FINAL TRANSCRIPT

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STKR - Q3 2007 StockerYale Earnings Conference Call

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PRESENTATION

Operator

Good evening, ladies and gentlemen. Thank you for standing by. Welcome to StockerYale third quarter 2007 conference call. During today's presentation all parties are in a listen-only mode. Following the presentation the conference will be open for questions. (OPERATOR INSTRUCTIONS.) This conference is being recorded today, Tuesday, October 23rd, 2007.

I would now like to turn the conference over to Sanjay Hurry, Investor Relations. Please go ahead, sir.

Sanjay Hurry - *StockerYale, Inc. - Investor Relations*

Thank you, Val. Good afternoon, everyone, and thank you for joining us to discuss StockerYale's financial results for the third quarter ended September 30th, 2007.

With us today from Management are Chairman and Chief Executive Officer, Mark Blodgett, and Chief Financial Officer, Marianne Molleur. Management will provide a brief overview of the quarter and then we'll open the call up to your questions.

Comments made during today's call may contain forward-looking statements within the meaning of Section 27(a) of the Securities Act of 1933, and Section 21(e) of the Securities Exchange Act of 1934. All statements other than statements of historical fact, including without limitation, those with respect to StockerYale's goals, plans, and strategies are forward-looking statements. Certain factors and uncertainties identified in today's accompanying press release could cause actual results to differ materially from those described in the forward-looking statements.

Forward-looking statements represent Management's current expectations and are inherently uncertain. You should also refer to the discussion under factors affecting operating results in StockerYale's Annual Report on Form 10-KSB, and the Company's

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quarterly reports on Form 10-QSB for additional matters to be considered in this regard. Thus, actual results may differ materially. StockerYale undertakes no duty to update any of the forward-looking statements discussed on today's call.

With that, I would like to turn the call over to Mark Blodgett. Mark?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Thanks, Sanjay, and I guess it's almost evening here, from [Red Sox nation] I might add, and appreciate you joining us for our third quarter 2007 earnings conference call.

I will begin with an operational overview of the quarter, and then our CFO, Marianne Molleur, will follow with a review of our financial results. Our Corporate Controller, [Phil Feeley], will join us for the Q&A session.

Our investments and reengineering of our sales efforts are paying off in increased organic revenue growth and major contract awards during the third quarter. We achieved records in quarterly revenue and gross profit, and our specialty optical fiber, or SOF Division and our Photonics Products subsidiary each received the largest single contracts in their history.

We continue to see strong market acceptance of our LED, SOF, and new Lasiris laser products, and both SOF and LED system sales exceeded plan YTD. Total order bookings have regained the momentum achieved earlier in the year, and we're pleased to announce that we achieved positive EBITDA for the third quarter of $144,000. However, the dramatic pick-up in revenue and gross profit for the third quarter was offset in part by margin impact for photonic products and the impact from foreign exchange with the weak U.S. dollar. More about this in a moment.

Most importantly, we continued to make a major push into the biomedical and medical equipment markets across all of our business units. Lasers and [deflective] optics for bio -- the bio instrumentation market, specialty optical fiber for the medical equipment space, and LEDs for 3D dental equipment, to name just a few.

As we look towards 2008 it is increasingly evident that an increasing percentage of sales to these markets will be a key factor in driving the operating leverage in our financial model. There is a large market opportunity for StockerYale in these markets, and we believe we are well positioned with both our technology and products to be an early entrant, especially in medical SOL.

Now, I'd like to give you an update on each of our three product lines. First, our laser business, lasers and associated diode revenue increased 105% YOY and increased 13% quarter over quarter due to higher photonic product sales. Photonic products revenue was 33% of total revenue for the third quarter of 2007.

Photonic products was awarded its largest single contract in its history from one of the world's leading manufacturers of point of sales systems. We began ramping production for this custom laser assembly contract during Q3. The ramp-up for a contract of this size was a challenge for the Company and margins were squeezed due to increased direct labor and production costs required to produce over 700 lasers per day.

Total revenues for photonic products increased 22% quarter over quarter, and order bookings were $3.2 million at September 30, which bodes well for Q4. In the near term margins continue to be a challenge for photonic products, but we believe that we have made prudent investments for the long term that will take photonic products to the next level. We initiated a lean manufacturing initiative and we're looking for additional operational efficiencies that will improve performance into 2008.

