Financial Statements

December 31, 2009 and 2008

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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, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity (deficit) 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, 2009 and 2008, 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.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2009, the Company adopted ASC topic 815-40-15 and changed its accounting for certain warrants.

/s/ Caturano and Company, P.C.

CATURANO AND COMPANY, P.C.
Boston, Massachusetts
March 26, 2010

FINANCIAL STATEMENTS

STOCKERYALE, INC.

CONSOLIDATED BALANCE SHEETS

Years Ended December 31	**2009**	**2008**
	In thousands (except share and per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 4,478	$ 1,635
Restricted cash	-	7
Accounts receivable, less allowances of $5 in 2009 and $18 in 2008	1,473	1,673
Inventories	1,282	1,418
Prepaid expenses and other current assets	502	114
Current assets – discontinued operations	-	4,900
Total current assets	7,735	9,747
Net property, plant and equipment	3,835	4,241
Goodwill	508	4,410
Acquired intangible assets, net	1,260	1,795
Other long-term assets	38	436
Long-term assets – discontinued operations	-	6,813
Total assets	$ 13,376	$ 27,442
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Current portion of long-term debt, net of unamortized discount of $358 in 2009 and $856 in 2008	$ 3,798	$ 4,118
Revolver	568	3,869
Capital lease obligations	85	119
Current portion of financing lease obligations	413	444
Accounts payable	1,142	2,829
Accrued expenses	1,117	916
Current liabilities – discontinued operations	-	2,638
Total current liabilities	7,123	14,933
Long-term debt, net of unamortized discount of $193 in 2009 and $658 in 2008	3,281	6,372
Capital lease obligations, net of current portion	24	95
Financing lease obligations, net of current portion	3,196	3,225
Deferred income taxes	67	486
Long-term liabilities – discontinued operations	-	52
Commitments and contingencies (Note 15)		
Stockholders' equity (deficit):		
Common stock, par value $0.001 shares authorized 100,000,000; 44,616,458 shares issued and outstanding at December 31, 2009 and 43,464,413 at December 31, 2008	45	43
Paid-in capital	103,048	103,270
Accumulated deficit	(103,526)	(103,552)
Accumulated other comprehensive income	118	2,518
Total stockholders' equity (deficit)	(315)	2,279
Total liabilities and stockholders' equity	$ 13,376	$ 27,442

See the notes to consolidated financial statements.

STOCKERYALE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31	2009	2008
	In thousands (except per share amounts)	
Revenue	$ 10,456	$ 14,751
Cost of sales	7,298	10,112
Gross profit	3,158	4,639
Operating expenses:		
Selling	1,598	1,931
General and administrative	4,082	5,860
Amortization of intangibles	694	999
Research and development	555	536
Asset impairment	4,377	-
Total operating expenses	11,306	9,326
Loss from operations	(8,148)	(4,687)
Other income (expense)	928	(3,029)
Interest expense	(393)	(263)
Amortization of debt discount and financing costs	(1,704)	(2,183)
Loss from continuing operations before income tax benefit	(9,317)	(10,162)
Income tax benefit	(3,966)	(367)
Loss from continuing operations	$ (5,351)	$ (9,795)
Loss from discontinued operations, net of tax	(701)	(490)
Gain on sale of discontinued operations, net of tax	4,875	-
Income / (loss) from discontinued operations	4,174	(490)
Net loss	$ (1,177)	$ (10,285)
Basic and diluted net loss per share from continuing operations	(0.12)	(0.25)
Basic and diluted net loss per share from discontinued operations	(0.02)	(0.01)
Basic and diluted net income per share from gain on sale of discontinued operations	0.11	-
Basic and diluted net loss per share	(0.03)	(0.27)
Basic and diluted weighted average shares outstanding	43,641	38,523

See the notes to consolidated financial statements.

STOCKERYALE, INC.

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

(in thousands)

	Common Stock						
	Shares	Par $0.001	Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)	Comprehensive Income (Loss)
Balance December 31, 2007	38,556	$ 39	$ 99,698	(93,267)	3,029	$ 9,499	
Sale of common stock and warrants, net of issuance costs of $81	2,254	2	551			553	
Issuance of common stock and warrants for financings…………………	100		867			867	
Issuance of common stock to secure financing commitment	1,629	2	959			961	
Issuance of restricted stock, net of forfeitures, and share-based compensation	(51)	-	735			735	
Issuance of common stock to settle liabilities....................	976		460			460	
Cumulative translation adjustment					(511)	(511)	(511)
Net loss.....................................				(10,285)		(10,285)	(10,285)
Comprehensive net loss for the year ended December 31, 2008....................................							$ (10,796)
Balance December 31, 2008	43,464	$ 43	$ 103,270	$ (103,552)	$ 2,518	$ 2,279	
Cumulative effect of change in accounting principle – January 1, 2009 reclassification of warrants to liability (Note 2)			(1,495)	1,203		(292)	
Sale of common stock with warrants, net of issuance costs of $0	10	-	13			13	
Issuance of warrants for financings…………………	-		38			38	
Reclassification of warrant liability to equity (Note 2) ..			242			242	
Cancellation of previously issued restricted stock, and share-based compensation, net of forfeitures	(338)	-	612			612	
Issuance of common stock to settle liabilities....................	1,480	2	368			370	
Recognition of currency translation adjustment upon sale					(2,601)	(2,601)	
Cumulative translation adjustment					201	201	201
Net loss.....................................				(1,177)		(1,177)	(1,177)
Comprehensive net loss for the year ended December 31, 2009....................................							$ (976)
Balance December 31, 2009	44,616	$ 45	$ 103,048	$ (103,526)	$ 118	$ (315)	

See the notes to consolidated financial statements.

