FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

EVERGREEN SOLAR INC

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Business Address
259 CEDAR HILL STREET
MARLBORO MA 01752
508-357-2221

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2005

OR

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

For the transition period from ______ to ______

COMMISSION FILE NUMBER 000-31687

EVERGREEN SOLAR, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**04-3242254**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	*(I.R.S. EMPLOYER IDENTIFICATION NUMBER)*

138 Bartlett Street
Marlboro, Massachusetts 01752
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(508) 357-2221
(REGISTRANT' S TELEPHONE NUMBER, INCLUDING AREA CODE)

259 Cedar Hill Street
Marlboro, Massachusetts 01752
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☑ No ☐

Indicate the number of shares outstanding of each of the issuer' s classes of common stock, as of the latest practicable date: As of April 19, 2005 there were 60,957,679 shares of common stock outstanding.

EVERGREEN SOLAR, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED APRIL 2, 2005

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Evergreen Solar, Inc.

Condensed Consolidated Balance Sheets
(in thousands, except share data)
(unaudited)

	December 31, 2004	April 2, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 5,379	$53,134
Marketable securities	6,563	16,905
Accounts receivable, net of allowances for doubtful accounts and sales discounts of $84 and $100 at December 31, 2004 and April 2, 2005, respectively	6,166	4,999
Inventory	2,906	3,151
Interest receivable	57	201
Other current assets	1,411	1,771
Total current assets	22,482	80,161
Restricted cash	414	414
Fixed assets, net	26,825	26,900
Total assets	$ 49,721	$107,475
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 3,074	$2,333
Short term borrowings	1,500	1,500
Accrued employee compensation	1,187	798
Accrued warranty	705	705
Other accrued expenses	1,295	901
Deferred revenue	440	–
Total current liabilities	8,201	6,237
Minority interest in EverQ	–	602
Stockholders' equity:		
Common stock, $0.01 par value, 100,000,000 shares authorized, 47,541,823 and 60,894,179 issued and outstanding at December 31, 2004 and April 2, 2005, respectively	475	609
Additional paid-in capital	116,764	178,982
Accumulated deficit	(75,693)	(78,913)
Accumulated other comprehensive loss	(26)	(42)
Total stockholders' equity	41,520	100,636
Total liabilities and stockholders' equity	$ 49,721	$107,475

The accompanying notes are an integral part of these financial statements.

Evergreen Solar, Inc.

Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Quarter ended March 31, 2004	Quarter ended April 2, 2005
Revenues:		
Product revenues	$2,830	$10,287
Research revenues	262	235
Total revenues	3,092	10,522
Operating expenses:		
Cost of product revenues	4,553	9,936
Research and development expenses, including costs of research revenues	902	2,325
Selling, general and administrative expenses	1,673	1,960
Total operating expenses	7,128	14,221
Operating loss	(4,036)	(3,699)
Other income, net		
Foreign exchange gains, net	8	280
Interest income, net	65	158
Loss before minority interest	(3,963)	(3,261)
Minority interest in EverQ	–	41
Net loss	(3,963)	(3,220)
Accretion and dividends on Series A convertible preferred stock	(665)	–
Net loss attributable to common stockholders	$(4,628)	$(3,220)
Net loss per share attributable to common stockholders (basic and diluted)	$(0.30)	$(0.06)
Weighted average shares used in computing basic and diluted net loss per share attributable to common stockholders	15,489	54,914

The accompanying notes are an integral part of these financial statements.

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Evergreen Solar, Inc.

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Quarter ended March 31, 2004	Quarter ended April 2, 2005
Cash flows from operating activities:		
Net loss	$(3,963)	$(3,220)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	607	867
Minority interest in EverQ	–	573
Bad debt expense	(16)	(27)
Amortization of bond premiums	120	6
Compensation expense associated with employee stock options	31	–
Changes in operating assets and liabilities:		
Inventory	45	(245)
Other current assets	(18)	(360)
Interest receivable	(41)	(144)
Accounts receivable	(1,030)	1,194
Accounts payable	981	(741)
Deferred revenue	–	(440)
Accrued expenses	167	(783)
Net cash used in operating activities	(3,117)	(3,320)
Cash flows from investing activities:		
Purchases of fixed assets	(2,397)	(942)
Purchases of investments	(1,000)	(10,892)
Proceeds from sale and maturity of investments	4,333	557
Net cash provided by (used in) investing activities	936	(11,277)
Cash flows from financing activities:		
Financing costs on issuance of Series A convertible preferred stock	–	(4,396)
Proceeds from the issuance of common stock	–	66,731
Proceeds from exercise of stock options and shares purchased under Employee Stock Purchase Plan	1	17
Net cash flow provided by financing activities	1	62,352
Net (decrease) increase in cash and cash equivalents	(2,180)	47,755
Cash and cash equivalents at beginning of period	4,620	5,379
Cash and cash equivalents at end of period	$2,440	$53,134
Supplemental cash flow information:		
Interest paid	–	29
Non-cash Series A convertible preferred stock accretion and dividends earned	665	–
Non-cash conversion of Series A convertible preferred stock to common stock	1,084	–

The accompanying notes are an integral part of these financial statements.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying condensed consolidated interim financial statements of Evergreen Solar, Inc. ("Evergreen Solar" or the "Company") are unaudited and have been prepared on a basis substantially consistent with the Company' s audited financial statements for the year ended December 31, 2004. The condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Consequently, these statements do not include all disclosures normally required by generally accepted accounting principles for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the Company' s audited financial statements for the year ended December 31, 2004, which are contained in the Company' s Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which was filed with the Securities and Exchange Commission on March 10, 2005 and as subsequently amended. The unaudited condensed consolidated interim financial statements, in the opinion of management, reflect all adjustments necessary for a fair presentation of the financial position at April 2, 2005, the results of operations for the quarters ended April 2, 2005 and March 31, 2004, and the cash flows for the quarters ended April 2, 2005 and March 31, 2004. The balance sheet at December 31, 2004 has been derived from audited financial statements as of that date. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for any other interim period or for the full fiscal year ending December 31, 2004. Beginning with the first quarter of 2005, the Company adjusted its fiscal reporting period to better align with its internal manufacturing schedule. Our adjusted quarterly fiscal reporting periods will end upon the conclusion of thirteen consecutive weeks, rather than upon the conclusion of three consecutive calendar months. Such an adjustment may result in interim periods ending on days that differ slightly from the calendar month-end. For example, our first fiscal quarter of 2005 ended on April 2, 2005, our second fiscal quarter of 2005 ends on July 2, 2005, and our third fiscal quarter of 2005 will end on October 1, 2005. In 2005, the adjustment to our interim reporting periods will have no effect on our fiscal year end, which remains December 31. The change of the interim periods was not material for the quarter.

The condensed consolidated interim financial statements include the accounts of the Company' s wholly owned subsidiaries, Evergreen Solar Securities, Inc. and Evergreen Solar GmbH. All material intercompany accounts and transactions have been eliminated. The functional currency for Evergreen Solar GmbH is Euros. Revenues and expenses of Evergreen Solar GmbH are translated into U.S. dollars at the average rates of exchange during the quarter, and assets and liabilities are translated into U.S. dollars at quarter-end rates of exchange. In January 2005, the Company entered into a strategic partnership agreement with Q-Cells AG to form a separate company called EverQ GmbH ("EverQ"). EverQ will be governed by a three-member advisory board consisting of two representatives of the Company and one Q-Cells representative. Under the strategic partnership agreement, the Company and Q-Cells have made a total equity commitment of 46 million euro (approximately $60 million at the April 2, 2005 exchange rate) to finance a significant part of the construction of this facility and initial working capital requirements, of which the Company will contribute 75.1% and Q-Cells will contribute 24.9%. The functional currency of EverQ GmbH is Euros. Therefore, revenues and expenses are translated into U.S. dollars at the average rates of exchange during the quarter, and assets and liabilities are translated into U.S. dollars at quarter-end rates of exchange. The Company consolidates the financial statements of EverQ in accordance with the provisions of Financial Accounting Standards Board (FASB) FIN 46(R), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51."

The Company' s preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reported periods. Estimates are used when accounting for the collectibility of receivables, valuing deferred tax assets, provisions for warranty claims and inventory obsolescence.

The Company is subject to risks common to companies in the high technology and energy industries including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology and compliance with government regulations. Any delay in the Company' s plan to scale its capacity may result in increased costs and could impair business operations.

The Company applies the accounting provisions of Accounting Principles Board ("APB") Opinion 25, and related interpretations, as they relate to stock-based compensation and has elected the disclosure-only alternative permitted under Statement of Financial Accounting Standards, ("SFAS") No. 123, "Accounting for Stock-Based Compensation." The Company has disclosed herein pro forma net loss using the fair value based method. All stock-based awards to non-employees are accounted for at their fair market value, as calculated using the Black-Scholes model in accordance with SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure."

Had compensation expense for the Company' s employee stock option plan been determined based on the fair value at the grant dates for options granted under the plan consistent with SFAS No. 123, the Company' s net loss would have been as follows (in thousands, except per share data):

	Quarter Ended March 31, 2004		Quarter Ended April 2, 2005	
	Net Loss Attributable To Common Stockholders	Net Loss Per Common Share	Net Loss Attributable To Common Stockholders	Net Loss Per Common Share
Net loss attributable to common stockholders, as reported	$ (4,628)	$(0.30)	$ (3,220)	$(0.06)
Add: Stock-based employee compensation expense included in reported results	31	–	–	–
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards	(645)	(0.04)	(710)	(0.01)
Pro forma net loss attributable to common stockholders	$ (5,242)	$(0.34)	$ (3,930)	$(0.07)

2. Net Loss per Common Share

The Company computes net loss per common share in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS 128"), and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS 128 and SAB 98, basic net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. The calculation of diluted net loss per common share for the quarters ended March 31, 2004 and April 2, 2005 does not include 31,489,151 and 11,377,498 potential shares of common stock equivalents outstanding at March 31, 2004 and April 2, 2005, respectively, as their inclusion would be anti-dilutive.

3. Inventory

Inventory consisted of the following at December 31, 2004 and April 2, 2005 (in thousands):

	December 31, 2004	April 2, 2005
Raw materials	$ 2,230	$2,766
Work-in-process	138	248
Finished goods	538	137
	$ 2,906	$3,151

4. Fixed Assets

Fixed assets consisted of the following at December 31, 2004 and April 2, 2005 (in thousands):

	Useful Life	December 31, 2004	April 2, 2005
Laboratory and manufacturing equipment	3-7 years	$ 20,310	$ 20,433
Computer and office equipment	3-7 years	457	471
Leasehold improvements	Lesser of 15 to 20 years or lease term	7,433	7,433
Assets under construction		5,084	5,890
		33,284	34,227
Less: accumulated depreciation		(6,459)	(7,327)
		$ 26,825	$ 26,900

5. Guarantor Arrangements

The following is a summary of the Company' s agreements that are within the scope of FASB Interpretation No. 45 "Guarantor' s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45").

Product Warranty

The Company' s current standard product warranty includes a one or two-year warranty period for defects in material and workmanship and a 25-year warranty period for declines in power performance. The Company has provided for estimated future warranty costs of $705,000, representing its best estimate of the likely expense associated with fulfilling its obligations under such warranties. The actual warranty experience in future periods may result in higher costs being incurred. The Company engages in product quality programs and processes, including monitoring and evaluating the quality of component suppliers, in an effort to ensure the quality of its product and reduce its warranty exposure. The Company' s warranty obligation will be affected not only by its product failure rates, but also the costs to repair or replace failed products and potentially service and delivery costs incurred in correcting a product failure. If the Company' s actual product failure rates, repair or replacement costs, service or delivery costs differ from these estimates, accrued warranty costs would be adjusted in the period that such events or costs become known. The following table summarizes the activity regarding the Company' s warranty accrual:

	2004	2005
Balance at December 31	$426,000	$705,000
Accruals for warranties issued during the period	36,000	–
Balance at the end of the quarter	$462,000	$705,000

Indemnification Agreements

The Company enters into standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally our business partners, customers, directors and officers. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. The Company believes the estimated fair value of such agreements is minimal. The Company agreed to indemnify, defend and hold harmless each of the purchasers participating in the Company' s Series A convertible preferred stock financing transaction, their affiliates and their respective officers, directors, agents, employees, subsidiaries, partners, members and controlling persons to the fullest extent permitted by law from and against any and all losses, claims or written threats thereof, damages, expenses (including reasonable fees, disbursements and other charges of counsel) resulting from or arising out of the Company' s breach of any representation or warranty, covenant or agreement in the purchase agreement. The Company believes the estimated fair value of this indemnification agreement is minimal.

6. Deferred Compensation

Prior to December 31, 2000, the Company recorded total cumulative deferred compensation of approximately $1.3 million, representing the difference between the fair market value of the Company' s common stock and the exercise price on the option grant date. These amounts were presented as a reduction of stockholders' equity and are being amortized ratably over the vesting period of the options, which is generally four years. The amortization resulted in charges to operations of $31,000 and $0 for the quarters ended March 31, 2004 and April 2, 2005, respectively.

