UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number: 000-27372

StockerYale, Inc.
(Exact name of registrant as specified in its charter)

Massachusetts *(State or other jurisdiction of incorporation or organization)*	**04-2114473** *(I.R.S. Employer Identification No.)*
32 Hampshire Road **Salem, New Hampshire** *(Address of principal executive offices)*	**03079** *(Zip Code)*

Registrant's telephone number: (603) 893-8778

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 1, 2008, there were 41,269,845 shares of the registrant's common stock outstanding.

STOCKERYALE, INC.

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Item 1. Financial Statements.

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

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 1,523	$ 1,577
Restricted cash	17	18
Accounts receivable less allowances of $83 at September 30, 2008 and $62 at December 31, 2007	4,972	4,535
Inventories	4,479	4,180
Prepaid expenses and other current assets	692	465
Total current assets	11,683	10,775
Net property, plant and equipment	8,860	10,464
Goodwill	7,584	8,069
Acquired intangible assets, net	2,647	3,777
Other long-term assets	913	953
Total assets	$ 31,687	$ 34,038
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving lines of credit	$ 4,630	$ —
Current portion of long-term debt, net of unamortized discount of $655 at September 30, 2008 and $607 at December 31, 2007	1,818	1,308
Current portion of capital lease obligations	148	158
Current portion of financing lease obligations	444	447
Accounts payable	4,208	3,590
Accrued expenses	2,473	2,766
Total current liabilities	13,721	8,269
Long-term debt, net of unamortized discount of $740 at September 30, 2008 and $954 at December 31, 2007	9,253	11,864
Capital lease obligations, net of current portion	156	275
Financing lease obligations, net of current portion	3,219	3,200
Deferred income taxes	669	931
Total liabilities	27,018	24,539
Stockholders' equity:		
Common stock, par value $0.001; shares authorized 100,000,000; 40,653,102 shares issued and outstanding at September 30, 2008 and 38,555,618 at December 31, 2007	41	39
Paid-in capital	102,658	99,698
Accumulated other comprehensive income	2,786	3,029
Accumulated deficit	(100,816)	(93,267)
Total stockholders' equity	4,669	9,499
Total liabilities and stockholders' equity	$ 31,687	$ 34,038

See notes to unaudited condensed consolidated financial statements.

STOCKERYALE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Three Months Ended September 30,		Nine months Ended September 30,	
	2008	2007	2008	2007
	In thousands except per share data			
Revenue	$ 8,495	$ 7,917	$ 25,104	$ 22,343
Cost of sales	4,966	5,261	16,212	14,822
Gross profit	3,529	2,656	8,892	7,521
Operating expenses:				
Selling expenses	978	1,045	3,033	3,031
General and administrative	2,345	1,469	6,503	4,443
Research and development	798	665	2,385	2,249
Amortization of intangibles	250	313	875	931
Asset impairment charges	—	—	36	—
Loss from operations	(842)	(836)	(3,940)	(3,133)
Other (income) / expense, net	646	(6)	876	253
Amortization of debt discount and financing costs	1,378	226	2,024	1,049
Interest expense	344	356	966	955
Loss from continuing operations before income tax benefit	(3,210)	(1,412)	(7,806)	(5,390)
Income tax benefit	(80)	(74)	(203)	(211)
Loss from continuing operations	(3,130)	(1,338)	(7,603)	(5,179)
Income from discontinued operations, net of tax	31	28	54	89
Net loss	$ (3,099)	$ (1,310)	$ (7,549)	$ (5,090)
Basic and diluted net loss per share from continuing operations	$ (0.08)	$ (0.04)	$ (0.20)	$ (0.15)
Basic and diluted net income per share from discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Basic and diluted net loss per share	$ (0.08)	$ (0.04)	$ (0.20)	$ (0.15)
Basic and diluted weighted average shares outstanding:	39,189	35,124	37,834	34,479

See notes to unaudited condensed consolidated financial statements.

STOCKERYALE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine months Ended September 30, 2008	Nine months Ended September 30, 2007
	In thousands	
Operations		
Net loss	$ (7,549)	$ (5,090)
Income from discontinued operations, net of tax	54	89
Loss from continuing operations	(7,603)	(5,179)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	919	365
Depreciation and amortization	2,426	2,385
Asset impairment	36	—
Amortization of debt discount and financing costs	2,024	1,049
Non cash interest expense	214	227
Gain on disposal of assets	(59)	—
Provision for inventories	28	139
Provision for bad debts	50	—
Deferred income taxes	(190)	(208)
Other change in assets and liabilities:		
Accounts receivable	(768)	(633)
Inventories	(600)	113
Prepaid expenses and other current assets	(248)	(21)
Accounts payable	1,042	(117)
Accrued expenses	(167)	(532)
Other assets and liabilities	21	29
Net cash used in continuing operations	(2,875)	(2,175)
Net cash provided by (used in) discontinued operations	(5)	84
Net cash used in operating activities	(2,880)	(2,091)
Investing		
Proceeds from sale of assets	38	—
Payments of financing obligation	(191)	(254)
Purchases of plant and equipment	(208)	(520)
Net cash (used in) continuing operations	(361)	(774)
Net cash provided by discontinued operations	59	63
Net cash (used in) investing activities	(302)	(711)
Financing		
Net proceeds from sale of common stock	—	2,233
Net proceeds from exercise of stock options	—	104
Net proceeds from exercise of warrants	—	1,227
Restricted cash related to credit facilities	1	(6)
Proceeds from issuance of notes payable	1,959	2,343
Borrowings of revolving credit facilities – U.S.	865	174
Borrowings of revolving credit facilities – U.K.	1,016	—
Principal repayment of short-term debt	—	(692)
Principal repayment of long-term debt	(1,417)	(1,171)
Debt issuance costs	(21)	(121)
Net cash provided by financing activities	2,403	4,091
Effect of exchange rate on cash	725	(175)
Net change in cash and equivalents	(54)	1,114
Cash and equivalents, beginning of period	1,577	1,366
Cash and equivalents, end of period	$ 1,523	$ 2,480
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 948	$ 949
Issuance of restricted stock	114	1,549
Common stock issued with financing	1,013	362
Acquisition of equipment under capital lease	—	196
Fair value of warrant modifications and issuances (in connection with financing)	816	—
Common stock issued to settle accounts payable	214	—

See notes to unaudited condensed consolidated financial statements.

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 and nine month periods ended September 30, 2008 and 2007, (ii) the financial position at September 30, 2008 and December 31, 2007, and (iii) the cash flows for the nine month periods ended September 30, 2008 and 2007. 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 by Form 10-Q 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 which may not occur. 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 Form 10-KSB for the year ended December 31, 2007.

The Company took certain actions in 2007 to reduce its overall cost structure and will continue to implement such actions throughout 2008. In addition, the Company intends to focus on increasing the pace with which operational improvements are able to improve its financial performance and the consistency of its results. The Company intends to identify additional opportunities to lower its costs and manage the business more efficiently.

The Company is considering different ways to raise additional capital including through offerings of debt securities, the sale of its equity securities, or borrowings from financial institutions. Management estimates that it has sufficient capital for operations through December 31, 2008 and possibly beyond. Management is continuing its efforts to raise additional capital, so that the Company can meet its obligations and sustain operations, through the sale of its equity securities, through offerings of debt securities, or through borrowings from financial institutions. The Company cannot be sure of the timing or terms of any borrowing arrangements or equity offerings, or that it will be able to consummate one or more of these options.

On June 16, 2008, the Company announced its intention to acquire all issued and outstanding common shares of Virtek Vision International Inc. ("Virtek") of Waterloo, Ontario, Canada, through its newly formed acquisition subsidiary, StockerYale Waterloo Acquisition Inc., representing a total purchase price of approximately Cdn $27 million, at a price of Cdn $0.80 per share. The tender offer was not accepted and expired on August 25, 2008. For the three months ended September 30, 2008, the Company recorded expenses of approximately $1,413,000, including $452,000 cash expense, in connection with the now expired tender offer. For the nine month period ending September 30, 2008, the Company recorded expenses of approximately $1,720,000, including $759,000 cash expense in connection with the now expired tender offer for Virtek.