In the high end laser business, this is our Montreal operation, our laser power line of PureBeam products as well as our patent pending Flat-Top2 generators are leading the way. We are in the process of getting qualified at several leading biomedical instrumentation manufacturers, and were recently spec'd in at one of the fastest growing companies in this space.

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We believe StockerYale is well positioned to become a leader in the bioinstrumentation space as these manufacturers are moving from large, bulky gas lasers to smaller, more robust, and energy efficient semiconductor lasers. This market is estimated to be approximately $100 million and growing. Currently, StockerYale has just 1% of the market, which clearly represents an important long-term growth opportunity for our Company.

Our new fiber coupled lasers, known as the PureBeam, especially in combination with our Flat-Top technology, which can change the profile of a laser beam with near 100% efficiency, can significantly change the functionality of instrumentation, particularly for biomedical and medical applications. Our technology has been shown to offer significant performance enhancements, (inaudible) [flow cetometers], DNA sequencers, and [confunkle] microscopes.

Next, our specialty optical fiber business. Our SOF business continues to build traction, and we've expanded our customer base through important vertical channels and key customer relationships. Specialty optical fiber sales increased 96% over third quarter 2006 and 56% quarter over quarter. But, more importantly, the profitability of these sales improved substantially as we reached an inflection point in the business.

Based on these revenue growth rates, gross profit has doubled over the year ago quarter. The operating leverage in this business is exceptional with low mature costs and very little direct labor. We've been investing in our growth opportunity by expanding our SOF Team. We hired another Ph.D. and sales engineer during the third quarter, both new hires are industry veterans with extensive experience in fiber lasers and specialty optical fiber.

Our two most significant project announcements during the third quarter were from our SOF business. We signed a major contract with Northrop Grumman Newport News, and a distribution agreement with Newport Corporation. Newport Grumman is a sector -- Newport Grumman, Newport News is a sector within the shipping business of Northrop Grumman, and our contract is for fiber that will be used for lightweight, wide aperture array [hydrophone] systems in support of the Virginia class attack submarine program. This is a very exciting project to work on, but is our first major Government contract and our largest contract for specialty optical fiber received to date. We began shipments for this project during the third quarter.

Newport Corporation is a world leader in photonic solutions. Through this distribution agreement we will benefit from Newport's broad reach to a wide range of customers in their medical, biomedical equipment, and Defense markets. Their products are used by many of the world's leading corporations, universities, and research institutes, and their channels offer StockerYale significant opportunity to expand our customer base.

In addition to these two announcements we also -- we are also working on three early stage medical instrumentation projects, with our second largest SOF customer, so medical prototype revenue in 2007 should be followed by production revenue in 2008.

As I've discussed on past calls, our acquisition strategy remains on the top of our mind, and just last week we announced the acquisition of Spectrode LLC. Spectrode is a developer of Thulium Doped fiber laser technology, and its fiber laser technology will enhance strategic initiatives in both our specialty optical fiber and laser business units.

With this acquisition we expect a meaningful development contract with a major defense contractor during the fourth quarter. Spectrode was a spinoff of AZNA LLC, a laser company that was founded by optics and laser expert, Dr. Parvis Tayebati, and later sold to [Finis Air] earlier this year.

Dr. Tayebati was formerly the founder and CEO of CorTek until it was acquired by Nortel Networks in March 2000 for $1.4 billion. Dr. Tayebati will join our Board of Directors, and we're very pleased to welcome his renowned technical and scientific expertise to our Board. Given his knowledge of photonics, optics, and lasers, we expect that Dr. Tayebati will help us leverage StockerYale product and technologies into new markets.

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Overall, Q3 was a breakout quarter for SOF, with our major Defense and medical contracts, we believe we're moving closer to the next stage of sustainable, repeatable business, and look forward to establishing greater consistency in our performance in the quarters ahead.

Turning to our third product line, LED systems, LED revenue increased 43% YOY and was flat quarter over quarter. As you will recall, we had a stellar second quarter in LEDs with large contract wins, so while the sequential comparison is a difficult one, we still had a strong Q3.

