

Edgar Filing: SPIRE CORP - Form 10-Q

SPIRE CORP
Form 10-Q
November 24, 2008

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 September 30, 2008; or
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 0-12742

SPIRE CORPORATION

(Exact name of registrant as specified in its charter)

MASSACHUSETTS

(State or other jurisdiction of
incorporation or organization)

04-2457335

(I.R.S. Employer
Identification Number)

ONE PATRIOTS PARK, BEDFORD, MASSACHUSETTS

(Address of principal executive offices)

01730-2396

(Zip Code)

781-275-6000

(Registrant's telephone number including area code)

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

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

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

Edgar Filing: SPIRE CORP - Form 10-Q

reporting company)

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

The number of shares of the registrant's common stock outstanding as of November 5, 2008 was 8,330,688.

=====

TABLE OF CONTENTS

Explanatory Note

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements:

 Unaudited Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007 (as restated)

 Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2008 and 2007

 Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007

 Notes to Unaudited Condensed Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4T. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits

 Signatures

Edgar Filing: SPIRE CORP - Form 10-Q

EXPLANATORY NOTE

In November 2008, our management notified the Audit Committee of the Board of Directors over a concern relating to the timing of revenue recognition with respect to a single contract with one customer that we recognized in prior periods. Management determined that this customer was provided a concession, which was previously undisclosed and undocumented, with respect to upgrade rights to a specific tool sold in conjunction with a module line delivered to this customer. As the upgrade was not available for sale at the time when certain elements of the contract were recognized, management determined that revenue for the entire contract should have been deferred until the upgrade was provided to the customer. Management informed both the Audit Committee and our independent registered public accounting firm when the concession was discovered. Management in concert with the Audit Committee initiated an internal review of other solar equipment contracts to determine if other concessions or side arrangements were timely conveyed, such that revenue was appropriately recognized. The review revealed that, except for the one contract in question, all customer concessions and modifications were conveyed on a timely basis and revenue was appropriately recorded in all other cases during the period under review.

On November 18, 2008, as a result of these investigations, the Audit Committee concluded, in consultation with and upon the recommendation of management, that the previously issued financial statements for the fourth quarter and fiscal 2007 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and previously issued financial statements included in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2008 and June 30, 2008 and the related earnings releases and similar communications relating to all such fiscal periods, should no longer be relied upon. Specifically, adjustments needed to be made in the fourth quarter of 2007 and the first quarter of 2008.

We have recorded adjustments affecting our previously-reported financial statements for the fourth quarter of 2007 and for the first quarter of 2008. This Quarterly Report on Form 10-Q is inclusive of all adjustments related to the restatements in the fourth quarter of 2007 and first quarter of 2008.

We are recording adjustments affecting our previously-reported financial statements for the fourth quarter of 2007 and for the first quarter of 2008, the cumulative effects of which are summarized in the table below.

CUMULATIVE EFFECT OF ADJUSTMENTS ON ACCUMULATED DEFICIT

The following table presents the cumulative effect of adjustments resulting from the reviews described above for the periods shown.

| | Year Ended December 31, 2007 | Quarter Ended March 31, 2008 |
|---------------------------------|------------------------------------|------------------------------------|
| | ----- | ----- |
| | As Restated (1) | |
| | ----- | ----- |
| Net loss as originally reported | \$ (1,686,000) | \$ (508,000) |
| Adjustments related to: | | |
| Revenue recognition | (1,355,000) | (380,000) |
| Cost of goods sold | 1,108,000 | 365,000 |
| | ----- | ----- |

Edgar Filing: SPIRE CORP - Form 10-Q

| | | |
|--|----------------|--------------|
| Net adjustments | (247,000) | (15,000) |
| | ----- | ----- |
| Net loss as restated | \$ (1,933,000) | \$ (523,000) |
| | ===== | ===== |
| Cumulative effect to accumulated deficit | \$ 247,000 | \$ 262,000 |
| | ===== | ===== |

(1) See Note 2, to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1.