(2) LOSS PER SHARE

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings per Share,* basic and diluted net loss per common share for the three and nine months ended September 30, 2008 and 2007, respectively, is calculated by dividing the net loss applicable to common stockholders by the weighted average number of vested common shares outstanding. Common stock equivalents that were outstanding as of September 30, 2008 and 2007, but were considered anti-dilutive securities and excluded from the diluted net income per share calculations, were as presented below:

	September 30,	
	2008	2007
Options outstanding	4,167,189	2,480,901
Warrants outstanding	7,349,383	6,448,316
Unvested restricted stock grants	1,457,978	1,995,615
Total potentially dilutive common stock equivalents	12,974,550	10,924,832

(3) REVENUE RECOGNITION

The Company recognizes revenue from sales of standard and non-standard products and funded research and development and product development for commercial companies and government agencies. The Company recognizes revenue in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements* ("SAB 101") as updated by SAB No. 104, *Revenue Recognition* and Emerging Issues Task Force ("EITF") 00-21, *Revenue Arrangements with Multiple Deliverables*, and Statement of Position ("SOP") 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.*

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 non-standard products are limited to components supplied to original equipment manufacturers and produced in accordance with a customer-approved design. Non-standard 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 the Company has a long history with such returns and accordingly is able to estimate a reserve for their cost.

Revenue from funded research and development and product development is recognized based on contractual arrangements, which may be based on cost reimbursement or fixed fee-for-service models. Revenue from reimbursement contracts is recognized as services are performed and collectability is reasonably assured. On fixed-price contracts, revenue is generally recognized on a percentage-of-completion basis based on the proportion of costs incurred to the total estimated costs of the contract. When the current estimates of total contract revenue and contract costs indicate a loss, a provision for the entire loss on the contract is recorded.

If a contract involves the provision of multiple elements and the elements qualify for separation under EITF 00-21, 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.

(4) WARRANTY

The Company provides warranties on most of its products for periods of between one to two years. 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 periodically adjusts the warranty provision based on the actual experience and for any particular occurrences.

Warranty Reserves:

Nine months Ended September 30	**2008**	**2007**
	In thousands	
Balance at December 31	$ 302	$ 231
Charges to costs and expenses	103	80
Account write-offs and other deductions	(83)	(85)
Balance at September 30	$ 322	$ 226

(5) 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:

	September 30, 2008	**December 31, 2007**
	In thousands	
Finished goods	$ 1,052	$ 1,066
Work-in-process	645	665
Raw materials	2,782	2,449
Net inventories	$ 4,479	$ 4,180

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

(6) 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. Generally the grants vest over terms of two to four years and are priced at fair market value, or in certain circumstances, 110% of the fair market value, of the common stock on the date of the grant. The options are generally exercisable after the period 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 85% of the fair market value of the Company’s common stock on the date of grant, except in the case of a grant to an independent director, in which case the exercise price shall be equal to fair market value determined by reference to market quotations on the date of grant.

Stock Option Awards

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of the Company’s stock, at the time of the award. The average expected option term was estimated using the simplified method under SAB 107 at the time of the option award. 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 nine months ending September 30, 2008 and 2007. Forfeitures are estimated based on the historical trends. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model.

On March 17, 2008, the GNCC adopted a stock option incentive program for 2008. 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 options shall vest and become exercisable on the date the Company publicizes its earnings press release regarding fiscal 2008 results, if the stated performance goals are met. If the performance goals are not met, the options immediately terminate and any previously accrued compensation expense would be reversed. Options to purchase a total of 1,522,300 shares of common stock were granted under this performance-based program on March 17, 2008, of which only 1,442,300 are eligible to vest due to actual forfeitures.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The weighted average assumptions for grants during the nine months ended September 30, 2008 were as follows:

	Nine months Ended September 30, 2008
Volatility	98.88%
Expected option life	5.65
Interest rate (risk free)	2.54%
Dividends	None
Weighted average grant date fair value	$ 0.41

A summary of option activity as of September 30, 2008 and changes during the nine months ended September 30, 2008 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, 2007	2,422,617	$ 4.76	4.16	$ 185
Granted	2,046,572	.53	—	—
Exercised	—	—	—	—
Cancelled	(302,000)	7.23	—	—
Balance at September 30, 2008	4,167,189	$ 2.34	6.31	$ —
Vested and Exercisable at September 30, 2008	2,200,117	$ 4.26	3.36	—

As of September 30, 2008, there was a total unrecognized compensation cost of approximately $224,000 related to non-vested stock options granted. The cost is expected to be recognized over the next 3.75 years. There were no options exercised in the nine months ended September 30, 2008.

Restricted Share Awards ("RSAs")

The Company has awarded to a number of key employees restricted shares of the Company's common stock. The RSAs vest in equal annual installments over a period of four years, assuming continued employment, with some exceptions. 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. During the quarter ended September 30, 2008, no shares of restricted stock were issued and 405,000 shares of restricted stock vested. During the nine months ended September 30, 2008, 165,000 shares of restricted stock were issued and 600,020 shares of restricted stock vested.

On June 30, 2007, the GNCC approved the StockerYale, Inc. Management Incentive Plan. The Management Incentive Plan is designed to recognize and reward the achievement of financial, business and management goals that are essential to the success of StockerYale and its subsidiaries. The Management Incentive Plan covers certain executive and senior employees of StockerYale, as determined by the GNCC.

Upon satisfaction and achievement of financial targets, as determined by the Board of Directors, or the GNCC, and based on the financial results of the target period, each participant shall receive a grant of fully-vested shares of the Company's common stock, $.001 par value per share. As of December 31, 2007, certain executives are eligible to receive up to 1,404,000 shares of StockerYale's common stock under the Management Incentive Plan. No expense has been recorded through September 30, 2008. As of September 30, 2008, no shares have been earned or issued related to the Management Incentive Plan. The Management Incentive Plan and all grants and awards made under the plan shall be made under the terms of the Company's 2007 Stock Incentive Plan.

A summary of the status of the Company's RSAs as of September 30, 2008 and changes during the first nine months is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at December 31, 2007	2,057,998	$ 1.22
Granted	165,000	0.69
Vested	(600,020)	1.18
Cancelled	(165,000)	1.29
Non-vested at September 30, 2008	1,457,978	$ 1.17

As of September 30, 2008, there was a total unrecognized compensation cost of approximately $1,647,000 related to non-vested RSAs. The Company expects to recognize the costs over the next 2.9 years.

(7) COMPREHENSIVE LOSS

SFAS No. 130, *Reporting Comprehensive Income,* requires disclosure of all components of comprehensive income (loss) on an annual and interim basis. 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 Company's total comprehensive loss is as follows:

	Three Months Ended September 30,		Nine months Ended September 30,	
	2008	2007	2008	2007
	In thousands			
Net loss	$(3,099)	$(1,310)	$(7,549)	$(5,090)
Other comprehensive income (loss):	—	—	—	—
Cumulative translation adjustment	(186)	531	(244)	1,178
Comprehensive loss	$(3,285)	$ (779)	$(7,793)	$(3,912)

(8) 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 10–16 years.

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of September 30, 2008 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Carrying Value
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 3,353	$ (3,095)	$ 258
Trademarks	471	(471)	—
Acquired trade name	550	(131)	419
Acquired customer contracts and relationships	2,233	(883)	1,350
Acquired non-compete agreement	723	(462)	261
Acquired technology design and programs	378	(91)	287
Other	130	(58)	72
Total	$ 7,838	$ (5,191)	$ 2,647

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of December 31, 2007 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Carrying Value
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 3,354	$ (2,900)	$ 454
Trademarks	471	(471)	—
Acquired trade name	604	(88)	516
Acquired customer contracts and relationships	2,454	(591)	1,863
Acquired non-compete agreement	795	(309)	486
Acquired technology design and programs	415	(61)	354
Other	143	(39)	104
Total	$ 8,236	$ (4,459)	$ 3,777

Amortization of intangible assets was approximately $250,000 and $314,000 for the three months ended September 30, 2008 and 2007, and approximately $875,000 and $931,000 for the nine months ended September 30, 2008 and 2007.

As of September 30, 2008, the estimated future amortization expense of intangible assets, in thousands, is as follows:

	Estimated Future Expense In thousands					
	2008	**2009**	**2010**	**2011**	**2012**	**2013 & thereafter**
Amortization expense of intangible assets	$256	$950	$555	$408	$229	$ 249

(9) 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.

(10) RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60* ("SFAS 163"). SFAS 163 applies to financial guarantee insurance (and reinsurance) contracts issued by enterprises that are included within the scope of paragraph 6 of Statement 60 and that are not accounted for as derivative instruments. The recognition and measurement provisions of SFAS 163 shall be applied on a contract-by-contract basis. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect SFAS 162 to have a material effect on the Company's financial statements.

SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect SFAS 162 to have a material effect on the Company's financial statements.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), an amendment of FASB Statement No. 133, which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. The provisions of SFAS 161 will be adopted in 2009. The Company does not expect SFAS 161 to have a material impact on its consolidated financial statements.

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"), an amendment of ARB 51, *Consolidated Financial Statements*. SFAS 160 provides guidance for the accounting, reporting and disclosure of noncontrolling interests, also called minority interest. A minority interest represents the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. The provisions of SFAS 160 will be adopted in 2009. The Company is currently evaluating the effect that the adoption of SFAS No. 160 will have on its operations and financial condition.

SFAS No. 141(R), Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"), which replaces SFAS No. 141, *Business Combinations.* SFAS 141(R) (i) requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their acquisition-date fair values, (ii) changes the recognition of assets acquired and liabilities assumed arising from contingencies, (iii) requires contingent consideration to be recognized at its fair value on the acquisition date and, for certain arrangements, requires changes in fair value to be recognized in earnings until settled, (iv) requires companies to revise any previously issued post-acquisition financial information to reflect any adjustments as if they had been recorded on the acquisition date, (v) requires the reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties to be recognized in earnings, and (vi) requires the expensing of acquisition-related costs as incurred. SFAS 141(R) also requires additional disclosure of information surrounding a business combination to enhance financial statement users' understanding of the nature and financial impact of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with the exception of accounting for changes in a valuation allowance for acquired deferred tax assets and the resolution of uncertain tax positions accounted for under FIN 48, which is effective on January 1, 2009 for all acquisitions. The Company expects SFAS 141(R) will have an impact on accounting for business combinations once adopted, but the impact is dependent upon acquisitions at that time.

SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* ("SFAS 159"). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* applies to all entities with available-for- sale and trading securities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, *Defining Fair Value Measurements.* The Company adopted this statement on January 1, 2008 and it did not have an effect on the Company's consolidated financial statements, as they did not make any fair value elections under this standard.

SFAS No. 157, Defining Fair Value Measurements, and FASB Staff Position 157-2

In September 2006, the FASB issued SFAS No. 157, *Defining Fair Value Measurements* ("SFAS 157"). The objective of SFAS 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. However, FASB Staff Position No. 157-2 delayed the adoption date until January 1, 2009 for certain nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS 157 on January 1, 2008 with respect to the Company's financial assets and liabilities did not have a material impact on the Company's consolidated financial statements.

(11) DEBT

A summary of the debt obligations of the Company is as follows:

	September 30, 2008	December 31, 2007
	In thousands	
Acquired note payable to Barclay's Bank, maturing on November 16, 2009 and having an interest rate of 2.5% above Barclay's base rate (7.50% at September 30, 2008 and 7.50% at December 31, 2007), reported as $27,000 short-term and $7,000 long term.	$ 34	$ 60
Borrowings under Revolving Credit facility with Barclay's Bank Sales Financing with an interest rate of 2.55% above Barclay's base rate (7.55% as of September 30, 2008).	927	—
Borrowings under Line of Credit Agreement with Laurus Master Fund, Ltd. maturing on June 28, 2009. $500,000 is due on March 31, 2009. The interest rate is the prime rate plus 1%, with a minimum rate of 6% (6.00% at September 30, 2008 and 8.25% at December 31, 2007).	3,703	2,838

	September 30, 2008	December 31, 2007
	In thousands	
Note Payable to Laurus Master Fund, Ltd. maturing on June 30, 2010, with an interest rate of prime plus 2%, with a minimum rate of 8%, (8.00% at September 30, 2008 and 9.25% at December 31, 2007) net of unamortized discount of $237 at September 30, 2008 and $371 at December 31, 2007.	2,988	3,379
Note Payable to Laurus Master Fund, Ltd. maturing on June 30, 2010, with an interest rate of 10.5%, net of unamortized discount of $71 at September 30, 2008 and $139 at December 31, 2007.	729	861
Note Payable to a private investor, maturing on January 15, 2008, with an interest rate of 10.25%.	—	35
Senior Fixed Rate Secured Bond to a private investor with an interest rate of 12%, maturing on July 30, 2011 net of unamortized discount of $195 at September 30, 2008	1,093	—
Senior Fixed Rate Secured Bond payable to a private investor, maturing on October 31, 2011, with an interest rate of 10%, net of unamortized discount of $891 at September 30, 2008 and $1,052 at December 31, 2007.	3,827	3,599
Bonds payable to the former stockholders of Photonic Products Ltd., maturing on October 31, 2009, with an interest rate of LIBOR plus 1% (5.05% at September 30, 2008 and 5.70% at December 31, 2007).	2,400	2,400
Sub-total debt	15,701	13,172
Less – revolving debt	(4,630)	—
Less – current portion of long-term debt	(1,818)	(1,308)
Total long-term debt	$ 9,253	$ 11,864

Laurus Master Fund, Ltd.

Line of Credit Agreement:

On June 28, 2006 the Company entered into a Security and Purchase Agreement with Laurus Master Fund, Ltd. ("Laurus"). Under the Security and Purchase Agreement, a three-year revolving line of credit was established. The Security and Purchase Agreement provides for a revolving line of credit not to exceed an aggregate principal amount of $4 million and grants a security interest in and lien upon all of the Company's assets in favor of Laurus. The Company may borrow a total amount at any given time up to $4,000,000, limited to qualifying receivables and inventories (as defined).

The Company began making monthly payments to Laurus of accrued interest only on August 1, 2006. The outstanding principal under the note accrues interest at an annual rate of 1% above the prime rate, subject to a minimum annual interest rate of 6%. The interest rate was 6.00% as of September 30, 2008. The Company may elect to prepay the note at any time, in whole or in part, without penalty or premium. All unpaid principal plus accrued but unpaid interest is due and payable on September 28, 2009.

On March 31, 2008, Laurus granted the Company the ability to borrow up to $500,000 over the limit defined by qualified receivables and inventory for one year, expiring March 31, 2009. In consideration, the Company issued and sold to Laurus 100,000 shares of its common stock at a per share purchase price of $.01, for an aggregate purchase price of $1,000, and extended the term of all outstanding warrants issued to Laurus for an additional 5 years. The Company recorded debt acquisition costs relating to the line of credit for cash fees paid of approximately $21,000 and an additional amount as debt acquisition costs of approximately $528,000 representing the fair market value of the stock issued and the warrant modification. The debt acquisition charges are being amortized over the one year life of the overadvance agreement. The Company used the Black-Scholes model to calculate the impact of the warrant modification. There were a total of 1,820,000 warrants modified. The factors used were as follows: (i) warrant exercise prices ranged from $0.80 to $3.12, (ii) the expected term ranged from 2.5 to 9 years, (iii) volatility rates ranged from 73.79% to 98.55%, (iv) the risk free interest rates ranged from 1.62% to 3.45% and (v) no dividends were assumed. The value of the warrant modifications was calculated at approximately $477,000.

There was $3,702,511 outstanding under the line of credit as of September 30, 2008, which has been classified as short term debt under revolving lines of credit and $2,838,000 outstanding as of December 31, 2007, which was classified as long-term debt.

Term Note

On December 30, 2005, under the terms of a Securities Purchase Agreement, the Company issued a secured term note in the aggregate principal amount of $4,000,000 to Laurus (December note). The note was originally due on December 30, 2008 and is collateralized by U.S. accounts receivable, inventory and equipment, and a second security interest in accounts receivable, inventory and equipment in Montreal, Canada. The Company began making monthly payments of principal and interest on the note on April 1, 2006. The outstanding principal on the note accrues interest at an annual rate of 2% above the prime rate, subject to a minimum annual interest rate of 8% (subject to certain adjustments). The Company could elect to prepay the note provided that (i) if prepayment occurred during the first year of the date of issuance, the Company would pay a 15% prepayment penalty, (ii) if prepayment occurred during the second year of the date of issuance, the Company would pay a 10% prepayment penalty, and (iii) if prepayment occurred during the third year of the date of issuance, the Company would pay a 5% prepayment penalty.

Also, under the terms of the Securities Purchase Agreement, the Company sold and issued to Laurus an aggregate of 750,000 shares of common stock of the Company at a per share purchase price of $.001, for an aggregate purchase price of $750, related to the prepayment of certain convertible notes. The Company recorded debt acquisition costs of $102,650 and a debt discount of $720,000 representing the fair market value of the stock issued. The debt acquisition and debt discount charges were being amortized over the life of the note using the effective interest method.