7. Segment Information

The Company operates as one operating segment. The following table summarizes the Company' s concentration of total revenue:

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	Quarter ended March 31, 2004		Quarter ended April 2, 2005	
By geography:				
U.S. distributors	31	%	25	%
U.S. Government (research revenue)	8	%	2	%
Germany	56	%	68	%
All other	5	%	5	%
	100	%	100	%
By customer:				
European distributor #1	37	%	30	%
European distributor #2	19	%	18	%
All other	44	%	52	%
	100	%	100	%

8. Stockholders' Equity

The Company has two classes of capital stock: common and preferred. At April 2, 2005, 7,650,000 shares of common stock were authorized for issuance under the Company' s 2000 Stock Option Plan and 4,913,806 shares were reserved for issuance upon conversion of outstanding warrants issued in the Series A Private Placement and the Common Stock Private Placement and to Silicon Valley Bank in connection with the Company securing its line of credit in August 2004.

In February 2005, the Company completed a $62.3 million common stock offering, net of offering costs of approximately $4.4 million, to satisfy existing capital requirements and to fund the continuing capacity expansion of its Marlboro, Massachusetts manufacturing facility and the expenditures necessary for the build-out and initial operation of the strategic partnership with Q-Cells. A portion of the proceeds from the financing will also be used to increase research and development spending on next generation technologies and to explore further expansion opportunities. The Company issued 13,346,000 shares of its common stock in the offering at a per share price of $5.00 (before underwriting discounts), which represented a 6% discount to the $5.30 closing price of shares of its common stock as reported on the Nasdaq National Market as of the close of business on February 3, 2005.

9. EverQ GmbH

As of April 2, 2005, EverQ had assets consisting mainly of cash totaling $2.5 million, accounts payable and accrued expenses of $87,000 and losses from operations of $165,000, all of which are consolidated in the Company' s financial statements. Although the expenditures related to EverQ are not significant to the Company' s overall financial position as of April 2, 2005, the company expects such amounts to become material in future periods as EverQ increases its factory construction activities.

10. Short-term Borrowings

On August 26, 2004, the Company entered into a one-year revolving credit facility in the amount of $5.0 million with Silicon Valley Bank pursuant to a Loan and Security Agreement dated August 26, 2004 (the "Loan Agreement"). The credit facility is collateralized by a first-priority security interest granted to Silicon Valley Bank by the Company in substantially all of the Company' s assets.

The Company issued a warrant to purchase 89,955 shares of common stock to Silicon Valley Bank, as compensation for establishing the revolving credit facility. The warrant entitles Silicon Valley Bank to shares of the Company' s common stock at an exercise price of $3.34. The warrants are exercisable at any time on or prior to August 25, 2009. The fair value of the warrant (approximately $187,000) has been recorded as a deferred financing charge, along with $100,000 of other direct expenses associated with the revolving credit facility, and will be charged to interest expense ratably over the term of the facility, which is twelve months.

The Loan Agreement contains certain financial and other covenants that restrict the Company' s ability to, among other things, dispose of property, incur indebtedness, make certain acquisitions, merge into another entity, declare or pay dividends above an aggregate threshold of $500,000 and redeem, retire, repurchase or otherwise acquire shares of capital stock of the Company in excess of $500,000 in the aggregate. In addition, the Company must comply with certain financial thresholds including minimum tangible net worth and minimum cash or excess availability.

As of April 2, 2005, the Company had drawn $1.5 million under the revolving line of credit.

11. Other Comprehensive Loss

Other comprehensive loss consists of unrealized gains and losses on available-for-sale securities as well as accumulated currency translation adjustments associated with the consolidation of the Company' s foreign subsidiaries, which is reflected in stockholder' s equity section of the Company' s balance sheet. As of March 31, 2004 accumulated other comprehensive loss was $26,000, which consisted entirely of net unrealized losses on available-for-sale securities. As of April 2, 2005 accumulated other comprehensive loss was $42,000 which consisted of cumulative translation adjustment (loss) of $29,000 and net unrealized losses on available-for-sale securities of $13,000.

12. Foreign Currency Derivative Transactions

In 2004, the Company began to manage its foreign exchange risk through the use of derivative financial instruments. These financial instruments serve to protect cash flow against the impact of the translation into U.S. dollars of foreign exchange denominated transactions. As of April 2, 2005, the Company had forward currency contracts denominated in foreign currencies totaling   4.0 million. At April 2, 2005, the fair market value of outstanding forward exchange contracts was $5.2 million. The difference between the fair market value and the book value of the contracts as of April 2, 2005 was $29,000, which is recorded as a current liability in the Company' s balance sheet.

13. Recent Accounting Pronouncements

On April 14, 2005, the Securities and Exchange Commission (SEC) approved a new rule that for public companies that delays the effective date of FASB Statement No. 123 (revised 2004), giving a number of those companies more time to develop their implementation strategies. Except for this deferral of the effective date, the guidance in FAS 123(R) is unchanged. Under the SEC' s rule, FAS 123(R) is now effective for public companies for annual, rather than interim, periods that begin after June 15, 2005. The Company will adopt this for the year ended December 31, 2006.

14. Subsequent Event

On April 25, 2005, the Company' s strategic partnership, EverQ, received notification that, subject to certain conditions, it will receive approximately 28 million euros, or $35 million at April 2, 2005 exchange rates, in German government grants for the manufacturing facility to be built in Thalheim, Germany.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CONCERNS REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements concerning Evergreen Solar' s expectations, beliefs and/or intentions regarding the following: trends in revenues; future warranty expenses; benefits and expenses resulting from our strategic partnership with Q-Cells; our future equity ownership position in our strategic partnership with Q-Cells; receipt of public grant awards; capital requirements to respond to competitive pressures and acquire complementary businesses and necessary technologies; pursuit of future research contracts that are not part of our current ongoing research activities; costs associated with research and development, building or improving manufacturing facilities, general and administrative expenses, business growth and our status as a public company; shifts in our geographic product revenue mix; international expansion of strategic partnerships, manufacturing operations and distribution networks; operating efficiency of manufacturing facilities including increases in manufacturing scale and technological improvements; the occurrence of and the use of proceeds from sales of our securities; the sufficiency of our cash, cash equivalents, marketable securities and borrowings available under our revolving credit facility to satisfy our anticipated cash requirements; sufficiency of our insurance levels for product liability claims; payments of cash dividends; use of derivative financial instruments to manage foreign currency exchange risks; and the potential impact of our critical accounting policies and changes in financial accounting standards or practices. Actual results and events could differ materially from those contemplated by these forward-looking statements due to various risks and uncertainties, including those discussed in the "Certain Factors Which May Affect Future Results" section and elsewhere in this quarterly report. Evergreen Solar undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report.

EXECUTIVE OVERVIEW

We develop, manufacture and market solar power products enabled by our String Ribbon technology that provide reliable and environmentally clean electric power throughout the world. Solar power products use interconnected photovoltaic cells to generate electricity from sunlight. To date, our product sales have been primarily solar modules, which are used to generate electricity for on-grid and off-grid applications. Off-grid applications serve markets where access to conventional electric power is not economical or physically feasible. Solar power products can provide a cost-competitive, reliable alternative for powering highway call boxes, microwave stations, portable highway road signs, remote-street or billboard lights, vacation homes, rural homes in developed and developing countries, water pumps and battery chargers for recreational vehicles and other consumer applications. More recently, the substantial majority of our products have been used by on-grid customers as a clean, renewable source of alternative or supplemental electricity.

We have essentially completed our capital program aimed at increasing our production capacity in our Marlboro factory to a nameplate capacity of approximately 15 megawatts (MW). We will however continue capital programs to increase the capabilities and improve the operational efficiency of this factory throughout 2005 and beyond. While these expenditures may add incremental capacity, they are primarily intended to improve the efficiency, capabilities and product attributes of our Marlboro factory.

To date, our product sales have been constrained by our manufacturing capacity, despite the fact that (as compared to 2004) by April 2005, we had approximately quadrupled our plant' s annualized production rate to approximately 12 MW. Since product revenue has been limited by capacity, the expansion in Marlboro should enable revenue growth and improvement in product gross margins as compared to 2004. Specifically, our product revenues for the first quarter 2005 represent a 263% increase over our product revenues for the first quarter of 2004. Furthermore, we had positive product gross margin for the second consecutive quarter of 3.4%.

On January 14, 2005, we entered into a strategic partnership agreement with Q-Cells AG, or Q-Cells. Q-Cells is the world' s largest independent manufacturer of solar cells, whose crystalline solar cells are among the highest efficiency solar cells commercially available. The agreement provides for the organization and capitalization of EverQ GmbH, or EverQ, which is a limited liability company incorporated under the laws of Germany. The purpose of the strategic partnership is to develop and operate a facility in Germany to manufacture, market and sell solar products based on our proprietary String Ribbon technology using fabrication processes that combine our and Q-Cells' s manufacturing technologies.

The manufacturing facility contemplated by the strategic partnership agreement is expected to be located in Thalheim, Germany and have an initial capacity of 30 MW. Based upon the success of the initial operations of this facility, we and Q-Cells intend over the long term, if economically viable, to expand the capacity of this facility up to approximately 120 MW. As part of the strategic partnership, subject to certain conditions under the strategic partnership agreement, we and Q-Cells have agreed to finance a majority of the expenditures necessary for the establishment and initial operation of EverQ through cash contributions in amounts payable over time that total to 46 million euros (approximately $60 million at the April 2, 2005 exchange rate), of which we would be responsible for 75.1%. The financing of this 46 million euros may take the form of equity, debt, or a continuation of the two. After reduction of the 46 million euro commitment for any debt incurred by EverQ, including loans from the parents, we will be responsible for 75.1% of the remaining equity contributions. In addition to these amounts, it is our intention, and the financing plans currently require, that we finance approximately 28 million euros of such expenditures through public grants under a German government grant program. We believe this strategic partnership will accelerate the availability of wafer, cell and module manufacturing capacity based on String Ribbon technology and provide greater access to the European solar market.

Financing Transactions

In February 2005, we completed a common stock offering with gross proceeds of $66.7 million. We received proceeds of $62.3 million, net of offering costs of approximately $4.4 million, which are available to satisfy existing capital requirements, to fund the continuing development of our Marlboro, Massachusetts manufacturing facility and the expenditures necessary for the initial build-out and initial operation of the strategic partnership with Q-Cells. A portion of the proceeds from the financing will also be used to increase research and development spending on promising next generation technologies and to explore further expansion opportunities. In this common stock offering, we issued 13,346,000 shares of our common stock. The shares of common stock were sold at a per share price of $5.00 (before deducting underwriting discounts), which represented a 6% discount to the $5.30 closing price of shares of our common stock as reported on the Nasdaq National Market as of the close of business on February 3, 2005.

We believe that our current cash, cash equivalents, marketable securities and borrowings available under our revolving credit facility will be sufficient to fund our currently planned capital programs aimed at increasing the capabilities of our Marlboro, Massachusetts manufacturing facility, fund our expected commitments with our strategic partnership with Q-Cells for its initial 30 megawatts of capacity and to fund our operating expenditures over the next twelve months. We will need to raise significant additional capital in order to further enhance our operating infrastructure and to further increase capacity. We may also require significant additional capital to respond to competitive pressures and acquire complementary businesses or necessary technologies. We do not know whether we will be able to raise additional financing or financing on terms favorable to us. If adequate funds are not available or are not available on acceptable terms, our ability to fund our operations, develop and expand our manufacturing operations and distribution network, or otherwise respond to competitive pressures would be significantly limited.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in accordance with generally accepted accounting principals requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities, if applicable. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. In addition to the critical accounting policies disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2004, we believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Warranty

Our current standard product warranty includes a one or two-year warranty period for defects in material and workmanship and a 25-year warranty period for declines in power performance. We have provided for estimated future warranty costs of $705,000, representing our best estimate of the likely expense associated with fulfilling our obligations under such warranties. The actual warranty experience in future periods may result in higher costs being incurred. We engage in product quality programs and processes, including monitoring and evaluating the quality of component suppliers, in an effort to ensure the quality of our product and reduce our warranty exposure. Our warranty obligation will be affected not only by our product failure rates, but also the costs to repair or replace failed products and potentially service and delivery costs incurred in correcting a product failure. If our actual product failure rates, repair or replacement costs, service or delivery costs differ from these estimates, accrued warranty costs would be adjusted in the period that such events or costs become known.

Sales Discount Allowance

During the first quarter of 2005, we began offering certain customers early payment discounts as an incentive aimed at improving our short-term cash flow. We estimate the allowance for sales discounts based on actual and historical payment practices of customers, and record provisions at the time when revenue is recognized. While our methodology takes into account these uncertainties, adjustments in future periods may be required as our customers change their payment practices. During the first quarter of 2005, total sales discounts taken and accrued for was $130,000.

RESULTS OF OPERATION

Revenues. Total revenues for the Company consist of revenues from the sale of products and research revenues. Product revenues consist of revenues from the sale of solar cells, panels and systems. Research revenues consist of revenues from various state and federal government agencies to fund our ongoing research, development, testing and enhancement of our products and manufacturing technology. Our current intention is not to pursue contracts that are not part of our ongoing research activities. We recognize research revenues as services are rendered.

Cost of product revenues. Cost of product revenues consists primarily of salaries and related personnel costs, materials expenses, depreciation expenses, maintenance, rent, royalties on licensed technology, warranty costs, and other support expenses associated with the manufacture of our solar power products.