STOCKERYALE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31	2009	2008
	In thousands	In thousands
Operations		
Net loss	**$ (1,177)**	**$ (10,285)**
Loss from discontinued operations, net of tax	(701)	(490)
Gain on sale of discontinued operations, net of tax	4,875	-
Loss from continuing operations	**(5,351)**	**(9,795)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	514	508
Depreciation and amortization	1,213	1,657
Amortization of debt discount and financing costs	1,704	2,183
Non cash interest expense	211	283
(Gain) / loss on disposal of assets	(29)	85
Asset impairment	4,377	-
Provision for inventories	39	55
Provision for bad debts	16	46
Change in fair value of warrant liability	(50)	-
Deferred taxes	(3,944)	(308)
Other change in assets and liabilities:		
Accounts receivable	175	(237)
Inventories	153	(91)
Prepaid expenses and other current assets	(303)	104
Accounts payable	(1,791)	1,590
Accrued expenses	590	(375)
Other assets and liabilities	18	260
Net cash used in continuing operations	**(2,458)**	**(4,035)**
Net cash used in discontinued operations	(17)	(40)
Net cash used in operating activities	**(2,475)**	**(4,075)**
Investing		
Proceeds from disposal of assets	-	12
Financing obligation payments	(271)	(254)
Purchase of property, plant and equipment	(64)	(164)
Net cash used in continuing operations	**(335)**	**(406)**
Net cash provided by (used in) discontinued operations	13,010	(191)
Net cash provided by (used in) investing activities	**12,675**	**(597)**
Financing		
Net proceeds from sale of common stock	13	553
Borrowings of revolving credit facilities, net	(3,372)	1,107
Proceeds from long-term debt issuance	500	1,959
Principal repayment of long-term debt	(4,658)	(1,589)
Decrease (increase) in restricted cash	7	-
Debt acquisition costs	(400)	(21)
Net cash provided by (used in) continuing activities	**(7,910)**	**2,009**
Net cash provided by (used in) discontinued operations	(62)	11
Net cash provided by (used in) financing activities	**(7,972)**	**2,020**
Effect of exchange rate on cash	615	2,710
Net change in cash and equivalents	2,843	58
Cash and equivalents at beginning of year	1,635	1,577
Cash and equivalents at end of year	**$ 4,478**	**$ 1,635**
Supplemental of cash flow information:		
Cash paid for interest	$ 450	$ 146
Cash paid for income tax	-	4
Fair value of restricted stock issued	-	114
Common stock and warrants issued in connections with financings	$ 528	$ —
Issuance of common stock to settle liabilities	$ 370	$ 460
Common stock issued in connection with financings	$ -	$ 961
Warrants issued in connection with financings	$ 38	$ 420
Assets acquired under lease arrangements	$ 371	$ 202

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 two segments: as an independent designer and manufacturer of LED systems; 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 Pink OTC Market under the trading symbol "STKR.PK"

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, 2009 and 2008, the Company recorded net losses of $1,177,000 and $10,285,000, respectively. Net use of cash flow from continuing operations for the same time periods were $2,458,000 and $4,035,000, respectively. 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. As a result of the Company's reduced debt levels and its focus on two core business segments, management believes that it has adequate capital to sustain current operations through December 31, 2010.

On October 13, 2009, the Company and its wholly owned subsidiary, StockerYale Canada, Inc. ("SYC"), sold substantially all North American assets and rights of SYC and the Company's specialty optical fiber product line to Coherent Inc. The sale price consisted of a cash payment of $15,000,000 (of which $750,000 was placed in escrow for one year) and the assumption of certain liabilities, including approximately $3,425,000 of accounts payable, accrued expenses and other obligations associated with the assets sold. Proceeds from the transaction were used to pay off in full all obligations owed to Laurus Master Fund, Ltd. and its related entities (approximately $7,900,000 including fees), fees related to the transaction of approximately $1,100,000, the settlement of various obligations of approximately $950,000, and for working capital and general corporate purposes for the Company's ongoing and future operations. In addition, the financial statements present the entities sold as discontinued operations. As a result of the sale, the company recognized a gain of approximately $2,601,000 related to the deferred currency translation adjustmentof StockerYale Canada, Inc. subsidiary at the time of the sale. This is reported as a part of the gain from discontinued operations.

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

On October 7, 2009 the Company and its wholly owned subsidiary, StockerYale UK Limited, amended the bonds held by the former shareholders of Photonic Products Ltd. which were originally scheduled to mature on October 31, 2009. The amendment deferred principal amounts originally due October 31, 2009 to a monthly payment schedule over the period from November 1, 2009 through October 31, 2010 and increased the interest rate. See Note 8.

(2) 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 15 for information about the Company's sale of the assets in 2009, including those of StockerYale Canada. 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.

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.
Changes in the allowance for doubtful accounts were as follows:

Years Ended December 31	2009	2008
	In thousands	
Balance at beginning of period	$ 18	$ -
Charges to costs and expenses	16	46
Account write-offs and other deductions	(29)	(28)
Balance at end of period	$ 5	$ 18

INVENTORY

The Company values inventories at the lower of cost or market using the first in, first-out ("FIFO") method. The Company periodically reviews the quantities of inventory on hand and compares these amounts to the expected usage for each particular product or product line. The Company records as a charge to cost of sales any amounts required to reduce the carrying value amount of the inventory to net realizable value. Actual results could be different from management's estimates and assumptions.

INTANGIBLE ASSETS

The Company's intangible assets consist of goodwill, 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. The Company is monitoring the operating performance of its reporting units and other market factors. Goodwill is tested for impairment on an annual basis, and between annual tests in certain circumstances, and written down when impaired. The Company has elected the end of the fourth quarter to complete its annual goodwill impairment test.

LONG-LIVED ASSETS

The Company reviews the recoverability of its long-lived assets including property, plant and equipment and amortizing intangible assets 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 the Company's ability to recover the carrying value of the assets from expected undiscounted future cash flows. If impairment is indicated, the Company measures the loss based on the difference between the carrying value and fair value of the asset using various valuation techniques including discounted cash flows. 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.

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.

As of December 31, 2009, 3,005,098 shares underlying options and 8,042,938 shares underlying warrants were excluded from the calculation of diluted shares, as their effects were anti-dilutive. Unvested shares of restricted stock, totaling 490,689, were also not included in the calculation as their effect would be anti-dilutive.

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. Unvested shares of restricted stock, totaling 1,368,394, were also not included in the calculation as their effect would be anti-dilutive.

REVENUE RECOGNITION

The Company recognizes revenue from sales of products and funded research and development and product development for commercial companies and government agencies, net of applicable sales tax. The Company recognizes revenue from product sales at the time of shipment and when persuasive evidence of an arrangement exists, performance of the Company's obligation is complete, the price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company's custom products are 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.

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 performance 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.

