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

FORM 10-K

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 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, including area code: (603) 893-8778

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.☐

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. (Check one):
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 ☒

The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer as of June 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter), was $12,273,134.

The number of shares of the registrant's common stock outstanding as of March 9, 2009 was 43,473,595.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the "Definitive Proxy Statement") to be filed with the Securities and Exchange Commission for the registrant's 2009 special meeting in lieu of annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

PART I

Item 1. BUSINESS

BUSINESS OVERVIEW

StockerYale, Inc. (also referred to in this document as "StockerYale," "we," the "Company," the "issuer", or the "registrant") was incorporated on March 27, 1951 under the laws of the Commonwealth of Massachusetts. In December 1995, the company completed the registration of its common stock with the U.S. Securities and Exchange Commission and its common stock now trades on the NASDAQ Capital Market under the trading symbol "STKR."

We are a leader in the design, development and manufacturing of low power laser modules and related optics. In addition, we distribute laser diodes for leading diode manufacturers, and develop and manufacture light emitting diode (LEDs) systems and specialty optical fiber (SOF). Since 1990 we have grown through internal expansion and through strategic acquisitions of technology and complementary businesses. StockerYale is recognized as the only photonics company that possesses the design and manufacturing know-how in four different photonic technologies: diode-based lasers, LED systems, SOF and diffractive optics. We also distribute laser diodes through our Photonic Products subsidiary. Our products serve a wide range of applications and industries including machine vision and industrial inspection, biomedical and medical, defense and security, and other commercial applications. Our advanced technologies are driven by a deep understanding of the needs of our customers and the industries in which they work.

We are organized into two operating groups, and report three segments. The Laser Products Group includes our Lasiris™ laser module line, Photonic Products modules and diodes and LED systems while our Optical Components Group includes SOF and diffractive optics. Our reporting segments are Laser Products, which was formerly called Illumination, Photonic Products and Optical Components.

Through our global engineering, manufacturing and sales/service network, the Company provides a comprehensive range of products to our target markets. In 2008, the Laser Products Group represented 88% of total sales, comprised of 73% lasers and 15% LED systems while the Optical Components Group represented 12%. In 2008, sales in North America represented 54%, Europe 36% and Asia-Pacific 10%. Industrial OEMs represent 78% of sales, followed by medical (12%) and defense (8%), our two fastest growing markets.

In addition to our standard product offerings, we have a reputation for configuring products to specific customer requirements that offer high performance, reliability and long warranties. Over 75% of our laser modules are specifically configured and incorporate our proprietary beam shaping optics. Strong optical modeling capabilities and theoretical skills, combined with manufacturing platforms for lasers, diffractive optics, LED systems and specialty optical fiber enable StockerYale to cost-effectively prototype and manufacture products. Our applications engineers are trained to help customers define and find practical solutions for their complex requirements.

On October 31, 2006, the Company acquired Photonic Products Ltd. of the United Kingdom, a well-known manufacturer of custom designed laser diode modules and laser diode assemblies and an authorized distributor of Sanyo, Opnext and Sony high-performance, premium-quality industrial laser diodes and high-power lasers and Panasonic precision optical lenses to OEMs in the industrial, medical, scientific and defense markets. Photonic Products' laser modules are complementary to StockerYale's Lasiris line of lasers in terms of both performance and value. Further, Photonic Products Ltd. has historically been a supplier to StockerYale of laser diodes for the Lasiris laser modules.

On October 18, 2007, StockerYale acquired substantially all of the assets of Spectrode LLC, an early-stage developer of pulsed thulium-doped fiber lasers principally for military applications. The acquisition included all of Spectrode's prototypes, patents and patents pending, including the patent application for its "Gain Switched Fiber Laser System".

BACKGROUND AND STRATEGY

Photonics is the science and technology of making, managing and measuring light. The photonics market has grown rapidly over the last twenty-five years as the technology has evolved, enabling both scientific and commercial users to perform tasks that cannot be performed using more conventional electrical, mechanical and chemical processes. This trend has enabled marked advances in many markets including microelectronics, life sciences and defense. Over the last decade, StockerYale has evolved into a leading photonics company through both internal product development and four product line/technology acquisitions. Given the fragmented nature of the photonics industry, our strategy has been to leverage our strength in optics, lasers and structured light illumination to develop innovative, cost-effective solutions that meet our customers' needs. Increasingly, photonic-based solutions have become prevalent in automated inspection (machine vision), industrial production, medical diagnostics, quality control, imaging and printing, materials processing, and research and development.

StockerYale offers a wide range of products, many of which are based on our proprietary technology such as our patented Flat-top™ beam shaping optics for lasers and our patented chip-on-board-reflective-array (COBRA) LED technology for high brightness LED illumination systems. Our specialty optical fiber business is expanding its range of passive and active fibers, as well as moving into the field of manufacturing fiber-based assemblies for key customers. In addition, the Company continues to develop thulium-pulsed laser modules based on our acquired Spectrode technology for both military and medical markets. StockerYale's products are all related in that they all project, convey or diffract light (visible, infrared, UV) in a specific way. We continue to invest a significant portion of our revenues into research and development to develop new products and customize standard products for the machine vision, medical/bio-medical and defense markets. Bio-medical instrumentation and defense represent the Company's two fastest growing markets and we expect will represent an increasing percentage of total revenues as we pursue this strategy.

PRINCIPAL PRODUCTS AND MARKETS

Our Laser Products Group consists of structured light lasers, LED systems and related optics for machine vision, industrial inspection, medical, commercial and defense and security applications. Photonic Products Ltd., our UK based laser company, is also considered part of our Laser Products Group, but is broken out separately for segment reporting purposes. Our Photonic Products segment sells laser diodes and laser diodes modules for industrial, commercial and medical applications. Our Optical Components segment includes specialty optical fiber, fiber assemblies and diffractive optics for industrial, defense, medical and telecommunications markets.

Laser Products Group

We are a leading independent designer and manufacturer of configurable products for the inspection, machine vision, medical, military and other industrial and commercial markets utilizing laser, structured light, and LED technologies. We differentiate ourselves from many of our competitors by delivering customer specified solutions which operate as a stand-alone light source or as an integral component of a larger OEM system.

Our Lasiris™ brand industrial packaged diode lasers are used in the industrial inspection and 3-D machine vision industries and more recently have been introduced into the biomedical and military markets for specialized applications. Lasers are used for contour mapping of parts, surface defect detection, depth measurements, alignment and as an excitation source for bio-medical fluorescence applications. For example, in machine vision applications, structured light lasers may be used on systems recording the gap and flushness between car body components. In industrial inspection applications, these products are used to screen parts for defects that do not conform to specifications. Increasingly, lasers and optics are becoming the key enabling technology in the life and health sciences market. For biomedical applications, our uniform laser patterns may be used in flow cytometry, optical DNA sequencing, and confocal microscopy instruments to detect specific cells in a flow of fluid and other types of analysis.

StockerYale is regarded as a leader in the design and manufacturing of beam-shaping optics. Lasiris™ patented optical lenses produce non-Gaussian (evenly illuminated) distinct laser lines or more complex laser light patterns that maintain a consistent intensity along the length and height of the laser beam. Our proprietary Lasiris Flat-top ™ optics used in conjunction with our lasers is currently being adapted for next generation flow cytometry instruments. Flow cytometry is a laser-based fluorescence technique for analyzing single cells or populations of cells in a heterogeneous manner, including blood, skin and other tissue samples. The Company's new Pure Beam™ and Powerline™ laser lines with beam shaping optics are targeted at the bio-medical instrumentation market, which is trending towards the development of more compact and faster instruments. Lasiris™ lasers are electrostatic discharge (ESD) protected, feature interchangeable head patterns, and some meet Class II eye safety ratings. By applying fifteen years of electro-optic R&D experience, we offer customer specified laser pattern beams that meet even the most stringent customer requirements.

Our Photonic Products Ltd. subsidiary manufactures custom designed low-cost laser modules and other electro-optical sub-assemblies and optoelectronic components based on semiconductor laser diode technology. Products include thermo-electrically cooled laser modules, laser alignment systems, circular beam laser diode modules and elliptical beam modules, receptacle packaged laser diodes and pigtailed laser diodes. These products are used in medical and commercial applications and other industries. For example, our laser modules are used in bank note scanners to identify counterfeit Euro notes via fluorescence and on food and diamond sorting machines. We are also an authorized distributor of visible, infrared and blue violet laser diodes for Sanyo Electric Co., Ltd., Opnext Inc. and Sony Corp.

Our high performance LED lighting systems provide customers with a high-intensity, long-lasting illumination source. Our patented, state-of-the-art, COBRA LED units offer greater brightness versus standard LEDs, draw less power and are not subject to the influences of oxidation that other lighting technologies endure, resulting in a typical life span of over 50,000 hours. Our performance is based on specialized expertise in a number of areas, including the selection and/or design of thermally efficient substrates, the optical design of lensing and diffuser systems, the design of cooling systems for extremely high power illuminators, and the science of LED lifetime testing. Furthermore, because of the intrinsic characteristics of LEDs, which can be engineered into virtually any geometric configuration, our LED systems are ideal for applications within the solar, semiconductor, flat panel glass, electronics, and medical industries which require the properties and benefits that only LEDs can deliver.

Optical Components Group

We are an independent designer and manufacturer of specialty optical fiber, fiber assemblies and phase masks, items which are primarily used by manufacturers of fiber optic sensors, fiber optic gyroscopes (FOGs), fiber lasers and optical amplifiers. Recently, the specialty optical fiber division (SOF) expanded its business development strategy to become a custom manufacturer of unique fiber-centric assemblies and modules. The fiber-based assembly business leverages the Company's expertise to move beyond fiber alone, to help customers design or manufacture every solution that contains and utilizes fiber. We also enable solutions for their fiber-based systems including solving performance and integration complexities, achieving rapid design and prototyping, and sourcing completed modular and system products. The initial focus of this program is the manufacturing of fiber assemblies for the medical field, specifically fiber-based devices for minimally invasive surgical procedures. Longer term, we intend to target other industrial, defense, telecom and medical customers who benefit from such value added services.

As part of our SOF strategy, StockerYale introduced a new thulium-doped optical fiber product for fiber lasers in June 2008. The product represents an expansion of the Company's product offering into one of the fastest growing and highest potential areas for fiber lasers and positions the Company to further penetrate key military and medical markets. The Company acquired Spectrode LLC (Spectrode) thulium-doped fiber laser (TDFL) technology in October 2007 to enhance strategic SOF initiatives. Leveraging Spectrode's intellectual property for pulsed fiber laser technology, we have subsequently filed additional patents and are developing prototype systems for two major defense and medical customers.

Optical fibers can be categorized as either long-haul fibers that transport optical signals over distances and are low-cost, commoditized, high-volume products or as specialty optical fibers. Specialty optical fibers provide a specific photonic function in optical systems, networks and components, and are high-cost, high-value, low-volume products. Our specialty optical fibers, which we manufacture in our state-of-the-art-facility, fall into a handful of broad categories: rare-earth doped fibers, polarization maintaining fibers, bend insensitive fibers, select cut-off fibers, polyimide-coated fibers and photosensitive fibers. Rare-earth doped fiber provides the light amplification medium in optical amplifiers and fiber lasers; erbium-doped fiber is the key component in erbium-doped fiber amplifiers (EDFAs) for telecommunications networks, while ytterbium-doped fiber is the key component in fiber lasers (used in laser marking, machining and industrial welding applications). Our polarization-maintaining fiber is used in FOGs, which are acceleration sensors that serve in a variety of aerospace, machining and military applications. Bend insensitive fiber is used in devices such as fiber optic hydrophones, which detect acoustic waves in marine applications (military, oil exploration). Select cut-off fiber is used for linking components to optical networks and for coupling laser light into optical devices. Due to the high heat resistance and chemical resistance of polyimide, our polyimide-coated fiber is deployed in harsh environments, such as chemical sensing, and in medical devices. Photosensitive fiber is used in the fabrication of fiber Bragg gratings (FBGs), which are optical filters used in optical networks and many types of fiber sensors, amplifiers and lasers, to select and/or stabilize wavelengths. We also manufacture high-output, 0.66 and 0.55 numerical aperture glass fiber, in addition to polymer clad fused silica (quartz) fiber that is used in fiber optic components. In order to provide our customers with the solution that best fits their application, we are frequently involved in the development of custom-designed application-specific fiber, which is often funded by the customer.