The Company has registered for resale under the Securities Act of 1933, as required by the agreement, the shares of common stock sold and issued to Laurus by filing a registration statement on Form S-3 on January 27, 2006 and declared effective on February 14, 2006.

<u>Amendments to the Term Note and Security Purchase Agreement:</u>

On June 19, 2007, the Company and Laurus entered into a Note Amendment Agreement to the December 2005 secured term note. The amendment extended the maturity date of the December 30, 2005 note, as described above, from December 30, 2008 to June 30, 2010. In connection with the amendment, the Company entered into a Securities Purchase Agreement with Laurus under which the Company borrowed $2,318,180 and issued a Secured Term Note to Laurus. The note is due on June 30, 2010. The Company agreed to make monthly payments of principal and interest on the note beginning on July 1, 2007. The outstanding principal on the note accrues interest at an annual rate of 2% above the prime rate, subject to a minimum annual interest rate of 8% (subject to certain adjustments). The Company may elect to prepay the note provided that (i) if such prepayment occurs during the first year of the date of issuance, the Company shall pay a 15% prepayment penalty, (ii) if such prepayment occurs during the second year of the date of issuance, the Company shall pay a 10% prepayment penalty and (iii) if such prepayment occurs during the third year of the date of issuance, the Company shall pay a 5% prepayment penalty. Laurus holds a security interest in certain assets of the Company. The monthly principal payment on the revised combined note is $125,000. The interest rate is prime plus 2% and was 9.25% as of December 31, 2007.

Under the Securities Purchase Agreement, the Company sold and issued to Laurus an aggregate of 300,000 shares of common stock of the Company at a per share purchase price of $.01, for an aggregate purchase price of $3,000. The Company will use the net proceeds from the Securities Purchase Agreement for general corporate purposes. In conjunction with the 300,000 shares of common stock issued to Laurus, the Company recorded a debt discount of approximately $362,000, which represented the approximate fair value of the stock as of the date of issuance.

The amended agreement resulted in an extinguishment of debt under EITF 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instrument*. As a result, the Company accelerated the existing debt discount and financing costs associated with the original note and certain other costs paid with the financing totaling approximately $290,000 in June 2007.

On December 28, 2007, the Company issued amended and restated secured term notes to Laurus and its assignees, PSource Structured Debt Limited and Valens U.S. SPV I. Under the amendment the Company borrowed an additional $1,000,000 from Valens. The Notes amended and restated the secured term notes dated December 30, 2005 and June 19, 2007. The terms of the Note issued to Valens are the same as the June Note. The $1,000,000 portion of the Valens Note will accrue interest at an annual rate of 10.5%. The other Notes amended and restated the December Note and the June Note and reduced the monthly principal payments of the Company by $50,000. Laurus, PSource and Valens rights under the Notes are secured by a security interest in certain assets of the Company.

In connection with the Notes, on December 28, 2007, the Company and Laurus and its assignees entered into amendments to the (i) Securities Purchase Agreement, dated as of December 30, 2005 and (ii) Securities Purchase Agreement, dated as of June 19, 2007 (together, the "Amendments"). Under the Amendments, the Company sold and issued (i) to PSource an aggregate of 75,000 shares of common stock of the Company at a per share purchase price of $.01, for an aggregate purchase price of $750 and (ii) to Valens an aggregate of 300,000 shares of common stock of the Company at a per share purchase price of $.01, for an aggregate purchase price of $3,000. The Company will use the net proceeds from the Amendments for general corporate purposes. The company recorded debt acquisition costs of $99,569 and an additional debt discount of $515,740 representing the fair market value of the stock issued. The debt acquisition and debt discount charges are being amortized over the life of the note using the effective interest. In addition, as required under EITF 96-19, the Company expensed approximately $12,000 of the acquisition related costs to the income statement directly, rather than amortizing this amount over the life of the note.

The Company also entered into Registration Rights Agreements with each of PSource and Valens (the "Registration Rights Agreements") on December 28, 2007, under which the Company agreed to register the shares of common stock for resale under the Securities Act of 1933, as amended, by May 9, 2008. The agreement has now been extended to include the shares in the Company's next resale registration the Company files with the SEC following the Company's next equity financing.

On July 31, 2008, the Company signed an agreement with Valens Offshore SPV I, Ltd. and PSource Structured Debt Limited, affiliates of Laurus Master Fund , to defer the principal payments of the term notes in the amount of $108,333 per month, for the period of August 1, 2008 to October 1, 2008. The Company continued to make monthly interest payments during this period. In consideration for this deferral, the Company agreed to pay a fee of $175,000 of additional interest to be accrued monthly and will paid at the termination of the note on December 30, 2011, along with the deferred principal payments.

At September 30, 2008, $4,025,004 was outstanding under the combined notes, which has been classified as $1,299,993 short-term debt and $2,725,011 long term debt and reported net of $308,630 of unamortized debt discount, which has been classified as $192,565 short term and $116,065 long term.

At December 31, 2007, $4,750,000 was outstanding under the combined notes, which has been classified as $1,256,546 short-term debt and $3,492,087 long term debt and reported net of $509,875 of unamortized debt discount, which has been classified as $261,502 short term and $248,373 long term.

The Company and Laurus also entered into a Registration Rights Agreement on June 19, 2007, under which the Company agreed to file a registration statement with the SEC to register the shares of common stock for resale within 135 days under the Securities Act of 1933, as amended which has been since extended until May 9, 2008. The agreement has now been extended to include the shares in the Company's next resale registration the Company files with the SEC following the Company's next equity financing.

Financing for Offer to Purchase:

On June 27, 2008, StockerYale Waterloo Acquisition Inc., a wholly-owned subsidiary of the Company filed an Offer to Purchase and Circular with Canadian securities regulatory authorities, relating to an offer to purchase all of the outstanding common shares of Virtek upon the terms and subject to the conditions set forth in the Offer to Purchase and Circular.

In connection with the offer, StockerYale arranged for financing ("Commitment") of up to $27 million from Valens Offshore SPV II, Corp., an affiliate of Laurus, and its affiliates ("Valens") in order to fund the acquisition of all of the outstanding common shares of Virtek. The financing and Commitment to provide the loans under the financing expired on August 31, 2008, with the expired tender offer, as discussed in Note 12.

In addition to the terms and conditions described in Note 12, "Unregistered Sales of Equity Securities," the Company's variable rate line of credit and term loans with Laurus would have converted from the rates stated in the above table to a fixed rate of 1% above prime rate at the time of exercise.

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 Company may borrow a total amount at any given time up to $1,400,000, limited to qualifying receivables as defined. The proceeds from this line of credit were used to pay in full the outstanding amount under the overdraft facility between Photonic Products and Barclay's Bank, PLC.

The facility requires the maintenance of certain financial covenants including annual sales and minimum tangible net worth. Barclay's also reserves the right to review the facility in the event of losses in any 3-month rolling period. The Company began making monthly payments to Barclay's of accrued interest only on February 29, 2008. The outstanding principal under the note accrues interest at an annual rate of 2.55% above Barclay's base rate. The interest rate was 7.55% as of September 30, 2008. The Company may elect to prepay the note at any time, in whole or in part, without penalty or premium upon 3 months notice.

At September 30, 2008, $927,276 was outstanding under the facility, all of which was classified as short term debt under revolving lines of credit. Included in the amount outstanding as of September 30, 2008 was £150,000 (approximately $273,000) of overdraft in the facility. As such, the Bank is reviewing the facility which may result in a demand for repayment.

Private Investor Notes and Bond

On August 16, 2007, the Eureka Interactive Fund Ltd. (Eureka) agreed to transfer the promissory notes and bonds listed below, as well as all of the unexercised warrants previously issued to Eureka, to a private investor.

Photonic Products Ltd. Financing

On October 31, 2006, StockerYale (UK) Ltd. issued a 10% Senior Fixed Rate Secured Bond to The Eureka Interactive Fund Ltd. in the original principal amount of US$4,750,000 secured by all of the equity interests of Photonic Products Ltd. owned by the Company and StockerYale (UK) Ltd. The bond is due on October 31, 2011. StockerYale (UK) Ltd. agreed to make payments of principal and interest over the term. The outstanding principal on the bond accrues interest at an annual rate of 10%. During the first twelve months of the term of the bond, only accrued interest was required to be paid. Principal payments began November 7, 2007 and an amount equal to 50% of the original principal sum of US$4,750,000 was being paid on October 31, 2011. StockerYale (UK) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The Company used the net proceeds to make the cash payment for the acquisition of Photonic Products Ltd. The remaining proceeds will be used for transaction fees and working capital.