Research and development expenses, including cost of research revenues. Research and development expenses, including cost of research revenues, consist primarily of salaries and related personnel costs, consulting expenses, and prototype costs related to the design, engineering, development, testing and enhancement of our products, manufacturing equipment and manufacturing technology. We expense our research and development costs as incurred. We believe that research and development is critical to our strategic objectives of enhancing our technology, reducing manufacturing costs and meeting the changing requirements of our customers. As a result, we expect that our total research and development expenses will increase in the future.

Selling, general and administrative expenses. Selling, general and administrative expenses consist primarily of salaries and related personnel costs, professional fees, rent, insurance and other sales expenses. We expect that selling expenses will increase substantially in absolute dollars as we increase our sales efforts, hire additional sales personnel and initiate additional marketing programs. We expect that general and administrative expenses will increase as we add personnel and incur additional costs related to the growth of our business, as well as increasing costs associated with being a public company.

Other income. Other income, net consists of net interest income primarily from interest earned on the holding of short-term, high-quality commercial paper, corporate bonds and United States government-backed securities, (less any bond premium amortization), interest on any outstanding debt, and net foreign exchange gains.

Minority interest. As of April 2, 2005, EverQ incurred losses from continuing operations of $165,000, all of which are consolidated in the Company' s financial statements. However, $41,000 represents the portion of EverQ losses attributed to minority interest.

Dividends on preferred stock. On June 21, 2004, holders of all outstanding shares of Series A convertible preferred stock agreed to convert all of their shares of Series A convertible preferred stock into shares of our common stock in connection with the Common Stock Private Placement. During the first quarter of 2004, the Series A preferred stock earned a dividend of approximately $0.7 million, which the Company elected to add to the liquidation preference of the Series A convertible preferred stock.

Net loss attributable to common stockholders. Net loss attributable to common stockholders consists of net losses and dividends earned by the Series A convertible preferred stockholders.

Comparison of Quarters Ended April 2, 2005 and March 31, 2004

Revenues. Our product revenues for the quarter ended April 2, 2005 were $10.3 million, an increase of $7.5 million, or 263%, from $2.8 million for the quarter ended March 31, 2004. The increase in product revenues was due to the increased production capacity of our manufacturing facility in Marlboro, Massachusetts, our increased marketing and sales activities, and favorable foreign exchange rates. Research revenues for the quarter ended April 2, 2005 were $235,000, a decrease of $27,000, or 10%, from $262,000 for the quarter ended March 31, 2004.

Research revenue decreased because our last active research contract with the National Renewable Energy Laboratory expired during the first quarter of 2005.

Product revenues represented 98% of total revenues for the quarter ended April 2, 2005 and 92% of total revenues for the quarter ended March 31, 2004. The share of total revenues represented by product revenues in the first quarter of 2005 increased from the first quarter of 2004 due to an increase in product revenues from expanded production capacity and a decrease in research revenues. International product sales accounted for approximately 73% of total revenues for the quarter ended April 2, 2005, and 61% for the quarter ended March 31, 2004. We anticipate that international sales will continue to account for a significant portion of our product revenues for the foreseeable future. Currently, all European sales are denominated in Euros, which increases our risk of incurring foreign exchange gains or losses. As we expand our manufacturing operations and distribution network internationally, our exposure to fluctuations in currency exchange rates may increase.

The following table summarizes our concentration of total revenue:

	Quarter ended			
	March 31, 2004		April 2, 2005	
By geography:				
U.S. distributors	31	%	25	%
U.S. Government (research revenue)	8	%	2	%
Germany	56	%	68	%
All other	5	%	5	%
	100	%	100	%
By customer:				
European distributor #1	37	%	30	%
European distributor #2	19	%	18	%
All other	44	%	52	%
	100	%	100	%

Cost of product revenues. Our cost of product revenues for the quarter ended April 2, 2005 was $9.9 million, an increase of $5.4 million, or 118%, from $4.6 million for the quarter ended March 31, 2004. Most of the increase was due to an increase in materials consumption and labor costs due to increased product sales. Product gross margin for the quarter ended April 2, 2005 was 3.4% versus -61% for the quarter ended March 31, 2004. Product gross margin improved due primarily to improvements in yield and efficiency associated with the scale-up of our second manufacturing line, increased sales volume and favorable exchange rates.

Due to the relatively large component of fixed costs, product gross margins are highly dependent on sales volumes and prices. We do not expect substantial further improvements in product gross margin during 2005. We realize positive gross margins when our Marlboro manufacturing facility operates at about its target capacity of about 15 megawatts. However, we expect that significant portions of manufacturing capacity at our Marlboro manufacturing facility will be dedicated to research and development programs for purposes of achieving faster commercialization of technology improvements, which will keep gross margins lower than could potentially be realized throughout 2005. Further improvements in gross margin will result from increases in manufacturing scale and technology improvements. For example, during late 2004 we demonstrated in research a new wafer growth process that can reduce the thickness of wafers thereby significantly reducing raw materials costs. Although this technology is still very much under development and we cannot be certain that it will ever be commercialized, it holds the promise of significant cost reductions in the future. Additionally, further capacity expansion beyond 15 megawatts as well as further process and technology improvements will be required to achieve overall profitability.

Research and development expenses, including cost of research revenues. Our research and development expenses, including cost of research revenues, for the quarter ended April 2, 2005 were $2.3 million, an increase of $1.4 million, or 158%, from $902,000 for the quarter ended March 31, 2004. The increase was due mainly to increased labor and consulting costs associated with internal initiatives aimed to improve our manufacturing technology and activities associated with the planning for the next manufacturing capacity expansion, as well as engineering costs associated with the design of the manufacturing facility of EverQ GmbH.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the quarter ended April 2, 2005 were $2.0 million, an increase of $287,000, or 17%, from $1.7 million for the quarter ended March 31, 2004. Approximately 49% of the increase was due to increases in salaries associated with additional personnel, approximately 75% of the increase was due to activities associated with EverQ and approximately 22%

of the increase was due to increased depreciation costs, offset by a 28% decrease in professional fees and an 18% decline in insurance costs.

Other income, net. Other income, net for the period ended April 2, 2005 was comprised of $280,000 in net foreign exchange gains and $158,000 in net interest income. Other income, net for the quarter ended March 31, 2004 consisted of $65,000 in net interest income and $8,000 in net foreign exchange gains.

Net loss attributable to common stockholders. Net loss attributable to common stockholders was $3.2 million and $4.6 million for the quarters ended April 2, 2005 and March 31, 2004, respectively. The decrease in net loss attributable to common stockholders was due to an improvement in gross margin and decrease in accretion and dividends associated with the Series A convertible preferred stock.

Liquidity and Capital Resources

We have historically financed our operations and met our capital expenditure requirements primarily through sales of our capital stock and, to a lesser extent, product revenues. Research and development expenditures have historically been partially funded by government research contracts. At April 2, 2005, we had working capital of $73.9 million, including cash, cash equivalents and marketable securities of $70.0 million.

Net cash used in operating activities was $3.3 million for the quarter ended April 2, 2005, as compared to $3.1 million for the quarter ended March 31, 2004. The use of cash for operating activities in the period ended April 2, 2005 was due primarily to losses from operations of $3.2 million, and decreases in deferred revenue of $0.4 million and decreases in accounts payable and accrued expenses of $1.6 million, offset by decreases in accounts receivable of $1.2 million and depreciation expense of $867,000. Net loss improved in the first quarter of 2005 due mainly to improved gross margin.

We have not experienced any significant trends in accounts receivable other than changes relative to the increase in revenue. Fluctuations in accounts receivable from period to period relative to changes in revenue are a result of timing of customer invoicing and receipt of payments from customers. For both the first quarter of 2005 and 2004, Days Sales Outstanding (DSO) was approximately 44 days and 59 days, respectively.

Net cash used in investing activities was $11.3 million for the quarter ended April 2, 2005, as compared to $936,000 provided by investing activities for the quarter ended March 31, 2004. For the quarter ended April 2, 2005, net cash was used for purchases of marketable securities resulting from the cash proceeds from our February common stock financing and purchases of equipment associated with the build-out of the second manufacturing line at our Marlboro manufacturing plant.

Net cash provided by financing activities was $62.4 million for the quarter ended April 2, 2005, as compared to $1,000 for the quarter ended March 31, 2004. The cash provided by financing activities during the quarter ended April 2, 2005 primarily represents net proceeds from common stock issued in conjunction with the common stock public offering completed in February 2005.

Capital expenditures were $942,000 for the quarter ended April 2, 2005, as compared to $2.4 million for the quarter ended March 31, 2004. Capital expenditures for the quarter ended April 2, 2005 were primarily for equipment needed for our Marlboro manufacturing facility. As of April 2, 2005, our outstanding commitments for capital expenditures were approximately $100,000. Nearly all of our commitments for capital expenditures are associated with infrastructure improvements and equipment purchases for our Marlboro manufacturing facility. We have essentially completed our capital program aimed at increasing our production capacity in our Marlboro factory to a nameplate capacity of approximately 15 MW. We will however continue capital programs to increase the capabilities and improve the operational efficiency of this factory throughout 2005 and beyond. While these expenditures may add incremental capacity, they are primarily intended to improve the efficiency, capabilities and product attributes of our Marlboro factory.

In February 2005, we completed a $62.3 million common stock offering, net of offering costs of approximately $4.4 million, to satisfy existing capital requirements and to fund the continuing capacity expansion of our Marlboro, Massachusetts manufacturing facility and the expenditures necessary for the initial build-out and initial operation of the strategic partnership with Q-Cells. A portion of the proceeds from the financing will also be used to increase research and development spending on promising next-generation technologies and to explore further expansion opportunities. For this public stock offering, we issued 13,346,000 shares of our common stock at a per share price of $5.00 (before deducting underwriting discounts), which represented a 6% discount to the $5.30 closing price of shares of our common stock as reported on the Nasdaq National Market as of the close of business on February 3, 2005.

We believe that our current cash, cash equivalents, marketable securities and borrowings available under our revolving credit facility will be sufficient to fund our currently planned capital programs aimed at increasing the capabilities of our Marlboro, Massachusetts manufacturing facility, fund our expected commitments with our strategic partnership with Q-Cells for its initial 30 megawatts of capacity and to fund our operating expenditures over the next twelve months. We will need to raise significant additional capital in order to further enhance our operating infrastructure and to further increase capacity. We may also require significant additional capital to respond to competitive pressures and acquire complementary businesses or necessary technologies. We do not know whether we will be able to raise additional financing or financing on terms favorable to us. If adequate funds are not available or are not available on acceptable terms, our ability to fund our operations, develop and expand our manufacturing operations and distribution network, or otherwise respond to competitive pressures would be significantly limited.

We do not have any special purpose entities or off-balance sheet financing arrangements. As of April 2, 2005, our cash commitments, as disclosed in Note 12 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004, have not significantly changed.

There have been no material changes since December 31, 2004 to our contractual obligations reported in Item 2 – Management' s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission.

Certain Factors Which May Affect Future Results

Investors should carefully consider the risks described below before deciding whether to invest in our common stock. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations and financial results. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. In such case, the trading price of our common stock could decline and you could lose all or part of your investment. Our filings with the Securities and Exchange Commission also contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face described below.

Risks Relating to Our Financial Results

Evaluating our business and future prospects may be difficult due to the rapidly changing market landscape.

There is limited historical information available about our company upon which you can base your evaluation of our business and prospects. Although we were formed in 1994 to research and develop crystalline silicon technology for use in manufacturing solar power products and began shipping product from our pilot manufacturing facility in 1997, we first shipped commercial products from our Marlboro manufacturing facility in September 2001. Relative to the entire solar industry, we have shipped only a limited number of solar power modules and have recognized limited revenues.

The market we are addressing is rapidly evolving and is experiencing technological advances and new market entrants. Our future success will require us to scale our manufacturing capacity significantly beyond the capacity of our Marlboro, Massachusetts manufacturing facility, and our business model and technology are unproven at significant scale. Moreover, our strategic partnership with Q-Cells is only in the early planning stages and because it is our first strategic partnership relationship, we have limited experience upon which to predict whether it will be successful. As a result, you should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture new products in a growing and rapidly evolving market.

We have a history of losses, expect to incur substantial further losses and may not achieve or maintain profitability in the future, which may decrease the market value of our stock.

Since our inception, we have incurred significant net losses, including net losses of $19.4 million for the year ended December 31, 2004 and $3.2 million for the quarter ended April 2, 2005. Principally as a result of ongoing operating losses, we had an accumulated deficit of $78.9 million as of April 2, 2005. We expect to incur substantial losses for the foreseeable future, and we may never become profitable. Even if we do achieve profitability, we may be unable to sustain or increase our profitability in the future, which could materially decrease the market value of our common stock. We expect to continue to make significant capital expenditures and anticipate that our expenses will increase substantially in the foreseeable future as we seek to:

- expand our manufacturing operations, whether domestically or internationally, including the manufacturing facility in Germany contemplated by our strategic partnership with Q-Cells;
- develop our distribution network;
- continue to research and develop our products and manufacturing technologies;
- implement internal systems and infrastructure in conjunction with our growth; and
- hire additional personnel.

We do not know whether our revenues will grow at all or grow rapidly enough to absorb these expenses, and our limited operating history makes it difficult to assess the extent of these expenses or their impact on our operating results.