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

WARRANTY

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

Warranty Reserves:

	Years Ended December 31,	
	2009	2008
	In thousands	
Balance at beginning of period	$ 116	$ 98
Charges to costs and expenses	29	47
Account write-offs and other deductions	(47)	(29)
Balance at end of period	$ 98	$ 116

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at the lower of cost or estimated carrying values. The Company provides for depreciation on a straight-line basis over the assets estimated useful lives or lease terms, if shorter. The following table summarizes the estimated useful lives by asset classification:

Asset Classification	Estimated Useful Life
Building and building improvements	10 to 40 years
Computer equipment	3 to 5 years
Machinery and equipment	5 to 10 years
Furniture and fixtures	3 to 10 years

Total depreciation expense from continuing operations of property, plant and equipment was approximately $0.5 million and $0.6 million in 2009 and 2008. Maintenance and repairs are expensed as incurred.

INCOME TAXES

The Company accounts for income taxes under the liability method. Under this method the Company recognizes 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. Additional information on the Company's income tax provision and deferred tax assets and liabilities may be found at Note 9.

STOCK-BASED COMPENSATION

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

Additionally, in the case of incentive stock options, the exercise price may not be less than 100% of the fair market value of the Company's common stock on the date of grant, except in the case of a grant to an employee who owns or controls more than 10% of the combined voting power of all classes of the Company's stock or the stock of any parent or subsidiary. In that case, the exercise price shall not be less than 110% of the fair market value on the date of grant. In the case of non-qualified stock options, the exercise price shall not be less than 85% of the fair market value of the Company's common stock on the date of grant, except in the case of a grant to an independent director; in which case the exercise price shall be equal to fair market value determined by reference to market quotations on the date of grant.

During 2009, the Company recognized approximately $514,000 of equity-based compensation related to restricted stock and options, of which approximately $512,000 was expensed to general and administrative expense, and approximately $2,000 was expensed to selling expense. During 2008, the Company recognized approximately $508,000 of equity-based compensation related to restricted stock and options, of which approximately $506,000 was expensed to general and administrative expense, and approximately $2,000 was expensed to selling expense.

***Stock Option Awards*—**The fair value of each option grant is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of the Company's stock at the time of the award. The average expected option term was estimated

using the simplified method. The risk-free interest rate is based on U.S. Treasury zero-coupon issues assumed at the date of grant and no dividends were assumed in the calculation. The compensation expense recognized for all equity-based awards is net of estimated forfeitures for the twelve month periods ending December 31, 2009 and 2008. Forfeitures are estimated based on the historical trends.

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

On March 17, 2008, the GNCC adopted a stock option incentive program for 2008. The GNCC adopted a policy of granting performance-based options to purchase shares of the Company's common stock to various executive officers and key employees; all of which were subject to the achievement of performance goals. As the performance goals were not met, the options immediately terminated and the previously accrued compensation cost of approximately $490,000 was reversed in the fourth quarter of 2008, resulting in no net compensation recorded in 2008 related to the program. Options to purchase a total of 1,522,300 shares of common stock were granted under this performance-based program on March 17, 2008, all of which were forfeited when the performance goals were not met.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The weighted average assumptions for grants during the years ended December 31, 2009 and December 31, 2008 were as follows:

	Twelve months Ended December 31, 2009	Twelve months Ended December 31, 2008
Volatility…………………………………………..	101.4%-104.8%	99.2%
Expected option life……………………………	6.08 years	5.7 years
Interest rate (risk free)………………………….	1.54%-2.86%	2.49%
Dividends……………………………………….	N/A	N/A
Weighted average grant date fair value………...	$0.12	$0.39

	Options Outstanding	**Weighted Average Exercise Price per Share**	**Weighted Average Remaining Contractual Term (in Years)**	**Aggregate Intrinsic Value (in thousands)**
Balance at December 31, 2007	2,422,617	4.76	4.16	185
Granted..	2,314,572	0.50		
Exercised...	-	-		
Cancelled	(1,749,300)	1.66		
Balance at December 31, 2008	2,987,889	3.45	4.58	-
Vested and Exercisable at December 31, 2008..	2,195,617	4.26	3.21	-
Balance at December 31, 2008	2,987,889	3.45	4.58	-

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Granted	2,906,996	0.15		
Exercised	-	-		
Cancelled	(2,889,787)	0.55		
Balance at December 31, 2009	3,005,098	2.87	5.56	-
Vested and Exercisable at December 31, 2009	1,810,651	4.44	3.28	-

At December 31, 2009, there was $100,000 of total unrecognized compensation cost related to non-vested stock options granted. The cost is expected to be recognized over the next 1.5 years. At December 31, 2008, there was $213,000 of total unrecognized compensation cost related to non-vested stock options granted. The cost was expected to be recognized over the next 1.6 years. Total stock option expense booked in 2009 and 2008 was approximately $104,000 and $90,000, respectively. There were no options exercised during 2009 and 2008.

Restricted Share Awards— The Company periodically awards to a number of key employees restricted shares of common stock. The awards vest in equal annual installments over a period of four years, assuming continued employment, with some exceptions. The fair market value of the award at the time of the grant is amortized over the vesting period. The fair value of the awards is based on the fair market value of the Company's common stock on the date of issue, which is the closing market price on the date of the award. During 2009, the Company did not grant any shares of restricted stock. During 2008, the Company granted 165,000 shares of restricted stock at a weighted average fair value of $0.69 per share on the grant date.

A summary of the status of the Company's non-vested shares of restricted stock for 2009 and 2008 and changes during 2009 and 2008 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at December 31, 2007	2,057,998	1.22
Granted	165,000	0.69
Vested	(629,354)	1.17
Cancelled	(225,250)	1.27
Non-Vested at December 31, 2008	1,368,394	1.17
Granted	-	-
Vested	(539,674)	1.12
Cancelled	(338,031)	1.29
Non-Vested at December 31, 2009	490,689	1.15

As of December 31, 2009, there was approximately $437,000 of total unrecognized compensation cost related to non-vested restricted share awards. The cost is expected to be recognized over the next 1.3 years. As

of December 31, 2009, 1,626,443 shares were vested. As of December 31, 2008, 1,086,769 shares were vested. The total fair value of shares vested during 2009 and 2008 was approximately $604,000 and $739,000. Total compensation from continuing operations booked in 2009 and 2008 was approximately $410,000 and $418,000, respectively.