SALES, MARKETING AND DISTRIBUTION

Our products are sold to over 1,500 customers, primarily in North America, Europe and the Pacific Rim. Our global sales organization sells directly to OEM customers, and we also work with a group of approximately 20 distributors and machine vision integrators to sell our products. Sales and application engineers are based in California, New Hampshire, Canada, Ireland, United Kingdom and Germany to work closely with customers and demonstrate the advantages of the Company's products. Marketing expenses, including advertising expenses, were approximately $843,000 in 2007 and $522,000 in 2008.

COMPETITION

The market for photonic products is fragmented and includes a large number of competitors, many of which are small or privately owned or which compete with StockerYale on a limited geographic, industry specific or application-specific basis. The Company also competes in certain target markets with competitors that are part of large industrial groups and have access to substantially greater financial and other technical resources than StockerYale.

With the acquisition of Photonic Products, Ltd., we are considered the leading manufacturer of low power laser modules (less than 10 watts) in terms of both market share and quality. We compete against Power Technology, Inc. and Coherent Inc. in the United States, Global Laser Ltd. and Schafter & Kirchoff GMBH in Europe, as well as several other smaller laser manufacturers.

Our specialty optical fiber capability includes fibers for the defense, security, utility and telecommunications industries. We made substantial capital investments in plant and equipment in connection with our development of a complete line of specialty optical fibers. Over the last two years, the SOF market has consolidated and market demand is increasingly driven by defense, industrial and medical applications. Our major competitors are OFS, Fibercore Ltd. and Nufern Inc., all of which are now owned by large companies.

Our high-intensity LED systems business competes occasionally with similar products from Elcos GMBH (subsidiary of Perkin Elmer) and Schott GMBH.

RAW MATERIALS

The raw materials and components used in our products are purchased from a number of different suppliers and are generally available from several sources. We do not anticipate difficulty obtaining the material necessary to produce our products. Raw material and transportation costs are subject to fluctuations due to market conditions. We employ many strategies, including the use of alternative materials, to mitigate the effect of these fluctuations on our results.

Some of our principal suppliers include: Sanyo, Sony, Arima Optoelectronics Corp. and Opnext Inc., all of which are major suppliers of laser diodes.

DEPENDENCE ON ONE OR A FEW MAJOR CUSTOMERS

Our customer base consists of more than 1,500 customers in various industries worldwide. One customer represented approximately 6.3% of our total net revenue in 2008 and 5.9% of our net revenue in 2007. Our top ten customers represented approximately 29% of total net revenue in 2008 and 29% of our total net revenue in 2007. One hundred sixteen customers make up 80% of net revenue.

INTELLECTUAL PROPERTY

StockerYale owns intellectual property, which includes patents, proprietary software, technical know-how and expertise, designs, process techniques and inventions. We hold patents in the United States and Ireland and are in the process of entering the national stage in the United States under our international application based on the priority Irish patent. We have filed additional patent applications in the United States, Canada, Europe and Japan. StockerYale (IRL) Ltd., one of our subsidiaries, holds a patent on a method for attaching semiconductor chips and has applied for two patents in the United States, Canada and Europe on new LED ring light and line light technologies. StockerYale Canada, another subsidiary of ours, holds exclusive rights to three patents in the United States and one patent in Canada through licensing agreements.

We have four patents relating to fundamental technological devices and methodologies used to achieve low-cost fluorescent light dimming that expire on August 18, 2009, August 24, 2010, September 6, 2011 and September 13, 2011. StockerYale Canada’s patents consist of three patents for lenses, which expire on November 27, 2007, June 4, 2013 and December 15, 2015. We believe that patents are an effective way of protecting our competitive technological advantages, and consider our patents to be a strong deterrent against unauthorized manufacture, use and sale of our products and key product attributes. We cannot be sure, however, that a patent will be issued with respect to our pending patent applications or that our patents or license rights will provide meaningful protection for us.

On July 15, 2008, we were granted a patent in the United States for our “Rectangular Flat-Top Beam Shaper,” which will expire in 2027. On October 29, 2007, we were assigned the patent application for a “Gain Switched Fiber Laser” filed on July 26, 2006 by Spectrode LLC. We resubmitted the application in January 2009. In December 2008, we converted a provisional patent for a high powered, short-pulsed fiber laser to a full patent application.

Patents are important in all segments of our business. No particular patent, or related group of patents, is so important, however, that its loss would significantly affect our operations as a whole. Where appropriate, we seek patent protection for inventions and developments made by our personnel and incorporated into our products or otherwise falling within our fields of interest. We protect some of our technology as trade secrets and, where appropriate, we use trademarks or register trademarks used in connection with products. We also enter into license agreements with others to grant and/or receive rights to patents and know-how. We cannot be sure that others will not independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to and use or disclose our trade secrets or that we can meaningfully protect our trade secrets.

RESEARCH AND DEVELOPMENT

StockerYale's research and development activities are focused on meeting specific customer applications and developing new products to meet the company's strategic goals. In addition, our business requires significant investments in research and development for product design and modeling and enhancements to standard product lines. Our research and development expenditures were approximately $3.0 million, or 9% of net revenues, in 2008 and $3.2 million, or 11% of net revenues, in 2007.

COMPLIANCE WITH ENVIRONMENTAL LAWS

We are subject to evolving federal, state and local environmental laws and regulations. In the past, compliance with environmental laws and regulations has not had a material effect on our capital expenditures, earnings or competitive position. We believe that we comply in all material respects with existing environmental laws and regulations applicable to us. Compliance with environmental laws and regulations in the future may require additional capital expenditures, and we expect that in the foreseeable future any necessary capital expenditures would be financed by cash flow from operations.

EMPLOYEES

As of March 9, 2009, we employed 183 people, 177 of whom were full-time employees. None of our employees is represented by a labor union and we believe that we have good relations with our employees.

WHERE YOU CAN FIND MORE INFORMATION

We maintain a website at www.stockeryale.com. We make available through our website, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after we electronically file those reports with, or furnish them to, the Securities and Exchange Commission. We also similarly make available, free of charge through our website, the reports filed with the SEC by our executive officers, directors and 10% stockholders pursuant to Section 16 under the Exchange Act. We are not including the information contained at www.stockeryale.com or at any other Internet address as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

Item 1A. RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. Forward looking statements in this report and those made from time to time by us through our senior management are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements concerning the expected future revenues, earnings or financial results or concerning project plans, performance, or development of products and services, as well as other estimates related to future operations are necessarily only estimates of future results and there can be no assurance that actual results will not materially differ from expectations. Forward-looking statements represent management's current expectations and are inherently uncertain. We do not undertake any obligation to update forward-looking statements. If any of the following risks actually occurs, our financial condition and operating results could be materially adversely affected.

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

The Company will need 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.

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.

We have a history of losses and may never achieve or sustain profitability and may not continue as a going concern.

We have experienced operating losses over the last several years and may continue to incur losses and negative operating cash flows. We cannot predict the size or duration of any future losses. We have historically financed our operations with proceeds from debt financings and the sale of equity securities. We anticipate that we will continue to incur net losses in the future. As a result, we cannot assure that we will achieve profitability or be capable of sustaining profitable operations. If we are unable to reach and sustain profitability, we risk depleting our working capital balances and our business may not continue as a going concern.

Securities we issue to fund our operations could dilute or otherwise adversely affect our stockholders.

We need to raise additional funds through public or private debt or equity financings to fund our operations. If we raise funds by issuing equity securities, or if we issue additional equity securities to acquire assets, a business or another company, the percentage ownership of current stockholders will be reduced. If we raise funds by issuing debt securities, we may be required to agree to covenants that substantially restrict our ability to operate our business. We may not obtain sufficient financing on terms that are favorable to investors or us. We may delay, limit or eliminate some or all of our proposed operations if adequate funds are not available.

In addition, upon issuance of the shares of common stock upon exercise of outstanding warrants or stock options, the percentage ownership of current stockholders will be diluted substantially.

The unpredictability of our quarterly results may cause the trading price of our common stock to fluctuate or decline.

Our operating results have varied on a quarterly basis during our operating history and are likely to continue to vary significantly from quarter-to-quarter and period-to-period as a result of a number of factors, many of which are outside of our control and any one of which may cause our stock price to fluctuate.

Factors that can impact our stock price include the implementation of our new business strategy, which makes prediction of future revenues difficult. Our ability to accurately forecast revenues from sales of our products is further limited by the development and sales cycles related to our products, which make it difficult to predict the quarter in which sales will occur. In addition, our expense levels are based, in part, on our expectations regarding future revenues, and our expenses are generally fixed, particularly in the short term. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any significant shortfall of revenues in relation to our expectations could cause significant declines in our quarterly operating results.

Due to the above factors, we believe that quarter-to-quarter or period-to-period comparisons of our operating results may not be good indicators of our future performance. Our operating results for any particular quarter may fall short of our expectations or those of stockholders or securities analysts. In this event, the trading price of our common stock would likely fall.

Other factors can cause our stock price to be volatile and it may continue to fluctuate in the future.

Our common stock has experienced significant price and volume fluctuations in recent years. Since January 2007, our common stock has closed as low as $0.06 per share and as high as $1.80 per share. These fluctuations often have no direct relationship to our operating performance. The market price for our common stock may continue to be subject to wide fluctuations in response to a variety of factors, some of which are beyond our control. Some of these factors include:

- the results and effects of litigation;
- our financial performance and prospects;
- sales by selling stockholders of shares issued and issuable in connection with our private placements;
- general financial and other market conditions; and
- domestic and international economic conditions.

In addition, some companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation or other litigation or investigations. Litigation often results in substantial costs and a diversion of management's attention and resources and could harm our business, prospects, results of operations, or financial condition.

A small number of affiliated stockholders control more than 10% of our stock.

Our executive officers and directors as a group own or control approximately ten percent (10%) of our common stock and four investors collectively own approximately forty-six percent (46%) of our common stock. Accordingly, these stockholders, if they act together, will be able to influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may have the effect of delaying or preventing a change in control of our company and might adversely affect the market price of our common stock.

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

Our common stock is currently listed for trading on the NASDAQ Capital Market. We must continue to satisfy NASDAQ's continued listing requirements, including a minimum stockholders' equity of $2.5 million and a minimum bid price for our common stock of $1.00 per share, or risk delisting which would have a material adverse affect on our business. A delisting of our common stock from the NASDAQ Capital Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees.

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 requested a hearing before a NASDAQ Listing Qualifications Panel (the "Panel").

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 rendered a decision subsequent to the hearing. 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.

Subsequently, the Company received notification that NASDAQ has temporarily suspended 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 extended the temporary suspension until July 20, 2009. As a result of this extension, if, at any time before September 28, 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 Minimum Bid Price Rule.

As of December 31, 2008, we were not in compliance with NASDAQ Marketplace Rule 4450(a)(3) regarding the minimum $2.5 million stockholders' equity requirement, but we have not yet received a notice from the NASDAQ Stock Market regarding the deficiency. There is no assurance that we will regain compliance with the Minimum Bid Price Rule or with the minimum stockholders' equity requirement and our common stock may ultimately be delisted from the NASDAQ Capital Market. If the Company becomes delisted from the NASDAQ, the Company would either trade on the over-the-counter bulletin board (OTCBB) or "pink-sheets (PK)". If the Company's stock were to trade on the pink sheets, the Company would be in default of one or more debt obligations which could cause an acceleration of amounts due to lenders. If this occurred, it would have a material impact on the business.

We face risks related to securities and other litigation that could have a material adverse effect on our business, financial condition and results of operations.

From time to time, we have been and may continue to be in the subject of class action litigation or other litigation or investigations. Litigation often results in substantial costs and a diversion of management's attention and resources and could harm our business, prospects, results of operations or financial condition.

An impairment of goodwill and/or long-lived assets could affect net income.

We record goodwill on our balance sheet as a result of business combinations as and when consummated and we make significant investment in long-lived assets. In accordance with applicable accounting standards, we periodically assess the value of both goodwill and long-lived assets in light of current circumstances to determine whether impairment has occurred. We perform our annual impairment analysis as of the end of our fiscal year. If an impairment should occur, we would reduce the carrying amount to our fair market value and record an amount of that reduction as a non-cash charge to income, which could adversely affect our net income reported in that quarter in accordance with generally accepted accounting principles.