1

PART I
FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SPIRE CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2008 | December 31, 2007 As Restated |
|--|-----------------------|-------------------------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets | | |
| ----- | | |
| Cash and cash equivalents | \$ 2,309,000 | \$ 2,372,000 |
| Restricted cash - current portion | 161,000 | 391,000 |
| | ----- | ----- |
| | 2,470,000 | 2,763,000 |
| Accounts receivable - trade, net | 16,399,000 | 11,865,000 |
| Inventories, net | 15,900,000 | 11,570,000 |
| Deferred cost of goods sold | 18,788,000 | 8,044,000 |
| Deposits on equipment for inventory | 1,603,000 | 2,475,000 |
| Prepaid expenses and other current assets | 456,000 | 542,000 |
| | ----- | ----- |
| Total current assets | 55,616,000 | 37,259,000 |
| Property and equipment, net | 6,175,000 | 6,209,000 |
| Intangible and other assets, net | 873,000 | 851,000 |
| Available-for-sale investments, at quoted market value (cost of \$1,637,000 and \$1,696,000 at 9/30/08 and 12/31/07, respectively) | 1,454,000 | 1,800,000 |
| Equity investment in joint venture | 1,866,000 | 2,264,000 |
| Deposit - related party | 300,000 | 304,000 |
| | ----- | ----- |
| Total other assets | 4,493,000 | 5,219,000 |
| | ----- | ----- |
| Total assets | \$ 66,284,000 | \$ 48,687,000 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

Edgar Filing: SPIRE CORP - Form 10-Q

Current liabilities

| | | |
|---|------------|------------|
| ----- | | |
| Current portion of capital lease obligation - related party | \$ -- | \$ 486,000 |
| Current portion of equipment line of credit | 1,167,000 | 1,167,000 |
| Accounts payable | 6,009,000 | 2,909,000 |
| Accrued liabilities | 6,978,000 | 6,057,000 |
| Current portion of advances on contracts in progress | 39,845,000 | 24,053,000 |
| | ----- | ----- |
| Total current liabilities | 53,999,000 | 34,672,000 |
| Long-term portion of equipment line of credit | 875,000 | 1,750,000 |
| Long-term portion of advances on contracts in progress | 1,281,000 | 1,950,000 |
| Deferred compensation | 1,454,000 | 1,800,000 |
| Other long-term liabilities | 197,000 | 60,000 |
| | ----- | ----- |
| Total long-term liabilities | 3,807,000 | 5,560,000 |
| | ----- | ----- |
| Total liabilities | 57,806,000 | 40,232,000 |
| | ----- | ----- |

Stockholders' equity

| | | |
|---|---------------|---------------|
| ----- | | |
| Common stock, \$0.01 par value; 20,000,000 shares authorized; 8,330,688 and 8,321,188 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively | 83,000 | 83,000 |
| Additional paid-in capital | 20,614,000 | 19,999,000 |
| Accumulated deficit | (12,036,000) | (11,689,000) |
| Accumulated other comprehensive income (loss), net | (183,000) | 62,000 |
| | ----- | ----- |
| Total stockholders' equity | 8,478,000 | 8,455,000 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 66,284,000 | \$ 48,687,000 |
| | ===== | ===== |

(1) See Note 2.

See accompanying notes to unaudited condensed consolidated financial statements.

2

SPIRE CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED SEPTEMBER 30, | | |
|---|-------------------------------------|--------------|---------------|
| | 2008 | 2007 | 2006 |
| | ----- | ----- | ----- |
| Net sales and revenues | | | |
| Sales of goods | \$ 13,697,000 | \$ 6,343,000 | \$ 38,000,000 |
| Contract research, service and license revenues | 3,839,000 | 3,502,000 | 10,000,000 |
| | ----- | ----- | ----- |
| Total net sales and revenues | 17,536,000 | 9,845,000 | 48,000,000 |
| | ----- | ----- | ----- |
| Costs of sales and revenues | | | |