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 purchase price of the bond and warrants of $4,750,000 was allocated between the bond and the common stock warrants based upon their relative fair market value. The purchase price allocated to the bond was $3,255,349 and the purchase price 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 aggregate purchase price of the bond was recorded as a debt discount of $1,494,651 and will be 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.

Amendment to the Senior Fixed Rate Secured Bond

On May 30, 2008 the private investor agreed to increase the principal amount of the bond to $4,903,646 and to advance an additional $500,000 to the Company under the bond. In connection with the amendment the Company issued a Common Stock Purchase Warrant to the private investor to purchase 269,663 shares of the Company's common stock at a purchase price of $0.60 per share under substantially the same terms as the original warrant. 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 4.08%; an expected life of ten years; and an expected volatility of 98% with no dividend yield. At the same time, the Company revalued the original warrant under the new assumptions. The total value of the warrants was recorded as a debt discount of $119,373 and will be amortized over the life of the bond.

At September 30, 2008, $4,718,623 remained outstanding under the bond, which has been classified as $740,091 short-term debt and $3,978,532 long-term debt and reported, net of $891,451 of unamortized debt discount, which has been reported as $352,278 short-term debt and $539,173 long-term debt.

At December 31, 2007, $4,651,041 was outstanding under the bond, which was classified as $593,750 short-term debt and $4,057,291 long-term debt and reported, net of $1,051,725 of unamortized debt discount, which was reported as $345,984 as short-term and $705,741 as long-term.

Senior Fixed Rate Secured Bonds

On July 24, 2008, StockerYale (IRL) Ltd. issued a three-year 12% Senior Fixed Rate Secured Bond to a private investor in the original principal amount of €935,000 ($1,472,905) 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 ($48,890) over the term beginning August 30, 2008. The outstanding principal on the bonds accrue interest at an annual rate of 12%. 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 a Common Stock Purchase Warrant 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. At the same time, the Company revalued the original warrant under the new assumptions. 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.

At September 30, 2008, $1,287,944 remained outstanding under the bond, which has been classified as $405,745 short-term debt and $882,199 long-term debt and reported, net of $194,951 of unamortized debt discount, which has been reported as $110,264 short-term debt and $84,687 long-term debt.

(12) UNREGISTERED SALES OF EQUITY SECURITIES

On May 30, 2008, in connection with the private investor agreeing to increase the principal amount of the bond to $4,903,646 and advancing $500,000 to the Company under the amended bond, the Company issued a Common Stock Purchase Warrant to the private investor to purchase 269,663 shares of the Company's common stock at a purchase price of $0.60 per share. The warrant expires on the tenth anniversary of the date of issuance.

On June 27, 2008, the Company's wholly-owned subsidiary, StockerYale Waterloo Acquisition Inc., filed an Offer to Purchase and Circular with Canadian securities regulatory authorities, relating to an offer to purchase all of the outstanding common shares of Virtek upon the terms and subject to the conditions set forth in the Offer to Purchase and Circular.

In connection with the offer, StockerYale arranged for financing of up to $22.0 million from Valens in order to fund the acquisition of all of the outstanding common shares of Virtek. On June 30, 2008, in connection with the commitment of Valens to provide the financing, StockerYale issued an aggregate of 1,628,664 shares of common stock of StockerYale to Valens. In addition, the terms of the provision by Valens of the loans under the financing had called for (i) the issuance of a warrant with a nominal exercise price to Valens to purchase shares of common stock of StockerYale in an aggregate amount equal to 12% of the amount of the loans provided to StockerYale under the financing, based on a share price of $0.5219 and (ii) the repricing of all warrants previously issued to Valens to an exercise price of $0.5219. Furthermore, the agreement also stipulated should StockerYale borrow more than $18.5 million from Valens under the financing, StockerYale would have issued an additional warrant with a nominal exercise price to Valens to purchase shares of common stock of StockerYale in an aggregate amount equal to 3% of the amount of the loans provided to StockerYale based on a share price of $0.5219. As StockerYale Waterloo Acquisition Inc. did not complete the acquisition of at least 66 $^{2}/_{3}$% of the common shares of Virtek, and, therefore, did not borrow funds from Valens, StockerYale did not issue any warrants to Valens, nor did it reprice the warrants previously issued to Valens.

The fair value of the 1,628,664 shares of common stock issued to Valens on June 30, 2008 was $960,912 based upon the market price on the date of issuance and was expensed during the three months ended September 30, 2008, as the loan commitment expired.

(13) STOCK AND WARRANT PURCHASE AGREEMENT

On January 26, 2007, the Company entered into a Securities Purchase Agreement with Smithfield Fiduciary LLC, a fund that is managed by Highbridge Capital Management, LLC. Under the terms of the agreement, the Company sold and issued to Smithfield Fiduciary LLC for an aggregate purchase price of $2,300,000, (i) 2,000,000 shares of common stock of the Company at a per share purchase price of $1.15 (a discount to the 30 day trading average) and (ii) a warrant to purchase 1,000,000 shares of common stock of the Company at an exercise price of $1.72 per share. The warrant expires on the tenth anniversary of the date of issuance.

The Company and Smithfield Fiduciary LLC also entered into a Registration Rights Agreement under which the Company agreed, at its sole expense, to file a registration statement within seven business days to register for resale under the Securities Act of 1933, as amended, the shares issuable upon exercise of the warrant and the shares of common stock issued and sold to Smithfield Fiduciary LLC under the Securities Purchase Agreement. The Company filed a registration statement that was declared effective on February 14, 2007.

(14) DISCONTINUED OPERATIONS

During 2005, the Company's management and the Board of Directors made a decision to discontinue its Singapore operation as well as its fiber optic illumination and galvanometer businesses.

During 2006, the Company completed the divestitures of these three businesses in exchange for aggregate consideration of up to $525,000 in cash and notes receivable and a 5% royalty on future sales of a specific product royalty up to a maximum of $35,000.

The Company recorded $31,000 in income from discontinued operations for the third quarter of 2008 and $59,000 in income and $5,000 of costs from discontinued operations for the nine months ended September 30, 2008, which was reported as $54,000 net income from discontinued operations. For the third quarter of 2007, $27,000 was included in income from discontinued operations and $89,000 for the nine months ended September 30, 2007. The amounts are additional cash consideration received under certain notes receivable. As of September 30, 2008, the Company is due up to an additional $31,000 under the notes.

(15) COMMITMENTS AND CONTINGENCIES

Lease obligation treated as financing

On December 30, 2005, the Company closed a sale-leaseback transaction on the Company's Salem, New Hampshire headquarters with 55 Heritage LLC. The terms of the Real Estate Purchase Agreement dated November 29, 2005, as amended on December 22, 2005, between the Company and the buyer were that (i) the Company agreed to sell the property to the buyer for $4,700,000, and (ii) the Company agreed to lease from the new owner (a) approximately 32,000 square feet of the property for an initial term of five years with a rental rate during the term 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 foot block of space. 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 Generally Accepted Accounting Principles (GAAP) reporting purposes under SFAS No. 66, *Accounting for Sales of Real Estate* and SFAS No. 98, *Accounting for Leases* ("SFAS 98"), the net proceeds were classified as a financing obligation. 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 and accounts for the financing lease in accordance with the provisions of SFAS 98.

During the quarter ended September 30, 2008, the Company recorded $70,000 as non-cash interest expense and $7,000 as an increase of the lease obligation due to a reduction in the deposit amount left with the landlord of $47,500 during the third quarter of 2008. For the nine months ended September 30, 2008, the Company recorded $214,000 as non-cash interest expense and $23,000 as an increase of the lease obligation. At September 30, 2008, $3,663,000 was recorded on the balance sheet as a financing lease obligation, of which $444,000 was classified as short-term obligation and $3,219,000 was classified as long-term obligation.

At December 31, 2007, $3,640,000 was recorded on the balance sheet as a financing lease obligation, of which $444,000 was classified as short-term obligation and $3,196,000 was classified as long-term obligation.

Other obligations

On June 12, 2008, StockerYale (IRL) Ltd. entered into a commitment to a new lease of approximately 10,000 square feet for its operations in Cork. The lease term began on September 8, 2008 for a term of five years with rent and service charges of €8,500 per month.