While the Company believes it has made reasonable estimates and assumptions to calculate the fair value of the reporting segments and implied fair value of goodwill, the impairment analysis is highly sensitive to the actual versus forecast results. As such, it is possible that a material change could occur and if our actual results are not consistent with our estimates and assumptions used to calculate fair value, the Company may be required to perform an impairment analysis in advance of its annual impairment testing. The Company will monitor the business performance, macro business environment, and enterprise value of the Company to assess and determine if an interim impairment analysis may be necessary. As such, it is possible that the Company could write down assets before its annual impairment test which could have a material impact on the net income for that reporting period. In addition, the write down of such assets could cause various of the Company's debt obligations to default resulting in the acceleration of amounts due to lenders which would have a material impact on the business. We cannot definitively determine whether impairments will occur in the future, and if impairments do occur, what the timing or the extent would be.

The loss of key personnel or the inability to recruit additional personnel may harm our business.

Our success depends to a significant extent on the continued service of our executive officers, our senior and middle management and our technical and research personnel. In particular, the loss of Mark W. Blodgett, our President, Chairman and Chief Executive Officer, or other key personnel, could harm us significantly. Hiring qualified management and technical personnel will be difficult due to the limited number of qualified professionals in the work force in general and the intense competition for these types of employees. The loss of key management personnel or an inability to attract and retain sufficient numbers of qualified management personnel could materially and adversely affect our business, results of operations, financial condition or future prospects.

We depend on a limited number of suppliers and may not be able to ship products on time if we are unable to obtain an adequate supply of raw materials and equipment on a timely basis.

We depend on a limited number of suppliers for raw materials and equipment used to manufacture our products. We depend on our suppliers to supply critical components in adequate quantities, consistent quality and at reasonable costs. If our suppliers are unable to meet our demand for critical components at reasonable costs, and if we are unable to obtain an alternative source, or the price for an alternative source is prohibitive, our ability to maintain timely and cost-effective production of our products would be harmed. We generally rely on purchase orders rather than long-term agreements with our suppliers; therefore, our suppliers may stop supplying materials and equipment to us at any time. If we are unable to obtain components in adequate quantities we may incur delays in shipment or be unable to meet demand for our products, which could harm our revenues and damage our relationships with customers and prospective customers.

We have many competitors in our field and our technologies may not remain competitive.

We participate in a rapidly evolving field in which technological developments are expected to continue at a rapid pace. We have many competitors in the United States and abroad, including various fiber optic component manufacturers, universities and other private and public research institutions.

Our major competitors in the specialty fiber optic market segment are OFS division of Furukawa Electric Co. Ltd, , Fibercore Ltd. and Corning Inc. In the laser market, we compete against Power Technology, Inc. in the United States, Schafter & Kirchoff GMBH in Europe and several other smaller laser manufacturers. Our high-intensity LED systems compete with LED systems of Elcos, a subsidiary of Perkin Elmer, and Schott North America Inc. and Schott AG. Our success depends upon our ability to develop and maintain a competitive position in the product categories and technologies on which we focus. To be successful in the laser and optical components industries, we will need to keep pace with rapid changes in technology, customer expectations, and new product introductions by competitors and evolving industry standards, any of which could render our existing products obsolete if we fail to respond in a timely manner. We could experience delays in introduction of new products. If others develop innovative proprietary laser products or optical components that are superior to ours, or if we fail to accurately anticipate technology and market trends and respond on a timely basis with our own innovations, our competitive position may be harmed and we may not achieve sufficient growth in our revenues to attain or sustain profitability.

Many of our competitors have greater capabilities and experience and greater financial, marketing and operational resources than us. Competition is intense and is expected to increase as new products enter the market and new technologies become available. To the extent that competition in our markets intensifies, we may be required to reduce our prices in order to remain competitive. If we do not compete effectively, or if we reduce our prices without making commensurate reductions in our costs, our revenues and profitability, and our future prospects for success, may be harmed.

Our customers are not obligated to buy material amounts of our products and may cancel or defer purchases on short notice.

Our customers typically purchase our products under individual purchase orders rather than long-term contracts or contracts with minimum purchase requirements. Therefore, our customers may cancel, reduce or defer purchases on short notice without significant penalty. Accordingly, sales in a particular period are difficult to predict. Decreases in purchases, cancellations of purchase orders or deferrals of purchases may have a material adverse effect on us, particularly if we do not anticipate them. There can be no assurance that our revenue from key customers will not decline in future periods.

Our products could contain defects, which could result in reduced sales of those products or in claims against us.

Despite testing both by us and our customers, errors have been found and may be found in the future in our existing or future products. These defects may cause us to incur significant warranty, support and repair costs, divert the attention of our technical personnel from our product development efforts and harm our relationship with our customers. Defects, integration issues or other performance problems in our illumination and optical products could result in personal injury or financial or other damages to our customers or could damage market acceptance of our products. Our customers could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

We are subject to risks of operating internationally.

We distribute and sell some of our products internationally, and our success depends in part on our ability to manage our international operations. Sales outside the United States accounted for 46% of our total revenue for the year ended December 31, 2008. We are subject to risks associated with operating in foreign countries, including:

- foreign currency risks;
- costs of customizing products for foreign countries;
- imposition of limitations on conversion of foreign currencies into dollars;
- remittance of dividends and other payments by foreign subsidiaries;
- imposition or increase of withholding and other taxes on remittances and other payments on foreign subsidiaries;
- hyperinflation and imposition or increase of investment and other restrictions by foreign governments;
- compliance with multiple, conflicting and changing governmental laws and regulations;
- longer sales cycles and problems collecting accounts receivable;
- labor practices, difficulties in staffing and managing foreign operations, political instability and potentially adverse tax consequence; and
- import and export restrictions and tariffs.

If we are unable to manage these risks, we may face significant liability, our international sales may decline and our financial results may be adversely affected.

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

Our corporate headquarters are located at 32 Hampshire Road in Salem, New Hampshire. The Salem property also contains office space, research and development laboratories, and manufacturing space for the optical components segment. The Company leases 95,000 square feet of which approximately 45,000 is utilized by the Company with the balance available for sub-lease. The term of the lease is five years expiring December 28, 2010. We have the option to extend the initial term for an additional term of five years.

Our laser products segment operates from two facilities. 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 approximately 60,000 square feet of the Montreal property for an initial term of ten years, through December 2015. StockerYale Canada has the option to extend the initial term of the lease for an additional term of five years. StockerYale (IRL) Ltd. entered into a commitment of approximately 10,000 square feet on June 12, 2008, for its operations in Cork, Ireland. The lease term began on August 22, 2008 for a term of five years.

Photonics Products Ltd. leases approximately 13,000 square feet of space in Hatfield Broad Oak, Hertfordshire, UK. The lease runs for a term of nine years ending September 29, 2013. It also leases approximately 4,000 square feet in Bishops Stortford, UK, through September 2011, which has been sublet. property. Photonic Products Ltd. also leases sales offices in Grobenzell, Germany and Huntington Beach, California

Our facilities are generally operated on the basis of one shift per day, five days per week. Management considers the facilities to be in generally good condition and adequately maintained and insured, and sufficient to satisfy our needs for the foreseeable future. We believe that suitable replacement properties are available for our properties on commercially reasonable terms.

Item 3. LEGAL PROCEEDINGS

From time to time, the Company may be party to various legal proceedings generally incidental to its business. At this time, the Company is not party to any legal proceedings.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the quarter ended December 31, 2008.

EXECUTIVE SUMMARY

We are a leader in the design, development and manufacturing of low power laser modules and related optics. In addition, we distribute laser diodes for leading diode manufacturers, and develop and manufacturer LED systems and specialty optical fiber (SOF). Since 1990 we have grown through internal expansion and through strategic acquisitions of technology and complementary businesses. StockerYale is recognized the only photonics company that possesses the design and manufacturing know-how in four different photonic technologies: diode-based lasers, LEDs, specialty optical fiber and diffractive optics. We also distribute laser diodes through our Photonic Products subsidiary. Our products serve a wide range of applications and industries including machine vision and industrial inspection, biomedical and medical, defense and security, and other commercial applications. Our advanced technologies are driven by a deep understanding of the needs of our customers and the industries in which they work.

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

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

We are considering different ways to raise additional capital including the sale of our equity securities, offerings of debt securities, or borrowings from financial institutions. We intend to pursue various options to finance and fund operations, as necessary, through the end of 2009. We cannot be sure of the timing or terms of any borrowing arrangements or equity offerings, or that we will be able to consummate one or more of these options. If we do not achieve these goals in 2009, we would implement contingency plans for additional cost reductions; however, there is a possibility that we would not have adequate capital to sustain our current operations.

Subsequent to December 31, 2008, the Company and the private investor holding a 10% Senior Fixed Rate Secured Bond entered into an agreement under which the investor agreed to forgo six monthly principal payments due under the bond from January 2009 to June 2009 totaling $370,044, in return for 1,480,176 shares of newly-issued common stock calculated at $0.25 per share.

RESULTS OF CONTINUING OPERATIONS FOR 2008 AND 2007

NET REVENUE

Net revenues in 2008 increased $2.3 million or 7.5% compared to 2007. The increase in revenue was comprised of: an increase in Laser Products of $1.6 million over last year; an increase in Optical Components of $0.4 million over last year; and an increase in our Photonic Products segment of $0.2 million over last year. The increased revenue was offset by approximately $(0.4) million due to the negative impact of foreign currency exchange year over year. The optical components segment increased 12.0% in 2008 versus 2007 while the lasers segment saw an increase of 5.6%, with the greatest increase coming from the sales of LED systems which grew 32%.

GROSS PROFIT

Gross profit was $11.3 million in 2008, an increase of $2.3 million or 26% compared to $9.0 million in 2007. Gross profit margin also increased from 30% in 2007 to 35% in 2008 due to improved productivity, favorable impact of foreign exchange, and a favorable mix of products, especially our LED products and bio-medical laser and related optical sales. Foreign currency exchange positively accounted for approximately 0.6% of the improvement.

OPERATING LOSS

Operating loss was $3.4 million in 2008 compared to $5.0 million in fiscal year 2007, excluding the impact of amortization expenses. The improvement in the operating loss results mainly from the increase in gross margin percentage, partially offset by a 5% increase in operating expenses to $14.7 million from $14.1 million in 2007, net of non-cash asset amortization expenses. The increase was driven by expenses associated with the potential acquisition of Virtek Vision International Inc. of $0.8 million, expenses associated with the addition of key resources, as well as an increase in non cash stock compensation.

OTHER EXPENSE

Other expense in 2008 increased $3.5 million or 130% compared to 2007. The increase results from the non-cash stock issuance of approximately $1.0 million related to the potential acquisition of Virtek Vision International Inc., as well as approximately $2.9 million of charges for foreign currency exchange losses related to the revaluation of liabilities and receivables at the Company's foreign subsidiaries denominated in currencies other than the functional currencies of those subsidiaries.

PROVISION (BENEFIT) FOR INCOME TAXES

We have recorded a valuation allowance against certain of our net deferred tax assets after concluding that it is more likely than not that we will not be able to use those deferred tax assets. In 2008 and 2007, the Company recorded an income tax benefit related to net operating losses of one of its non-U.S. based subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a limited amount of liquidity which may not be sufficient to sustain operations as a going concern. The Company is considering different ways to raise additional capital including possible asset sales, the sale of our equity securities, offerings of debt securities or borrowings from financial institutions. Subsequent to December 31, 2008, the Company and the private investor holding a 10% Senior Fixed Rate Secured Bond entered into an agreement under which the investor agreed to forgo six monthly principal payments due under the bond from January 2009 to June 2009 totaling $370,044, in return for 1,480,176 shares of newly-issued common stock calculated at $0.25 per share. We intend to pursue various options to finance and fund operations, and repay or defer current obligations due, as necessary, through the end of 2009. We cannot be sure of the timing or terms of any borrowing arrangements or equity offerings, or that we will be able to consummate one or more of these options. If we do not achieve these goals in 2009, we would implement contingency plans for additional cost reductions; however, there is a possibility that we would not have adequate capital to sustain our current operations.