During the quarter we announced the promotion of [Simon Stanley] to the position of Managing Director of our business unit headquartered in Cork, Ireland. He has worked for us for ten years and has assumed increasing levels of responsibility in engineering, product development, and worldwide sales management. Simon was instrumental in the award of StockerYale's LED packaging patent in 2004. Under Simon's direction we now have a new LED sales team up and running to drive the growth potential in this sector, and we have added several new electronics engineers and a process technician to the team.

Overall, our outlook for the LED business continues to be strong, and in order to better capitalize on our market opportunity we've added two international sales managers for our LED business to oversee our new business development. During Q3 we announced appointments of [Brian Mertz] as North American LED Sales Manager, and [Neil Bolster] as [EU LED] Sales Manager. Brian is a well recognized LED technical engineer in the machine vision market, and Neil is an experienced engineer from the European automotive markets.

We are excited about our progress with recent new customer wins in LEDs. Our Cobra LineScan illumination product again performed well during the quarter with orders received from a large machine vision systems manufacturer, and leading end market OEMs.

Our new Cobra [two] product, nearly 3 meters in length, and designed for the LineScan market, is on track for demonstration at the upcoming Vision 2007 Show in Stuttgart, Germany in early November. We have received good OEM feedback on prototypes that have translated into new business. We shipped a number of engineering projects during the quarter, and we're working on some exciting tests, research, and development contracts for the medical market.

That concludes my operational overview. Marianne will now comment on our third quarter financial performance.

Marianne Molleur - *StockerYale, Inc. - CFO*

Thank you, Mark.

Net sales totaled $7.9 million for the third quarter of 2007, a 75 increase, a 75% increase over $4.5 million in the third quarter of 2006, and a 14% increase compared with the $7.9 million for the second quarter of 2007.

LED revenues increased 43% YOY, and was approximately flat quarter over quarter, as Mark discussed. Laser and associated diode revenue increased 105% YOY and 13% quarter over quarter due to higher photonic product sales. Specialty optical fiber revenues increased 96% YOY and 56% quarter over quarter.

Bookings for the third quarter of 2007 were $8.3 million, and our backlog was $10.5 million at September 30th, 2007.

Gross profit was $2.7 million for the third quarter of 2007, an increase of 70% from $1.6 million for the third quarter of 2006, and an increase of 16% over $2.3 million in the second quarter of 2007.

Gross margin was flat, 34% for the third quarter of 2007, compared with 34% for the third -- compared with 34% for the third quarter of 2006, and 33% for the second quarter of 2007.

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The gross margin versus a year ago reflects shipments of specialty optical fiber products to Northrop Grumman and other customers, offset, however, by lower margin results from photonic products mix of distributed manufactured products. I'd like to mention that without photonic products our Company's gross margin for the quarter was 38%.

Operating expenses increased 52% YOY to $3.5 million for the third quarter of 2007, and were approximately [97] lower than the second quarter of 2007, of which $56,000 was noncash share based compensation. The YOY increase was largely driven by Sarbanes-Oxley compliance expense and other IT expenditures, as well as additional operating expenses and noncash amortization of intangible assets related to the purchase of Photonics Products.

Research and development expenses were $0.7 million for the third quarter of 2007 or 8% of revenues, approximately flat YOY and a decrease of $149,000 quarter over quarter. This decrease was mainly due to a reclassification of R&D expense to a cost of sales [basis] for the recognition of revenue on the Northrop Grumman project.

Selling, general, and administrative expense totaled $2.5 million or 32% of revenues for our third quarter of 2007.

Our operating loss was $0.8 million for the third quarter of 2007, compared with operating losses of $0.7 million for the third quarter of 2006, and $1.3 million for the second quarter of 2007, of which $0.2 million was due to noncash amortization of intangible assets.

EBITDA was positive $0.1 million for the third quarter of 2007, compared to EBITDA losses of $0.1 million for the third quarter of 2006, and $0.4 million for the second quarter of 2007.

Other expenses, which include primarily noncash debt expense and interest expense, totaled $0.5 million for the third quarter of 2007, a decrease of $0.4 million or 39% compared to the second quarter of 2007.

Net loss including discontinued operations was $1.3 million or $0.04 per share for the third quarter of 2007, compared with $1.2 million or $0.04 per share for the third quarter of 2006, and $2.1 million or $0.06 per share for the second quarter of 2007.