StockerYale Canada Inc. conducts research and development, manufacturing, sales and administration from a property located at 275 Kesmark Street, Montreal, Quebec, Canada. StockerYale Canada leases 59,433 square feet of the Montreal property from the owner for an initial term of ten years. StockerYale Canada paid a security deposit in the amount of Cdn $502,915. The rent during the ten-year term ranges from approximately Cdn $416,000 to Cdn $470,000 per year plus all operating costs. StockerYale Canada has an option to extend the initial term of the lease for an additional term of five years.

On May 1, 2006, StockerYale Canada signed a sub-lease agreement with PyroPhotonics Lasers, Inc. for approximately 3,000 square feet of its Montreal facility at a rate of Cdn $12.58 per square foot, or for Cdn $3,146 per month. On January 23, 2007 the Company revised and signed a sub-lease agreement with PyroPhotonics Lasers, Inc. for approximately 9,000 square feet of its Montreal facility at a rate of Cdn $11.89 per square foot, or for Cdn $8,916.67 per month. The commencement date of the revised lease is February 1, 2007, and the term is eight years and nine months.

(16) LITIGATION

The Company is party to various legal proceedings generally incidental to its business. Although the disposition of any legal proceedings cannot be determined with certainty, it is the Company's opinion that any currently pending or threatened litigation will not have a material adverse effect on the Company's results of operations, cash flow or financial condition.

(17) SEGMENT INFORMATION

SFAS No. 131 ("SFAS 131"), *Disclosures about Segments of an Enterprise and Related information,* requires financial and supplementary information to be disclosed on an annual and interim basis of each reportable segment of an enterprise. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. 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.

The Company operates in three segments: illumination, optical components and Photonic Products. In the illumination segment the Company acts as an independent designer and manufacturer of advanced illumination products, consisting of lasers, light emitting diodes and florescent lighting products for the inspection, machine vision, medical and military markets. The Company is a developer and manufacturer of specialty optical fiber ("SOF") and diffractive optics such as phase masks used primarily in the telecommunications, defense, and medical markets by original equipment manufacturers. 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 results from continuing operations only.

	Three Months Ended September 30, 2008				Three Months Ended September 30, 2007			
	In thousands				In thousands			
	Illumination	Optical Components	Photonic Products	Total	Illumination	Optical Components	Photonic Products	Total
Net sales	$ 5,113	$ 1,123	$ 2,259	$ 8,495	$ 4,178	$ 1,194	$ 2,545	$ 7,917
Gross profit	2,495	262	772	3,529	1,650	374	632	2,656
Operating loss	(515)	(341)	14	(842)	(582)	31	(235)	(836)

	Nine months Ended September 30, 2008				Nine months Ended September 30, 2007			
	In thousands				In thousands			
	Illumination	Optical Components	Photonic Products	Total	Illumination	Optical Components	Photonic Products	Total
Net sales	$ 14,254	$ 2,844	$ 8,006	$25,104	$ 12,498	$ 2,714	$ 7,131	$22,343
Gross profit	5,910	746	2,236	8,892	4,622	921	1,978	7,521
Operating loss	(2,555)	(923)	(462)	(3,940)	(2,100)	(323)	(710)	(3,133)

	September 30, 2008					December 31, 2007				
	In thousands					In thousands				
	Illumination	Optical Components	Photonic Products	Corporate	Total	Illumination	Optical Components	Photonic Products	Corporate	Total
Total current assets	$ 6,792	$ 956	$ 2,421	$ 1,514	$ 11,683	$ 5,357	$ 683	$ 3,110	$ 1,625	$ 10,775
Property, plant & equipment, net	$ 2,359	$ 2,170	$ 663	$ 3,668	$ 8,860	$ 2,984	$ 2,668	$ 845	$ 3,967	$ 10,464
Acquired intangible assets, net	$ 78	$ 180	$ 3,389	—	$ 2,647	$ 206	$ 247	$ 3,324	—	$ 3,777
Goodwill	$ 2,677	$ 8	$ 4,889	—	$ 7,584	$ 2,677	$ 8	$ 5,384	—	$ 8,069
Other long-term assets	$ 330	—	—	$ 583	$ 913	$ 362	—	—	$ 591	$ 953
Total	$ 12,236	$ 3,314	$ 10,372	$ 5,765	$ 31,687	$ 11,586	$ 3,606	$ 12,663	$ 6,183	$ 34,038

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

	Three Months Ended September 30,		Nine months Ended September 30,	
Sales by region	**2008**	**2007**	**2008**	**2007**
Domestic – United States	$ 3,624	$ 4,077	$ 11,196	$ 10,677
Canada	733	512	1,812	1,664
Europe	3,356	2,199	9,259	6,964
Asia	475	421	2,186	1,671
Other	307	708	651	1,367
Total	$ 8,495	$ 7,917	$ 25,104	$ 22,343

(18) SUBSEQUENT EVENT

On October 31, 2008, the Company signed an agreement with the private investor owning the Photonic Products Ltd. bond, reference Note 11, whereby the investor agreed to forego the principal payments of $61,674 per month for four months totaling $246,697 in consideration of the issuance of 616,743 shares of common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of the consolidated financial condition and results of operations of the Company should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Form 10-Q. Except for the historical information contained herein, the following discussion, as well as other information in this report, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the "safe harbor" created by those sections. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "could," "seek," "intends," "plans," "estimates," "anticipates" or other comparable terms. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. We urge you to consider the risks and uncertainties described in "Risk Factors" in this report and in our annual report on Form 10-KSB for the year ended December 31, 2007. We undertake no obligation to update our forward-looking statements to reflect events or circumstances after the date of this report. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

Overview

StockerYale, Inc. is an independent designer and manufacturer of structured light lasers, LED systems, fluorescent lighting products, and specialty optical fibers and phase masks for industry-leading original equipment manufacturers (OEMs), as well as a specialist distributor of visible, infrared and blue violet laser diodes. Our illumination products include the Lasiris and Photonic Products brands of laser diode modules, extremely bright light emitting diode (LED) illuminators and fluorescent lighting products for the machine vision, industrial inspection, defense, telecommunications, sensors, and medical markets. Our products are sold to over 1,500 customers, primarily in North America, Europe and the Pacific Rim. We sell directly to, and work with, a group of distributors and machine vision integrators to sell their specialized illumination products.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto and with our audited financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2007.

The Company has made key investments in and 2007 and 2008 in medical product research and development to support its strategic move into medical and bio-medical markets. The Company expects its medical strategy to be a catalyst for greater revenues across all three product lines in 2008, as medical related sales grew from 6% of total sales in the second quarter ended June 30, 3008 to approximately 11% of total sales in the third quarter ended September 30, 2008.

Management intends to employ a series of actions to improve the financial condition of the Company. These initiatives include revenue growth, cost reductions, raising capital, and pursuing appropriate business initiatives, which we expect to improve our profitability. The Company took certain actions in 2007 to reduce the overall cost structure of the Company and intends to continue to implement such actions throughout 2008. In addition, the Company intends to focus on increasing the pace with which operational improvements are able to improve its financial performance and the consistency of its results. The Company intends to identify additional opportunities to lower its costs and manage the business more efficiently.

The Company is considering different ways to raise additional capital including through the sale of its equity securities, through offerings of debt securities, or through borrowings from financial institutions. 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 which may not occur.

On June 16, 2008, the Company announced its intention to acquire all issued and outstanding Common Shares of Virtek Vision International Inc. ("Virtek") of Waterloo, Ontario, Canada, through its newly formed acquisition subsidiary, StockerYale Waterloo Acquisition Inc. representing a total purchase price of approximately Cdn $27 million. The tender offer was not accepted and expired on August 25, 2008. The Company recorded expenses of approximately $1,413,000, including $452,000 cash expenses in connection with the now expired tender offer for Virtek. For the nine months ended September 30, 2008, the Company recorded expenses of approximately $1,720,000, including $759,000 cash expenses in connection with the now expired tender offer for Virtek.

CALENDAR QUARTERS ENDED SEPTEMBER 30, 2008 AND 2007

Net Sales

Net sales were $8.5 million for the three months ended September 30, 2008, a 7% increase over $7.9 million for the third quarter of 2007. The increase in sales was due to a 22% increase in sales of Illumination Products offset by an 11% decrease in sales by Photonic Products.

Gross Profit

Gross profit was $3.5 million for the three months ended September 30, 2008. This represents an increase of 33% from $2.7 million for the third quarter of 2007. During the three months ended September 30, 2008, gross margin was 42% compared with 34% in the third quarter of 2007, primarily related to an increase in production volume, higher value product sales as well as production efficiency.