The current ratio (the ratio of current assets to short term liabilities) as of December 31, 2008 was 0.65, a decrease from the December 31, 2007 current ratio of 1.3. This decrease is mainly due to the reclassification of the Company’s line of credit ($3.2 million), which is up for renewal on June 30, 2009, and Photonic Products' $2.4 million seller note and the addition of its Barclay’s revolver of $0.7 million. Our December 31, 2008 cash balance of $1.6 million was approximately the same as our cash balance on December 31, 2007.

We used $4.1 million of cash for operating activities during 2008 compared to $3.0 million in 2007 primarily from a net loss of $10.4 million. The increase was partially offset by $6.1 million of non-cash charges for depreciation, amortization, and stock-based compensation. Total financing activities conducted during 2008 contributed $2.0 million in cash from net proceeds from the sale of common stock ($0.6 million), from net proceeds from the issuance of notes of $2.0 million, and an increase of the revolving lines of credit of $1.1 million, partially offset by principal payments on notes of $(1.6) million. Investing activities for 2008 were $0.6 million mainly for the acquisition of equipment.

Working capital was negatively impacted by an increase in accounts receivable and inventory, which was offset by an increase in accounts payable. The change in working capital is commensurate with the increase in revenues during 2008.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including accounts receivable, inventories, property, plant and equipment and goodwill and intangible assets. We develop estimates based on historical experience as well as assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

ACCOUNTS RECEIVABLE

We are subject to concentrations of credit risk principally from our trade receivables. We manage this risk through our credit policies. We review the financial condition of new customers prior to granting credit. After completing the credit review, we establish a credit line for each customer. Periodically, we review credit lines for major customers and adjust the limits based upon updated financial information about the customers, historical sales and payment information and expected future sales. The risk is limited due to the relatively large number of customers composing our customer base and their dispersion across many industries and geographic areas within the United States, Canada, Europe and Asia. We also insure approximately 90% of export receivables from our Canadian subsidiary and perform ongoing credit evaluations of existing customers' financial condition. We have a large number of customers; therefore, concentrated credit risk is limited to only a small number of customers. We had no customers accounting for 10% or more of in either 2008 or 2007. One customer accounted for more than 10% of the outstanding receivables balance at December 31, 2008. No customer accounted for more than 10% of our outstanding receivables balance at December 31, 2007.

Determining adequate reserves for accounts receivable requires management's judgment. Management does not expect any substantial change in conditions that could materially impact the collectability of our receivables and cause actual write-offs to be materially different than the reserved balances as of December 31, 2008.

REVENUE RECOGNITION

We recognize revenue from sales of standard and non-standard products and funded research and development and product development for commercial companies and government agencies. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, *"Revenue Recognition in Financial Statements"* ("SAB 101") as updated by Staff Accounting Bulletin ("SAB") 104, *Revenue Recognition* and Emerging Issues Task Force ("EITF") 00-21, *Revenue Arrangements with Multiple Deliverables*.

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

Revenues from funded research and development and product development are 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. On fixed-price contracts, revenue is generally recognized on a percentage of completion basis based on proportion of costs incurred to the total estimated costs of the contract or under the proportional method. Over the course of a fixed-price contract, the Company routinely evaluates whether revenue and profitability should be recognized in the current period. The Company estimates the proportional performance on their fixed-price contracts on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If the Company does not have a sufficient basis to measure progress toward completion, revenue is recognized upon completion of performance, subject to any project management assessments as to the status of work performed. This method is used because reasonably dependable estimates of costs and revenue earned can be made, based on historical experience and milestones identified in any particular 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. Revenue mainly consists of product sales recognized at the time of shipment in accordance with SAB 101 and SAB 104. Revenues from other sources were immaterial in 2008 and 2007.

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.

WARRANTY

We provide warranties of most products for periods of between one to two years. The warranty is limited to the cost of the product and we will repair or replace the product as required. We monitor the actual warranty repair costs and trends versus the reserve as a percent of sales. We adjust annually the warranty provision based on actual experience and for any particular known instances.

INVENTORY

We value inventories at the lower of cost or market using the first in, first-out (FIFO) method. We specifically evaluate historical and forecasted demand of the illumination product line to determine if the carrying value of both finished goods and raw materials is recoverable through future sales. We also estimate the impact of increased revenues for new products versus the potential obsolescence of older products on a case-by-case basis. Actual results could be different from management’s estimates and assumptions.

INTANGIBLE ASSETS

StockerYale’s intangible assets consist of goodwill, which ceased being amortized in 2002 and other intangibles assets, which are comprised 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, which are being amortized over their useful lives.

Note 7 of the Notes to Financial Statements describes the impact of accounting for the adoption of Statement of Financial Accounting Standards (“SFAS”) No. 142, “*Goodwill and Other Intangible Assets*”, and the annual impairment methodology that the Company employs annually in assessing the recoverability of goodwill. This same impairment test will be performed at other times during the course of the year should an event occur which suggests that the recoverability of goodwill should be assessed. Amortizing intangibles are evaluated for impairment using the methodology set forth in SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets.*”

The Company is monitoring the operating performance of its reporting units and other market factors. The Company will perform its annual goodwill impairment test during the interim periods or sooner if conditions warrant. If it is determined that goodwill is impaired the amount of the charge could be significant, and could lead to a lack of compliance with certain, if not all, of its financial covenants which would require an amendment to or waiver if it has not otherwise been refinanced by that time.

LONG-LIVED ASSETS

We review the recoverability of our long-lived assets; primarily property, plant and equipment, when events or changes in circumstances occur that indicate that the carrying value of the assets may not be recoverable. This review is based on our ability to recover the carrying value of the assets from expected undiscounted future cash flows. If impairment is indicated, we measure the loss based on the fair value of the asset using various valuation techniques. If an impairment loss exists, the amount of the loss will be recorded in the consolidated statements of operations. It is possible that future events or circumstances could cause these estimates to change.

INCOME TAXES

We account for income taxes under the liability method. Under this method we recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of the assets and liabilities using tax rates expected to be in place when the differences reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized.

On January 1, 2007 we adopted FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "*Accounting for Income Taxes.*" FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. There was no impact on our consolidated financial statements.

We had net deferred tax assets totaling $26.9 million as of December 31, 2008. Realization of the deferred tax assets is dependent upon our ability to generate sufficient future taxable income and, if necessary, execution of tax planning strategies.

The Company's historical operating losses raise considerable doubt as to when, if ever, any of the deferred tax assets will be realized. As a result, management has provided a valuation allowance for the net deferred tax assets. In the event management determines that sufficient future taxable income may be generated in subsequent periods and the previously recorded valuation allowance is no longer needed, the Company will decrease the valuation allowance by providing an income tax benefit in the period that such a determination is made. Because of our historical significant new operating losses, we have not been subject to income taxes since 1996. The Company has recorded a deferred tax asset for one of its non-U.S. subsidiaries related to net operating losses.

With respect to any future uncertain tax positions, the Company intends to record interest and penalties, if any, as a component of income tax expense. We did not have any accrued interest and penalties related to uncertain tax positions as of December 31, 2008.

The Company is subject to taxation in the U.S., Canada, the United Kingdom and Ireland as well as various states and local jurisdictions. As a result of the Company's tax loss position, the tax years 2000 through 2007 remain open to examination by the federal and most state tax authorities. In addition, the tax years 2003 through 2007 are open to examination in foreign jurisdictions. As of December 31, 2008 we did not have any tax examinations in process.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

EITF 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock. EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. The Company is evaluating the impact of the adoption of EITF Issue No. 07-05 on its consolidated 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*.

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 160, “Noncontrolling Interests in Consolidated Financial Statements”, an amendment of ARB 51

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*, 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 does not expect SFAS 160 to have a material impact on its consolidated financial statements.

SFAS No. 141(R) "Business Combinations"

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* 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*". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 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 No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 The adoption of SFAS 159 on January 1, 2008 did not have a material impact on the Company's consolidated financial statements as it 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.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not required.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of StockerYale, Inc.:
Salem, New Hampshire

We have audited the accompanying consolidated balance sheets of StockerYale, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of StockerYale, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and significant financial obligations due in 2009 raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ VITALE, CATURANO & COMPANY, P.C.

Vitale, Caturano & Company, P. C.
Boston, Massachusetts
March 29, 2009

STOCKERYALE, INC.

NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION AND BASIS OF PRESENTATION

StockerYale, Inc. (also referred to in this document as "StockerYale", "we", the "Company", "the issuer" or the "registrant") operates in three segments: as an independent designer and manufacturer of advanced photonic products primarily consisting of lasers and LED systems; a developer and manufacturer of optical components consisting of specialty optical fiber (SOF) and diffractive optics; and as a distributor of laser diodes and manufacturer of laser modules through its Photonic Products Ltd. subsidiary. The Company's products serve a wide range of applications and industries including machine vision and industrial inspection, biomedical, defense and security, and other commercial applications.

StockerYale was incorporated on March 27, 1951 under the laws of the Commonwealth of Massachusetts. In December 1995, the company completed the registration of its common stock with the U.S. Securities and Exchange Commission and its stock now trades on the NASDAQ Capital Market under the trading symbol "STKR."

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the consolidated financial statements, during the years ended December 31, 2008 and 2007, the Company incurred net losses of $10,285,000 and $8,456,000, respectively and net use of cash flow from operations of $4,071,000 and $3,012,000, respectively. These losses and other factors, including a significant amount of obligations due in 2009, indicate that the Company will need additional financing to meet future cash requirements. As a result of the above factors, the Company's independent registered public accountants in their audit report have expressed substantial doubt about the Company's ability to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to comply with the terms and covenants of its financing agreements, to obtain additional financing or refinancing as may be required, and ultimately to attain profitable operations. Management is continuing its efforts to obtain additional funds so that the Company can meet its obligations and sustain operations from sources that are described in Note 2 to the consolidated financial statements.

(2) MANAGEMENT PLAN

In 2008 management initiated a number of actions to improve cash flow and liquidity in response to the general economic liquidity crisis and potential decline in revenue in the foreseeable future. The actions include:

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

The Company is considering different ways to raise additional capital including the sale of its equity securities, offerings of debt securities, borrowings from financial institutions, or sale of certain assets. The Company intends to pursue various options to finance and fund operations, and repay or defer current obligations due, as necessary, through the end of 2009. 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 does not achieve these goals in 2009, it will implement contingency plans for additional cost reductions; however, there is a possibility that the Company will not have adequate capital to sustain its current operations.

Subsequent to December 31, 2008, the Company and the private investor holding a 10% Senior Fixed Rate Secured Bond entered into an agreement under which the investor agreed to forgo six monthly principal payments due under the bond from January 2009 to June 2009 totaling $370,044, in return for 1,480,176 shares of newly-issued common stock calculated at $0.25 per share.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the application of the Company's most significant accounting policies as described in this note and elsewhere in the accompanying consolidated financial statements and notes.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, StockerYale (IRL) Ltd., StockerYale Waterloo Acquisition Inc., StockerYale (UK) Ltd., which owns 100% of Photonics Products Ltd., and Lasiris Holdings, Inc., which holds all of the outstanding shares of StockerYale Canada. See Note 16 for information about the Company's sale of StockerYale Asia PTE Ltd. All intercompany balances and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

The Company considers cash equivalents to consist of highly liquid investments with original maturities of three months or less when purchased.

RESTRICTED CASH

Restricted cash includes a sublease payment that was made in advance equal to one month's rent for December 31, 2009.

ACCOUNTS RECEIVABLE

The Company reviews the financial condition of new customers prior to granting credit. After completing the credit review, the Company establishes a credit line for each customer. Periodically, the Company reviews the credit line for major customers and adjusts the credit limit based upon an updated financial condition of the customer, historical sales and payment information and expected future sales. The Company has a large number of customers; therefore, material credit risk is limited.

The Company periodically reviews the collectability of its accounts receivable. Provisions are established for accounts that are potentially uncollectible. Determining adequate reserves for accounts receivable requires management's judgment. Conditions impacting the collectability of the Company's receivables could change causing actual write-offs to be materially different than the reserved balances.

