 2010, $3,571,000 was recorded on the balance sheet as a financing lease obligation, which was classified as $309,000 short-term obligation and $3,262,000 long-term obligation, and has been reported net of a $29,850 deposit.

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

Other obligations

The Company's Canadian subsidiary, StockerYale Canada Inc., is the prime tenant of the property located at 275 Kesmark Street, Montreal, Quebec, Canada. The Company is ultimately liable for the lease payments under the sub lease arrangements, described below, and the contingent liability amounts to approximately $253,000 of lease payments in the aggregate plus operating costs.

On October 13, 2009, SYC executed a Lease Amending Agreement (the "Montreal Lease Amendment") with the landlord to amend the Lease Agreement dated as of December 22, 2005 (the "Montreal Lease"). The Montreal Lease Amendment shortens the term of the Montreal Lease from having an expiration date of November 31, 2015 to: (a) with respect to space subleased by Coherent from SYC, the date of one year from Closing plus the option by Coherent to extend for up to three additional months; and (b) with respect to space being subleased by an existing subtenant of SYC, the date of termination of such sublease. In connection with such amendment, SYC paid the landlord CDN$550,000, plus applicable taxes, which included cash and the forfeiture by SYC of prepaid rent.

The Company also subleases a portion of the Montreal facility to another company which sublease ends on October 31, 2015. The Company has provided notice to the subtenant of the termination of the sublease and is currently renegotiating the sublease to end at the same time as the sub lease with Coherent.

(14) SEGMENT INFORMATION

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-maker is the Chief Executive Officer. The Company's accounting policies and method of presentation for segments is consistent with that used throughout the consolidated financial statements.

Following the sale described in Note 12, the Company operates in two segments: LED's (light emitting diode systems) and Photonic Products. In the LED segment, the Company designs and manufactures LED systems for the inspection, machine vision, medical and military markets. The Photonic Products segment distributes laser diodes and designs and manufactures custom laser diodes modules for industrial, commercial and medical applications. The policies relating to segments are the same as the Company's corporate policies.

The Company evaluates performance and allocates resources based on revenues and operating income (loss). The operating loss for each segment includes selling, research and development and expenses directly attributable to the segment. In addition, the operating loss includes amortization of acquired intangible assets, including any impairment of these assets and of goodwill. Certain of the Company's indirect overhead costs, which include corporate general and administrative expenses, are allocated between the segments based upon an estimate of costs associated with each segment. Segment assets include accounts receivable, inventory, machinery and equipment, goodwill and intangible assets directly associated with the product line segment.

All revenues and costs associated with our discontinued businesses have been eliminated from segment reporting, so that the net effect is to report from continuing operations only.

	Three Months Ended March 31, 2010			**Three Months Ended March 31, 2009**		
	In thousands			**In thousands**		
	LED	Photonic Products	Total	LED	Photonic Products	Total
Net Sales……….	$1,267	$ 2,215	$ 3,482	$ 991	$ 1,864	$ 2,855
Gross Profit……	630	562	1,192	299	488	787
Operating Loss..	(55)	(648)	(703)	(380)	(820)	(1,200)

	March 31, 2010				**December 31, 2009**			
	LED	Photonic Products	Corporate	Total	LED	Photonic Products	Corporate	Total
Total current assets	$ 1,670	$ 2,043	$ 2,835	$ 6,548	$ 1,173	$ 1,778	$ 4,784	$ 7,735
Property, plant & equipment, net	$ 174	$ 387	$ 3,133	$ 3,694	$ 188	$ 432	$ 3,215	$ 3,835
Acquired intangible assets, net……………...	$ 27	$ 1,071	—	$ 1,098	$ 33	$ 1,227	—	$ 1,260
Goodwill……….	$ 475	$ -	—	$ 475	$ 508	$ -	—	$ 508
Other long-term assets………….	$ —	$ 20	$ 17	$ 37	$ —	$ 20	$ 18	$ 38
Total……………	$ 2,346	$ 3,521	$ 5,985	$ 11,852	$ 1,902	$ 3,457	$ 8,017	$ 13,376

The Company's sales by geographic region are denominated in U.S. dollars. These sales are as follows:

Sales by region	Three months Ended March 31, In thousands	
	2010	2009
Europe and United Kingdom	$ 1,976	$ 1,504
Domestic – United States	901	1,227
Asia and rest of world	605	224
Total	$ 3,482	$ 2,855

Management's Discussion and Analysis of Financial Condition and Results of Operations.

This section contains statements that are forward-looking. These statements are based on expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date of issue. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of issue.

EXECUTIVE SUMMARY

We distribute laser diodes for leading diode manufacturers through our Photonic Products subsidiary, and develop and manufacture LED systems and laser modules. Since 1990 we have grown through internal expansion and through strategic acquisitions of technology and complementary businesses. Our products serve a wide range of applications and industries including machine vision and industrial inspection, biomedical and medical, defense and security, and other commercial applications. Our advanced technologies are driven by a deep understanding of the needs of our customers and the industries in which they work.