Operating Expenses

Operating expenses totaled $4.4 million for the third quarter of 2008, increasing 25% over $3.5 million in the third quarter of 2007. The increase in operating expenses over the third quarter of 2007 was primarily due to a 60% increase in general and administrative costs. These additional expenses include approximately $452,000 legal and other costs related to the expired tender offer for Virtek. Non-cash share-based compensation expense increased $196,000 compared to the third quarter of 2007. Compared to the third quarter of 2007, sales and marketing expenses decreased approximately $67,000 and research and development expenses grew approximately $133,000.

Operating loss was $0.8 million compared with operating loss of $0.8 million for the third quarter of 2007.

Non-Operating Expenses

Other expenses, which are comprised primarily of non-cash debt discount and financing costs, increased by 311% to $2,368,000 for the three months ended September 30, 2008, versus $576,000 in the three months ended September 30, 2007. The increase relates to the non cash stock issue of approximately $961,000 related to the expired tender off for Virtek, an increase in the non cash debt acquisition charges related to the extension of warrants for the March 31, 2008 line of credit overdraft, as well as non cash charges related to foreign currency exchange rate changes.

Net Income (Loss)

Net loss including discontinued operations was $3.1 million or $0.08 per share. This compares to a net loss of $1.3 million or $0.04 per share for the third quarter of 2007.

Provision (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 $68,000 in the period ended September 30, 2008, related to one of our non-U.S. based subsidiaries.

NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Net Sales

Net sales were $25.1 million for the nine months ended September 30, 2008, a 12% increase over $22.3 million for the third quarter of 2007. The increase in sales was due to a 14% increase in sales of Illumination Products and a 12% increase in sales by Photonic Products

Gross Profit

Gross profit was $8.9 million for the nine months ended September 30, 2008. This represents an increase of 18% from $7.5 million for the first nine months of 2007. During the nine months ended September 30, 2008, gross margin was 35% compared with 34% in the comparable period of 2007, primarily related to product mix in Illumination Products with higher margin product sales, partially offset by a negative impact from foreign currency exchange rates of approximately $193,000.

Operating Expenses

Operating expenses totaled $12.8 million for the nine months ended September 30, 2008, increasing 20% over $10.7 million in the same period of 2007. The increase in operating expenses was primarily due to the change in foreign currency exchange rates of approximately $330,000, an increase in non-cash share-based compensation expense under SFAS 123(R) of $554,000, and approximately $759,000 related to third party costs associated with the Virtek acquisition. Sales and marketing expenses were flat to 2007, while research and development expenses increased 6% to $2.4 compared to the same period of 2007. General and administrative expense increased 38%, or $2.0 million due to non-cash share-based compensation expense, approximately $759,000 related to the tender offer for Virtek, and investments in personnel, compared to $5.4 million during the nine months ended September 30, 2007.

Operating loss for the first nine months of 2008 was $3.9 million compared with operating losses of $3.1 million for the same period of 2007.

Non-Operating Expenses

Other expenses, which are comprised primarily of non-cash debt discount and financing costs, increased by 71% to $3.9 million for the nine months ended September 30, 2008, versus $2.3 million during the nine months ended September 30, 2007. The increase relates to the non-cash stock issue of approximately $961,000 related to the expired tender off for Virtek, an increase in the non cash debt acquisition charges related to the extension of warrants for the March 31, 2008 line of credit overdraft, as well as non cash charges related to foreign currency exchange rate changes.

Net Income (Loss)

Net loss including discontinued operations was $7.5 million or $0.20 per share for the first nine months of 2008. This compares to net loss of $5.1 million or $0.15 per share for the first nine months of 2007.

Provision (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 $190,000 for the nine months ended September 30, 2008, related to one of our non-U.S. based subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balance declined by $44,000 to $1,523,000 at September 30, 2008 from $1,577,000 at December 31, 2007. During the nine month period, we had new borrowings totaling approximately $3.7 million comprised of approximately $1.2 million from the February 26, 2008 Confidential Invoice Discounting Agreement between Barclay’s Bank Sales Financing and Photonic Products, a $0.5 million amendment to the Photonic Products financing by a private investor on May 30, 2008 and the March 31, 2008 $0.5 million overadvance agreement with Laurus Master Fund, Ltd. and approximately $1.4 million between a private investor on July 24, 2008 and StockerYale Ireland. Operations used $3.0 million in cash, including $0.9 million of interest, and made principal payments totaling $1.6 million.

As of September 30, 2008, our net accounts receivable balance was $5.0 million compared to $4.5 million at year end. Our days sales outstanding at September 30, 2008, decreased from 54 days at December 31, 2007, to 53 days at September 30, 2008.

Inventory increased approximately $0.3 million to $4.5 million from $4.2 million at December 31, 2007, primarily in raw materials.

Capital spending for the quarter ending September 30, 2008 was $208,000. The Company has no material capital expenditure commitments as of September 30, 2008 but has plans to purchase approximately $194,000 of capital items between October 1, 2008 and December 31, 2008, of which we expect approximately $153,000 to be financed through capital leases.

On June 16, 2008, the Company announced its intention to acquire all issued and outstanding Common Shares of Virtek Vision International Inc. (“Virtek”) of Waterloo, Ontario, Canada, through its newly formed acquisition subsidiary, StockerYale Waterloo Acquisition Inc., representing a total purchase price of approximately Cdn $27 million. The tender offer for Virtek expired on August 25, 2008.

Management estimates that it has sufficient capital for operations through December 31, 2008 and possibly beyond. Management is continuing its efforts to raise additional capital, so that the Company can meet its obligations and sustain operations, through the sale of its equity securities, through offerings of debt securities, or through borrowings from financial institutions. The pursuit of these financings will be opportunistic and the Company cannot be sure of the timing or terms of any borrowing arrangements or equity offerings, or that it will be able to consummate one or more of these options. If the Company experiences difficulty raising money in the future, our business and liquidity will be materially adversely affected.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Rate Risk

The Company has operations in various countries and currencies throughout the world and its operating and financial position are subject to exposure from significant fluctuations in foreign currency exchange rates. At various times, we have entered into forward foreign currency exchange rate contracts with financial institutions to reduce the risk that our cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. This program is not designed for trading or speculative purposes. We do not enter into financial instruments for trading purposes. In accordance with SFAS No. 133, we recognize derivative instruments as either assets or liabilities on the balance sheet at fair value. These forward contracts are not accounted for as hedges and, therefore, changes in the fair value of these instruments are recorded as interest income and other income or expense, net. There were no open forward contracts as of September 30, 2008, or at December 31, 2007.

On December 6, 2006, the Company entered into a forward foreign currency exchange rate contract with Anglo-Irish bank to convert $500,000 U.S. dollars per month into Canadian dollars at a strike rate with a bottom end range of $1.09 Canadian dollar to the U.S. dollar, and 100% upside flexibility to market rates in excess of the $1.09 strike rate. This arrangement began on March 1, 2007 and continued until December 31, 2007. The Company paid a premium of $61,500 U.S. to the bank on this date.

The notional principal of the Company's forward contracts to purchase Canadian dollars with foreign currencies was $0 at December 31, 2007. The fair value of the Company's open forward contracts was $0 at December 31, 2007.

The net gain recorded on forward contracts in the accompanying condensed consolidated statement of operations during the year ended December 31, 2007 was $24,768. There was no gain or loss recorded in the quarters ended September 30, 2008 and 2007.

Management has determined that all of our foreign subsidiaries operate primarily in local currencies that represent the functional currencies of the subsidiaries. Primary currencies include Canadian dollars, Euros and British pounds. All assets and liabilities of foreign subsidiaries are translated into U.S. dollars using the foreign currency exchange rate prevailing at the balance sheet date, while income and expense accounts are translated at average exchange rates during the year. The Company invoices primarily in U.S. dollars, while the expenses are mostly in local currency. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions results in increased revenues and operating expenses for our international operations. Similarly, our revenue and operating expenses will decrease for our international operations when the U.S. dollar strengthens against foreign currencies. The Company's operating results are affected by fluctuations in the value of the U.S. dollar as compared to currencies in foreign countries, as a result of our transactions in these foreign markets. We estimate operating income for the nine months ended September 30, 2008 was negatively impacted by approximately $0.5 million due to the higher value of the Canadian dollar compared to the U.S. dollar during the nine months ended September 30, 2008 than during the nine months ended September 30, 2007.