As we operate in foreign currencies and deal largely in U.S. dollars we've been impacted significantly by the falling U.S. dollar. The impact was approximately $182,000 for the third quarter 2007, as compared to the third quarter of 2006, and approximately $121,000 for the third quarter as compared to the second quarter of 2007.

We have a hedging strategy in place for the U.S. dollar versus the Canadian dollar, and we're continuing to evaluate ways to maximize the advantages of the dollar and protect against further weakness.

Turning to the balance sheet, as of September 30th, 2007 our net accounts receivable balance was $4.9 million, compared to $4 million at June 30th, 2007. Our days sales outstanding stands at 57 days, up from 53 days at the end of June.

Inventory was $4.2 million compared to $4 million at June 30th. Our payables DSO went from 49 days to 59 days. We ended the quarter with a cash balance of $2.5 million. Finally, headcount is down [at] 230, compared with 217 at June 30th. That concludes my remarks.

Mark?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Thanks, Marianne.

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Finally, turning to our outlook for the remainder of 2007. Order bookings backlog as of September 30th continued to show good overall momentum, and we expect this to drive some margin improvement in Q4. The fourth quarter improvement will not be enough to offset our YTD EBITDA losses from Photonic Products and the falling U.S. dollar. Our turnaround in Photonic Products has taken longer than we would have liked, but we've taken the right steps to bring that Division up to expected performance levels and rebuild their momentum. We're beginning to realize the results of those initiatives.

As Marianne mentioned, the impact of FX has also been significant. In fact, if we had had the same foreign exchange rate during the third quarter as the first quarter of this year we would have reported positive EBITDA of approximately $429,000 for Q3 rather than the reported $144,000.

For the full year we're currently expecting total revenues of approximately $30 million and a gross margin of 33% to 34%. Newer products, such as the Flat-Top optics, fiber coupled lasers in the biomedical, and high power laser delivery systems for medical applications will be the main drivers of revenue and margins in 2008, and we're looking forward to introducing several new product innovations at the upcoming shows this season.

In summary, I can report that overall trends across our business of product lines look very promising.

That concludes our prepared remarks, and I will now ask the Operator to open the line for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS.)

Our first question comes from the line of [Angus Burton] with Marathon Capital Management. Please go ahead.

Jim Kennedy - *Marathon Capital Management - Analyst*

Hey, Mark. Hello, Mark?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Yes.

Jim Kennedy - *Marathon Capital Management - Analyst*

[Jim Kennedy] and Angus Burton, Marathon. How are you?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Fine, thank you.

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Jim Kennedy - *Marathon Capital Management - Analyst*

Good. Mark, could you spend just a few minutes talking about the competitive space, vis--vis the medical equipment area? And, you know, if that overlaps with biomedical?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Okay. Two separate markets for us that we're addressing. Let me first talk about the biomedical market. As some of you know, as it relates to our high end laser module business, a big chunk of that market has been for 3D machine vision applications. We pioneered the market of using lasers for machine vision market, and we probably have about 35% of the market. So we have a good market share there, and we have competitors, a small one in the U.S., several in Europe, but we're clearly perceived as the leader, both from a technical performance standpoint, our prices tend to be higher and our quality tends to be higher, and we tend to be more innovative in terms of our use of optics.

We made the decision about a year ago, approximately a year ago we saw an opportunity in the biomedical market, as I mentioned a little bit during my remarks here, the type of laser that's being used -- and we're talking about, we're basically talking about biomedical instrumentation, DNA sequencing, these types of things. People who were in that marketplace were initially attracted to our Flat-Top optics. Our strategy is not to sell just optics, but we want to sell the whole kit, i.e., the fiber coupled laser with the optics so we have more value added in terms of what we're providing.

Based on our latest strategic -- we just prepared strategic plans for all of our business, and our laser business we estimate that we have barely 1% of a market, and so that represents a significant opportunity for us. I can tell you in terms of your question, specifically about competition in that market, several of the people that are currently selling lasers to this market have specifically approached us to buy our optics to go on their lasers. So the competition out there, some of it's well established and they're good companies, they recognize the value of our patent pending optics, that's really the hook that we have in terms of the biomedical companies that we're either currently selling to or that we're currently in trials with.