LOSS PER SHARE

The Company calculates basic and diluted net loss per common share by dividing the net loss applicable to common stockholders by the weighted average number of common shares outstanding in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings per Share.*

As of December 31, 2008, 2,819,889 shares underlying options and 8,476,383 shares underlying warrants were excluded from the calculation of diluted shares, as their effects were anti-dilutive. As of December 31, 2008, the Company had granted 2,455,163 shares of restricted stock that remained outstanding as of that date. A total of 629,354 shares of restricted stock vested in 2008 while a total of 1,368,394 shares of restricted stock remained unvested. These unvested shares of restricted stock were also not included in the calculation as their effect would be anti-dilutive.

As of December 31, 2007, 2,422,617 shares underlying options and 6,443,316 shares underlying warrants were excluded from the calculation of diluted shares, as their effects were anti-dilutive. As of December 31, 2007, the Company had granted 2,515,413 shares of restricted stock that remained outstanding as of that date. A total of 324,870 shares of restricted stock vested in 2007. A total of 2,057,998 shares of restricted stock remained unvested at the end of 2007. These unvested shares of restricted stock were also not included in the calculation as their effect would be anti-dilutive.

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 SEC Staff Accounting Bulletin No. 101, *"Revenue Recognition in Financial Statements"* ("SAB 101") as updated by Staff Accounting Bulletin ("SAB") 104, *Revenue Recognition* and Emerging Issues Task Force ("EITF") 00-21, *Revenue Arrangements with Multiple Deliverables*.

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

Revenues 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 proportion of costs incurred to the total estimated costs of the contract or under the proportional method. Over the course of a fixed-price contract, the Company routinely evaluates whether revenue and profitability should be recognized in the current period. The Company estimates the proportional performance on their fixed-price contracts on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If the Company does not have a sufficient basis to measure progress toward completion, revenue is recognized upon completion of performance. This method is used because reasonably dependable estimates of costs and revenue earned can be made, based on historical experience and milestones identified in any particular 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. Revenue mainly consists of product sales recognized at the time of shipment in accordance with SAB 101 and SAB 104. Revenues from other sources were immaterial in 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. 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'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.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The risk is limited due to the relatively large number of customers composing the Company's customer base and their dispersion across many industries and geographic areas within the United States, Canada, Europe and Asia. The Company also insures approximately 90% of export receivables from its Canadian subsidiary and performs ongoing credit evaluations of existing customers' financial condition. The Company has a large number of customers; therefore, concentrated credit risk is limited to only a small number of customers. The Company had no customer accounting for 10% or more of consolidated revenues in either 2008 or 2007. The Company had one customer that accounted for 10% of the outstanding receivables balance at December 31, 2008. No customer accounted for more than 10% of the outstanding receivables balance at December 31, 2007.

The Company maintained their cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Company believes they are not exposed to any significant credit risk on cash and cash equivalents.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

EITF 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock. EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. The Company is evaluating the impact of the adoption of EITF Issue No. 07-05 on its consolidated 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*.

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 160, "Noncontrolling Interests in Consolidated Financial Statements", an amendment of ARB 51

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*, 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, but the Company does not expect SFAS 160 to have a material impact on its consolidated financial statements.

SFAS No. 141(R) "Business Combinations"

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* 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"*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 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 No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of SFAS 159 on January 1, 2008 did not have a material impact on the Company's consolidated financial statements, as it 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.

(4) ACQUISITIONS

Acquisition of Spectrode LLC

On October 18, 2007, StockerYale acquired substantially all of the assets of Spectrode LLC, a developer of pulsed thulium-doped fiber lasers for an aggregate purchase price of $376,000 consisting of $100,000 in cash and 214,174 unregistered shares of StockerYale’s common stock. Under the terms of the agreement, all of Spectrode’s patents and patents pending will be assigned to StockerYale, including the patent application for its “Gain Switched Fiber Laser System.” Spectrode LLC will receive a continuing royalty payment equal to 1% of sales revenue for lasers using the Spectrode technology over the lifetime of the patents or any patents issued or for 20 years, whichever is longer.

The number of shares of the Company’s common stock issued to Spectrode LLC was calculated based on the average closing price per share of the Company’s common stock on the NASDAQ Global Market for the period ending on the trading day prior to the closing of the acquisition.

The purchase price for Spectrode LLC was allocated among the tangible assets and its intellectual property. The fair value of the purchased technology was based on the relief from royalty method.

The total purchase price, which included the related acquisition costs of approximately $12,000 of the $376,088, exceeded the fair value of the acquired net assets by $7,900 which was recorded as goodwill. The following represents the allocation of the aggregate purchase price to the acquired net assets of Spectrode LLC:

As of December 31, 2008 and 2007, $2,400,000 was outstanding under the bonds issued to the stockholders of Photonic Products Ltd. As of December 31, 2008, the Company has recorded the entire balance as current portion of long-term debt.

Laurus Master Fund

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 proceeds from this line of credit were used to pay in full the outstanding amount under a previously outstanding credit facility between the Company and a bank. Additional amounts borrowed under the line of credit from time to time may be used for the Company’s working capital needs. 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 million 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 revolver accrues interest at an annual rate of 1% above the prime rate. The interest rate was 4.25% as of December 31, 2008. The Company may elect to prepay the revolver 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 June 28, 2009.

In 2006, under the terms of this Security and Purchase Agreement and in consideration of the line of credit, the Company issued and sold to Laurus 642,857 shares of its common stock at a per share purchase price of $.001, for an aggregate purchase price of $643. The Company recorded debt acquisition costs relating to the line of credit for cash fees paid of $209,487 and an additional amount as debt acquisition costs of $757,925 representing the fair market value of the stock issued. The debt acquisition charges are being amortized over the life of the line of credit using the effective interest method.

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. The Company is negotiating a possible extension. 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 over advance 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. The fair value of the common stock was approximately $51,000.

At December 31, 2008, $3,159,324 was outstanding under the line of credit, which includes the $500,000 over draft, and was classified as lines of credit/revolver. The credit line availability at December 31, 2008 was approximately $235,000.

At December 31, 2007, $2,838,000 was outstanding under the line of credit, which was classified as long-term debt. The credit line availability at December 31, 2007 was approximately $100,000.

Term Note Payable:

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 million to Laurus. The note was originally due on December 30, 2008 and is collateralized by certain assets of the Company. 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.

In 2005, 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 are being amortized over the life of the note using the effective interest method.

Amendments to the Term Note and Securities Purchase Agreement:

On June 19, 2007, the Company and Laurus entered into a Note Amendment Agreement to the December 2005 secured term note. 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 amendment extended the maturity date of the December 30, 2005 note, as described above, from December 30, 2008 to 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%, subject to the minimum 8%, and was 8% as of December 31, 2008.

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. 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 remaining expense related to the existing debt discount and financing costs associated with the original note and certain other costs paid with the financing totaling approximately $290,000 during the second quarter of 2007.

On December 28, 2007, the Company issued amended and restated secured term notes to Laurus and its assignees, PSource Structured Debt Limited (PSource) and Valens U.S. SPV I (Valens), both affiliates of Laurus. Under the terms of the amended note the Company borrowed an additional $1.0 million 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 note issued to Laurus on June 19, 2007. The $1.0 million portion of the Valens note will accrue interest at an annual rate of 10.5%. The notes 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. 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 used the net proceeds from the amendments for general corporate purposes. The Company recorded debt acquisition costs of $99,569 and 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 method.

The Company also entered into Registration Rights Agreements with each of Laurus, PSource and Valens 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 equity financing registration.

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 June 30, 2010, along with the deferred principal payments.

On November 20, 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 December 1, 2008 to February 1, 2009. The Company continued to make monthly interest payments during this period. In consideration for this deferral, the Company agreed to pay a fee of $70,000 of additional interest to be accrued monthly and will paid at the termination of the note on June 30, 2010. The deferred principal payments are due to be paid on June 1, 2009. In addition, as required under EITF 96-19, the Company recorded a gain on the extinguishment of approximately $270,000. The resulting debt discount will be expensed over the remaining life of the note, using the effective interest method.

At December 31, 2008, $3,916,671 was outstanding under the combined notes, which has been classified as $1,408,326 short-term debt and $2,508,345 long-term debt and reported net of $550,794 of unamortized debt discount, which has been classified as $418,176 short-term and $132,618 long-term.

At December 31, 2007, $4,750,000 was outstanding under the combined notes, which was classified as $1,256,913 short-term debt and $3,493,087 long-term debt and reported net of $509,875 of unamortized debt discount, which was classified as $261,502 short-term and $248,373 long-term.

Private Investor Notes and Bond

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

On May 12, 2005, the Company issued a $1.5 million note to Eureka, initially due and payable in full on September 12, 2005. The Company also issued to Eureka five-year common stock warrants to purchase 250,000 shares at an exercise price per share of $0.90. These warrants were exercised during the quarter ended September 30, 2007 for proceeds of $225,000.

On August 26, 2005, the Company entered into an amendment to the note in which the maturity date of the note was extended to December 31, 2005. On December 15, 2005, the maturity date of the note was extended to January 15, 2007. As a part of the December 15, 2005 agreement, the Company issued to the holder additional five-year common stock warrants to purchase 150,000 shares at an exercise price per share of $0.90. These warrants were exercised during the quarter ended September 30, 2007 for proceeds of $135,000.

On September 25, 2007, the same private investor exercised additional warrants for the purchase of 740,741 shares of the Company's common stock at a per share price of $1.17, or approximately $867,000.

On December 27, 2006, the Company entered into Amendment No. 3 to the note. The amendment extended the maturity date of the note from January 15, 2007 to January 15, 2008.

At December 31, 2007, $34,796 was outstanding under the note, which was classified as short-term debt.

At December 31, 2008, the note has been paid in full.

Photonic Products Ltd. Financing

On October 31, 2006, StockerYale (UK) Ltd. issued a 10% Senior Fixed Rate Secured Bond to Eureka in the original principal amount of $4,750,000. The bond is due on October 31, 2011. StockerYale (UK) Ltd. agreed to make payments of principal and interest over the term; however, during the first twelve months of the term of the bond, only accrued interest will be required to be paid (no payments of principal will be required) and an amount equal to 50% of the original principal sum of $4,750,000 will be paid on October 31, 2011. The outstanding principal on the bond accrues interest at an annual rate of 10%. StockerYale (UK) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The bond is secured by all of the equity interests of Photonic Products Ltd. owned by StockerYale (UK) Ltd. as stated in the Charge Over Shares by and among the Company, StockerYale (UK) Ltd. and Eureka which was entered into in connection with the financing. The Company used the net proceeds to make the cash payment for the acquisition of Photonic Products Ltd. The remaining proceeds were used for transaction fees and working capital.

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. If StockerYale (UK) Ltd. prepays all amounts outstanding under the bond prior to the third anniversary of the date of issuance, then the number of shares of the Company's common stock purchasable upon exercise of the warrant shall be changed to the following numbers: (i) 1,900,000 if the bond is repaid in full prior to the first anniversary of the date of issuance; (ii) 2,018,750 if the bond is repaid in full prior to the second anniversary of the date of issuance; and (iii) 2,137,500 if the bond is repaid in full prior to the third anniversary of the date of issuance. The aggregate proceeds 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 proceeds allocated to the bond was $3,255,349 and the proceeds allocated to the common stock warrants was $1,494,651. The difference between the aggregate face amount of the bond of $4,750,000 and the initial carrying value of the bond was recorded as a debt discount of $1,494,651 and 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.

On May 27, 2008, the private investor to whom Eureka assigned the bonds, loaned the company an additional $500,000 payable over the remaining term of the original loan, at the same fixed 10% interest rate. As a part of the May 27, 2008 agreement, the Company issued to the private investor additional ten-year common stock warrants to purchase 269,663 shares of common stock at an exercise price per share of $0.60. An additional debt discount was recorded in the amount of $119,373 and is being amortized over the remaining life of the note. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 4.80%, an expected life of ten years and an expected volatility of 98% with no dividend yield.

On October 30, 2008, the private investor agreed to forego principal payments on the combined notes for the months of September 2008 through December 2008. The Company issued 616,743 shares of common stock to the private investor to settle approximately $247,000 of principal payments.

At December 31, 2008, $4,471,926 remained outstanding under the combined note which has been classified as $740,091 short-term debt and $3,731,835 long- term debt and reported net of $798,251 of unamortized debt discount, which has been reported as $338,595 as short-term and $459,656 as long-term.