Our stock price could fall substantially if our quarterly revenue or operating results fluctuate or are disappointing.

Our quarterly revenue and operating results have fluctuated significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a variety of factors, including:

- the size and timing of customer orders for or shipments of our products;
- the rate and cost at which we are able to expand our manufacturing capacity to meet product demand, including the rate and cost at which we are able to implement advances in our String-Ribbon technology;
- our ability to establish and expand key customer and distributor relationships;
- our ability and the terms upon which we are able to raise capital sufficient to finance the expansion of our manufacturing capacity and our sales and marketing efforts;
- our ability to establish a manufacturing facility in Germany as contemplated by our strategic partnership with Q-Cells at the costs and on the time frame that we expect;
- the extent to which Q-Cells increases its ownership in the strategic partnership in the future and thereby reduces our share of profits and losses of the strategic partnership in future periods;
- our ability to establish strategic relationships with third parties to accelerate our growth plans;
- the amount and timing of expenses associated with our research and development programs and our ability to develop enhancements to our manufacturing processes and our products;
- delays associated with the supply of specialized material necessary for the manufacture of our solar power products;
- our ability to execute our cost reduction programs;
- one-time charges resulting from replacing existing equipment or technology with new or improved equipment or technology as part of our strategy to expand our manufacturing capacity and to decrease our per unit manufacturing cost;
- developments in the competitive environment, including the introduction of new products or technological advancements by our competitors; and
- the timing of adding the personnel necessary to execute our growth plan.

We anticipate that our operating expenses will continue to increase significantly, particularly as we increase our capital expenditures to build our planned manufacturing facility in Germany, as contemplated by our strategic partnership with Q-Cells. If our product revenues in any quarter do not increase correspondingly, our net losses for that period will increase. Moreover, given that a significant portion of our operating expenses is largely fixed in nature and cannot be quickly reduced, if our product revenues are delayed or below expectations, our operating

results are likely to be adversely and disproportionately affected. For these reasons, quarter-to-quarter comparisons of our results of operations are not necessarily meaningful and you should not rely on results of operations in any particular quarter as an indication of future performance. If our quarterly revenue or results of operations fall below the expectations of investors or public market analysts in any quarter, the market value of our common stock would likely decrease, and it could decrease rapidly and substantially.

Risks Relating to Our Industry, Products and Operations

We will need to raise significant additional capital in order to fund our operations and to continue to grow our business, which subjects us to the risk that we may be unable to maintain or grow our business as planned and that our stockholders may be subject to substantial additional dilution.

In order to satisfy our existing capital requirements and to fund the continuing capacity expansion of our Marlboro, Massachusetts manufacturing facility, in June 2004 we consummated a $18.8 million, net of financing costs of $1.2 million private placement financing and in August 2004 we secured a $5 million line of credit. We also raised an additional $62.3 million, net of offering costs of approximately $4.4 million, from the public sale of our common stock in February 2005. We believe that our current cash, cash equivalents and short-term investments, together with the proceeds available under our line of credit, will be sufficient to fund our operating expenditures over the next 12 months. However, we will need to raise significant additional capital in order to further enhance our operating infrastructure, to further increase manufacturing capacity through the build-out of other manufacturing facilities, including the manufacturing facility we plan to build in Germany as contemplated by our strategic partnership with Q-Cells and to advance our research and development programs that are key to refining our products and to lowering our manufacturing costs. We may also require additional capital to respond to competitive pressures and acquire complementary businesses or necessary technologies. We do not know whether or not we will be able to raise additional financing or financing on terms favorable to us. If adequate funds are not available or are not available on acceptable terms, our ability to fund our operations, develop and expand our manufacturing operations and distribution network, maintain our research and development efforts or otherwise respond to competitive pressures would be significantly impaired. In such a case, our stock price would likely be materially and adversely impacted.

In addition, if we raise additional funds through the issuance of equity or convertible or exchangeable securities, the percentage ownership of our existing stockholders will be reduced. These newly issued securities may have rights, preferences and privileges senior to those of existing stockholders.

Our ability to expand our manufacturing capacity and therefore to increase revenue and achieve profitability depends to a large extent upon the success of our strategic partnership with Q-Cells. Our strategic partnership with Q-Cells is subject to numerous risks, many of which are outside of our control, and we cannot assure you that the strategic partnership will achieve its objective or otherwise be successful. If the strategic partnership is not successful, our business would be materially and adversely harmed and our stock price would decline.

In January 2005, we entered into a strategic partnership agreement with Q-Cells. The purpose of the strategic partnership is to develop and operate a facility in Germany to manufacture, market and sell solar products based on our proprietary String Ribbon technology. As part of the strategic partnership, subject to certain conditions under the strategic partnership agreement, we and Q-Cells have agreed to finance a majority of the expenditures necessary for the establishment and initial operation of the strategic partnership through cash capital contributions in amounts payable over time that total to 46 million euros (approximately $60 million at April 2, 2005 exchange rates), of which we would be responsible for 75.1%. The financing of this 46 million euros may take the form of equity, debt or a combination of the two. After reduction of the 46 million euro commitment for any debt incurred by EverQ, including loans from the parents, we will be responsible for 75.1% of the remaining equity contributions. In addition to these amounts, it is our intention and the financing plans currently require that we finance approximately 28 million euros through public grants under a German government grant program. If we and Q-Cells are unable to finance the venture, we and Q-Cells would have the ability to terminate the strategic partnership. As a result, the strategic partnership remains subject to the risk that the parties may be unable to finance, both directly and through government or third party sources, the costs of building the facility, which could cause the strategic partnership to be terminated before the facility is built and result in a significant delay in our ability to expand our manufacturing capacity and our ability to significantly grow revenues and achieve profitability. In addition, our strategic partnership with Q-Cells subjects us to the risks inherent in complex strategic partnership transactions with third parties located in international markets, including the following:

- the strategic partnership will be highly dependent on Q-Cells' s expertise in the rapid development of solar product manufacturing facilities in Germany; therefore, if for any reason, Q-Cells does not devote the personnel necessary to assist us in the development of our facility, the strategic partnership may experience delays and cost-overruns or may be unsuccessful in the establishment of the operation;

- the strategic partnership contemplates that both we and Q-Cells will contribute certain technologies to the strategic partnership in order to establish a novel manufacturing processes based on a combination of our respective technologies; as such, the success of the strategic partnership depends on our ability to integrate our respective technologies and manufacturing processes in order to produce competitive solar products in the world marketplace; such integration is unproven and if we are unable to integrate our technologies and manufacturing processes, the prospects for the strategic partnership would be limited;

- the establishment of the facility may result in cost overruns, delays, equipment problems and construction, start-up and other operating difficulties, any of which could adversely affect the ability of the strategic partnership to achieve or grow revenue on the timeframe we expect;

- although initially a minority shareholder in the strategic partnership, Q-Cells will have the ability to influence the strategic direction of the strategic partnership and other material decisions of the strategic partnership; as a result, we may be unable to take certain actions that we believe would be in our best interests, which, given the expected materiality of the strategic partnership to our combined operations, could significantly harm our business; further, we may be liable to third parties for the material decisions and actions of Q-Cells in the strategic partnership, which actions may harm the strategic partnership and our business;

- the establishment of the strategic partnership will require significant management attention and will place significant strain on our ability to manage effectively both our operations in Marlboro and the operations of the strategic partnership in Germany;

- the strategic partnership may subject us to multiple, conflicting and changing laws, regulations and tax schemes;

- the strategic partnership may be unable to obtain, maintain or enforce adequate intellectual property rights and protection due to limited or unfavorable intellectual property protection and may be subject to claims or suits alleging infringement of third party intellectual property rights;

- under certain circumstances, if we exit the strategic partnership with Q-Cells, the strategic partnership entity will continue to have certain rights to our proprietary technologies that we are licensing to it and thereby compete with us;

- two years after the date of the strategic partnership agreement, Q-Cells may engage in ribbon technology-related activities in competition with us;

- limitations on dividends or restrictions against repatriation of earnings may limit our ability to capitalize on earnings from the strategic partnership;

- the operation of the manufacturing facility may experience seasonal reductions in productivity common in certain foreign countries, such as the summer months in Europe;

- the strategic partnership may be subject to increases in tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers imposed by foreign countries;

- the strategic partnership may be unable to successfully hire and retain the additional personnel necessary to operate the facility, which is expected to require approximately 400 employees for the initial capacity expansion;

- we will be exposed to fluctuations in currency exchange rates; and

- we may experience difficulties in staffing and managing international operations, including the difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs.

As a result, there can be no assurance that the strategic partnership will be successful in establishing the facility or, once established, that the strategic partnership will attain the manufacturing capacity or the financial results that we currently expect.

The continuing improvement of our manufacturing facility in Marlboro, Massachusetts may take longer, cost more than we expect and may not deliver the performance improvements that we expect, which would likely result in lower revenues and earnings than anticipated.

If we fail to successfully continue the improvement of our Marlboro manufacturing facility, our business and results of operations would likely be materially impaired. We are in the process of implementing improvements to the manufacturing equipment in order to decrease the operating costs and increase production output. This process has required and will continue to require a significant investment of capital and substantial engineering expenditures and is subject to significant risks including:

- we may experience cost overruns, delays, equipment problems and other operating difficulties;
- our manufacturing processes use custom-built equipment that may not be delivered and installed in a timely manner;
- our custom-built equipment may take longer and cost more to debug than planned and may never operate as designed;
- we are incorporating first-time equipment designs and technology improvements, which we expect to lower unit capital and operating costs, but this new technology may not be successful; and
- we may elect to use a portion of our manufacturing capacity for research and development purposes, thereby reducing our commercial output from our Marlboro facility.

If we experience any of these or similar difficulties, we may be unable to complete the build-out of our Marlboro facility and our manufacturing capacity could be substantially constrained, in which case our per unit manufacturing costs would increase, we would be unable to increase sales as planned and our revenues and earnings would likely be materially impaired.

Our future success substantially depends on our ability to significantly increase our manufacturing capacity through the development of additional manufacturing facilities. We may be unable to achieve our capacity expansion goals as a result of a number of risks, which would limit our growth potential, impair our operating results and financial condition and cause our stock price to decline.

Our future success depends on our ability to increase our manufacturing capacity through the development of additional manufacturing facilities. If we are unable to do so, we may not be able to achieve the production volumes and per unit costs that will allow us to meet customer demand, maintain our competitive position and achieve profitability. Our ability to develop additional manufacturing facilities is subject to significant risk and uncertainty, including:

- we may need to continue to raise significant additional capital through the issuance of equity or convertible or debt securities in order to finance the costs of development of any additional facility, which we may be unable to do on reasonable terms or at all, and which could be dilutive to our existing stockholders;
- the build-out of any additional facility will be subject to the risks inherent in the development of a new manufacturing facility, including risks of delays and cost overruns as a result of a number of factors, many of which may be out of our control, such as delays in government approvals or problems with supplier relationships;
- our manufacturing processes, particularly those that incorporate improvements to our String Ribbon technology, are unproven at large scale and may prove difficult to implement in any new facility;
- we may be required to depend on third parties or strategic partnerships that we establish in the development and operation of a facility, which may subject us to risks that such third parties do not fulfill their obligations to us under our arrangements with them;
- the establishment of any new facility will require significant management attention, and our management team, which has limited experience in the development of such facilities, may be unable to execute the expansion plan effectively; and

if a new facility is established internationally, we may encounter legal restrictions and liability, encounter commercial restrictions and incur taxes and other expenses to do so and otherwise be subject to the risks inherent in conducting business in a foreign jurisdiction as described elsewhere in this section.

If we are unable to develop and successfully operate additional manufacturing facilities, or if we encounter any of the risks described above, we may be unable to scale our business to the extent necessary to achieve profitability, which would cause our stock price to decline. Moreover, there can be no assurance that if we do expand our manufacturing capacity that we will be able to generate customer demand for our solar power products at these production levels or that we will increase our revenues or achieve profitability.

Because we depend on single and sole source suppliers for a number of specialized materials, including silicon, string and others necessary to manufacture our solar power products, we are susceptible to supplier and industry-wide supply shortages and price volatility, which could adversely affect our ability to meet existing and future customer demand for our products and cause us to make fewer shipments, generate lower than anticipated revenues and manufacture our products at higher than expected costs.

We have single and sole source suppliers for a number of specialized materials necessary to manufacture our solar power products, which makes us susceptible to quality issues, shortages and price changes for these materials. Specifically, our supplier of the silicon we use in the manufacture of our solar power products is also a supplier to the semiconductor industry, which has significantly greater buying power and market influence than we have or anyone else in the solar power industry has. As a result, the recent increase in the demand for silicon from the semiconductor industry may cause us to encounter shortages or delays in obtaining the specialized silicon to be used in the manufacture of our solar power products, which could result in customer dissatisfaction and decreased revenues. In addition, by December 2004 our silicon supplier raised prices approximately 43% since the second quarter of 2004, and as of April 2, 2005, our supplier has since raised prices an additional 38%. Price increases have in the past negatively impacted, and could in the future negatively impact, our manufacturing costs. We acquire silicon from our supplier through purchase orders and we have no long-term commitments regarding supply or price from this supplier, which leaves us vulnerable to the risk that our supplier may stop supplying silicon to us for any reason, including its financial viability. If this occurs, our ability to manufacture our solar power products may be limited in any given period, which would cause our revenues to decline in any such period.