Switching over to the fiber side of our medical business, we're working with several companies, but one major company in terms of what we're doing there, and there we're doing fiber delivery systems. We're talking basically the razorblade business for the medical equipment companies. They're typically used in endo surgery, eurology, a number of other fields here. And these devices have been around for some time. In most instances, the large companies that sell them are buying these from other companies here that are supplying them a laser delivery assembly, but they're not necessarily photonics experts. And so there's suppliers out there and everything.

We're positioning ourselves in a different way. We're coming at it as a fiber design house here, and so we're taking these devices that are already out there and we're coming up with ways, frankly, to make a better engineered device, so the device can move through the catheter or the scope more easily or these types of things, or they're more efficient in terms of transmitting pulse laser type power.

One of the things we've learned from our largest customer in this field is the return rate on these disposables tends to be quite high, if you bend the fiber device too much here, and you're pumping 100, you're pulsing 100 watts through it here, you know, the fiber can actually blow-up in the scope or something like this, and damage the scope.

So there is competition, but we're not really looking at competition so much. We're really looking at how do we build next generation fiber laser delivery devices for the medical market.

You didn't fall asleep now, did you?

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Operator

Ladies and gentlemen --

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Jim?

Operator

(OPERATOR INSTRUCTIONS.)

Our next question comes from the line of Ronald Oveter with Capital Partners. Please go ahead.

Ronald Oveter - *Capital Partners - Analyst*

Yes, thank you, Operator. Yes, good afternoon. And, Mark, congratulations on so much progress in so many areas. I really, I don't want to dwell on something that's negative, but I just want to get a slightly better understanding. In terms of the Photonics Division, I understand about currency changes, but the -- what you characterize as the continuing need for operational efficiencies, how much of that was anticipated versus unanticipated? And how much of the downdraft was attributable to not -- to -- in other words, you broke-out currency and then operational improvements that are required. I just want to get a better sense of what happened that you did not anticipate such that you need to make these further operational improvements within that Division? Because it sounds like once you get past that particular hurdle everything else is really cooking for you and you can break into the clear here.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Ron, that's a good question because, I mean clearly the revenues were up in the Division and the margins, you know, we expect to see more improvement in margin, and that's an excellent question. And I think one of the -- I'd say the operationally the clearest answer would be that this business, when we bought the business, they were doing about $9 million in revenues. They did not have the systems in place, whether it's IT systems, whether there's certain operational systems from a manufacturing standpoint to ramp the business.

We received a fairly significant, 100,000 piece laser order this last quarter which we announced during the quarter, but we actually started ramping up costs associated with ramping up that business.

So I think it's a twofold answer. One, it's a large order that was about 10% of revenues for the quarter, but it had a lot of technical as well as production hurdles that forced us to do a lot of training and hire more people and this type of thing.

Second, after reporting the results in Q2, really before Q2, we came to the conclusion here that we needed to strengthen the manufacturing team, and so as a result we deliberately increased manufacturing overhead by adding to some key positions, both in engineering, as well as quality. So we made some changes, we made some changes there, as well. I mean Marianne I think or someone mentioned that, you know, we did bring in, we have a lean manufacturing consultant we're working with now.

We also had a couple higher margin customers during the quarter, really starting in Q2, but through Q3, where business was soft with them, where the reorders were slow. And the good news I think, as reported, is our order bookings were quite good for photonic products in Q3. In fact, they were, you know, and those order bookings, I think the profitability of the orders that we've now brought in are better than we had in the pipeline beforehand, because in one case we have an important medical

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customer here in the States, they had an issue with their own product in distribution channels, so they put us off for literally four or five months, and they were one of our biggest customers last year. Well, they reordered right at the end of the quarter, so that will be in the shipments, and moving into '07 and into '08.

Ronald Oveter - *Capital Partners - Analyst*

But do you have, Mark, a sort of a timeframe when you hope that the refinements to the operations and the revamping would be ended, would be finished so that at that point your most efficient low overhead and then whatever comes in is incremental, is there sort of a timeframe when you hope to get that done? One quarter, two quarters, three quarters? I don't know.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Well, if you're from Japan and you believe in (inaudible), you know, you're never done; okay?

Ronald Oveter - *Capital Partners - Analyst*

I know, they take a 100-year view. But I mean, hopefully --

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Right.

Ronald Oveter - *Capital Partners - Analyst*

-- that's not the view here.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Even in our manufacturing business it's an ongoing process.