Edgar Filing: SPIRE CORP - Form 10-Q

| | | | |
|--|------------|--------------|-------|
| ----- | | | |
| Cost of goods sold | 8,777,000 | 6,062,000 | 26, |
| Cost of contract research, services and licenses | 2,794,000 | 2,363,000 | 7, |
| | ----- | ----- | ----- |
| Total cost of sales and revenues | 11,571,000 | 8,425,000 | 33, |
| Gross margin | 5,965,000 | 1,420,000 | 15, |
| Operating expenses | | | |
| ----- | | | |
| Selling, general and administrative expenses | 5,242,000 | 3,388,000 | 14, |
| Internal research and development expenses | 200,000 | 96,000 | |
| | ----- | ----- | ----- |
| Total operating expenses | 5,442,000 | 3,484,000 | 14, |
| Gain on sale of trademark | -- | 2,707,000 | |
| | ----- | ----- | ----- |
| Income (loss) from operations | 523,000 | 643,000 | |
| ----- | | | |
| Interest income (expense), net | (49,000) | (83,000) | (|
| Loss on equity investment in joint venture | (45,000) | -- | (|
| Foreign exchange gain (loss) | 16,000 | -- | (|
| | ----- | ----- | ----- |
| Other income (expense), net | (78,000) | (83,000) | (|
| | ----- | ----- | ----- |
| Income (loss) before income taxes and | | | |
| ----- | | | |
| extraordinary gain | 445,000 | 560,000 | (|
| | ----- | ----- | ----- |
| Income tax benefit | -- | 884,000 | |
| | ----- | ----- | ----- |
| Income (loss) before extraordinary gain | 445,000 | 1,444,000 | (|
| ----- | | | |
| Extraordinary gain on equity investment in | | | |
| joint venture, net of tax | -- | 1,311,000 | |
| | ----- | ----- | ----- |
| Net income (loss) | \$ 445,000 | \$ 2,755,000 | \$ (|
| ----- | ===== | ===== | ===== |
| Basic income (loss) per share: | | | |
| From continuing operations after income taxes | \$ 0.05 | \$ 0.17 | \$ |
| From extraordinary gain, net of tax | -- | 0.16 | |
| | ----- | ----- | ----- |
| Basic income (loss) per share | \$ 0.05 | \$ 0.33 | \$ |
| | ===== | ===== | ===== |
| Diluted income (loss) per share: | | | |
| From continuing operations after income taxes | \$ 0.05 | \$ 0.17 | \$ |
| From extraordinary gain, net of tax | -- | 0.16 | |
| | ----- | ----- | ----- |
| Diluted income (loss) per share | \$ 0.05 | \$ 0.33 | \$ |
| | ===== | ===== | ===== |
| Weighted average number of common and common | | | |
| equivalent shares outstanding - basic | 8,330,688 | 8,272,543 | 8, |
| | ===== | ===== | ===== |
| Weighted average number of common and common | | | |
| equivalent shares outstanding - diluted | 8,425,059 | 8,341,642 | 8, |

Edgar Filing: SPIRE CORP - Form 10-Q

See accompanying notes to unaudited
condensed consolidated financial statements.

3

SPIRE CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | NINE MONTHS ENDED |
|--|-------------------|
| | 2008 |
| | ----- |
| Cash flows from operating activities: | |
| ----- | |
| Net loss | \$ (347,000) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | |
| Depreciation and amortization | 1,490,000 |
| Loss on impairment of capital equipment | -- |
| Loss on equity investment in joint venture | 409,000 |
| Gain on sale of trademark | -- |
| Gain on sale of asset | (60,000) |
| Deferred taxes benefit | -- |
| Extraordinary gain on equity investment in joint venture, net of tax | -- |
| Deferred compensation | (245,000) |
| Stock-based compensation | 594,000 |
| Increase (decrease) in accounts receivable reserves | 215,000 |
| Decrease in inventory reserves | (103,000) |
| Changes in assets and liabilities: | |
| Restricted cash | 230,000 |
| Accounts receivable | (4,749,000) |
| Inventories | (4,238,000) |
| Deferred cost of goods sold | (10,744,000) |
| Deposits, prepaid expenses and other current assets | 958,000 |
| Accounts payable, accrued liabilities and other liabilities | 4,158,000 |
| Deposit - related party | 4,000 |
| Advances on contracts in progress | 15,123,000 |
| | ----- |
| Net cash provided by (used in) operating activities | 2,695,000 |
| | ----- |
| Cash flows from investing activities: | |
| ----- | |
| Proceeds from maturity of short-term investments | -- |
| Proceeds from sale of trademark | -- |
| Proceeds from sale of asset | 61,000 |
| Purchase of property and equipment | (1,385,000) |
| Increase in intangible and other assets | (94,000) |
| | ----- |
| Net cash (used in) provided by investing activities | (1,418,000) |
| | ----- |
| Cash flows from financing activities: | |
| ----- | |
| Principal payments on capital lease obligations - related parties | (486,000) |
| Borrowings from (principal payments on) equipment line of credit, net | (875,000) |
| Proceeds from exercise of stock options | 21,000 |
| | ----- |

Edgar Filing: SPIRE CORP - Form 10-Q

| | |
|--|--------------|
| Net cash (used in) provided by financing activities | (1,340,000) |
| | ----- |
| Net (decrease) increase in cash and cash equivalents | (63,000) |
| Cash and cash equivalents, beginning of period | 2,372,000 |
| | ----- |
| Cash and cash equivalents, end of period | \$ 2,309,000 |
| | ===== |

Supplemental disclosures of cash flow information:

| | |
|-------------------------------|------------|
| ----- | |
| Interest received | \$ 12,000 |
| | ===== |
| Interest paid | \$ 161,000 |
| | ===== |
| Interest paid - related party | \$ 8,000 |
| | ===== |
| Income taxes paid | \$ -- |
| | ===== |

See accompanying notes to unaudited
condensed consolidated financial statements.