Our dependence on a limited number of third party suppliers for raw materials, key components for our solar power products and custom-built equipment for our operations could prevent us from delivering our products to our customers within required timeframes, which could result in order cancellations and loss of market share.

We manufacture all of our solar power products using materials and components procured from a limited number of third-party suppliers. If we fail to develop or maintain our relationships with these or our other suppliers, we may be unable to manufacture our products or our products may be available only at a higher cost or after a long delay, which could prevent us from delivering our products to our customers within required timeframes and we may experience order cancellation and loss of market share. We currently do not have contracts with many of our suppliers and may not be able to procure sufficient quantities of the materials and components necessary to manufacture our products on acceptable commercial terms or at all. To the extent the processes that our suppliers use to manufacture materials and components are proprietary, we may be unable to obtain comparable materials and components from alternative suppliers. The failure of a supplier to supply materials and components in a timely manner, or to supply materials and components that meet our quality, quantity and cost requirements could impair our ability to manufacture our products or increase their costs, particularly if we are unable to obtain substitute sources of these materials and components on a timely basis or on terms acceptable to us. Certain of the capital equipment used in the manufacture of our solar power products has been developed and made specifically for us, is not readily available from multiple vendors and would be difficult to repair or replace if it were to become damaged or stop working. Consequently, any damage to or break down of our manufacturing equipment at a time we are manufacturing commercial quantities of our products may have a material adverse impact on our business. For example, a supplier' s failure to supply this equipment in a timely manner, with adequate quality and on terms acceptable to us, could delay our capacity expansion of our manufacturing facility and otherwise disrupt our production schedule or increase our costs of production.

We may fail to successfully bring to market our new solar power products under development, which may prevent us from achieving increased sales and market share.

Although we have been selling our solar power products since 1997, we expect to derive a substantial portion of our revenues from sales of our new solar power products that are under development and not yet commercially available. Some of these new products are derived from our innovative cell fabrication and advanced module design technologies, which are under development. Our total research and development expenses were $2.3 million and $902,000 for the quarters ended April 2, 2005 and March 31, 2004, respectively. If we fail to successfully develop our new solar power products or technologies, we will likely be unable to recover the losses we have incurred to develop these products and technologies and may be unable to increase our sales and market share and to become profitable. Many of our new product and manufacturing technologies are novel and represent a departure from conventional solar power technologies, and it is difficult to predict whether we will be successful in completing their development. Our manufacturing technologies have been tested only in our pilot manufacturing facility and, in most cases, only limited pre-production prototypes of our new products have been field-tested.

Our solar power products may not gain market acceptance, which would prevent us from achieving increased sales and market share.

The development of a successful market for our solar power products may be adversely affected by a number of factors, many of which are beyond our control, including:

- our failure to produce solar power products that compete favorably against other solar power products on the basis of cost, quality and performance;

- our failure to produce solar power products that compete favorably against conventional energy sources and alternative distributed generation technologies, such as wind and biomass, on the basis of cost, quality and performance;

- whether or not customers accept our new module designs under development and the techniques we are developing to mount them; and

- our failure to develop and maintain successful relationships with distributors, systems integrators and other resellers, as well as strategic partners.

If our solar power products fail to gain market acceptance, we would be unable to increase our sales and market share and to achieve and sustain profitability.

Technological changes in the solar power industry could render our solar power products uncompetitive or obsolete, which could reduce our market share and cause our sales to decline.

Our failure to further refine our technology and develop and introduce new solar power products could cause our products to become uncompetitive or obsolete, which could reduce our market share and cause our sales to decline. The solar power industry is rapidly evolving and competitive. We will need to invest significant financial resources in research and development to keep pace with technological advances in the solar power industry and to effectively compete in the future. We believe that a variety of competing solar power technologies are under development by other companies that could result in lower manufacturing costs or higher product performance than those expected for our solar power products. Our development efforts may be rendered obsolete by the technological advances of others and other technologies may prove more advantageous for the commercialization of solar power products.

Our ability to increase market share and sales depends on our ability to successfully maintain our existing distribution relationships and expand our distribution channels.

We currently sell our solar power products primarily to distributors, system integrators and other value-added resellers within and outside of North America, which typically resell our products to end users on a global basis. During the first quarter of 2005, we sold our solar power products to approximately 20 distributors, system integrators and other value-added resellers, and during 2004 we sold our solar power products to approximately 40 distributors, system integrators and other value-added resellers. If we are unable to successfully refine our existing distribution relationships and expand our distribution channels, our revenues and future prospects will be materially harmed. As we seek to grow our sales by entering new markets in which we have little experience selling our solar power products, our ability to increase market share and sales will depend substantially on our ability to expand our distribution channels by identifying, developing and maintaining relationships with resellers both within and outside of North America. We may be unable to enter into relationships with resellers in the markets we target or on terms and conditions favorable to us, which could prevent us from entering these markets or entering these markets in accordance with our plans. Our ability to enter into and maintain relationships with resellers will be influenced by the relationships between these resellers and our competitors, market acceptance of our solar power products and our low brand recognition as a new entrant.

We face risks associated with the marketing, distribution and sale of our solar power products internationally, and if we are unable to effectively manage these risks, it could impair our ability to expand our business abroad.

From our inception through April 2, 2005, approximately 70% of our product sales have been made to distributors outside of the United States. Sales in Germany constituted approximately 69% of our total product sales for the quarter ended April 2, 2005. We expect that our sales both to resellers and distributors outside of North America and through our resellers and distributors to end users outside of North America, which could increase upon the establishment and operation of the manufacturing facility contemplated by our strategic partnership with Q-Cells, will continue to be significant. It will require significant management attention and financial resources to successfully develop our international sales channels. In addition, the marketing, distribution and sale of our solar power products internationally expose us to a number of markets with which we have limited experience. If we are unable to effectively manage these risks, it could impair our ability to grow our business abroad. These risks include:

- difficult and expensive compliance with the commercial and legal requirements of international markets, with which we have only limited experience;
- inability to obtain, maintain or enforce intellectual property rights;
- encountering trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could affect the competitive pricing of our solar power products and reduce our market share in some countries;
- fluctuations in currency exchange rates relative to the U.S. dollar;
- difficulty in recruiting and retaining individuals skilled in international business operations;
- increased costs associated with maintaining international marketing efforts;
- difficulty of enforcing revenue collection internationally; and
- inability to develop, manufacture, market and sell our products and services in German and other international markets due to, for example, third-party intellectual property rights.

We expect that a portion of our international sales will be denominated in United States dollars. As a result, increases in the value of the United States dollar relative to foreign currencies would cause our products to become less competitive in international markets and could result in limited, if any, sales and profitability. For the foreseeable future, market conditions will require us to denominate a majority of our sales in local currencies, which will further expose us to foreign exchange gains or losses.

Our strategy includes establishing local manufacturing facilities in international markets. Although we have not yet constructed such a facility, our strategic partnership with Q-Cells contemplates the establishment of a manufacturing facility in Germany in 2005. As we implement our strategy, we may encounter legal restrictions and liability, encounter commercial restrictions and incur taxes and other expenses to establish our manufacturing facilities in certain countries. In addition, we may potentially forfeit, voluntarily or involuntarily, foreign assets due to economic or political instability in the countries where our local manufacturing facilities are located.

Our dependence on a small number of resellers may cause significant fluctuations or declines in our product revenues.

From our inception through April 2, 2005, our three largest resellers accounted for approximately 60% of our product sales and our 10 largest resellers accounted for approximately 78% of our product sales. Substantially all of our sales to these resellers are made through purchase orders without long-term commitments, including under arrangements that may be cancelled without cause on short notice and that generally do not require them to make minimum purchases. Consequently, our resellers are generally permitted to obtain products from other providers of solar power products without further obligation to us. The concentration of our product sales also exposes us to credit risks associated with the financial viability of these resellers. We anticipate that sales of our solar power products to a limited number of key resellers will continue to account for a significant portion of our total product revenues for the foreseeable future. Consequently, any one of the following events may cause material fluctuations or declines in our product revenues and negatively impact our operating results:

- reduction, delay or cancellation of orders from one or more of our significant resellers;
- selection by one or more of our significant resellers of products competitive with ours;
- loss of one or more of our significant resellers and our failure to recruit additional or replacement resellers; and
- failure of any of our significant resellers to make timely payment of our invoices.

Problems with product quality or product performance may cause us to incur warranty expenses and may damage our market reputation and prevent us from achieving increased sales and market share.

As is consistent with standard practice in our industry, the duration of our product warranties is lengthy relative to expected product life and has recently been increasing. Our current standard product warranty includes a one or two-year warranty period for defects in material and workmanship and a 25-year warranty period for declines in power performance. We believe our warranty periods are consistent with industry practice. Due to the long warranty period, we bear the risk of extensive warranty claims long after we have shipped product and recognized revenues. Although we have sold solar modules since 1997, none of these modules has been operating more than seven years, and a majority of them have been operating less than two years. The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. Furthermore, widespread product failures may damage our market reputation and reduce our market share and cause sales to decline.

Our success in the future may depend on our ability to establish and maintain strategic alliances, and any failure on our part to establish and maintain such relationships would adversely affect our market penetration and revenue growth.

As part of our plan to accelerate the expansion of our manufacturing capacity and our distribution channels, we have recently entered into a strategic partnership with Q-Cells, a German company that is a leading manufacturer of solar cells. We intend to continue to establish strategic relationships with third parties in the solar power industry, particularly in international markets. Our ability to establish strategic relationships will depend on a number of factors, many of which are outside our control, such as the competitive position of our technology and our products relative to our competitors. We can provide you with no assurance that we will be able to establish other strategic relationships in the future, or that our strategic partnership with Q-Cells will be successful, and our inability in this regard will materially adversely affect our market penetration, our revenue growth and our ability to achieve profitability.

In addition, our strategic partnership with Q-Cells, as well as any other strategic alliances that we establish, will subject us to a number of risks, including risks associated with sharing proprietary information, loss of control of operations that are material to our business and profit-sharing arrangements. Moreover, strategic alliances may be expensive to implement and subject us to the risk that the third party will not perform its obligations under the relationship, which may subject us to losses over which we have no control or expensive termination arrangements. As a result, even if our strategic alliances with third parties are successful, our business may be adversely affected by a number of factors that are outside of our control, which would in turn cause our stock price to decline.

The success of our business depends on the continuing contributions of our key personnel and our ability to attract and retain new qualified employees in a competitive labor market.

We have attracted a highly skilled management team and specialized workforce, including scientists, engineers, researchers and manufacturing and marketing professionals. If we were to lose the services of Richard M. Feldt, our Chief Executive Officer, President and a director, or any of our other executive officers and key employees, our business could be materially and adversely impacted. We do not carry key person life insurance on any of our senior management or other key personnel.

We had approximately 275 employees as of April 2, 2005, and we anticipate that we will need to hire a significant number of new highly-skilled technical, manufacturing, sales and marketing and administrative personnel if we are to successfully develop and market our products, develop our distribution network and operate our expanded manufacturing facility and the manufacturing facility we plan to be build in Germany as contemplated by our strategic partnership with Q-Cells. Competition for personnel is intense, and qualified technical personnel are likely to remain a limited resource for the foreseeable future. Locating candidates with the appropriate qualifications, particularly in the desired geographic location, can be costly and difficult. We may not be able to hire the necessary personnel to implement our business strategy, or we may need to provide higher compensation or more training to our personnel than we currently anticipate. Moreover, any officer or employee can terminate his or her relationship with us at any time.

We may be affected by skilled labor shortages and labor disputes.

We require experienced engineers, technicians and machinists to conduct our business. No assurance can be given that the supply of these skilled persons will always be adequate to meet our requirements or that we will be able to attract an adequate number of skilled persons. Labor disputes could also occur at our manufacturing facilities, which may affect our business. While our employees are not currently represented by labor unions or organized under collective bargaining agreements, labor disputes could occur at any of our facilities, including our Marlboro facility and the facility we plan to build in Germany in connection with our strategic partnership with Q-Cells, which could adversely impact our revenues and operations.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent registered public accounting firm annually attest to our evaluation, as well as issue their own opinion on our internal control over financial reporting, which was completed for the first time in connection with our Annual Report on Form 10-K for the fiscal year ended December 31, 2004. We prepared for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our report. However, the continuous process of strengthening our internal controls and complying with Section 404 is expensive and time consuming, and requires significant management attention. We cannot be certain that these measures will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Furthermore, as we rapidly grow our business, including expansion related to our strategic partnership with Q-Cells, our internal controls will become more complex and will require significantly more resources to ensure our internal controls overall remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market' s confidence in our financial statements and harm our stock price. In addition, future non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from the Nasdaq National Market and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price.

Our management team may not be able to successfully implement our business strategies because it has limited experience managing a rapidly growing company.

If our management team is unable to manage the rapid growth of our business operations, then our product development, the expansion of our manufacturing operations and distribution network and our sales and marketing activities would be materially and adversely affected. In connection with the planned expansion of our manufacturing capacity, including the manufacturing facility we plan to build in Germany as contemplated by our strategic partnership with Q-Cells, we have undergone and anticipate undergoing further rapid growth in the scope of our operations and the number of our employees, which is likely to place a significant strain on our senior management team and other resources. In addition, we may encounter difficulties in effectively managing the budgeting, forecasting and other process control issues presented by this rapid growth. We may seek to augment or replace members of our management team or we may lose key members of our management team, and we may not be able to attract new management talent with sufficient skill and experience.