TRANSLATION OF FOREIGN CURRENCIES

The Company translates the financial statements of its foreign subsidiaries. The functional currency of the foreign subsidiaries is the local country's currency. 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. Accordingly, 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. All cumulative translation gains or losses from the translation into the Company's reporting currency are included as a separate component of stockholder's equity (accumulated other comprehensive loss) in the accompanying consolidated balance sheets. Foreign currency transaction (gains)/losses from continuing operations recorded in the statements of operations as other (income)/expense were approximately $(1,367,000) and $2,737,000 for 2009 and 2008.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist mainly of cash and cash equivalents, accounts receivable, short-term debt, accounts payable and long-term debt. The estimated fair value of these financial instruments approximates their carrying value due to the short-term maturity of certain instruments and the variable interest rates associated with certain instruments, which have the effect of re-pricing such instruments regularly. As of December 31, 2009, the Company estimated the fair value of long term fixed rate debt to be approximately $9,700,000 compared to its carrying value of $7,800,000.

WARRANTS

On October 26, 2006, the Company issued warrants for the purchase of 2,375,000 shares of the Company's common stock, which had exercise price reset features. These warrants have an exercise price of $1.15 and expire in October 2016. The Company adopted FASB guidance on January 1, 2009 under which certain warrants that were previously treated as stockholders' equity under the derivative treatment exemption were no longer eligible for equity treatment. Effective January 1, 2009, the fair value of these common stock purchase warrants was reclassified from equity to liability status as if these warrants were treated as a derivative liability since their date of issue in October 2006. On January 1, 2009, the Company reclassified from additional paid-in capital, as a cumulative effect adjustment, $1.2 million to beginning retained earnings and $0.3 million to a long-term warrant liability. On October 31, 2009, the fair market value of these warrants, approximately $242,000, was reclassified as equity, as the repricing feature of the warrant had lapsed per the agreement. The Company recognized a gain of approximately $50,000 from the change in fair value of these warrants for the year ended December 31, 2009.

The common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants did not qualify for hedge accounting, therefore all changes in the fair value of these warrants was recognized in earnings until reclassified to equity in October, 2009.

These common stock purchase warrants do not trade in an active securities market, and the Company estimated the fair value of these warrants using the Black-Scholes option pricing model using the following assumptions:

	October 31, 2009	January 1, 2009
Volatility	137.8%	101.4%
Expected option life	7.0 years	7.8 years
Interest rate (risk free)	3.41%	2.46%
Dividends	$0.0	$0.0

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, United Kingdom, Europe and Asia. The Company 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 2009 or 2008. The Company has no customer that accounted for 10% of the outstanding receivables balance at December 31, 2009 or December 31, 2008.

The Company maintains 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.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition. In October 2009, the Financial Accounting Standards Board (FASB) issued revenue recognition guidance for arrangements with multiple deliverables. The new guidance eliminates the residual method of revenue recognition and allows the use of management's best estimate of selling price for individual elements of an arrangement when vendor specific objective evidence (VSOE), vendor objective evidence (VOE) or third-party evidence (TPE) is unavailable. For the Company, this guidance is effective for all new or materially modified arrangements entered into on or after January 1, 2011 with earlier application permitted as of the beginning of a fiscal year. Full retrospective application of the new guidance is optional. The Company adopted this guidance effective January 1, 2009, and there was no impact on its consolidated financial position.

Business Combinations. In December 2007, the FASB issued new guidance on business combinations. This guidance establishes principles and requirements for how the Company: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The business combinations guidance also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. This guidance 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. The Company adopted the business combination guidance on January 1, 2009 and will only impact the Company if any acquisitions are completed subsequently.

In April 2009, the FASB issued guidance relating to accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. This pronouncement amends the guidance on business combinations to clarify the initial and subsequent recognition, subsequent accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This pronouncement requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, as determined in accordance with the fair value measurements guidance, if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized in accordance with the accounting guidance for contingencies. This pronouncement became effective for the Company as of January 1, 2009, and the provisions of the pronouncement are applied prospectively to business combinations with an acquisition date on or after the date the guidance became effective. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

Fair Value Measurements and Disclosures. In April 2009, the FASB issued additional guidance on fair value measurements and disclosures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. The new guidance requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has been a significant decrease in activity, transactions or quoted prices may not be indicative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant, observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. This guidance, which was applied by the Company prospectively as of June 30, 2009, did not impact the Company's results of operations, cash flows or financial position.

In August 2009, the FASB issued additional guidance on the fair value measurement of liabilities. The new guidance provides clarification on the measurement and reporting of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. This guidance was effective for the reporting period beginning October 1, 2009. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

Derivatives and Hedging. In March 2008, the FASB issued new disclosure requirements for derivative instruments and hedging activities. The new disclosure requirements will provide users of financial statements with an enhanced understanding of: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for; and (3) how derivative instruments and

related hedged items affect an entity's financial position, financial performance and cash flows. This guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments. This statement applies to all entities and all derivative instruments. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this guidance on January 1, 2009 and it did not impact the Company's results of operations, cash flows or financial position.

In June 2008, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) which 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 to derivative accounting. The Company adopted this guidance as of January 1, 2009 and it did not have a material impact on the Company's consolidated financial statements.

Financial Instruments. In April 2009, the FASB issued guidance to require disclosures about fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required. This guidance was applied by the Company as of June 30, 2009 and it did not have a material impact on the Company's results of operations, cash flows or financial position.

Subsequent Events. In May 2009, the FASB issued guidance on subsequent events which establishes general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance is based on the same principles as currently exist in auditing standards and was issued by the FASB to include accounting guidance that originated as auditing standards into the body of authoritative literature issued by the FASB. The standard addresses the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted this guidance during the quarterly period ended June 30, 2009.

(4) INVENTORIES

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

Years Ended December 31	**2009**	**2008**
	In thousands	
Finished goods	$ 204	$ 198
Work in-process	131	130
Raw materials	947	1,090
Net inventories	$ 1,282	$ 1,418

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

(5) PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment were as follows:

Years Ended December 31	2009	2008
	In thousands	
Land	$ 306	$ 306
Buildings and improvements	5,897	5,946
Machinery and equipment	2,414	2,325
Furniture and fixtures	1,029	995
Property, plant and equipment	$ 9,646	$ 9,572
Less accumulated depreciation	(5,811)	(5,331)
Net property, plant and equipment	$ 3,835	$ 4,241

Depreciation expense from continuing operations was approximately $510,000 and $624,000 in the years ended December 31, 2009 and 2008, respectively.