4

SPIRE CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007

1. DESCRIPTION OF THE BUSINESS

Spire Corporation ("Spire" or the "Company") is a Massachusetts corporation incorporated in 1969. The Company's principal offices are located at One Patriots Park, Bedford, Massachusetts, and its phone number is (781) 275-6000. The Company's SEC filings are available through its website, www.spirecorp.com. The Company's common stock trades on the Nasdaq Global Market under the symbol "SPIR".

The Company principally develops, manufactures and markets customized turnkey solutions for the solar industry, including manufacturing equipment and full turnkey lines for cell and module production and testing. The Company also offers through its subsidiary Spire Semiconductor concentrator cell and light-emitting diode ("LED") fabrication services and through its joint venture, Gloria Spire Solar, photovoltaic ("PV") system integration services. The Company also operates a line of business associated with advanced biomedical applications. The foundation for the Company's business is its industry-leading expertise in materials technologies and surface treatments; this proprietary knowledge enables the Company to further develop its offerings in solar equipment, optoelectronics and biomedical products and services.

In the PV solar area, the Company develops, manufactures and markets specialized equipment for the production of terrestrial photovoltaic modules from solar cells. The Company's equipment has been installed in approximately 190 factories in 50 countries.

In addition to the Company's cell and module manufacturing solutions, it has a device fabrication facility where it produces, under contract with its customers, gallium arsenide (GaAs) concentrator cells. Under the name Spire Semiconductor, this division produces GaAs concentrator cells, high performance LEDs, and other custom semiconductor foundry services for the Company's customers.

Edgar Filing: SPIRE CORP - Form 10-Q

In the biomedical area, the Company provides value-added surface treatments to manufacturers of orthopedic and other medical devices that enhance the durability, antimicrobial characteristics or other material characteristics of their products; develops and markets coated and uncoated hemodialysis catheters and related devices for the treatment of chronic kidney disease; and performs sponsored research programs into practical applications of advanced biomedical and biophotonic technologies.

In July 2007, the Company entered into a joint venture with Gloria Solar Co., Ltd., a leading module manufacturer in Taiwan, which designs, sells and manages installations of photovoltaic systems. The Company's 45% ownership stake in the joint venture, Gloria Spire Solar, LLC, was obtained through the contribution of its integrated photovoltaic business to Gloria Solar. This transaction has allowed the Company to focus more of its attention on its core solar business, while continuing to expand the Spire brand name in the marketplace.

The Company has been in the solar business for over 30 years and has been active in research and development in the solar space, with over \$100 million of research and development conducted which has led to over 60 patents granted to date, as well as cell and module production, having been a pioneer in the early development of solar technology. This expertise has provided the platform and expertise for the Company's manufacturing equipment.

Operating results depend upon revenue growth and product mix, as well as the timing of shipments of higher priced products from the Company's solar equipment line. Export sales, which amounted to 60% of net sales and revenues for the quarter ended September 30, 2008, continue to constitute a significant portion of the Company's net sales and revenues.

The Company has incurred significant operating losses in 2007 and 2006. Loss from operations, before gain on sales of trademarks, were \$6.7 million and \$8.3 million in 2007 and 2006, respectively. Income from operations for the nine months ended September 30, 2008 was \$611,000. Previous losses from operations have resulted in cash losses (loss from operations excluding gain on sales of trademark plus or minus non-cash adjustments) of approximately \$6.1 million and \$5.4 million in 2007 and 2006, respectively. The Company has funded these cash losses from cash receipts of \$4.0 million from the sale of a solar PV module line along with the transfer of technology and rights to mark the modules with the Company's trademark to the joint venture in 2007 and \$7.7 million from the sale of equity in 2006. For the nine months ended September 30, 2008, the cash gain (income from operations plus or minus non-cash adjustments) was \$2,971,000. As of September 30, 2008, the Company had unrestricted cash and cash equivalents of \$2.3 million compared to unrestricted cash and cash equivalents of \$2.4 million as of December 31, 2007. While the Company has had positive cash flow from operations for the past four quarters, the Company has a net loss for the nine months ended September 30, 2008. While the Company has numerous options on how to fund these losses, including but not limited to sales of equity or the sale or license of assets and technology, just as it has done the past; however, there are no assurances that the Company would be able to sell equity or sell or license those assets on a timely basis and at appropriate values. The Company has developed several plans to mitigate cash losses primarily from increased revenues and, if required, potential cost reduction efforts and outside financing. As a result, the Company believes it has sufficient resources to continue as a going concern through at least September 30, 2009.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

BACKGROUND OF THE RESTATEMENT OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND

Edgar Filing: SPIRE CORP - Form 10-Q

REMEDIAL MEASURES.