If solar power technology is not suitable for widespread adoption or sufficient demand for solar power products does not develop or takes longer to develop than we anticipate, our sales would not significantly increase and we would be unable to achieve or sustain profitability.

The market for solar power products is emerging and rapidly evolving, and its future success is uncertain. If solar power technology proves unsuitable for widespread commercial deployment or if demand for solar power products fails to develop sufficiently, we would be unable to generate enough revenues to achieve and sustain profitability. In addition, demand for solar power products in the markets and geographic regions we target may not develop or may develop more slowly than we anticipate. Many factors will influence the widespread adoption of solar power technology and demand for solar power products, including:

cost-effectiveness of solar power technologies as compared with conventional and non-solar alternative energy technologies;

performance and reliability of solar power products as compared with conventional and non-solar alternative energy products;

success of alternative distributed generation technologies such as fuel cells, wind power and micro turbines;

fluctuations in economic and market conditions that impact the viability of conventional and non-solar alternative energy sources, such as increases or decreases in the prices of oil and other fossil fuels;

capital expenditures by customers that tend to decrease when the United States or global economy slows;

continued deregulation of the electric power industry and broader energy industry; and

availability of government subsidies and incentives.

We face intense competition from other companies producing solar power and other energy generation products. If we fail to compete effectively, we may be unable to increase our market share and sales.

The solar power market is intensely competitive and rapidly evolving. Our competitors have established a market position more prominent than ours, and if we fail to attract and retain customers and establish a successful distribution network for our solar power products, we may be unable to increase our sales and market share. There are over 20 companies in the world that produce solar power products, including BP Solar, Kyocera Corporation, Royal Dutch Shell, Sharp Corporation, RWE SCHOTT Solar, GE Energy and Sanyo Corporation. Other existing and potential competitors in the solar power market include universities and research institutions. We also expect that future competition will include new entrants to the solar power market offering new technological solutions. Further, many of our competitors are developing and are currently producing products based on new solar power technologies, including other crystalline silicon ribbon and sheet technologies, that they believe will ultimately have costs similar to, or lower than, our projected costs.

Most of our competitors are substantially larger than we are, have longer operating histories and have substantially greater financial, technical, manufacturing and other resources than we do. Our competitors' greater size in some cases provides them with a competitive advantage with respect to manufacturing costs due to their ability to allocate fixed costs across a greater volume of production and purchase raw materials at lower prices. Many also have greater name recognition, a more established distribution network and a larger installed base of customers. In addition, many of our competitors have well-established relationships with our current and potential resellers and their customers and have extensive knowledge of our target markets. As a result, our competitors may be able to devote greater resources to the research, development, promotion and sale of their products and respond more quickly to evolving industry standards and changing customer requirements than we can.

If we are unable to protect our intellectual property adequately, we could lose our competitive advantage in the solar power market.

Our ability to compete effectively against competing solar power technologies will depend, in part, on our ability to protect our current and future proprietary technology, product designs and manufacturing processes through a combination of patent, copyright, trademark, trade secret and unfair competition laws. We may not be able to adequately protect our intellectual property and may need to defend our products and services against infringement claims, either of which could result in the loss of our competitive advantage in the solar power market and materially harm our business and profitability. We face the following risks in protecting our intellectual property and in developing, manufacturing, marketing and selling our products and services:

we cannot be certain that our pending United States and foreign patent applications will result in issued patents or that the claims allowed are or will be sufficiently broad to protect our technology or processes;

given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important;

our license, but not our right, to practice the String Ribbon technology terminated upon the expiration of the underlying patents, which occurred during 2003 and 2004, and our historical operating experience with String

Ribbon technology and our related patented and proprietary manufacturing processes may not adequately protect our competitive advantage;

third parties may design around our patented technologies or seek to challenge or invalidate our intellectual property rights and there is no assurance that our intellectual property rights will deter infringement or misappropriation of our intellectual property;

we may incur significant costs and diversion of management resources in prosecuting or defending intellectual property infringement suits;

we may not be successful in prosecuting or defending intellectual property infringement suits and, as a result, may need to seek to obtain a license of the third party' s intellectual property rights, which may not be available to us, whether on reasonable terms or at all;

the contractual provisions we rely on to protect our trade secrets and proprietary information, such as our confidentiality and non-disclosure agreements with our employees, consultants and other third parties, may be breached and our trade secrets and proprietary information may be disclosed to competitors, strategic partners and the public; and

while our license to the underlying patents directed to the String Ribbon technology has expired, we own 5 United States patents, 8 pending United States patent applications, 2 granted European patent applications that have enforceable rights in 10 foreign jurisdictions and 16 pending foreign patent applications directed to various aspects of the String Ribbon technology; however, our historical operating experience with String Ribbon technology and our related patented and proprietary manufacturing processes may not adequately protect our competitive advantage now that the licensed patents have expired.

If we are subject to litigation and infringement claims, they could be costly and disrupt our business.

In recent years, there has been significant litigation involving patents and other intellectual property rights in many technology-related industries. There may be patents or patent applications in the United States or other countries that are pertinent to our business of which we are not aware. The technology that we incorporate into and use to develop and manufacture our current and future solar power products may be subject to claims that they infringe the patents or proprietary rights of others. The success of our technology efforts will also depend on our ability to develop new technologies without infringing or misappropriating the proprietary rights of others.

We may receive notices from third parties alleging patent, trademark or copyright infringement, claims regarding trade secrets or contract claims. Receipt of these notices could result in significant costs as a result of the diversion of the attention of management from our technology efforts. No third party has a current filed intellectual property lawsuit, arbitration or other proceeding against us. If a successful claim were brought against us, we would have to attempt to license the intellectual property right from the claimant or to spend time and money to design around or avoid the intellectual property. Any such license may not be available at reasonable terms, or at all.

We may, however, be involved in future lawsuits, arbitrations or other legal proceedings alleging patent infringement or other intellectual property rights violations. In addition, litigation, arbitration or other legal proceedings may be necessary to:

assert claims of infringement or misappropriation of or otherwise enforce our intellectual property rights;

protect our trade secrets or know-how; or

determine the enforceability, scope and validity of our intellectual property rights or those of others.

We may be unsuccessful in defending or pursuing these lawsuits or claims. Regardless of the outcome, litigation can be very costly and can divert management' s efforts. An adverse determination may subject us to significant liabilities or require us to seek licenses to other parties' intellectual property rights. We may also be restricted or prevented from developing, manufacturing, marketing or selling a solar power product or service that we develop. Further, we may not be able to obtain any necessary licenses on acceptable terms, if at all.

In addition, we may have to participate in proceedings before the United States Patent and Trademark office, or before foreign patent and trademark offices, with respect to our patents, patent applications, trademarks or trademark applications or those of others. These actions may result in substantial costs to us as well as a diversion of management attention. Furthermore, these actions could place our patents, trademarks and other intellectual property rights at risk and could result in the loss of patent, trademark or other intellectual property rights protection for the products and services on which our business strategy depends.

We may be unable to adequately protect or enforce our proprietary information, which may result in its unauthorized use or reduced sales or otherwise reduce our ability to compete.

Our business and competitive position depend upon our ability to protect our proprietary technology, including any solar power products that we develop. Despite our efforts to protect this information, unauthorized parties may attempt to obtain and use information that we regard as proprietary. Any patents issued in connection with our efforts to develop new technology for solar power products may not be broad enough to protect all of the potential uses of the technology.

In addition, when we do not control the prosecution, maintenance and enforcement of certain important intellectual property, such as a technology in-licensed to us, the protection of the intellectual property rights may not be in our hands. If the entity that controls the intellectual property rights does not adequately protect those rights, our rights may be impaired, which may impact our ability to develop, market and commercialize the related solar power products.

Our means of protecting our proprietary rights may not be adequate, and our competitors may:

- independently develop substantially equivalent proprietary information, products and techniques;
- otherwise gain access to our proprietary information; or
- design around our patents or other intellectual property.

We pursue a policy of having our employees, consultants and advisors execute proprietary information and invention agreements when they begin working for us. However, these agreements may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure. If we fail to maintain trade secret and patent protection, our potential, future revenues may be decreased.

If the effective term of our patents is decreased due to changes in patent laws or if we need to refile some of our patent applications, the value of our patent portfolio and the revenues we derive from it may be decreased.

The value of our patents depends in part on their duration. A shorter period of patent protection could lessen the value of our rights under any patents that we obtain and may decrease the revenues we derive from our patents. For example, the United States patent laws were amended in 1995 to change the term of patent protection from 17 years after the date of a patent' s issuance to 20 years after the earliest effective filing date of the application for a patent, unless the application was pending on June 8, 1995, in which case the term of a patent' s protection expires either 17 years after its issuance or 20 years after its filing, whichever is later. Because the average time from filing of patent application to issuance of a patent there from is usually at least one year and, depending on the subject matter, may be more than three years, a 20-year patent term from the filing date may result in substantially shorter patent protection. Also, we may need to refile some of our patent applications to disclose additional subject matter and, in these situations, the patent term will be measured from the date of the earliest priority application to which benefit is claimed in such a patent application. This would shorten our period of patent exclusivity and may decrease the revenues that we might obtain from the patents.

International intellectual property protection is particularly uncertain and costly, and we have not obtained or sought patent or trademark protection in many foreign countries where our solar power products and services may be developed, manufactured, marketed or sold.

Intellectual property law outside the United States is even more uncertain and costly than in the United States and is currently undergoing review and revision in many countries. Further, the laws of some foreign countries may not protect our intellectual property rights to the same extent as United States laws. Moreover, we have not sought, obtained or maintained patent and trademark protection in many foreign countries in which our solar power products and services may be developed, manufactured, marketed or sold by us or by others.

Existing regulations and changes to such regulations may present technical, regulatory and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products.

The market for electricity generation products is heavily influenced by foreign, federal, state and local government regulations and policies concerning the electric utility industry, as well as internal policies and regulations promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In the United States and in a number of other countries, these regulations and policies are being modified and may continue to be modified. Customer purchases of, or further investment in the research and development of, alternative energy sources, including solar power technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our solar power products. For example, utility companies commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase the cost to our customers of using our solar power products and make them less desirable, thereby harming our business, prospects, results of operations and financial condition.

We anticipate that our solar power products and their installation will be subject to oversight and regulation in accordance with national and local ordinances relating to building codes, safety, environmental protection, utility interconnection and metering and related matters. There is also a burden in having to track the requirements of individual states and design equipment to comply with the varying standards. Any new government regulations or utility policies pertaining to our solar power products may result in significant additional expenses to us and our resellers and their customers and, as a result, could cause a significant reduction in demand for our solar power products.

The reduction or elimination of government subsidies and economic incentives for on-grid applications could cause our revenues to decline.

We believe that the growth of some of our target markets, including the market for on-grid applications, depends in part on the availability and size of government subsidies and economic incentives. Accordingly, the reduction or elimination of government subsidies and economic incentives may adversely affect the growth of these markets or result in increased price competition, which could cause our revenues to decline. Today, the cost of solar power substantially exceeds the cost of power furnished by the electric utility grid. As a result, federal, state and local governmental bodies in many countries, most notably the United States, Japan and Germany, have provided subsidies in the form of cost reductions, tax write-offs and other incentives to end users, distributors, systems integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependency on other forms of energy. These government subsidies and economic incentives could be reduced or eliminated altogether.

The lack or inaccessibility of financing for off-grid solar power applications could cause our sales to decline.

One of the markets our products address is off-grid solar power applications to developed and developing countries. In some developing countries, government agencies and the private sector have, from time to time, provided subsidies or financing on preferred terms for rural electrification programs. We believe that the availability of financing could have a significant effect on the level of sales of off-grid solar power applications, particularly in developing countries where users may not have sufficient resources or credit to otherwise acquire solar power systems. If existing financing programs for off-grid solar power applications are eliminated or if financing is inaccessible, the growth of the market for off-grid applications may be adversely affected, which could cause our sales to decline.

Our reliance on government contracts to partially fund our research and development programs could impair our ability to commercialize our solar power technologies and would increase our research and development expenses.

We intend to continue our policy of selectively pursuing contract research, product development and market development programs funded by various agencies of the United States, state and international governments to complement and enhance our own resources. The percentage of our total revenues derived from government-related contracts was approximately 2% for the quarter ended April 2, 2005. As of April 2, 2005, we did not have any active research contracts.

These government agencies may not continue their commitment to programs to which our development projects are applicable. Moreover, we may not be able to compete successfully to obtain funding through these or other programs. A reduction or discontinuance of these programs or of our participation in these programs would increase our research and development expenses, which could impair our ability to develop our solar power technologies. In addition, contracts involving government agencies may be terminated or modified at the convenience of the agency. Other risks include potential disclosure of our confidential information to third parties and the exercise of "march-in" rights by the government. Our government-sponsored research contracts are subject to audit and require that we provide regular written technical updates on a monthly, quarterly or annual basis, and, at the conclusion of the research contract, a final report on the results of our technical research. Because these reports are generally available to the public, third parties may obtain some aspects of our sensitive confidential information. Moreover, the failure to provide these reports or to provide inaccurate or incomplete reports may provide the government with rights to any intellectual property arising from the related research. March-in rights refer to the right of the United States government or government agency to require us to grant a license to the technology to a responsible applicant or, if we refuse, the government may grant the license itself. The government can exercise its march-in rights if it determines that action is necessary because we fail to achieve practical application of the technology or because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations or to give the United States industry preference. Funding from government contracts also may limit when and how we can deploy our technology developed under those contracts.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines.