(6) GOODWILL

The Company uses a two-part impairment test in which it first estimates the fair value of its reporting units by using forecasts of discounted cash flows and then compares that value to the carrying value which requires that certain assumptions and estimates be made regarding industry economic factors and future profitability of reporting units to assess the need for an impairment charge. The methodology the Company uses to allocate certain corporate expenses is based on each segments use of services and/or direct benefit to its employees. 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 actual versus forecast results. If the estimated value is less than the carrying value the Company moves to the second step of the impairment test to determine if goodwill is impaired.

In connection with the annual fair value test of goodwill, performed at the end of the fourth quarter 2009, the Company concluded that an impairment of goodwill in the Photonic Products segment existed. The Company determined the carrying value of the reporting unit was in excess of its fair value. Based on the second step, the Company concluded that the entire balance of goodwill was impaired. The Company recorded a non-cash goodwill impairment charge of $4.4 million.

The changes in the carrying amount of goodwill for the years ended December 31, 2009 and 2008 was as follows:

	December 31, 2009	December 31, 2008
	(In thousands)	
Beginning of the year	$ 4,410	$ 5,891
Effect of exchange rate	475	(1,481)
Impairment charge	(4,377)	-
End of year	$ 508	$ 4,410

Goodwill as of December 31, 2009 relates to the LED reporting unit.

(7) INTANGIBLE ASSETS

Intangible assets consist of trademarks, acquired patents and patented technologies, distributor and customer relationships and related contracts, trade and brand names and associated logos, technology design and programs, non-compete agreements and other intangible assets. There are no intangible assets with indefinite lives. There were no intangible assets acquired in 2009. Intangible assets and their respective useful lives are as follows:

	Useful Life
Acquired trade name	8 Years
Acquired customer contracts and relationships	5 – 8 Years
Acquired non compete agreements	3 Years
Acquired technology design and programs	8 Years
Scheduled order listing	3 Years
Other	4 – 7 Years

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

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

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of December 31, 2008 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Net Balances
		(in thousands)	
Acquired patents, patented technology and purchased technology	$ 1,531	$ (1,469)	$ 62
Trademarks	171	(171)	-
Acquired trade name	438	(118)	320
Acquired customer contracts and relationships	1,779	(796)	983
Acquired non compete agreement	576	(416)	160
Acquired technology design and programs	301	(82)	219
Other	98	(47)	51

	Gross Carrying Amount	Accumulated Amortization	Net Balances
		(in thousands)	
Total	$ 4,894	$ (3,099)	$ 1,795

	Actual Expense		Estimated Future Expense					
	2008	2009	2010	2011	2012	2013	2014	Thereafter
			In thousands					
Amortization expense of intangible assets	$ 999	$ 1,087	$ 402	$ 333	$ 186	$ 186	$ 153	$ -

(8) DEBT

Years Ended December 31	2009	2008
	In thousands	
Acquired note payable to Barclay's Bank, paid in full at December 31, 2009. At December 31, 2008 having an interest rate of 2.65% above Barclay's base rate (3.15% at December 31, 2008).	$ -	$ 22
Borrowings under Revolving Credit facility with Barclay's Bank Sales Financing with an interest rate of 2.55% above Barclay's base rate (3.05% as of December 31, 2009).	568	710
Borrowings under Line of Credit Agreement with Laurus Master Fund, Ltd., paid in full at December 31, 2009. At December 31, 2008 having an interest rate of the prime rate plus 1% (4.25% at December 31, 2008).	—	3,159
Notes Payable to Laurus Master Fund, Ltd. and affiliates originally maturing on June 30, 2010, with an interest rate of prime plus 2%, and paid in full at December 31, 2009. Net of unamortized discount of $460 at December 31, 2008..	—	2,690
Note Payable to an affiliate of Laurus Master Fund, Ltd. paid in full at December 31, 2009. At December 31, 2008 having an interest rate of 10.5%, net of unamortized discount of $90 ..	—	676
Senior Fixed Rate Secured Bond to a private investor with an interest rate of 12%, maturing on July 30, 2011 net of unamortized discount of $91 at December 31, 2009 and $166 at December 31, 2008	2,312	1,028
Senior Fixed Rate Secured Bond payable to a private investor, maturing on October 31, 2011 with an interest rate of 10%, net of unamortized discount of $460 at December 31, 2009 and $798 at December 31, 2008	2,581	3,674
Bonds payable to the former stockholders of Photonic Products Ltd. maturing on November 30, 2010, with an interest rate of 7%, at December 31, 2009 and with an interest rate of LIBOR plus 1% (3.22%) at December 31, 2008.	2,186	2,400
Sub-total debt	7,647	14,359
Less – revolver	(568)	(3,869)
Less—Current portion of long-term debt, net of discount	(3,798)	(4,118)
Total long-term debt	$ 3,281	$ 6,372

BORROWING AGREEMENTS

Photonic Products Ltd.

StockerYale (UK) Ltd., a wholly owned subsidiary of the Company, issued bonds to each of the former stockholders of Photonic Products Ltd. with an aggregate initial principal amount equal to $2,400,000. Under the terms of issuance, the outstanding principal accrued interest at an annual rate of 1% above the LIBOR rate as determined on the first business day of each month. All unpaid principal plus accrued but unpaid interest under the bonds was originally due and payable on October 31, 2009.

On October 7, 2009, the Company and StockerYale (UK) Ltd. entered into a Deed of Variation with the bondholders in which the Company and StockerYale (UK) Ltd. agreed: a) to make principal payments to one of the bondholders of $120,000 on October 31, 2009 and $120,000 on January 8, 2010 plus monthly payments of simple interest at an annual rate of 7% on the outstanding amounts until paid ; and (b) to make monthly payments to each of the other two bondholders in the aggregate amount of $47,000 on the last day of each calendar month, beginning on November 30, 2009 and to continue until and including October 31, 2010 plus monthly payments of simple interest at an annual rate of 7% to be made on the last day of each month beginning on November 30, 2009 through November 30, 2010 when a balloon payment of $1,596,000 will be due.

StockerYale (UK) Ltd. may elect to prepay the bonds at any time, in whole or in part, without penalty or premium. If StockerYale (UK) Ltd. fails to make any payments under the bonds, the former stockholders of Photonic Products Ltd. may have the right to require payment from the Company in the form of newly issued shares of the Company's common stock.

As of December 31, 2009, $2,186,000 was outstanding under the bonds issued to the stockholders of Photonic Products Ltd., which has been recorded as current portion of long-term debt.