Management took a number of actions during 2008 and 2009 to improve the Company's operational efficiency and to improve its overall financial performance. In addition, in response to the general economic slowdown in late 2008, management initiated a number of actions to improve cash flow and liquidity recognizing that the economy could negatively impact the future performance of the Company. These actions include:

- Customer driven new product development to provide our customers and potential customers with an array of leading edge products;
- Reduce our overall cost structure in a variety of ways including: reduction of work force, salary reductions, improvements in supply chain management and material costs;
- Improvements in working capital through focused management of inventory and accounts receivable;
- Further cost reductions, as necessary and able, in order to improve cash flow.

We are considering different ways to raise additional capital including the sale of our equity securities, offerings of debt securities, or borrowings from financial institutions.

RESULTS OF CONTINUING OPERATIONS FOR THE CALENDAR QUARTERS ENDED MARCH 31, 2010 AND 2009

Net Sales

Net sales were $3.5 million for the three months ended March 31, 2010, a 22% increase versus $2.9 million for the first quarter of 2009. The increase in sales was due to a $0.3 million increase in the Photonic Products segment, of which $0.1 million was due to the impact of foreign currency exchange, and a $0.3 million increase in the LED segment, of which $0.1 million was due to the impact of foreign currency exchange.

Gross Profit

Gross profit was $1.2 million for the three months ended March 31, 2010, a 52% increase compared to the first quarter of 2009. During the three months ended March 31, 2010, gross margin was 34% compared with 28% in the first quarter of 2009, mainly due increased volumes and improved productivity on our LED segment.

Operating Expenses

Operating expenses totaled $1.8 million for the first quarter of 2010, approximately the same as in the first quarter of 2009. Included in the operating expenses for the first quarter of 2010 is a one-time charge related to the acceleration of costs to terminate an operating lease of $0.1 million. Partially offsetting this was a favorable impact of $0.1 million in foreign currency exchange rates versus the first quarter of 2009. Non-cash amortization of intangible assets decreased to $99,000 versus $174,000 for the first quarter of 2009. Sales and marketing expenses increased by approximately $64,000, or 15%. Research and development expenses were slightly higher by $15,000 at $153,000. General and administrative expense decreased 15%, or $187,000, due to cost savings programs, including headcount and salary reductions.

Operating loss was $0.6 million compared with operating losses of $1.2 million for the first quarter of 2009. Operating losses were favorably impacted by the improved gross profit of $0.4 million, cost savings programs, including headcount and salary reductions, and partially offset by foreign currency exchange losses of approximately $74,000 on a year-over-year basis.

Non-Operating Expenses

Other expenses, which are comprised primarily of non-cash foreign currency translation losses, were essentially flat at $621,000 for the three months ended March 31, 2010, versus the $606,000 in the three months ended March 31, 2009.

Net Loss

Net loss including discontinued operations was $1.3 million or $0.03 per share. This compares to net loss of $1.6 million or $0.04 per share for the first quarter of 2009.

Benefit for Income Taxes

Our historical operating losses raise doubt about our ability to realize the benefits of our deferred tax assets. As a result, we provide a valuation allowance for the net deferred tax assets that may not be realized. We recorded a deferred tax benefit of approximately $64,000 in the period ended March 31, 2010, related to one of our non-U.S. based subsidiaries. We recorded a deferred tax benefit of approximately $173,000 in the period ended March 31, 2009, related to one of our non-U.S. based subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balance decreased to $2.8 million at March 31, 2010 from $4.5 million at December 31, 2009 primarily as a result of the principal and interest payments on our long term debt, and an increase in working capital, partially offset by an increase in our revolving credit facility. During the first quarter ended March 31, 2010, our overall borrowings decreased by approximately $0.6 million.

As of March 31, 2010, our net accounts receivable balance was $2.0 million compared to $1.5 million at year end. Our days sales outstanding remained flat at 50 days at December 31, 2009 and at March 31, 2010.

Inventories were unchanged from December 31, 2009.

Capital spending for the quarter ending March 31, 2010 was $15,000. The Company has no material contingent capital expenditure commitments as of March 31, 2010 but has plans to purchase approximately $350,000 of capital items between April 1, 2010 and December 31, 2010, of which we expect approximately $300,000 to be financed through capital leases.

On March 9, 2010, a private investor and the Company entered into an amendment to the Bond (see Fn 11) reducing the interest rate from 10% to 8%, in consideration of an advance payment of $200,000 in principal and a revised prospective principal payment schedule. In addition, the same private investor agreed to reduce to interest rate on the *StockerYale Ireland Senior Fixed Rate Secured Bond* from 12% to 8% as a part of this amendment.

On March 8, 2010, the Company entered into an amendment to the Barclay's revolving credit facility agreement (see Fn 11), which removed the minimum tangible net worth requirement of £350,000 ($528,000 USD) as of March 31, 2010. The amendment further states that if the Company's net worth did not increase in line with projections as provided to Barclay's on January 18, 2010, then Barclay's may in its sole discretion review the terms on which it continues to make the facility available. The amount outstanding under the facility was $841,000 as of March 31, 2010 and $568,000 as of December 31,

2009, all of which was classified as short term debt under revolving credit facility.   The Company was in technical default on December 31, 2009. The Company entered into an amendment on March 8, 2010 to waive this default with Barclay's. At March 31, 2010, the Company was in compliance with the agreement.

OFF-BALANCE SHEET ARRANGEMENTS

We have no significant off-balance sheet arrangements, including derivative instruments that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.