At December 31, 2007, $4,651,041 remained outstanding under the note 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 at July 24, 2008) secured by all of the assets of StockerYale (IRL) Ltd. The bond matures on July 30, 2011. StockerYale (IRL) Ltd. agreed to make payments of principal and interest of approximately €31,000 over the term beginning August 30, 2008. The outstanding principal on the bond accrues interest at an annual rate of 12%. StockerYale (IRL) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The Company used the net proceeds for working capital.

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

At December 31, 2008, $1,193,829 remained outstanding under the bond, which has been classified as $403,817 short-term debt and $790,012 long-term debt and reported, net of $165,810 of unamortized debt discount, which has been reported as $100,050 short-term and $65,760 long-term.

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 £700,000, 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 4.55% as of December 31, 2008. The Company may elect to prepay amounts due under the facility at any time, in whole or in part, without penalty or premium upon 3 months notice.

At December 31, 2008, $710,000 was outstanding under the facility, all of which was classified as short term debt under revolving lines of credit. During the fourth quarter 2008, the Company was notified that Barclay's will no longer continue to provide credit under the Discounting Agreement. The Company has been working with Barclay's and other lenders to provide a transition of the lending arrangement.

(10) TAXES

On January 1, 2007, the Company adopted FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax positions recognized in accordance with SFAS No. 109, "*Accounting for Income Taxes.*" FIN 48 requires that an enterprise must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not threshold is then measured to determine the amount of benefit to recognize in the financial statements. Based on its assessment, the Company has concluded that there are no significant uncertain tax positions that require recognition in the financial statements.

The Company had net deferred tax assets totaling $26.9 million as of December 31, 2008 and $25.2 million as of December 31, 2007. Realization of the deferred tax assets is dependent upon the Company's ability to generate sufficient future taxable income and, if necessary, execution of tax planning strategies.

The Company's historical operating losses raise considerable doubt as to when, if ever, any of the deferred tax assets will be realized. As a result, management has provided a valuation allowance for the net deferred tax assets. In the event management determines that sufficient future taxable income may be generated in subsequent periods and the previously recorded valuation allowance is no longer needed, the Company will decrease the valuation allowance by providing an income tax benefit in the period that such a determination is made. Because of its historical operating losses, the Company has not been subject to income taxes since 1996. The Company has recorded a deferred tax asset for one of its non-U.S. subsidiaries related to net operating losses.

With respect to any future uncertain tax positions, the Company intends to record interest and penalties, if any, as a component of income tax expense. It did not have any accrued interest and penalties related to uncertain tax positions as of December 31, 2008.

The Company is subject to taxation in the U.S., Canada, the United Kingdom, Ireland and various states and local jurisdictions. As a result of the Company's tax loss position, the tax years 1999 through 2007 remain open to examination by the federal and most state tax authorities. In addition, the tax years 2002 through 2006 are open to examination in foreign jurisdictions. As of December 31, 2008, the Company did not have any tax examinations in process.

The Company used the Black-Scholes Model to calculate the fair value of the warrants, which totaled $1,292,814. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 4.88%, an expected life of ten years and an expected volatility of 101% with no dividend yield.

On December 24, 2008, the Company and a private investor entered into a Stock and Warrant Purchase Agreement pursuant in which the investor agreed to purchase from the Company, and the Company agreed to sell, 2,000,000 shares of the Company's common stock and a warrant for the purchase of 1,000,000 shares of common stock at an exercise price of $0.50 per share, for an aggregate purchase price of $500,000. The closing of the transaction was to occur on or prior to March 5, 2009. On March 27, 2009 the Company and the private investor entered into an amendment, dated as of March 23, 2009, to the Stock and Warrant Purchase Agreement, under which the parties agreed to extend the closing of the transaction until June 30, 2009.

(12) UNREGISTERED SALES OF EQUITY SECURITIES

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 Vision International Inc. (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. The fair value of the common stock was $960,912 based upon the market price on the date of issuance and was expensed when the loan commitment expired unused.

On December 24, 2008, the Company issued a Stock and Warrant Purchase Agreement to a group of private investors, including the Company's Chairman and CEO and four of the Company's directors. Under the terms of the Agreement the Company agreed to issue and sell an aggregate of 4,254,000 shares of common stock, $0.001 par value per shares at a per share purchase price of $0.25, for an aggregate purchase price of $1,063,500. In addition, the investors would also receive warrants to purchase up to an aggregate of 2,127,000 shares of the Company's common stock. The warrants are exercisable at any time after issuance at a per share price of $0.50 and expire on the fifth anniversary of the issue date. As of December 31, 2008, the Company sold and issued for gross proceeds of $563,500, of which $10,500 was not received by December 31, 2008, a total of 2,254,000 shares of common stock and issued warrants to purchase 1,127,000 shares of common stock. The remaining balance due under the Agreement of $510,500 is not reflected in the balance sheet at December 31, 2008 because the funds had not been received nor had the common stock or warrants been issued by the Company. The Company intends to use the proceeds from the financing for working capital and general corporate purposes.

The Company used the Black-Scholes Model to calculate the fair value of the warrants issued, which totaled approximately $81,000. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 1.54%, an expected life of five years and an expected volatility of 101% with no dividend yield.

As of December 31, 2008, there were 8,476,383 shares reserved for warrants with the following exercise prices and expiration dates:

(17) COMMITMENTS AND CONTINGENCIES

Lease obligation treated as financing

On December 30, 2005, the Company closed a sale-leaseback transaction on the Company's Salem, New Hampshire headquarters with 55 Heritage LLC. The terms of the Real Estate Purchase Agreement dated November 29, 2005, as amended on December 22, 2005, between the Company and the buyer were that (i) the Company agreed to sell the property to the buyer for $4,700,000, and (ii) the Company agreed to lease from the buyer (a) approximately 32,000 square feet of the property for an initial term of five years with a rental rate during such period of $192,000 per year in base rent and (b) approximately 63,000 square feet of the property for an initial term of five years with rental rates ranging from approximately $220,500 to $315,000 per year in base rent, plus a pro rata share of all operating costs of the property. The Company plans to sublease all or part of the 63,000 square feet block of space. At the time an opportunity arises to enter into a sublease agreement with a third party, either (i) the Company will enter into a sublease with that party or (ii) the buyer will enter into a direct lease with them. The lease agreement grants the Company the option to extend the initial term for a period of five years. Because the transaction did not qualify as a sale for Generally Accepted Accounting Principles (GAAP) reporting purposes under SFAS 66, *Accounting for Sales of Real Estate* and SFAS 98, *Accounting for Leases,* the net proceeds were classified as a financing lease obligation. This was primarily due to the terms of the lease agreement. Accordingly, the Company continues to carry the value of the building on its balance sheet and record depreciation expense until the criteria to record a sale are met. The Company continues to account for the financing lease in accordance with the provisions of SFAS 98. In 2008, the Company recorded $283,000 as non-cash interest expense and $29,000 as an increase of the lease obligation due to a reduction in the deposit amount left with the landlord of $190,000. During 2007, the Company recorded $300,000 as non-cash interest expense and $38,000 as an increase of the lease obligation due to a reduction in the deposit amount left with the landlord of $169,000.

At December 31, 2008, $3,669,000 was recorded on the balance sheet as a financing lease obligation, which has been classified as $444,000 short-term obligation and $3,225,000 long-term obligation, and has been reported net of a $157,500 deposit. The net book value of the building at December 31, 2008 was approximately $3,410,000.

At December 31, 2007, $3,640,000 was recorded on the balance sheet as a financing lease obligation, which was classified as $444,000 short-term obligation and $3,196,000 long-term obligation, and has been reported net of a $347,500 deposit. The net book value of the building at December 31, 2007 was approximately $3,714,000.

Other obligations

The Company's Canadian subsidiary, 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 approximately 60,000 square feet of the Montreal property for an initial term of ten years ending December 2015. The rent during the ten-year term ranges from approximately Cdn $416,031 to Cdn $469,521 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. StockerYale Canada sub-leases portions of the facility for fixed payments of Cdn $107,000 per year through 2015 and received Cdn $107,000 for each of the years ended December 31, 2008 and 2007.

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, Ireland. The lease term began on August 22, 2008 for a term of five years with rent and service charges of €8,500 per month.

The company utilizes, or has assumed, capital leases to finance purchases of equipment or vehicles. There was approximately $330,000 and $507,000 payable under these leases at December 31, 2008 and December 31, 2007, respectively. The terms of these leases are from two to five years are set to expire between 2009 and 2013.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15 (e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of the end of the period covered by this report, to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed 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 in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered independent public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered independent public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

This report on internal control over financial reporting shall not be deemed to be filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended December 31, 2008, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

On March 27, 2009, the Company entered into the First Amendment to Stock and Warrant Purchase Agreement, dated as of March 23, 2009 (the "Amendment"), with Lewis Opportunity Fund LP ("Lewis"). As previously disclosed, on December 24, 2008, the Company and Lewis entered into a Stock and Warrant Purchase Agreement (the "Purchase Agreement"), pursuant to which Lewis agreed to purchase from the Company, and the Company agreed to sell to Lewis, 2,000,000 shares of the Company's common stock at a per share purchase of $0.25, for an aggregate purchase price of $500,000. Upon such purchase, Lewis will also receive a warrant to purchase up to an aggregate of 1,000,000 shares of the Company's common stock. The warrant will be exercisable at any time at a per share price of $0.50 and will expire on the fifth anniversary of the issue date.

Under the Purchase Agreement, Lewis agreed to close the Purchase Agreement and purchase the 2,000,000 shares by March 5, 2009. The Amendment extends the closing date of the Purchase Agreement to June 30, 2009.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the portion of the Definitive Proxy Statement entitled “Independent Registered Public Accounting Firm Fees” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm.”

PART IV

Item 15 . EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STOCKERYALE, INC.

By: /S/ MARK W. BLODGETT

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

March 31, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been duly signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/S/ MARK W. BLODGETT **Mark W. Blodgett**	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 31, 2009
/S/ TIMOTHY P. LOSIK **Timothy P. Losik**	Chief Operating Officer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2009
/S/ ROBERT J. DRUMMOND **Robert J. Drummond**	Director	March 31, 2009
/S/ DIETMAR KLENNER **Dietmar Klenner**	Director	March 31, 2009
/S/ BEN S. LEVITAN **Ben S. Levitan**	Director	March 31, 2009
/S/ RAYMOND J. OGLETHORPE **Raymond J. Oglethorpe**	Director	March 31, 2009
/S/ PARVIZ TAYEBATI **Parviz Tayebati**	Director	March 31, 2009
/S/ PATRICK J. ZILVITIS **Patrick J. Zilvitis**	Director	March 31, 2009

EXHIBIT INDEX

Exhibit No.	Description of Document
3.1	Restated Articles of Organization of the Registrant is incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 000-27372).
3.2	Amendment, dated May 24, 2001, to the Amended and Restated Articles of Organization of the Registrant is incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001 (File No. 000-27372).
3.3	Amended and Restated Bylaws of the Registrant are incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K filed on March 31, 2005 (File No. 000-27372).
3.4	Amendment No. 1 to Amended and Restated ByLaws of the Registrant, dated August 28, 2007, is incorporated herein by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on August 30, 2007 (File No. 000-27372).
4	Specimen Stock Certificate of common stock, $.001 par value per share is incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K filed on March 31, 2005 (File No. 000-27372).
10.1*	1996 Stock Option and Incentive Plan is incorporated by reference to Exhibit 99.1 of the Registrant's Registration Statement on Form S-8 filed on June 9, 2000 (File No. 333-39080).
10.2*	Form of Incentive Option Agreement under the 1996 Stock Option and Incentive Plan is incorporated by reference to Exhibit 10.1(b) of the Registrant's Annual Report on Form for the year ended December 31, 2001 (File No. 000-27372).
10.3*	Form of Nonqualified Option Agreement for employees under the 1996 Stock Option and Incentive Plan is incorporated by reference to Exhibit 10.1(c) of the Registrant's Annual Report on Form for the year ended December 31, 2001 (File No. 000-27372).
10.4*	Form of Nonqualified Option Agreement for non-employee directors under the 1996 Stock Option and Incentive Plan is incorporated by reference to Exhibit 10.1(d) of the Registrant's Annual Report on Form for the year ended December 31, 2001 (File No. 000-27372).
10.5*	2000 Stock Option and Incentive Plan is incorporated by reference to Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 filed on June 9, 2000 (File No. 333-39082).
10.6*	Amendment No. 1 to the 2000 Stock Option and Incentive Plan is incorporated by reference to Exhibit 10.3(e) of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001 (File No. 000-27372).
10.7*	Amended Form of Incentive Stock Option Agreement under the 2000 Stock Option and Incentive Plan is incorporated by reference to Exhibit 10.3(f) of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001 (File No. 000-27372).
10.8*	Amended Form of Nonqualified Stock Option Agreement for employees under the 2000 Stock Option and Incentive Plan is incorporated by reference to Exhibit 10.3(g) of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001 (File No. 000-27372).
10.9*	Amended Form of Nonqualified Stock Option Agreement for non-employee directors under the 2000 Stock Option and Incentive Plan is incorporated by reference to Exhibit 10.3(h) of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001 (File No. 000-27372).
10.10*	2000 Employee Stock Purchase Plan is incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on June 9, 2000 (File No. 333-39082).