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

Laurus Master Fund

On October 14, 2009, the Company paid in full its obligations to Laurus Master Fund, Ltd. and its affiliates described below. As discussed in Note 1, approximately $7,900,000 of the proceeds from the October 13, 2009 sale were used to repay approximately $7,060,000 of borrowings under the line of credit and notes payable with Laurus along with $645,000 of related deferred fees and $173,000 of accrued interest on October 14, 2009.

Line of Credit Agreement:

On June 28, 2006, the Company entered into a Security and Purchase Agreement, as amended at various times through October 13, 2009, with Laurus Master Fund, Ltd ("Laurus"), establishing a three-year revolving line of credit of up to $4 million limited to qualifying receivables and inventories as defined in the agreement. The Security and Purchase Agreement granted a security interest in and lien upon all of the Company's assets in favor of Laurus. The note could be prepaid at any time without penalty or premium.

On April 16, 2009, the Company and Laurus entered into an agreement, effective March 31, 2009, to extend the overadvance of $500,000 by amending the note. The amendment grants a fee, payable in cash, to Laurus of $400,000 on June 30, 2010. This $400,000 was expensed in 2009.

On July 28, 2009, the Company entered into a Waiver and Amendment with Laurus and its affiliates, dated as of July 16, 2009, to amend the line of credit under the Security and Purchase agreement and the Term Note Payable. The Waiver and Amendment extended the due date of the line of credit from June 28, 2009 to October 15, 2009 and revised the interest rate on the outstanding balance to 10% per annum. As discussed above, this obligation was included in the $7,060,000 of borrowings repaid on October 14, 2009.

At December 31, 2009, the line of credit was paid in full.

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

Term Note Payable:

On December 30, 2005, under the terms of a Securities Purchase Agreement, as amended at various times through October 13, 2009, the Company issued a secured term note in the aggregate principal amount of $4 million to Laurus. The note was collateralized by certain assets of the Company.

On July 28, 2009, the Company entered into a Waiver and Amendment with Laurus and its affiliates, dated as of July 16, 2009, to amend the line of credit under the Security and Purchase agreement and the Term Note Payable. The Waiver and Amendment allowed the Company to defer principal payments between June 1, 2009 through October 1, 2009 which was due and payable on October 15, 2009 and revised the interest rate on the outstanding balances to 12% per annum. As discussed above, this obligation was included in the $7,060,000 of borrowings repaid on October 14, 2009.

At December 31, 2009, the combined notes were paid in full.

At December 31, 2008, $3,916,671 was outstanding under the combined notes, which was 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 was classified as $418,176 short-term and $132,618 long-term.

Private Investor Notes and Bond

Photonic Products Ltd. Financing

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

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

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

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

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

StockerYale Ireland Senior Fixed Rate Secured Bond

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

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

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

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

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

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 ($1,115,000) 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. On June 26, 2009, Photonic Products agreed to amend the terms of the Agreement with Barclay’s. Under the amended terms, the maximum amount allowed outstanding under the line of credit is £650,000 ($1,035,000 USD). The outstanding principal under the note accrues interest at an annual rate of 2.65% above Barclay’s base rate. The interest rate was 3.15% as of December 31, 2009. 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, 2009, $568,000 was outstanding under the facility, all of which was classified as short term debt under revolving lines of credit. The Company was in technical default on December 31, 2009. The company entered into an amendment on March 8, 2010 to waive this default.

(9) TAXES

The Company had net deferred tax assets totaling $29.6 million as of December 31, 2009 and $26.9 million as of December 31, 2008. 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, 2009.

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, 2009, the Company did not have any tax examinations in process.

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

	2009	2008
	In thousands	
Years Ended December 31,		
Current		
Federal	$ (3,644)	$ —
State	—	—
Foreign	—	—
Sub-total	(3,644)	—
Deferred		
Federal	—	—
State	—	—
Foreign	(322)	(367)
Sub-total	(322)	(367)
Total	$ (3,966)	$ (367)

The income tax (benefit) / provision included in the accompanying statement of operations is as follows:

	2009	2008
	In thousands	
Years Ended December 31,		
Continuing Operations	$ (3,966)	$ (367)
Discontinued Operations	3,644	—
Total	$ (322)	$ (367)

The following is a reconciliation of the federal income tax benefit for continuing operations calculated at the statutory rate of 34% to the recorded amount:

	2009	2008
	In thousands	
Years Ended December 31,		
Applicable statutory federal income tax benefit	$ (3,168)	$ (3,648)
State income taxes, net of federal income tax benefit	(494)	(569)
Non-deductible items	173	199
Foreign tax rate differential	19	22
Other	(81)	(89)
Valuation allowance	(415)	3,718
Net income tax benefit	$ (3,966)	$ (367)

The significant items comprising the deferred tax asset and liability at December 31, 2009 and 2008 are as follows:

Years Ended December 31,	2009	2008
	In thousands	
Net operating loss carry forwards	$ 26,503	$ 27,367
Foreign net operating loss carry forwards	2,683	3,278
Financial reporting reserves not yet deductible for tax purpose	66	77
Accelerated depreciation and property-basis differences	(771)	(1,906)
Other	496	433
Valuation allowance	(28,701)	(29,116)
Total	$ 276	$ 133
Intangible asset-basis differences	$ (343)	$ (486)
Deferred tax liability, net	$ (67)	$ (353)

The Company's deferred tax liability relates to the difference in the basis of its intangible assets acquired in a foreign jurisdiction.

As of December 31, 2009, the Company had United States net federal operating loss carry forwards (NOLs) of approximately $67.2 million available to offset future taxable income, if any. These carry forwards expire through 2026 and are subject to review and possible adjustment by the Internal Revenue Service. The Company may be subject to limitations under Section 382 of the Internal Revenue Service Code as a result of changes in ownership. 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 full valuation allowance for the net deferred tax assets. The Company also has Canadian federal NOLs of approximately $2.2 million available to offset future taxable income, if any. These carry forwards expire through 2026 and are subject to review and possible adjustment by the Canadian Revenue Agency. The Company may be subject to limitations of the use of the Canadian NOLs as a result of changes in ownership. 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 full valuation allowance for the net deferred tax assets.

The Company also has a United Kingdom NOL of approximately $4.5 million, of which $3.0 million is not reserved.

The Company 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.