Interest Rate Risk

We are exposed to market risk from changes in interest rates, which may adversely affect our financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage exposures through our regular operating and financing activities. We are exposed to interest rate risk primarily through our borrowings under the Laurus Master Fund, Ltd. line of credit of $3,310,000 million with an interest rate of prime plus 1%, the Laurus Master Fund, Ltd. term note of $3,021,000 with an interest rate prime plus 2%, the Laurus Master Fund, Ltd. term note of $741,000 with an interest rate of 10.5% and our private investor term note of $4,904,000 at an interest rate of 10% all net of debt discount costs. As of September 30, 2008, the fair market value of our outstanding debt approximates our carrying value due to the short-term maturities and variable interest rates. Our interest rate risk at September 30, 2008 was limited mainly to fluctuations in the prime rate on our outstanding term loans and on our line of credit with Laurus Master Fund, Ltd.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2008. Based on that evaluation, as a result of the material weakness in our internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective, as of September 30, 2008, in ensuring that the information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported on a timely basis, and that this information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

During the preparation of the financial statements of the Company for the quarter ended March 31, 2008, alternative substantive tests and analysis indicated that a material weakness in internal controls exists at one subsidiary, which could result in revenue to be recorded in the wrong period. The weakness relates to the possibility that goods could be invoiced in one period but shipped in another period with a lack of compensating or direct controls to ensure proper accounting and reporting. Nevertheless, based on a number of factors, including the performance of additional procedures performed by management designed to ensure the reliability of our financial reporting, our Chief Executive Officer and Chief Financial Officer believe that the consolidated financial statements included with this quarterly report fairly present, in all material respects, our financial position, results of operations, and cash flows as of the dates, and for the periods, presented, in conformity with GAAP.

Management's Plan for Remediation

As of the date of this filing, the Company has initiated, among other actions, substantive controls at its operations to ensure that adequate controls are in place and functioning as designed. In addition, management is reviewing its systems to automate the control processes and procedures relating to shipments.

Changes in Internal Control Over Financial Reporting

Except as described above, there was no change in our internal control over financial reporting during the quarter ended September 30, 2008, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in litigation relating to claims arising out of operations in the normal course of business, which we consider routine and incidental to our business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, would have a material adverse effect on our business, results of operation or financial condition.

Item 1A. Risk Factors.

In addition to the other information set forth in this quarterly report on Form 10-Q, you should carefully consider the risk factor discussed below and the risk factors previously disclosed in the "Risk Factors" section of our annual report on Form 10-KSB for the fiscal year ended December 31, 2007 and our quarterly reports on Form 10-Q filed for the l quarters ended March 31, 2008 and June 30, 2008, which could materially affect our business, financial condition or future results. The risks described below and in our annual report on Form 10-KSB for the fiscal year ended December 31, 2007 and our quarterly reports on Form 10-Q filed for the quarters ended March 31, 2008 and June 30, 2008 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. Other than with respect to the risk factors below, there have been no material changes from the risk factors disclosed in our annual report on Form 10-KSB for the fiscal year ended December 31, 2007 and our quarterly reports on Form 10-Q filed for the quarters ended March 31, 2008 and June 30, 2008.

Our common stock price may be negatively impacted if it is delisted from the Nasdaq Capital Market.

On December 28, 2007, the Company received a notice from The Nasdaq Stock Market indicating that it was not in compliance with Nasdaq Marketplace Rule 4450(a)(5) (the "Minimum Bid Price Rule") because, for 30 consecutive business days, the bid price of the Company's common stock had closed below the minimum $1.00 per share. In accordance with Nasdaq Marketplace Rule 4450(e) (2), the Company was provided 180 calendar days, or until June 25, 2008, to regain compliance with the Minimum Bid Price Rule.

The Company did not regain compliance with the Minimum Bid Price Rule by June 25, 2008 and, accordingly, on June 26, 2008, the Company received written notification (the "Staff Determination") from The Nasdaq Stock Market stating that the Company's common stock would be subject to delisting as a result of the deficiency unless the Company requests a hearing before a Nasdaq Listing Qualifications Panel (the "Panel"). The Staff Determination has no effect on the listing of the Company's common stock at this time.

On July 3, 2008, the Company requested a hearing before the Panel to address the minimum bid price deficiency, which stayed any action with respect to the Staff Determination until the Panel renders a decision subsequent to the hearing. At the hearing, which has been set for August 14, 2008, the Company intends to present a plan to regain compliance with the minimum bid price requirement. In addition, at the Company's 2008 Special Meeting in Lieu of Annual Meeting of Shareholders, the Company's shareholders approved a proposal to authorize the Board of Directors of the Company, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its shareholders, to amend the Company's Articles of Organization to effect a reverse stock split of the Company's issued and outstanding common stock by a ratio of between 1-for-2 and 1-for-8, inclusive, without further approval or authorization of the Company's shareholders, which means the Company may effect a reverse stock split without delay or uncertainty.

On September 15, 2008, the Company received an extension from the Nasdaq Listing Qualifications Panel to regain compliance with the $1.00 minimum bid price requirement of The Nasdaq Stock Market until December 23, 2008. In order for the Company to maintain its listing on the Nasdaq Stock Market beyond such date, its common stock must have a closing bid price of $1.00 or more for a minimum of ten consecutive trading days prior to December 23, 2008.

On October 16, 2008, the Company received notification that NASDAQ has suspended for a three month period the enforcement of the rules requiring a minimum $1.00 closing bid price or a minimum market value of publicly held shares. NASDAQ has said that it will not take any action to delist any security for these concerns during the suspension. NASDAQ has stated that, given the current extraordinary market conditions, this suspension will remain in effect through Friday, January 16, 2009 and will be reinstated on Monday, January 19, 2009. As a result of this suspension, the Company now has until March 30, 2009 to regain compliance with the minimum bid rule.

As a result of the suspension, if, at any time before March 30, 2009, the bid price of the Company's common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ will provide written notification that it has achieved compliance with the Rule.

There can be no assurance that the Company will regain compliance with the minimum bid price requirement and our common stock may ultimately be delisted from the Nasdaq Capital Market.

Disruption in financial and currency markets could have a negative effect on our business.

As has been widely reported, financial markets in the United States, Europe and Asia have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intended to address extreme market conditions that include severely restricted credit and declines in real estate values. While currently these conditions have not impaired our ability to operate our business, there can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies, which can then lead to challenges in the operation of our business. These economic developments affect businesses such as ours in a number of ways. The current tightening of credit in financial markets adversely affects the ability of customers and suppliers to obtain financing for significant purchases and operations and could result in a decrease in orders and spending for our products and services. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions and the effects they will have on our business and financial condition.

Our business will require additional funding, in the near term, which may not be available and could have a negative effect on our business.

Management estimates that it has sufficient capital for operations through December 31, 2008 and possibly beyond. The result is that the Company needs to raise additional capital, debt or equity, in order to meet ongoing and future obligations. As such, the business is exposed to the risk that the Company may not be able to raise sufficient capital, when needed, to meet the ongoing and future obligations. If we are unsuccessful in raising additional capital, our business may not continue as a going concern. Even if we do find outside funding sources, we may be required to issue securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions that may lessen the value of our common stock or dilute our common stockholders, including borrowing money on terms that are not favorable to us or issuing additional equity securities. If we experience difficulties raising money in the future, our business and liquidity will be materially adversely affected.

Item 5. Other Information.

During the quarter ended September 30, 2008, we made no material changes to the procedures by which shareholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

Item 6. Exhibits.

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed with, or incorporated by reference in, this report.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STOCKERYALE, INC.

Date: November 14, 2008

By: /S/ MARK W. BLODGETT

Mark W. Blodgett
President, Chief Executive Officer and Chairman of the Board

Date: November 14, 2008

By: /S/ TIMOTHY P. LOSIK

Timothy P. Losik
Chief Operating Officer and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.1

CERTIFICATION

I, Mark Blodgett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of StockerYale, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008

/s/ Mark W. Blodgett

Mark W. Blodgett
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Timothy P. Losik, certify that:

1. I have reviewed this quarterly report on Form 10-Q of StockerYale, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008

/s/ Timothy P. Losik

Timothy P. Losik
Chief Operating Officer and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of StockerYale, Inc. (the “Company”) for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark W. Blodgett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark W. Blodgett

Mark W. Blodgett
President and Chief Executive Officer

November 14, 2008

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of StockerYale, Inc. (the "Company") for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy P. Losik, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Timothy P. Losik

Timothy P. Losik
Chief Operating Officer and Chief Financial Officer

November 14, 2008