We are required to comply with all foreign, federal, state and local regulations regarding protection of the environment. If more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. We believe that we have all necessary permits to conduct our business as it is presently conducted. If we fail to comply with present or future environmental regulations, however, we may be required to pay substantial fines, suspend production or cease operations. We use, generate and discharge toxic, volatile and otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations. In addition, under some foreign, federal and state statutes and regulations, a governmental agency may seek recovery and response costs from operators of property where releases of hazardous substances have occurred or are ongoing, even if the operator was not responsible for such release or otherwise at fault.

Product liability claims against us could result in adverse publicity and potentially significant monetary damages.

Like other retailers, distributors and manufacturers of products that are used by consumers, we face an inherent risk of exposure to product liability claims in the event that the use of the solar power products we sell results in injury. Since our products are electricity producing devices, it is possible that consumers could be injured or killed by our products, whether by product malfunctions, defects, improper installation or other causes. In addition, since sales of our existing products have been modest and the products we are developing incorporate new technologies and use new installation methods, we cannot predict whether or not product liability claims will be brought against us in the future or the effect of any resulting adverse publicity on our business. Moreover, we may not have adequate resources in the event of a successful claim against us. We have evaluated the potential risks we face and believe that we have appropriate levels of insurance for product liability claims. We rely on our general liability insurance to cover product liability claims and have not obtained separate product liability insurance. The successful assertion of product liability claims against us could result in potentially significant monetary damages and if our insurance protection is inadequate to cover these claims, they could require us to make significant payments.

Risks Related to Our Common Stock

Our officers and directors control approximately 21% of our voting stock and may be able to significantly influence corporate actions.

As of April 2, 2005, our executive officers and directors and entities affiliated with them beneficially owned approximately 21% of our voting stock. As a result, these stockholders, acting together, may be able to significantly influence all matters requiring approval by our stockholders, including the election of directors, the approval of charter and by-law amendments and the approval of mergers or other business combinations. The interests of these and other of our existing stockholders may conflict with the interests of our other stockholders.

The price of our common stock has been volatile.

Our common stock is quoted on the Nasdaq National Market. The trading price of our common stock has been and may continue to be volatile. The closing sale prices of our common stock, as reported by the Nasdaq National

Market, have ranged from $2.04 to $7.45 for the 52-week period ended April 2, 2005. Our operating performance will significantly affect the market price of our common stock. To the extent we are unable to compete effectively and gain market share or the other factors described in this section affect us, our stock price will likely decline. The market price of our common stock also may be adversely impacted by broad market and industry fluctuations regardless of our operating performance, including general economic and technology trends. The Nasdaq National Market has, from time to time, experienced extreme price and trading volume fluctuations, and the market prices of technology companies such as ours have been extremely volatile.

Our quarterly revenue and operating results have fluctuated significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a variety of factors, including:

- the size and timing of customer orders for or shipments of our products;
- the rate and cost at which we are able to expand our manufacturing capacity to meet product demand, including the rate and cost at which we are able to implement advances in our String-Ribbon technology;
- our ability to establish and expand key customer and distributor relationships;
- our ability and the terms upon which we are able to raise capital sufficient to finance the expansion of our manufacturing capacity and our sales and marketing efforts;
- our ability to establish a manufacturing facility in Germany as contemplated by our joint venture with Q-Cells at the costs and on the time frame that we expect;
- the extent to which Q-Cells increases its ownership in the joint venture in the future and thereby reduces our share of profits and losses of the joint venture in future periods;
- our ability to establish strategic relationships with third parties to accelerate our growth plans;
- the amount and timing of expenses associated with our research and development programs and our ability to develop enhancements to our manufacturing processes and our products;
- delays associated with the supply of specialized materials necessary for the manufacture of our solar power products;
- our ability to execute our cost reduction programs;
- one time charges resulting from replacing existing equipment or technology with new or improved equipment or technology as part of our strategy to expand our manufacturing capacity and to decrease our per unit manufacturing cost;
- developments in the competitive environment, including the introduction of new products or technological advancements by our competitors; and
- the timing of adding the personnel necessary to execute our growth plan.

In addition, the stock market in general, and the Nasdaq National Market and the market for technology companies in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company’ s securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management’ s attention and resources.

We anticipate that our operating expenses will continue to increase significantly, particularly as we increase our capital expenditures to build our planned manufacturing facility in Germany, as contemplated by our strategic partnership with Q-Cells. If our product revenues in any quarter do not increase correspondingly, our net losses for that period will increase. Moreover, given that a significant portion of our operating expenses is largely fixed in nature and cannot be quickly reduced, if our product revenues are delayed or below expectations, our operating results are likely to be adversely and disproportionately affected. For these reasons, quarter-to-quarter comparisons of our results of operations are not necessarily meaningful and you should not rely on results of operations in any particular quarter as an indication of future performance. If our quarterly revenue or results of operations fall below the expectations of investors or public market analysts in any quarter, the market value of our common stock would likely decrease, and it could decrease rapidly and substantially.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any cash dividends on our common stock. We anticipate that we will retain our earnings to support operations and to finance the growth and development of our business and do not expect to pay cash dividends in the foreseeable future. Additionally, under the terms of the Loan Agreement with Silicon Valley Bank we are prohibited from declaring or paying dividends above an aggregate threshold of $500,000. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

We are subject to anti-takeover provisions in our charter and by-laws and under Delaware law that could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders.

Provisions of our certificate of incorporation and by-laws, as well as Delaware law, could make it more difficult and expensive for a third party to pursue a tender offer, change in control transaction or takeover attempt that is opposed by our board of directors. Stockholders who wish to participate in these transactions may not have the opportunity to do so. We also have a staggered board of directors, which makes it difficult for stockholders to change the composition of our board of directors in any one year. If a tender offer, change in control transaction, takeover attempt or change in our board of directors is prevented or delayed, the market price of our common stock could decline. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

We can issue shares of preferred stock that may adversely affect the rights of a stockholder of our common stock.

Our certificate of incorporation authorizes us to issue up to 27,227,668 shares of preferred stock with designations, rights and preferences determined from time-to-time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of stockholders of our common stock. For example, an issuance of shares of preferred stock could:

- adversely affect the voting power of the stockholders of our common stock;
- make it more difficult for a third party to gain control of us;
- discourage bids for our common stock at a premium;
- limit or eliminate any payments that the stockholders of our common stock could expect to receive upon our liquidation; or
- otherwise adversely affect the market price of our common stock.

We have in the past and we may in the future issue additional shares of authorized preferred stock at any time.

Our failure to comply with applicable listing standards could result in the ineligibility of our common stock for quotation on the Nasdaq National Market and severely limit the ability to sell our common stock.

Our common stock is quoted on the Nasdaq National Market. Under Nasdaq' s listing maintenance standards, if the closing bid price of our common stock is under $1.00 per share for 30 consecutive trading days, Nasdaq will notify us that we may be de-listed from the Nasdaq National Market. If the closing bid price of our common stock does not thereafter regain compliance for a minimum of ten consecutive trading days during the 90 days following notification by Nasdaq, our common stock may no longer be eligible for quotation on the Nasdaq National Market.

There can be no assurance that our common stock will remain eligible for quotation on the Nasdaq National Market. In addition, if our common stock were no longer eligible for such quotation, our stockholders would not be able to sell our common stock on the Nasdaq National Market, and their ability to sell any of our common stock could be severely if not completely limited.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

INTEREST RATE RISK

We do not use derivative financial instruments to manage interest rate risk. Interest income earned on our cash, cash equivalents and marketable securities is subject to interest rate fluctuations, but we believe that the impact of these fluctuations does not have a material effect on our financial position due to the immediate available liquidity or short-term nature of these financial instruments. For these reasons, a hypothetical 100-basis point adverse change in interest rates would not have a material effect on our consolidated financial position, results of operations or cash flows.

FOREIGN CURRENCY EXCHANGE RATE RISK

For the quarter ended April 2, 2005, all of our product sales into Europe were denominated in Euros, which exposes us to foreign exchange gains or losses. Product sales into Europe accounted for approximately 69% of product revenues for the quarter ended April 2, 2005. Since our Euro-denominated sales represent a significant portion of our total revenue, a hypothetical 10 percent weakening in exchange rates against the U.S. dollar would have had a material effect on our consolidated financial position, reducing revenue and earnings by approximately 7%. As we expand our manufacturing operations and distribution network internationally, our exposure to fluctuations in currency exchange rates may increase. Additionally, from time to time we may purchase equipment and materials internationally, and to the extent that such purchases are billed in foreign currency, we will be exposed to currency gains or losses.

In 2004, we began to manage our foreign exchange risk through the use of derivative financial instruments. These financial instruments serve to protect cash flow against the impact of the translation into U.S. dollars of foreign exchange denominated transactions. As of April 2, 2005, we had forward currency contracts denominated in foreign currency totaling 4.0 million. At April 2, 2005, the translated fair market value of outstanding forward exchange contracts was $5.2 million. The difference between the fair market value and the book value of the contracts as of April 2, 2005 was $29,000, which is recorded as a current liability in our balance sheet.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report (the "Evaluation Date"), have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective, in all material respects, to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act (i) is recorded, processed, summarized and reported as and when required and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

During the period covered by this report, there have been no significant changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Limitations Inherent in all Controls.

The Company' s management, including the Chief Executive Officer and Chief Financial Officer, recognize that our disclosure controls and our internal controls (discussed above) cannot prevent all errors or all attempts at fraud. Any controls system, no matter how well crafted and operated, can only provide reasonable, and not absolute, assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in

any control system, no evaluation or implementation of a control system can provide complete assurance that all control issues and all possible instances of fraud have been or will be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings within the meaning of Item 103 of Regulation S-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In February 2005, we completed a $62.3 million common stock offering, net of offering costs of approximately $4.4 million, to satisfy existing capital requirements and to fund the continuing capacity expansion of our Marlboro, Massachusetts manufacturing facility and the expenditures necessary for the initial build-out and initial operation of the strategic partnership with Q-Cells. A portion of the proceeds from the financing will also be used to increase research and development spending on promising next generation technologies and to explore further expansion opportunities. In this common stock offering, we issued 13,346,000 shares of our common stock. The shares of common stock were sold at a per share price of $5.00 (before deducting underwriting discounts), which represented a 6% discount to the $5.30 closing price of shares of our common stock as reported on the Nasdaq National Market as of the close of business on February 3, 2005.

We have never declared or paid cash dividends on our common stock. We anticipate that we will retain our earnings to support operations and to finance the growth and development of our business and do not expect to pay cash dividends in the foreseeable future. On August 26, 2004, the Company entered into a one-year revolving credit facility in the amount of $5.0 million with Silicon Valley Bank pursuant to a Loan and Security Agreement dated August 26, 2004 (the “Loan Agreement”). The Loan Agreement contains certain financial and other covenants that restrict the Company’ s ability to, among other things, dispose of property, incur indebtedness, make certain acquisitions, merge into another entity, declare or pay dividends above an aggregate threshold of $500,000 and redeem, retire, repurchase or otherwise acquire shares of capital stock of the Company in excess of $500,000 in the aggregate. In addition, the Company must comply with certain financial thresholds including minimum tangible net worth and minimum cash or excess availability.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

On December 15, 2004, the Compensation Committee (the “Compensation Committee”) of the Board of Directors recommended for approval by the Board of Directors, and the Board approved (i) a bonus pool for non-CEO employees of up to $300,000, (ii) an stock option bonus pool for non-CEO employees of up to 300,000 shares, and (iii) a cash bonus to the Chief Executive Officer of $150,000 (of which $100,000 is due pursuant to the Chief Executive Officer’ s employment offer letter and $50,000 of which is in addition to such amounts due).

In February 2005, the Compensation Committee approved cash bonus payments from the previously approved bonus pool for the non-CEO named executive officers as follows:

Name	Position	Cash Bonus	
Richard G. Chleboski	Chief Financial Officer, Vice President, Treasurer and Secretary	$	17,852
Mark A. Farber	Vice President, Strategic Planning	$	22,314
Dr. Jack I. Hanoka	Vice President and Chief Technical Officer	$	17,757
John J. McCaffrey, Jr.	Vice President, Manufacturing and Engineering	$	19,764

On April 13, 2005, the Board of Directors of the Company approved a Management Incentive Plan, which is intended to recognize and reward key employees of the Company for the business performance of the organization. The Management Incentive Plan is based on company performance results, compared to annually established plan goals.

Plan participants will include the Chief Executive Officer, Senior Vice Presidents, Vice Presidents, Directors and all other professional staff. The plan allows the inclusion of other non-referenced employees as approved by the Chief Executive Officer or the Compensation Committee of the Company' s Board of Directors.