REVIEW OF ACCOUNTING FOR PHOTOVOLTAIC MODULE EQUIPMENT TRANSACTIONS

In November 2008, management, in concert with the Audit Committee, commenced a review of the revenue recognized during the fourth quarter of 2007 and the first quarter of 2008 with respect to a single contract due to the existence of a previously undisclosed and undocumented side agreement. The Company also conducted an internal review of other solar equipment contracts to determine if other concessions or side agreements were granted and not timely conveyed such that revenue could be appropriately recognized.

The Company conducted a review of the solar equipment contracting process and order management activity, including a review of contract modifications. The results of this review revealed that during the fulfillment of several customer orders, concessions and contract modifications were made in the ordinary course of business to reflect changing facts and circumstances but that these changes were appropriately communicated and recorded. It was determined that the identified contract was the only instance where revenue recognition requirements were not met at the time revenue was initially recognized. As a result, the Company has recorded adjustments to both the fourth quarter of 2007 and the first quarter of 2008, by reversing the revenue recognized and associated costs of goods sold previously recorded in those periods. The revenue associated with this contract will be deferred until the remaining undelivered element is supplied to the customer. These adjustments are summarized below, and generally have the effect of deferring revenue and related cost of goods sold, previously recognized until later periods.

CUMULATIVE EFFECT OF ADJUSTMENTS ON ACCUMULATED DEFICIT

The following table presents the cumulative effect of adjustments resulting from the reviews described above for the periods shown.

| | Year Ended December 31, 2007 | Quarter Ended March 31, 2008 |
|--|------------------------------------|------------------------------------|
| | ----- | ----- |
| | As Restated | |
| | ----- | ----- |
| Net loss as originally reported | \$ (1,686,000) | \$ (508,000) |
| Adjustments related to: | | |
| Revenue recognition | (1,355,000) | (380,000) |
| Cost of goods sold | 1,108,000 | 365,000 |
| | ----- | ----- |
| Net adjustments | (247,000) | (15,000) |
| | ----- | ----- |
| Net loss as restated | \$ (1,933,000) | \$ (523,000) |
| | ===== | ===== |
| Cumulative effect to accumulated deficit | \$ 247,000 | \$ 262,000 |
| | ===== | ===== |

The tables below set forth the effect of the adjustments as of December 31, 2007, as applicable:

Edgar Filing: SPIRE CORP - Form 10-Q

SPIRE CORPORATION AND SUBSIDIARIES RESTATED CONSOLIDATED BALANCE SHEETS

| | | December 31, 2007 | |
|--|--|-------------------|---------------|
| | | As Reported | As Restated |
| | | ----- | ----- |
| ASSETS | | | |
| Current assets | | | |
| ----- | | | |
| Cash and cash equivalents | | \$ 2,372,000 | \$ 2,372,000 |
| Restricted cash - current portion | | 391,000 | 391,000 |
| | | ----- | ----- |
| | | 2,763,000 | 2,763,000 |
| Accounts receivable - trade, net | | 12,766,000 | 11,865,000 |
| Inventories, net | | 18,506,000 | 11,570,000 |
| Deferred cost of goods sold | | -- | 8,044,000 |
| Deposits on equipment for inventory | | 2,475,000 | 2,475,000 |
| Prepaid expenses and other current assets | | 542,000 | 542,000 |
| | | ----- | ----- |
| Total current assets | | 37,052,000 | 37,259,000 |
| Property and equipment, net | | 6,209,000 | 6,209,000 |
| Intangible and other assets, net | | 851,000 | 851,000 |
| Available-for-sale investments, at quoted market value (cost of \$1,696,000 at 12/31/07) | | 1,800,000 | 1,800,000 |
| Equity investment in joint venture | | 2,264,000 | 2,264,000 |
| Deposit - related party | | 304,000 | 304,000 |
| | | ----- | ----- |
| Total other assets | | 5,219,000 | 5,219,000 |
| | | ----- | ----- |
| Total assets | | \$ 48,480,000 | \$ 48,687,000 |
| | | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| ----- | | | |
| Current portion of capital lease obligation - related party | | \$ 486,000 | \$ 486,000 |
| Current portion of equipment line of credit | | 1,167,000 | 1,167,000 |
| Accounts payable | | 2,909,000 | 2,909,000 |
| Accrued liabilities | | 6,057,000 | 6,057,000 |
| Current portion of advances on contracts in progress | | 23,599,000 | 24,053,000 |
| | | ----- | ----- |
| Total current liabilities | | 34,218,000 | 34,672,000 |
| Long-term portion of equipment line of credit | | 1,750,000 | 1,750,000 |
| Long-term portion of advances on contracts in progress | | 1,950,000 | 1,950,000 |
| Deferred compensation | | 1,800,000 | 1,800,000 |
| Other long-term liabilities | | 60,000 | 60,000 |
| | | ----- | ----- |
| Total long-term liabilities | | 5,560,000 | 5,560,000 |
| | | ----- | ----- |
| Total liabilities | | 39,778,000 | 40,232,000 |
| | | ----- | ----- |
| Stockholders' equity | | | |
| ----- | | | |