(10) 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 entered into a Stock and Warrant Purchase Agreement to a group of private investors, including the Company's Chairman and CEO and three 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, 2009, the Company sold and issued for gross proceeds of $563,500, 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 $500,000 is not reflected in the balance sheet at December 31, 2008 or 2009 because the funds had not been received nor had the common stock or warrants been issued by the Company. The Company used 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.

On January 29, 2009, pursuant to the terms of the December 2008 Stock and Warrant Purchase Agreement, the Company issued and sold to a director an aggregate of 10,000 shares of common stock at a per share purchase price of $0.25, for an aggregate purchase price of $2,500. The director also received a warrant to purchase up to an aggregate of 5,000 shares of the Company's common stock. The warrant is exercisable at any time at a per share price of $0.50 and expires on the fifth anniversary of the issue date.

As of December 31, 2009, there were 8,042,938 shares reserved for warrants with the following exercise prices and expiration dates:

No. Warrants	Exercise Price	Expiration Date
156,250	$1.17 –$1.17	2010
102,000	$1.38 –$3.12	2011
18,621	$0.80 –$0.80	2012
1,127,000	$0.50 –$0.50	2013
5,000	$0.50 –$0.50	2014
475,000	$1.23 –$1.44	2015
3,603,000	$1.15 –$3.12	2016
1,150,000	$0.80 –$1.72	2017
906,067	$0.45 –$0.60	2018
500,000	$0.10 –$0.10	2019
8,042,938		

(11) STOCK OPTION PLANS

On May 22, 2007, the shareholders of the Company approved the adoption of the Company's 2007 Stock Incentive Plan (the 2007 Plan). Under this plan, the Company may issue options, restricted stock, restricted stock units and other stock-based awards to its employees, officers, directors, consultants and advisors. An aggregate of 5,300,000 shares of the Company's common stock were initially reserved for issuance under the 2007 Plan. In addition, there is an annual increase to the number of shares reserved for issuance under the 2007 Plan equal to the lesser of (i) 1,000,000 shares of common stock, (ii) 5% of the outstanding shares of common stock of the Company, or (iii) an amount determined by the Board of Directors of the Company. As of December 31, 2009 and 2008, there were 6,300,000 shares reserved for issuance. On December 2, 2009, the Board of Directors voted to not issue the 1,000,000 shares of common stock into the 2007 Plan, as sufficient shares were available. The Company's executive officers are eligible to receive stock based awards under the 2007 Plan on the terms and conditions determined by the GNC Committee.

Also on May 22, 2007, the Board of Directors of the Company approved an amendment to the Company's Policy Regarding Compensation of Independent Directors, which provides that all awards of stock shall be made under the 2007 Plan, instead of the Company's 2004 Stock Option and Incentive Plan. On March 5, 2008, the Board of Directors approved the Amended and Restated Policy Regarding Compensation of Independent Directors, which provides for an increase from $30,000 to $50,000 in the annual compensation of independent directors and that all awards shall be options to purchase shares of common stock instead of shares of restricted stock.

In May 2004, the Company adopted the 2004 Stock Option and Incentive Plan (the 2004 Option Plan) for the purpose of issuing both Incentive Options and Nonqualified Options to officers, employees and directors of the company. A total of 2,500,000 shares of common stock were reserved for issuance under this plan. Options were granted under the 2004 Option Plan on terms and prices as determined by the Board of Directors. Each option will be exercisable after the period or periods specified in the option agreement, but no option may be exercised after the expiration of 10 years from the date of grant.

In May 2000, the Company adopted the 2000 Stock Option and Incentive Plan for the purpose of issuing both Incentive Options and Nonqualified Options to officers, employees and directors of the Company. A total of 2,800,000 shares of common stock were reserved for issuance under this plan. Options were granted under the 2000 Option Plan on terms and at prices as determined by the Board of Directors. Each option will be exercisable after the period or periods specified in the option agreement, but no option may be exercised after the expiration of 10 years from the date of grant.

In March 1996, the Company adopted the 1996 Stock Option and Incentive Plan (the 1996 Option Plan) for the purpose of issuing both Incentive Options and Nonqualified Options to officers, employees and directors of the Company. A total of 1,200,000 shares of common stock are reserved for issuance under this plan. Options were granted under the 1996 Option Plan on terms and at prices as determined by the Board of Directors, Each option will be exercisable after the period or periods specified in the option agreement, but no option may be exercised after the expiration of 10 years from the date of grant.

The Company had 7,057,073 shares available for future grants of options and restricted shares December 31, 2009. The following table summarizes information about the stock options outstanding as of December 31, 2009. There is no intrinsic value on any of the options at December 31, 2009.

Range of Exercise Prices	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.08 – 0.99	1,686,731	7.9	$ 0.34	492,284	$ 0.61
1.00 – 1.99	442,817	4.2	1.24	442,817	1.24
2.00 – 3.99	196,950	2.8	2.84	196,950	2.84
4.00 – 6.99	125,400	2.4	4.85	125,400	4.85
7.00 – 11.99	469,800	1.5	10.67	469,800	10.67
12.00 – 38.00	83,400	0.9	15.64	83,400	15.64
$ 0.16 – 38.00	3,005,098	5.6	$ 2.87	1,810,651	$ 4.60

(12) EMPLOYEE STOCK PURCHASE PLAN

In May 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the Stock Purchase Plan), which permits the eligible employees of the Company and its subsidiaries to purchase shares of the Company's common stock, at a discount, through regular monthly payroll deductions of up to 10% of their pre-tax gross salary. Subject to adjustment for stock splits, stock dividends and similar events, a maximum of 300,000 shares of common stock may be issued under the Stock Purchase Plan. During the years ended December 31, 2009 and 2008, there were no shares issued under the Stock Purchase Plan.

(13) EMPLOYEE BENEFIT PLANS

On January 17, 1994, the Company established the StockerYale 401(k) Plan (the Plan). Under the Plan, employees are allowed to make pre-tax retirement contributions. In addition, the Company may make matching contributions, not to exceed 100% of the employee contributions, and profit sharing contributions at its discretion. The Company made matching contributions of $30,000 and $44,000 in the years ended December 31, 2009 and 2008. The Company incurred costs of approximately $3,000 and $2,500 in 2009 and 2008 to administer the Plan.

(14) DISCONTINUED OPERATIONS

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

Revenues from the discontinued operations for the years ended December 31, 2009 and 2008 were $11.2 million and $17.4 million, respectively. The loss from discontinued operations for the year ended December 31, 2009 was $(701,000) and the loss from discontinued operations for the year ended December 31, 2008 was approximately $490,000. Interest expense was allocated to discontinued operations for both periods presented. The Company recorded a gain of approximately $8.5 million on the sale of discontinued operations in the fourth quarter of 2009.