Exhibit No.	Description of Document
10.11*	Amendment No. 1 to 2000 Employee Stock Purchase Plan, dated June 26, 2001, is incorporated by reference to Exhibit 10.4 (b) to the Registrant's Annual Report on Form 10K for the year ended December 31, 2001 (File No. 000-27372).
10.12*	Amendment No. 2 to 2000 Employee Stock Purchase Plan, dated May 23, 2008, is incorporated by reference to Appendix D to the Registrant's Definitive Schedule 14A filed on April 21, 2008 (File No. 000-27372).
10.13*	2004 Stock Option and Incentive Plan is incorporated by reference to Exhibit 10.48 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 000-27372).
10.14*	Amendment to 2004 Stock Option and Incentive Plan is incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed May 27, 2005 (File No. 000-27372).
10.15*	Form of Incentive Stock Option Agreement (Annual Grant) is incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-8 filed on October 22, 2004 (File No. 333-119911).
10.16*	Form of Non-Qualified Stock Option Agreement (Annual Grant) is incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-8 filed on October 22, 2004 (File No. 333-119911).
10.17*	Form of Restricted Stock Agreement under 2004 Stock Option and Incentive Plan is incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed on May 27, 2005 (File No. 000-27372).
10.18*	2007 Stock Incentive Plan is incorporated by reference to Appendix D to the Registrant's Definitive Schedule 14A filed on April 20, 2007 (File No. 000-27372).
10.19*	Amendment No. 1 to 2007 Stock Incentive Plan, dated as December 16, 2008.
10.20*	Form of Non-Statutory Stock Option Agreement is incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on May 24, 2007 (File No. 000-27372).
10.21*	Form of Incentive Stock Option Agreement is incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed on May 24, 2007 (File No. 000-27372).
10.22*	Form of Restricted Stock Agreement is incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K filed on May 24, 2007 (File No. 000-27372).
10.23*	Separation Plan for Executive Officers is incorporated by reference to Exhibit 10.16 of the Registrant's Annual Report on Form for the year ended December 31, 2002 (File No. 000-27372).
10.24*	StockerYale, Inc. Management Incentive Plan is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 6, 2007 (File No. 000-27372).
10.25*	Offer Letter, dated as of December 18, 2007 and effective as of January 7, 2008, by and between the Registrant and Timothy P. Losik is incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on January 11, 2008 (File No. 000-27372).
10.26*	Policy Regarding Compensation of Independent Directors is incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 8-K filed May 27, 2005 (File No. 000-27372).
10.27*	Amendment to Policy Regarding Compensation of Independent Directors is incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2007 (File No. 000-27372).
10.28*	Amended and Restated Policy Regarding Compensation of Independent Directors is incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2007 (File No. 000-27372).

Exhibit No.	Description of Document
10.29*	StockerYale, Inc. Management Incentive Plan is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 16, 2009 (File No. 000-27372).
10.30	Stockholders Agreement, dated November 17, 2000, by and among the Registrant, Optune Technologies, Inc. and Nicolae Miron is incorporated by reference to Exhibit 10.5(b) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 000-27372).
10.31	Common Stock Purchase Warrant, dated as of September 24, 2003, issued by the Registrant to Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 99.5 of the Registrant's Registration Statement on Form S-3 filed on October 17, 2003 (File No. 333-109790).
10.32	Securities Purchase Agreement, dated as of September 24, 2003, by and between the Registrant and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 99.4 of the Registrant's Registration Statement on Form S-3 filed on October 17, 2003 (File No. 333-109790).
10.33	Registration Rights Agreement, dated as of September 24, 2003, by and between the Registrant and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 99.3 of the Registrant's Registration Statement on Form S-3 filed on October 17, 2003 (File No. 333-109790).
10.34	Securities Purchase Agreement, dated as of February 3, 2004, among the Registrant and certain signatories thereto, is incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K dated February 3, 2004 (File No. 000-27372).
10.35	Form of Warrant to Purchase common stock, issued by the Registrant to certain investors, is incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K dated February 3, 2004 (File No. 000-27372).
10.36	Form of Additional Investment Right Agreement, between the Registrant and certain investors, is incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K dated February 3, 2004 (File No. 000-27372).
10.37	Securities Purchase Agreement, made and entered into as of February 20, 2004, by and among the Registrant and Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K dated February 25, 2004 (File No. 000-27372).
10.38	Registration Rights Agreement, made and entered into as of February 20, 2004, by and between the Registrant and Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K dated February 25, 2004 (File No. 000-27372).
10.39	Common Stock Purchase Warrant, dated February 20, 2004, issued by the Registrant to Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8-K dated February 25, 2004 (File No. 000-27372).
10.40	Securities Purchase Agreement, made and entered into as of June 10, 2004, by and among the Registrant and Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 10, 2004 (File No. 000-27372).
10.41	Registration Rights Agreement, made and entered into as of June 10, 2004, by and between the Registrant and Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated June 10, 2004 (File No. 000-27372).
10.42	Security Agreement, made and entered into as of June 10, 2004, by and between the Registrant and Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated June 10, 2004 (File No. 000-27372).

Exhibit No.	Description of Document
10.43	Common Stock Purchase Warrant, issued by the Registrant to Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated June 10, 2004 (File No. 000-27372).
10.44	Form of Securities Purchase Agreement, dated December 2004, between the Registrant and Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K dated December 7, 2004 (File No. 000-27372).
10.45	Form of Registration Rights Agreement, dated December 2004, between the Registrant and Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K dated December 7, 2004 (File No. 000-27372).
10.46	Form of Common Stock Purchase Warrant, dated December 2004, issued by the Registrant to Laurus Master Fund, Ltd., is incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8-K dated December 7, 2004 (File No. 000-27372).
10.47	Form of Stock Purchase Agreement, dated December 2004, among the Registrant and certain parties signatories thereto, is incorporated by reference to Exhibit 10.6 of the Registrant's Current Report on Form 8-K dated December 7, 2004 (File No. 000-27372).
10.48	Form of Warrant to Purchase common stock, dated December 2004, issued by the Registrant to certain investors, is incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8-K/A filed on January 14, 2005 (File No. 000-27372).
10.49	Senior Promissory Note, dated May 12, 2005, issued to The Eureka Interactive Fund Ltd. is incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed May 16, 2005 (File No. 000-27372).
10.50	Amendment No. 1, dated August 26, 2005, to the Senior Promissory Note dated May 12, 2005 by and between the Registrant and The Eureka Interactive Fund Ltd. is incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005 (File No. 000-27372).
10.51	Amendment No. 2, dated December 15, 2005, to Senior Promissory Note dated May 12, 2005 by and between the Registrant and The Eureka Interactive Fund Ltd. is incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed December 20, 2005 (File No. 000-27372).
10.52	Amendment No. 3 to Senior Promissory Note, dated December 27, 2006, by and between the Registrant and The Eureka Interactive Fund Ltd. is incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 8-K filed December 28, 2006 (File No. 000-27372).
10.53	Common Stock Purchase Warrant, dated May 12, 2005, issued to The Eureka Interactive Fund Ltd. is incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed May 16, 2005 (File No. 000-27372).
10.54	Amendment and Waiver entered into by and between the Registrant and Smithfield Fiduciary LLC, dated as of July 13, 2005, is incorporated by reference to Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 (File No. 000-27372).
10.55	Amendment and Waiver entered into by and between the Registrant and Laurus Master Fund, Ltd., dated as of July 13, 2005, is incorporated by reference to Exhibit 10.7 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 (File No. 000-27372).

Exhibit No.	Description of Document
10.56	Common Stock Purchase Warrant issued by the Registrant to Smithfield Fiduciary LLC, dated as of July 13, 2005, is incorporated by reference to Exhibit 10.8 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 (File No. 000-27372).
10.57	Common Stock Purchase Warrant issued by the Registrant to Laurus Master Fund, Ltd., dated as of July 13, 2005, is incorporated by reference to Exhibit 10.9 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 (File No. 000-27372).
10.58	Amendment and Waiver entered into by and between the Registrant and Smithfield Fiduciary LLC, dated as of August 10, 2005, is incorporated by reference to Exhibit 10.10 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 (File No. 000-27372).
10.59	Amendment and Waiver entered into by and between the Registrant and Laurus Master Fund, Ltd., dated as of August 10, 2005, is incorporated by reference to Exhibit 10.11 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 (File No. 000-27372).
10.60	Stock and Warrant Purchase Agreement, dated August 12, 2005, by and between the Registrant and The Eureka Interactive Fund Ltd., is incorporated by reference to Exhibit 10.12 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 (File No. 000-27372).
10.61	Common Stock Purchase Warrant, dated August 12, 2005, issued by the Registrant to The Eureka Interactive Fund Ltd., is incorporated by reference to Exhibit 10.13 of the Registrant's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 (File No. 000-27372).
10.62	Stock and Warrant Purchase Agreement, dated August 16, 2005, by and between the Registrant and Van Wagoner Crossover Fund is incorporated by reference to Exhibit 10.11 of the Registrant's Registration Statement on Form S-3 filed October 17, 2005 (File No. 333-129065).
10.63	Common Stock Purchase Warrant, dated August 16, 2005, issued by the Registrant to Van Wagoner Crossover Fund is incorporated by reference to Exhibit 10.12 of the Registrant's Registration Statement on Form S-3 filed October 17, 2005 (File No. 333-129065).
10.64	Common Stock Purchase Warrant, dated December 15, 2005, issued by the Registrant to The Eureka Interactive Fund Ltd., is incorporated by reference to Exhibit 10.6 of the Registrant's Registration Statement on Form S-3 filed January 27, 2006 (File No. 333-131353).
10.65	Securities Purchase Agreement entered into by and between the Registrant and Laurus Master Fund, Ltd., dated as of December 30, 2005, is incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed January 4, 2006 (File No. 000-27372).
10.66	Registration Rights Agreement entered into by and between the Registrant and Laurus Master Fund, Ltd., dated as of December 30, 2005, is incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed January 4, 2006 (File No. 000-27372).
10.67	Secured Term Note issued by the Registrant to Laurus Master Fund, Ltd., dated as of December 30, 2005, is incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed January 4, 2006 (File No. 000-27372).
10.68	Agreement of Purchase and Sale, dated November 22, 2005, by and between StockerYale Canada Inc. and The Standard Life Assurance Company of Canada is incorporated by reference to Exhibit 10.7 of the Registrant's Registration Statement on Form S-3 filed January 27, 2006 (File No. 333-131353).
10.69	Lease Agreement, dated December 20, 2005, by and between StockerYale Canada Inc. and The Standard Life Assurance Company of Canada is incorporated by reference to Exhibit 10.8 of the Registrant's Registration Statement on Form S-3 filed January 27, 2006 (File No. 333-131353).