Ronald Oveter - *Capital Partners - Analyst*

Uh-huh.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

When you ramp the business and have more volume. I mean to give you an order of magnitude, in our Montreal laser business, where we, you know, revenue growth has been modest but our margin -- we've seen nice margin improvement there. You know, we've got -- we're only making about 30,000 lasers in Montreal where here, you know, we're into the six figures.

Ronald Oveter - *Capital Partners - Analyst*

Uh-huh.

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Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

But to specifically answer your question here, I think we have -- I think we will see improvement in the quarters ahead, but I think we've got a couple quarters of work to do.

Ronald Oveter - *Capital Partners - Analyst*

Okay. That's good. Okay. Well, thanks.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

One of the things, I will -- I'll give you a couple examples here. Phil Feeley, who is our Corporate Controller, he'll be going over there shortly -- I mean we're revisiting, for instance, putting in place quoting systems here, what's the margin before we take an order. They didn't have such a system in place, they -- or if they did they weren't really using it the way we use it in the rest of our business. There's certain business out there, because keep in mind that laser business is more like a [Hyundai] business where our Montreal laser business, our original laser business is more of a Cadillac business.

Ronald Oveter - *Capital Partners - Analyst*

Uh-huh.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

So margins by definition in the lower power, lower performance lasers, are higher volume but it's lower margin here. Well, you know, you have to be in a position to turn away business if it's not to the right margin here. And we're putting some -- so that's going to help, for example, so it's a whole confluence of things here that will contribute to improved performance from the Photonic Products Division.

Ronald Oveter - *Capital Partners - Analyst*

Interesting. Great. Thanks, Mark.

Operator

Our next question comes from the line of [Richard Darnley] with [Longport Partners]. Please go ahead.

Richard Darnley - *Longport Partners - Analyst*

Good afternoon. Could you talk about the -- oh, what was your fully diluted share count, and if the difference warrants that -- or there are other convertible instruments around?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Our fully diluted share count is 35.8 million for the quarter. We don't have -- but that doesn't include warrants, that just simply counts, you know, what's outstanding on it. We don't have any converts, by the way, either.

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Richard Darnley - *Longport Partners - Analyst*

I see. And how many warrants are outstanding that are in the money?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Probably about $3 million -- I want to say $3.5 million, Phil?

Phil Feeley - *StockerYale, Inc. - Corporate Controller*

Well, there's about $6 million left, but only about half of those are in the money at the moment, so.

Richard Darnley - *Longport Partners - Analyst*

I see. And --

Phil Feeley - *StockerYale, Inc. - Corporate Controller*

About $3 million.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

About $3 million.

Richard Darnley - *Longport Partners - Analyst*

And when you say your business has -- the -- has reached a -- what was the term? Oh, an inflection point, were you referring to -- the breakout quarter in the SOL business, is -- and later on you said, termed it sustainable and profitable -- is that what you mean by a breakout quarter?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Well, I --

Richard Darnley - *Longport Partners - Analyst*

Or is there more to it than that?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

First off, the Company has over the last couple of years has worked hard to get -- you know, our first key milestone other than growing the business top line, et cetera, is to get the Company to EBITDA positive, so that's obviously a milestone and it reflects basically a product mix inflection point we've hit. I mean so -- you know, theoretically, our fiber business is our highest margin business because material costs is about 5%, where in our laser business --

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Phil Feeley - *StockerYale, Inc. - Corporate Controller*

It's about 35.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

-- it's about 30%, 35%, so there's very different models from a manufacturing standpoint.

Richard Darnley - *Longport Partners - Analyst*

Uh-huh.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

We have a big investment in our fiber business which has generated a lot of depreciation over the last couple of years, and we've had a lot of development expense in our fiber business. And, you know, when the revenues start to ramp in than business, I mean when we started, you know, two years ago really repositioning our fiber business away from telecom and into these new markets, some of which we've talked about today, not all of them, but I've talked to them in terms of our, you know, investor presentation.

Richard Darnley - *Longport Partners - Analyst*

Uh-huh.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

These are relatively new markets here, and when you're going after Defense and medical, to name two, you know, getting qualified into production, through the quality hoops, the whole type of thing simply takes time.