(15) COMMITMENTS AND CONTINGENCIES

Lease obligation treated as financing

On December 30, 2005, the Company closed a sale-leaseback transaction on the Company's Salem, New Hampshire headquarters with 55 Heritage LLC. The terms of the Real Estate Purchase Agreement dated November 29, 2005, as amended on December 22, 2005, between the Company and the buyer were that (i) the Company agreed to sell the property to the buyer for $4,700,000, and (ii) the Company agreed to lease from the 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 accounting purposes, the net proceeds were classified as a financing lease obligation. This was primarily due to the terms of the lease agreement. Accordingly, the Company continues to carry the value of the building on its balance sheet and record depreciation expense until the criteria to record a sale are met. In 2009, the Company recorded $211,000 as non-cash interest expense and $60,000 as a decrease of the lease obligation due to the annual payments being more than the reduction in the deposit amount left with the landlord of $116,000. 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.

On October 14, 2009, the Company amended the lease, dated December 30, 2005, to reduce the rentable space from approximately 95,000 square feet to approximately 51,000 square feet. This agreement changed the base rent for November and December, 2009 to $16,949 per month, and for the calendar year to approximately $150,000. In addition, the tenant's share of expenses was reduced.

At December 31, 2009, $3,609,000 was recorded on the balance sheet as a financing lease obligation, which has been classified as $413,000 short-term obligation and $3,196,000 long-term obligation, and has been reported net of a $31,500 deposit. The net book value of the building at December 31, 2009 was approximately $3,100,000.

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.

Other obligations and contingent liabilities

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

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

with such amendment, SYC paid the landlord CDN$550,000, plus applicable taxes, which included cash and the forfeiture by SYC of prepaid rent.

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

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 €102,000 per year.

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 is now vacant. The Company is attempting to find a sub-tenant for this property. The annual rent for the Bishops Stortford property is £32,000. Photonic Products Ltd. also leases a sale office in Huntington Beach, California.

The company utilizes, or has assumed, capital leases to finance purchases of equipment or vehicles. There was approximately $124,000 and $240,000 payable in principal and interest under these leases at December 31, 2009 and December 31, 2008, respectively. The terms of these leases are from two to five years and expire between 2010 and 2011. Monthly payments on these leases range from $1,500 per month to approximately $4,800 per month and include interest rates that range from 5.9% to 12.0%. The Company records these as depreciation expense on the consolidated statement of operations.

The net book value of assets under capital lease at December 31, 2009 and December 31, 2008, is as follows:

	2009	2008
Assets under capital lease	$ 593,000	$ 553,000
Less—accumulated depreciation	(416,000)	(328,000)
Assets under capital lease, net	$ 177,000	$ 225,000

Scheduled future maturities of debt, operating, financing and capital lease obligations for the next five years:

Due by period	2010	2011	2012	2013	2014	2015+	Total
				($000's)			
Debt obligations	4,724	$ 3,473	$ —	$ —	$ —	$ —	8,197
Salem building lease obligations	413	—	—	—	—	—	413
Operating lease obligations	336	323	285	140	—	—	1,084
	$ 5,473	$ 3,796	$ 285	$ 140	$ —	$ —	$ 9,694

Due by period	2010	2011	2012	2013	2014	Less interest	Total
					($000's)		
Capital lease obligations	$ 95	$ 29	$ —	$—	$ —	$ (15)	$ 109

The Company expensed approximately $309,000 and $393,000 in rent for the years ended December 31, 2009 and 2008, respectively.

(16) LEGAL PROCEEDINGS

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

(17) SEGMENT INFORMATION

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

Following the sale described in Note 15, the Company operates in two segments: LED's (light emitting diode systems) and Photonic Products. In the LED segment, the Company designs and manufactures LED systems for the inspection, machine vision, medical and military markets. The Photonic Products segment distributes laser diodes and designs and manufactures custom laser diodes modules for industrial, commercial and medical applications. The policies relating to segments are the same as the Company's corporate policies.

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

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

	2009	2008
	(In thousands)	
Years Ended December 31		
Revenues:		
LED's	$ 3,657	$ 4,681
Photonic Products	6,799	10,070
Total revenues	$ 10,456	$ 14,751

	2009	2008
	(In thousands)	
Gross profit:		
LED's	$ 1,221	$ 1,837
Photonic Products	1,937	2,802
Total gross profit	$ 3,158	$ 4,639
Operating loss		
LED's	$ (1,140)	$ (1,259)
Photonic Products	(7,008)	(3,428)
Total operating loss	$ (8,148)	$ (4,687)

	2009	2008
	(In thousands)	
Years Ended December 31		
Current assets:		
LED's	$ 1,173	$ 1,155
Photonic Products	1,778	2,050
Corporate	4,478	1,642
Total current assets	$ 7,429	$ 4,847
Property, plant & equipment:		
LED's	$ 188	$ 189
Photonic Products	432	480
Corporate	3,215	3,572
Total property, plant & equipment	$ 3,835	$ 4,241
Intangible assets:		
LED's	$ 33	$ 60
Photonic Products	1,227	1,735
Corporate	—	—
Total intangible assets	$ 1,260	$ 1,795
Goodwill:		
LED's	$ 508	$ 508
Photonic Products	—	3,902
Corporate	—	—
Total goodwill	$ 508	$ 4,410
Other assets:		
LED's	$ —	$ —
Photonic Products	20	133
Corporate	1	303
Total other assets	$ 21	$ 436

	2009	2008
	(In thousands)	
Years Ended December 31		
Total assets:		
LED's	1,902	1,911
Photonic Products	3,457	8,302
Corporate	7,694	5,516
Total assets	$ 13,053	$ 15,729

Revenues by geographic area:		
Europe and United Kingdom	$ 5,136	$ 7,065
United States	4,332	5,724
Asia & the rest of the world	988	1,962
Total	$ 10,456	$ 14,751

The Company's long-lived assets consist of property, plant and equipment, goodwill and intangible assets located in the following geographic locations:

	2009	2008
	(In thousands)	
Years Ended December 31		
Long-lived assets by geographic area:		
United States	$ 3,220	$ 3,578
Europe	724	749
United Kingdom	1,659	6,119
Total	$ 5,603	$ 10,446