The four level bonus matrix is based on achievement by the Company of a combination of performance targets, corporate strategic goals, and departmental objectives. Level 3 and Level 4 plan participants become eligible for bonus payments of 25% and 40%, respectively, of their annual salary, based on attainment of Company performance targets and the achievement of corporate strategic goals. Level 1 and Level 2 plan participants become eligible for 40-60% of their bonus amount based on attainment of Company performance targets. The remaining 40-60% of the eligible bonus amount is earned based on the attainment of strategic and/or departmental objectives. Bonus payments for Level 1 and Level 2 plan participants are 5% and 15%, respectively, of their annual salary.

Participation in the Management Incentive Plan will be based on position level in the Company at the beginning of each calendar year.

The Chief Executive Officer will recommend performance targets and corporate strategic goals for the coming year to the Compensation Committee of the Company' s Board of Directors. The Compensation Committee of the Company' s Board of Directors will set the coming year' s targets. Departmental objectives will be established by the appropriate department manager and approved by the Chief Executive Officer.

Stockholders interested in submitting a proposal for inclusion in the proxy materials for our 2005 annual meeting of stockholders may do so by following the procedures prescribed in Rule 14a-8 under the Securities Exchange Act of 1934, as amended. Our Board of Directors has recently selected July 11, 2005 as the date of our 2005 annual meeting of stockholders (the "Annual Meeting"). Because the date of the Annual Meeting is more than 30 days prior to the one-year anniversary date of our 2004 annual meeting of stockholders, in order for a stockholder proposal to be eligible for inclusion in the proxy materials for the Annual Meeting, such stockholder proposal must be received by the Company' s Corporate Secretary within a reasonable time prior to the printing of the proxy materials related to the Annual Meeting. Proposals must be sent to Evergreen Solar, Inc., 138 Bartlett Street, Marlboro, Massachusetts 01752, Attn: Corporate Secretary.

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ITEM 6. EXHIBITS

Number	Description
1.1 (1)	Underwriting Agreement dated as of February 3, 2005, by and among the Company, SG Cowen & Co., LLC and First Albany Capital Inc.
3.1 (2)	Third Amended and Restated Certificate of Incorporation. (Exhibit 3.2)
3.2 (2)	Second Amended and Restated By-laws. (Exhibit 3.4)
3.3 (3)	Certificate of Amendment of Third Amended and Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on May 15, 2003. (Exhibit 4.3)
3.4 (3)	Certificate of the Powers, Designations, Preferences and Rights of the Series A Convertible Preferred Stock of the Company. (Exhibit 4.4)
3.5 (4)	Certificate of Amendment of Third Amended and Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on August 20, 2004. (Exhibit 4.5)
4.1 (5)	Warrant issued to CRT Capital Group LLC. (Exhibit 4.1)
4.2 (6)	Warrant to Purchase Stock issued to Silicon Valley Bank on August 26, 2004. (Exhibit 4.1)
4.3 (6)	Registration Rights Agreement dated as of August 26, 2004. (Exhibit 4.2)
10.1 (2)*	1994 Stock Option Plan. (Exhibit 10.1)
10.2 (2)*	2000 Stock Option and Incentive Plan. (Exhibit 10.2)
10.3 (3)*	Amended 2000 Stock Option and Incentive Plan. (Exhibit 4.5)
10.4 (2)*	2000 Employee Stock Purchase Plan. (Exhibit 10.3)
10.5 (2)	Lease Agreement between Company and W9/TIB Real Estate Limited Partnership dated as of January 31, 2000, as amended. (Exhibit 10.5)
10.6 (5)	Lease Agreement between Company and One Hundred Twenty Bartlett Street Marlboro LLC dated as of January 26, 2004. (Exhibit 10.6)
10.7 (2)+	Agreement between Company and Emanuel M. Sachs dated as of September 30, 1994, as amended. (Exhibit 10.7)
10.8 (2)	Series D Preferred Stock Purchase Agreement dated as of December 28, 1999. (Exhibit 10.8)
10.9 (2)	Form of Indemnification Agreement between Company and each of its directors and executive officers. (Exhibit 10.9)
10.10 (7)	Stock and Warrant Purchase Agreement dated as of March 21, 2003. (Exhibit 10.1)
10.11 (7)	Form of Registration Rights Agreement. (Exhibit 10.3)
10.12 (7)	Voting Agreement dated as of March 21, 2003. (Exhibit 10.2)
10.13 (8)	Stock and Warrant Purchase Agreement dated June 16, 2004. (Exhibit 10.1)
10.14 (8)	Warrant Agreement dated June 21, 2004. (Exhibit 10.2)

Number	Description
10.15 (8)	Form of Warrants. (Exhibit 10.3)
10.16 (8)	Registration Rights Agreement dated June 21, 2004. (Exhibit 10.4)
10.17 (8)	Conversion, Consent, Voting and Lock-Up Agreement dated June 21, 2004. (Exhibit 10.5)
10.18 (9)++	Master Strategic Partnership Agreement entered into as of January 14, 2005 by and between Evergreen Solar, Inc. and Q-Cells AG. (Exhibit 10.1)
10.19 (9)++	License and Technology Transfer Agreement by and between Evergreen Solar, Inc. and EverQ GmbH, dated January 14, 2005. (Exhibit 10.2)
10.20	Evergreen Solar, Inc. Management Incentive Plan. (filed herewith)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Confidential treatment granted as to certain portions.

++ Confidential treatment requested as to certain portions.

* Indicates a management contract or compensatory plan, contract or arrangement.

(1) Incorporated herein by reference to the exhibits to the Company' s Current Report on Form 8-K dated February 3, 2005 (File No. 000-31687). The number given in parenthesis indicates the corresponding exhibit number in such Form 8-K.

(2) Incorporated herein by reference to the exhibits to the Company' s Registration Statement on Form S-1, as amended (file No. 333-43140). The number given in parenthesis indicates the corresponding exhibit number in such Form S-1.

(3) Incorporated herein by reference to the exhibits to the Company' s Registration Statement on Form S-8 dated June 9, 2003, as amended (file No. 333-105963). The number given in parenthesis indicates the corresponding exhibit number in such Form S-8.

(4) Incorporated herein by reference to the exhibits to the Company' s Registration Statement on Form S-3 filed on October 21, 2004 (file No. 333-119864). The number given in parenthesis indicates the corresponding exhibit number in such Form S-3.

(5) Incorporated herein by reference to the exhibits to the Company' s Annual Report on Form 10-K for the period ended December 31, 2004 filed on March 10, 2005.

(6) Incorporated herein by reference to the exhibits to the Company' s Quarterly Report on Form 10-Q for the period ended September 30, 2004 filed on November 12, 2004. The number given in parenthesis indicates the corresponding exhibit number in such Form 10-Q.

(7) Incorporated herein by reference to the exhibits to the Company' s Current Report on Form 8-K dated March 24, 2003 (File No. 000-31687). The number given in parenthesis indicates the corresponding exhibit number in such Form 8-K.

(8) Incorporated herein by reference to the exhibits to the Company' s Current Report on Form 8-K dated June 22, 2004 (File No. 000-31687). The number given in parenthesis indicates the corresponding exhibit number in such Form 8-K.

(9) Incorporated herein by reference to the exhibits to the Company' s Current Report on Form 8-K dated January 14, 2005 (File No. 000-31687). The number given in parenthesis indicates the corresponding exhibit number in such Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EVERGREEN SOLAR, INC.

Date: May 2, 2005

/s/ Richard G. Chleboski

Richard G. Chleboski
Chief Financial Officer, Vice President, Treasurer and Secretary
(Principal Financial Officer)

EVERGREEN SOLAR, INC. MANAGEMENT INCENTIVE PLAN

The purpose of the Management Incentive Plan is to recognize and reward key employees of Evergreen Solar for the business performance of the organization. The Management Incentive Plan is based on company performance results, compared to annually established plan goals.

Objectives

- Promote strong linkage between employee contributions and overall Company performance that enhances shareholder value.

- Reward performance that directly supports the achievement of Company annual business objectives.

- Attract and retain critical technical and management talent necessary for the Company's success.

- Provide the opportunity for significant compensation based company annual performance.

Eligibility

Plan participants will include: CEO, SVP's, VP's, Director's and all other Professional Staff. The plan allows the inclusion of other non-referenced employees as approved by the CEO or Compensation Committee.

Individual Participation Levels

Participation in the Management Incentive Plan will be based on position level in the company at the beginning of each calendar year. EMPLOYEES HIRED OR PROMOTED ON OR AFTER OCTOBER 1ST WILL NOT BE ELIGIBLE FOR PARTICIPATION IN THE MANAGEMENT INCENTIVE PLAN. Promotions and new hires prior to October 1st will be eligible for participation in the plan on a pro-rated basis, determined by using the promotion date or hire date. The following table identifies eligible participants and the targeted bonus level:

<TABLE>
<CAPTION>

Position Level	Incentive Target
<S>	<C>
Level 4	40% (based on 100% attainment of Company Performance Targets AND Corporate Strategic Goals)
Level 3	25% (based on 100% attainment of Company Performance Targets AND Corporate Strategic Goals)
Level 2	15% (50% of bonus opportunity is based on 100% attainment of Company Performance Targets and 50% is based on 100% attainment of Departmental Objectives)
Level 1	5% (50% of bonus opportunity is based on 100% attainment of Company Performance Targets and 50% is based on 100% attainment

Of Department Objectives)
</TABLE>

Actual Management Incentive Plan payments can be more or less than the targeted amount based on Company Performance Target Calculations and/or achievement of Corporate Strategic Goals and departmental objectives.

Level 3 and Level 4 plan participants become eligible for bonus payout based on attainment of Company Performance Targets AND the achievement of Corporate Strategic Goals. Level 3 and Level 4 employees must be performing at a "Meets Expectations" level or above, and must be employed by Evergreen Solar at the time plan payments are made.

Level 1 and 2 plan participants become eligible for 40-60% of their bonus amount based on attainment of Company Performance Targets. The remaining 40-60% of the eligible bonus amount is earned based on the attainment of Strategic and/or Departmental Objectives as outlined by the Plan. The actual weighting of Company Performance Targets and Strategic/Departmental Objectives will be established annually. As with Level 3 and level 4 participants, level 1 and 2 participants must be employed by Evergreen Solar at the time plan payments are made and be performing at or above a "Meets Expectations" level.

Company Performance Targets

Total Company performance for the purposes of this bonus plan will be determined by attainment of financial, strategic and departmental objectives. Specific targets will be determined and communicated to plan participants on an annual basis.

The CEO, in conjunction with the Board of Directors, reserves the right to amend or change Company Performance Targets at any time during the plan year, if such a change is deemed to be in the best interest of Evergreen Solar, Inc.

The CEO and the Board of Directors also reserve the right to make discretionary bonus payments to plan and non-plan participants, based on their contribution to Evergreen Solar goals and objectives, regardless of the achievement of Company Performance Targets.

Company Strategic Objectives

As the company enters its' next growth phase, we are cognizant that many factors beyond pure financial measures, will contribute to our overall success. As such, the Management Incentive Plan payouts will be calculated based on the attainment of financial targets as well as Corporate Strategic Goals and departmental objectives. Specific Corporate Strategic Goals will be established and communicated by the CEO, and must be executed by year-end in order for Level 3 and Level 4 participants to receive a bonus payout.

Departmental Objectives

As outlined above, Level 1 and Level 2 participants will have a significant percentage (established and communicated annually) of their bonus opportunity based on departmental goal attainment. Departmental objectives must be clear linkage to the "macro" strategy and/or objectives of Evergreen Solar; be easily recognizable or measurable when completed; and, Level 1 and level 2 plan participants play a key role in its' attainment.

Establishment of Company Performance Targets and Department Objectives

The CEO will recommend performance targets for revenue and gross margin for the coming year to the Compensation Committee. He will also establish and gain necessary approvals relative to the Corporate Strategic Goals for the upcoming year. The Compensation Committee will set the coming year's targets at the last meeting of each calendar year.

For Level 1 and Level 2 participants, departmental objectives will be established by the appropriate department Vice President and approved by the CEO. Departmental objectives will be communicated to plan participants at the beginning of each calendar year.

Determination and Approval of Company Performance Results and Departmental Objective Results

The CEO will review company performance with the Board of Directors and the Compensation Committee at the first meeting of each calendar year. Additionally, the CEO will review attainment of departmental results with each Vice President. Upon approval from the Compensation Committee, Management Incentive Plan calculations will be initiated and payment will be made to eligible participants.

EXHIBIT 31.1 - CERTIFICATIONS

I, Richard M. Feldt, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the

registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: May 2, 2005

/s/ Richard M. Feldt

Richard M. Feldt
Chief Executive Officer

EXHIBIT 31.2 - CERTIFICATIONS

I, Richard G. Chleboski, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the

registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: May 2, 2005

/s/ Richard G. Chleboski

Richard G. Chleboski
Chief Financial Officer

EXHIBIT 32.1
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Evergreen Solar, Inc. (the "Company") on Form 10-Q for the period ending April 2, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Feldt, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

/s/ Richard M. Feldt

Richard M. Feldt
Chief Executive Officer
May 2, 2005

EXHIBIT 32.2

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

In connection with the Quarterly Report of Evergreen Solar, Inc. (the "Company") on Form 10-Q for the period ending April 2, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard G. Chleboski, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

/s/ Richard G. Chleboski

Richard G. Chleboski
Chief Financial Officer
May 2, 2005