Edgar Filing: SPIRE CORP - Form 10-Q

| | | |
|---|---------------|-----------|
| Common stock, \$0.01 par value; 20,000,000 shares authorized; | | |
| 8,321,188 shares issued and outstanding on December 31, 2007 | 83,000 | 83 |
| Additional paid-in capital | 19,999,000 | 19,999 |
| Accumulated deficit | (11,442,000) | (11,689) |
| Accumulated other comprehensive income, net | 62,000 | 62 |
| | ----- | ----- |
| Total stockholders' equity | 8,702,000 | 8,455 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 48,480,000 | \$ 48,687 |
| | ===== | ===== |

7

3. INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2007, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

In the opinion of management, the accompanying unaudited, condensed consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position as of September 30, 2008 and December 31, 2007 and the results of its operations and cash flows for the three and nine months ended September 30, 2008 and 2007. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2008. The condensed consolidated balance sheet as of December 31, 2007 has been derived from audited financial statements as of that date.

The accounting policies followed by the Company are set forth in Footnote 3 to the Company's consolidated financial statements in its Annual Report on Form 10-K/A for the year ended December 31, 2007.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141R ("FAS 141R"), BUSINESS COMBINATIONS, which revises FAS 141 and changes multiple aspects of the accounting for business combinations. Under the guidance in FAS 141R, the acquisition method must be used, which requires the acquirer to recognize most identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree at their full fair value on the acquisition date. Goodwill is to be recognized as the excess of the consideration transferred plus the fair value of the non-controlling interest over the fair values of the identifiable net assets acquired. Subsequent changes in the fair value of contingent consideration classified as a liability are to be recognized in earnings, while contingent consideration classified as equity is not to be re-measured. Costs such as transaction costs are to be excluded from acquisition accounting, generally leading to recognizing expense, and, additionally, restructuring costs that do not meet certain criteria at acquisition date are to be subsequently recognized as post-acquisition costs. FAS 141R is effective for business combinations for which the acquisition date

Edgar Filing: SPIRE CORP - Form 10-Q

is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact, if any, that this standard will have on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160 ("FAS 160"), NON-CONTROLLING INTEREST IN CONSOLIDATED FINANCIAL STATEMENTS - AN AMENDMENT OF ARB NO. 151. FAS 160 requires that a non-controlling interest in a subsidiary (i.e. minority interest) be reported in the equity section of the balance sheet instead of being reported as a liability or in the mezzanine section between debt and equity. It also requires that the consolidated income statement include consolidated net income attributable to both the parent and non-controlling interest of a consolidated subsidiary. A disclosure must be made on the face of the consolidated income statement of the net income attributable to the parent and to the non-controlling interest. Also, regardless of whether the parent purchases additional ownership interest, sells a portion of its ownership interest in a subsidiary or the subsidiary participates in a transaction that changes the parent's ownership interest, as long as the parent retains controlling interest, the transaction is considered an equity transaction. FAS 160 is effective for annual periods beginning after December 15, 2008. The Company is currently evaluating the impact, if any, that this standard will have on its financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161 ("FAS 161"), DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES--AN AMENDMENT OF FASB STATEMENT NO. 133. FAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. FAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the impact, if any, that this standard will have on its financial position and results of operations.

8

4. ACCOUNTS RECEIVABLE/ADVANCES ON CONTRACTS IN PROGRESS

Net accounts receivable, trade consists of the following:

| | September 30, 2008 | December 31, 2007 As Restated |
|--|-----------------------|-------------------------------------|
| | ----- | ----- |
| Amounts billed | \$ 14,592,000 | \$ 11,142,000 |
| Retainage | 8,000 | 8,000 |
| Accrued revenue | 2,244,000 | 945,000 |
| | ----- | ----- |
| | 16,844,000 | 12,095,000 |
| Less: Allowance for sales returns and doubtful accounts | (445,000) | (230,000) |
| | ----- | ----- |
| Net accounts receivable, trade | \$ 16,399,000 | \$ 11,865,000 |
| | ===== | ===== |
| Advances on contracts in progress | \$ 41,126,000 | \$ 26,003,000 |
| | ===== | ===== |

Retainage represents revenues on certain United States government

Edgar Filing: SPIRE CORP - Form 10-Q

sponsored research and development contracts. These amounts, which usually represent 15% of the Company's research fee on each applicable contract, are not collectible until a final cost review has been performed by government auditors. The government's most recent audit was as of December 31, 2006, with no adverse impact.