Exhibit No.	Description of Document
10.70	Real Estate Purchase Agreement, dated November 29, 2005, by and between the Registrant and 55 Heritage LLC is incorporated by reference to Exhibit 10.9 of the Registrant’s Registration Statement on Form S-3 filed January 27, 2006 (File No. 333-131353).
10.71	First Amendment to Real Estate Purchase Agreement, dated December 22, 2005, by and between the Registrant and 55 Heritage LLC is incorporated by reference to Exhibit 10.10 of the Registrant’s Registration Statement on Form S-3 filed January 27, 2006 (File No. 333-131353).
10.72	Lease, dated December 29, 2005, by and between the Registrant and 55 Heritage LLC is incorporated by reference to Exhibit 10.11 of the Registrant’s Registration Statement on Form S-3 filed January 27, 2006 (File No. 333-131353).
10.73	Form of Indemnification Agreement, as executed by Mark Blodgett, Robert Drummond, Dietmar Klenner, Ben Levitan, Raymond Oglethorpe, Parviz Tayebati, Patrick Zilvitis, Timothy Losik and Marianne Molleur is incorporated by reference to Exhibit 10.63 of the Registrant’s Annual Report on Form 10-K filed March 31, 2006. (File No. 000-27372).
10.74	Security and Purchase Agreement, dated as of June 28, 2006, by and between StockerYale, Inc. and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on July 5, 2006 (File No. 000-27372).
10.75	Registration Rights Agreement, dated as of June 28, 2006, by and between StockerYale, Inc. and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.2 of the Registrant’s Current Report on Form 8-K filed on July 5, 2006 (File No. 000-27372).
10.76	Secured Non-Convertible Revolving Note, dated as of June 28, 2006, issued by StockerYale, Inc. to Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.3 of the Registrant’s Current Report on Form 8-K filed on July 5, 2006 (File No. 000-27372).
10.77	Securities Purchase Agreement, dated June 19, 2007, by and between the Registrant and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on June 22, 2007 (File No. 000-27372).
10.78	Registration Rights Agreement, dated June 19, 2007, by and between the Registrant and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on June 22, 2007 (File No. 000-27372).
10.79	Note Amendment Agreement, dated June 19, 2007, by and between the Registrant and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.3 to the Registrant’s Current Report on Form 8-K filed on June 22, 2007 (File No. 000-27372).
10.80	Secured Term Note, dated June 19, 2007, issued by the Registrant to Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.4 to the Registrant’s Current Report on Form 8-K filed on June 22, 2007 (File No. 000-27372).
10.81	Registration Rights Agreement Amendment, dated July 31, 2007, by and between the Registrant and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.9 to the Registrant’s Quarterly Report on Form 10-QSB for the quarter ended June 30, 2007 (File No. 000-27372).
10.82	Registration Rights Agreement Amendment, dated December 28, 2007, by and between the Registrant and Laurus Master Fund, Ltd. is incorporated by reference to Exhibit 10.79 to the Registrant’s Annual Report on Form 10-KSB for the year ended December 31, 2007 (File No. 000-27372).

Exhibit No.	Description of Document
10.83	Amendment to Securities Purchase Agreement, dated as of December 28, 2007, by and between StockerYale, Inc., Laurus Master Fund, Ltd and Valens U.S. SPV I, LLC is incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on January 4, 2008 (File No. 000-27372).
10.84	Amendment to Securities Purchase Agreement, dated as of December 28, 2007, by and among StockerYale, Inc., Laurus Master Fund, Ltd. and PSource Structured Debt Limited is incorporated by reference to Exhibit 10.2 of the Registrant’s Current Report on Form 8-K filed on January 4, 2008 (File No. 000-27372).
10.85	Registration Rights Agreement, dated as of December 28, 2007, by and between StockerYale, Inc. and Valens U.S. SPV I, LLC is incorporated by reference to Exhibit 10.3 of the Registrant’s Current Report on Form 8-K filed on January 4, 2008 (File No. 000-27372).
10.86	Registration Rights Agreement, dated as of December 28, 2007, by and between StockerYale, Inc. and PSource Structured Debt Limited is incorporated by reference to Exhibit 10.4 of the Registrant’s Current Report on Form 8-K filed on January 4, 2008 (File No. 000-27372).
10.87	Amended and Restated Secured Term Note, dated as of December 28, 2007, issued by StockerYale, Inc. to Valens U.S. SPV I, LLC is incorporated by reference to Exhibit 10.5 of the Registrant’s Current Report on Form 8-K filed on January 4, 2008 (File No. 000-27372).
10.88	Amended and Restated Secured Term Note, dated as of December 28, 2007, issued by StockerYale, Inc. to Laurus Master Fund, Ltd is incorporated by reference to Exhibit 10.6 of the Registrant’s Current Report on Form 8-K filed on January 4, 2008 (File No. 000-27372).
10.89	Amended and Restated Secured Term Note, dated as of December 28, 2007, issued by StockerYale, Inc. to PSource Structured Debt Limited is incorporated by reference to Exhibit 10.7 of the Registrant’s Current Report on Form 8-K filed on January 4, 2008 (File No. 000-27372).
10.90	Amended and Restated Secured Term Note, dated as of December 28, 2007, issued by StockerYale, Inc. to Laurus Master Fund, Ltd is incorporated by reference to Exhibit 10.8 of the Registrant’s Current Report on Form 8-K filed on January 4, 2008 (File No. 000-27372).
10.91	Stock Purchase Agreement, dated as of October 31, 2006, by and among StockerYale, Inc., StockerYale (UK) Ltd. and the stockholders of Photonic Products Ltd. is incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on November 6, 2006 (File No. 000-27372).
10.92	Bond, dated as of October 31, 2006, issued by StockerYale (UK) Ltd. to Johanna Pope is incorporated by reference to Exhibit 10.2 of the Registrant’s Current Report on Form 8-K filed on November 6, 2006 (File No. 000-27372).
10.93	Bond, dated as of October 31, 2006, issued by StockerYale (UK) Ltd. to Anthony Brian Pope is incorporated by reference to Exhibit 10.3 of the Registrant’s Current Report on Form 8-K filed on November 6, 2006 (File No. 000-27372).
10.94	Bond, dated as of October 31, 2006, issued by StockerYale (UK) Ltd. to Damon Cookman is incorporated by reference to Exhibit 10.4 of the Registrant’s Current Report on Form 8-K filed on November 6, 2006 (File No. 000-27372).
10.95	Common Stock Purchase Warrant, dated as of October 31, 2006, issued by StockerYale, Inc. to The Eureka Interactive Fund Ltd. is incorporated by reference to Exhibit 10.5 of the Registrant’s Current Report on Form 8-K filed on November 6, 2006 (File No. 000-27372).
10.96	10% Senior Fixed Rate Secured Bond, dated as of October 31, 2006, issued by StockerYale (UK) Ltd. to The Eureka Interactive Fund Ltd. is incorporated by reference to Exhibit 10.6 of the Registrant’s Current Report on Form 8-K filed on November 6, 2006 (File No. 000-27372).

Exhibit No.	Description of Document
10.97	Charge Over Shares, dated as of October 31, 2006, by and among StockerYale, Inc., StockerYale (UK) Ltd. and The Eureka Interactive Fund Ltd. is incorporated by reference to Exhibit 10.7 of the Registrant’s Current Report on Form 8-K filed on November 6, 2006 (File No. 000-27372).
10.98	Securities Purchase Agreement, dated as of January 26, 2007, by and between StockerYale, Inc. and Smithfield Fiduciary LLC is incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on January 29, 2007 (File No. 000-27372).
10.99	Registration Rights Agreement, dated as of January 26, 2007, by and between StockerYale, Inc. and Smithfield Fiduciary LLC is incorporated by reference to Exhibit 10.2 of the Registrant’s Current Report on Form 8-K filed on January 29, 2007 (File No. 000-27372).
10.100	Warrant to Purchase common stock, dated as of January 26, 2007, issued by StockerYale, Inc. to Smithfield Fiduciary LLC is incorporated by reference to Exhibit 10.3 of the Registrant’s Current Report on Form 8-K filed on January 29, 2007 (File No. 000-27372).
10.101	Instrument Constituting US$4,750,000 10% Senior Fixed Rate Secured Bond, dated October 31, 2006, issued by StockerYale (UK) Ltd. to The Eureka Interactive Fund Ltd. is incorporated herein by reference to Exhibit 10.75 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 000-27372).
10.102	Overadvance Letter, dated as of March 31, 2008, by and between Laurus Master Fund, Ltd. and StockerYale, Inc. is incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 000-27372).
10.103	Amendment No. 1 to Common Stock Purchase Warrant No. 2003-1 (Issue Date: September 24, 2003), dated as of March 31, 2008, by and among Laurus Master Fund, Ltd., Valens U.S. SPV I, LLC, PSource Structured Debt Limited and StockerYale, Inc. is incorporated by reference to Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 000-27372).
10.104	Amendment No. 1 to Common Stock Purchase Warrant No. 2003-2 (Issue Date: February 20, 2004), dated as of March 31, 2008, by and between PSource Structured Debt Limited and StockerYale, Inc. is incorporated by reference to Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 000-27372).
10.105	Amendment No. 1 to Common Stock Purchase Warrant No. 2003-1 (Issue Date: June 10, 2004), dated as of March 31, 2008, by and between PSource Structured Debt Limited and StockerYale, Inc. is incorporated by reference to Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 000-27372).
10.106	Amendment No. 1 to Common Stock Purchase Warrant No. 12082004-1 (Issue Date: December 8, 2004), dated as of March 31, 2008, by and between PSource Structured Debt Limited and StockerYale, Inc. is incorporated by reference to Exhibit 10.5 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 000-27372).
10.107	Amendment No. 1 to Common Stock Purchase Warrant No. 1 (Issue Date: July 13, 2005), dated as of March 31, 2008, by and among Valens U.S. SPV I, LLC, Valens Offshore SPV II, Corp., PSource Structured Debt Limited and StockerYale, Inc. is incorporated by reference to Exhibit 10.6 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 000-27372).
10.108	Amendment to Instrument Constituting US$4,750,000 10% Senior Fixed Rate Secured Bond, dated as of May 30, 2008, by and between Mark Hawtin and StockerYale (UK) Limited is incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 000-27372).

Exhibit No.	Description of Document
10.109	Common Stock Purchase Warrant, dated as of May 30, 2008, issued by StockerYale, Inc. to Mark Hawtin is incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 000-27372).
10.110	Instrument Constituting Euro 935,000 12% Senior Fixed Rate Secured Bond, dated as of July 24, 2008, issued by StockerYale (IRL) Ltd. to Mark Hawtin is incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 000-27372).
10.111	Common Stock Purchase Warrant, dated as of July 24, 2008, issued by StockerYale, Inc. to Mark Hawtin is incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 000-27372).
10.112	Form of Stock and Warrant Purchase Agreement, dated December 24, 2008, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 29, 2008 (File No. 000-27372).
10.113	Form of Common Stock Purchase Warrant, dated December 24, 2008, is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 29, 2008 (File No. 000-27372).
10.114	Stock and Warrant Purchase Agreement, dated December 24, 2008, by and between Lewis Opportunity Fund LP and StockerYale, Inc. is incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on December 29, 2008 (File No. 000-27372).
10.115	Amendment Regarding Instrument Constituting US$4,750,000 10% Senior Fixed Rate Secured Bond, dated as of October 31, 2008, by and between Mark Hawtin and StockerYale (UK) Limited is incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on December 29, 2008 (File No. 000-27372).
10.116	Omnibus Amendment, dated as of July 31, 2008, by and between Valens Offshore SPV I, Ltd., LV Administrative Services, Inc., PSource Structured Debt Limited and StockerYale, Inc.
10.117	Omnibus Amendment, dated as of November 20, 2008, by and between Valens Offshore SPV I, Ltd., LV Administrative Services, Inc., PSource Structured Debt Limited and StockerYale, Inc.
10.118	Omnibus Amendment, dated as of December 22, 2008, by and between Valens U.S. SPV I, LLC, LV Administrative Services, Inc. and StockerYale, Inc.
10.119	Agreement Regarding Instrument Constituting US$4,750,000 10% Senior Fixed Rate Secured Bond, dated as of January 13, 2009, by and between Mark Hawtin and StockerYale (UK) Limited.
10.120	First Amendment to Stock and Warrant Purchase Agreement, dated as of March 23, 2009 by and between Lewis Opportunity Fund LP and StockerYale, Inc.

EXHIBIT INDEX

Exhibit No.	Description of Document
14	Amended and Restated Code of Business Conduct and Ethics is incorporated herein by reference to Exhibit 14 of the Registrant's Annual Report on Form 10-K filed on March 31, 2006 (File No. 000-27372).
21	Subsidiaries of the Registrant.
23	Consent of Vitale, Caturano & Company, P.C.
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.

* Management contract or compensatory plan or arrangement filed in response to Item 13 of Form 10-K.

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