Richard Darnley - *Longport Partners - Analyst*

Right.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

I mean Northrop Grumman, that's something we started working on a year ago. We've generated revenues for the very first time, you know, the -- basically, the last 45 days of the quarter, basically. And so that -- and so it's that type of product mix. Right now, lasers, I mean fiber is only 10% of our revenues YTD, for instance. Obviously, our strategy is to grow that as a percentage of the pie, because it's got a high marginal gross rate versus, say, our photonics products laser business.

Richard Darnley - *Longport Partners - Analyst*

Uh-huh.

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Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Which also has a -- part of that business is the diode distribution business, which is never going to be a particularly high gross margin business.

Richard Darnley - *Longport Partners - Analyst*

Right. Okay. Thank you.

Operator

Our next question is a follow-up from the line of Angus Burton with Marathon Capital Management. Please go ahead.

Angus Burton - *Marathon Capital Management - Analyst*

Hey, Mark and Marianne. I wondered if you are in a position to give a little more color on the acquisition? I'm assuming it's too soon to talk about the structure of the deal, but is there any -- anything more you can tell us about the size, et cetera?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Well, I will shed a little more light on it, and that is to say that this is basically -- we basically have acquired a startup business within a company that was sold to [Finistar], as I mentioned during my remarks. The company is pre-revenue, although we expect revenue from this business basically in the next 90 to 120 days. I mean we already are aware of an order, we've already spoken to the customer, a major multi-billion dollar Defense company to develop basically one pulsating laser for missile [jamming] type application.

But we also booked the business for other reasons, so we really bought IP, we bought equipment. We didn't pay a huge amount of money for the business, but we do have a royalty arrangement that compensates the founders. There's a key scientist that's coming with the business, and then, of course, we've got the man that was behind the business from a financing standpoint, as well as technical vision and stuff. So we didn't pay a lot of money for the business. There is a royalty stream built into it.

But one of the other reasons we bought the business, which for strategic reasons we don't want to go into too much detail is we have some well developed ideas for applying this technology to another part of our business, and this gives us a head start developing this product in what could be a very substantial market with an existing customer.

We wouldn't -- we probably would not have -- I can certainly also say we wouldn't have bought the business purely for this Defense opportunity that we're working because we all know that the Defense business can be somewhat lumpy. You get an order here, a development order, because what we're getting from this customer is a development order. And we could see lots of development orders, but it also could be, you know, two years before we see any meaningful production revenue or even longer for that matter.

Whereas, the other opportunity we're working on, and buying this business gives us a head start on that, is an opportunity with an existing customer that I think can generate, you know, high six to possibly seven-figure of development revenue in 2008 for us to commercialize this technology into an entirely different markets.

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Angus Burton - *Marathon Capital Management - Analyst*

It makes a lot of sense. I appreciate that. One last very small thing, how's it going with that large space? Have you decided what you're going to do strategically with it? Are you going to use it for excess manufacturing or going to continue to look for a sublease?

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Well, the good news about being that Parvis is on this Board is that he's a [serial] entrepreneur, and he's got another company that he's invested in, and we're already, you know, a week later in discussions with them to sublet a certain amount of our space, because the Company here, we have 100,000 square feet of space. We're using maybe 35,000 feet but we're paying for the whole building. That space got emptied when we made a strategic decision, you know, 18 months ago to sell our low growth commoditized businesses here, and so, you know, so hopefully we will sublet some of that space.

We're already, by the way, for this medical customer, since you guys visited, we are already at their expense building out a certain portion of that space for their production next year.

Angus Burton - *Marathon Capital Management - Analyst*

Got you. Thank you.

Operator

(OPERATOR INSTRUCTIONS.)

I'm showing there's no questions in the queue. I'll turn it back to Management for closing remarks.

Mark Blodgett - *StockerYale, Inc. - Chairman and CEO*

Okay. Thank you for joining us today. We look forward to meeting with some of you over the next several months and keeping you updated on our developments here at StockerYale. Have a good evening, and thank you for taking the time.

Operator

Thank you. Ladies and gentlemen, this concludes the StockerYale third quarter 2007 conference call. If you'd like to listen to a replay of today's conference please dial 800-405-2236 or 303-590-3000. Enter the pass code 11099734. Once again, that is 800-405-2236 or 303-590-3000. Enter the pass code 11099734. And we thank you for your participation. You may now disconnect.

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