Accrued revenue represents revenues recognized on contracts for which billings have not been presented to customers as of the balance sheet date. These amounts are billed and generally collected within one year.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to pay amounts due. The Company actively pursues collection of past due receivables as the circumstances warrant. Customers are contacted to determine the status of payment and senior accounting and operations management are included in these efforts as is deemed necessary. A specific reserve will be established for past due accounts when it is probable that a loss has been incurred and the Company can reasonably estimate the amount of the loss. The Company does not record an allowance for government receivables and invoices backed by letters of credit as realizeability is reasonably assured. Bad debts are written off against the allowance when identified. There is no dollar threshold for account balance write-offs. While rare, a write-off is only recorded when all efforts to collect the receivable have been exhausted and only in consultation with the appropriate business line manager. The Company has increased its allowances for doubtful accounts reserve for the quarter ended September 30, 2008, primarily as a result of a customer's failure to make timely facility availability payments related to a manufacturing agreement.

In addition, the Company maintains an allowance for potential future product returns and rebates related to current period revenues. The Company analyzes the rate of historical returns when evaluating the adequacy of the allowance for sales returns and allowances. Returns and rebates are charged against the allowance when incurred.

Advances on contracts in progress represent contracts for which billings have been presented to the customer, either as deposits or progress payments against future shipments, but revenue has not been recognized.

5. INVENTORIES AND DEFERRED COSTS OF GOODS SOLD

Inventories, net of \$251,000 and \$354,000 of reserves at September 30, 2008 and December 31, 2007, respectively, consist of the following at:

| | September 30, 2008 | December 31, 2007 As Restated |
|-----------------------------|-----------------------|-------------------------------------|
| | ----- | ----- |
| Raw materials | \$ 5,072,000 | \$ 4,989,000 |
| Work in process | 6,851,000 | 4,663,000 |
| Finished goods | 3,977,000 | 1,918,000 |
| | ----- | ----- |
| Net Inventory | \$ 15,900,000 | \$ 11,570,000 |
| | ===== | ===== |
| Deferred cost of goods sold | \$ 18,788,000 | \$ 8,044,000 |
| | ===== | ===== |

Deferred costs of goods sold represents costs on equipment that has shipped to the customer and title has passed. The Company defers these costs until related revenue is recognized.

Edgar Filing: SPIRE CORP - Form 10-Q

6. INCOME (LOSS) PER SHARE

The following table provides a reconciliation of the denominators of the Company's reported basic and diluted income (loss) per share computations for the periods ended:

9

| | Three Months Ended September 30, | | Nin S |
|--|-------------------------------------|-----------|----------|
| | 2008 | 2007 | 2008 |
| Weighted average number of common and common equivalent shares outstanding - basic | 8,330,688 | 8,272,543 | 8,327, |
| Add: Net additional common shares upon assumed exercise of common stock options | 94,371 | 69,099 | |
| Adjusted weighted average number of common and common equivalents shares outstanding - diluted | 8,425,059 | 8,341,642 | 8,327, |

For the nine months ended September 30, 2008 and 2007, 541,677 and 505,453 shares of common stock related to stock options, respectively, were excluded from the calculation of dilutive shares because the inclusion of such shares would be anti-dilutive due to the Company's net loss position.

In addition, for the three and nine months ended September 30, 2008, 64,500 and 39,500 shares, respectively, and for both the three and nine months ended September 30, 2007, 6,250 shares of common stock issuable relative to stock options were excluded from the calculation of diluted shares because their inclusion would have been anti-dilutive, due to their exercise prices exceeding the average market price of the stock for the periods.

7. OPERATING SEGMENTS AND RELATED INFORMATION

The following table presents certain operating division information in accordance with the provisions of SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information."

| | Solar | Biomedical | Optoelectronics |
|--|---------------|--------------|-----------------|
| <u>For the three months ended September 30, 2008</u> | | | |
| Net sales and revenues | \$ 13,138,000 | \$ 3,025,000 | \$ 1,373,000 |
| Income (loss) from operations | \$ 1,490,000 | \$ (139,000) | \$ (828,000) |
| <u>For the three months ended September 30, 2007</u> | | | |
| Net sales and revenues | \$ 6,208,000 | \$ 2,594,000 | \$ 1,043,000 |
| Income (loss) from operations | \$ 1,931,000 | \$ (362,000) | \$ (926,000) |
| <u>For the nine months ended September 30, 2008</u> | | | |
| Net sales and revenues | \$ 36,078,000 | \$ 8,691,000 | \$ 4,190,000 |
| Income (loss) from operations | \$ 2,930,000 | \$ (496,000) | \$ (1,823,000) |

Edgar Filing: SPIRE CORP - Form 10-Q

For the nine months ended September 30, 2007

| | | | |
|-------------------------------|---------------|----------------|----------------|
| Net sales and revenues | \$ 14,776,000 | \$ 7,948,000 | \$ 2,697,000 |
| Income (loss) from operations | \$ 623,000 | \$ (1,088,000) | \$ (2,492,000) |

The following table shows net sales and revenues by geographic area (based on customer location):

| | Three Months Ended September 30, | | | | Nine Months En | |
|-------------------|----------------------------------|------|--------------|------|----------------|-----|
| | 2008 | % | 2007 | % | 2008 | % |
| United States | \$ 7,657,000 | 44% | \$ 4,023,000 | 41% | \$ 19,659,000 | 40 |
| Europe/Africa | 3,029,000 | 17 | 4,158,000 | 42 | 11,352,000 | 23 |
| Asia | 6,616,000 | 38 | 1,462,000 | 15 | 17,363,000 | 36 |
| Rest of the world | 234,000 | 1 | 202,000 | 2 | 585,000 | 1 |
| | \$ 17,536,000 | 100% | \$ 9,845,000 | 100% | \$ 48,959,000 | 100 |

Revenues from contracts with United States government agencies for the three months ended September 30, 2008 and 2007 were approximately \$2,473,000 and \$287,000, or 14% and 3% of consolidated net sales and revenues, respectively.

Revenues from contracts with United States government agencies for the nine months ended September 30, 2008 and 2007 were approximately \$3,226,000 and \$724,000, or 7% and 3% of consolidated net sales and revenues, respectively.

Two customers accounted for approximately 22% and two customers accounted for approximately 37% of the Company's gross sales during the three months ended September 30, 2008 and 2007, respectively. One customer accounted

10

for approximately 10% and one customer accounted for approximately 22% of the Company's gross sales during the nine months ended September 30, 2008 and 2007, respectively. Three customers represented 51% of trade account receivables at September 30, 2008 and two customers represented 46% of trade account receivables at December 31, 2007.

8. INTANGIBLE AND OTHER ASSETS

Patents amounted to \$104,000, net of accumulated amortization of \$726,000, at September 30, 2008. Licenses amounted to \$75,000, net of accumulated amortization of \$250,000, at September 30, 2008. Patent cost is primarily composed of cost associated with securing and registering patents that the Company has been awarded or that have been submitted to, and the Company believes will be approved by, the government. License cost is composed of the cost to acquire rights to the underlying technology or know-how. These costs are capitalized and amortized over their useful lives or terms, ordinarily five years, using the straight-line method. There are no expected residual values related to these patents or licenses. For disclosure purposes, the table below includes future amortization expense for licenses and patents owned by the Company as well as \$682,000 of estimated amortization expense on a five-year straight-line basis related to patents that remain pending as of the balance sheet date.

Estimated amortization expense for the periods ending December 31, is as follows:

Edgar Filing: SPIRE CORP - Form 10-Q

| Year | Amortization Expense |
|-------------------------|----------------------|
| 2008 remaining 3 months | \$53,000 |
| 2009 | 187,000 |
| 2010 | 181,000 |
| 2011 | 175,000 |
| 2012 and beyond | 265,000 |
| | \$861,000 |

Also included in other assets at September 30, 2008 are approximately \$12,000 of unamortized expenses that were prepaid.

9. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale securities consist of the following assets held as part of the Spire Corporation Non-Qualified Deferred Compensation Plan:

| | September 30, 2008 | December 31, 2007 |
|-----------------------------|-----------------------|----------------------|
| Equity investments | \$ 1,206,000 | \$ 1,411,000 |
| Government bonds | 216,000 | 303,000 |
| Cash and money market funds | 32,000 | 86,000 |
| | \$ 1,454,000 | \$ 1,800,000 |

These investments have been classified as available-for-sale investments and are reported at fair value, with unrealized gains and losses included in accumulated other comprehensive loss. As of September 30, 2008, the unrealized loss on these marketable securities was \$183,000 and as of December 31, 2007, the unrealized gain on these marketable securities was \$62,000.

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("FAS 157"). In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," which provides a one year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of FAS 157 with respect to its financial assets and liabilities only. FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The hierarchy established under FAS 157 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). As required by FAS 157, the Company's available for sale investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy under FAS 157, and its applicability to the Company's available for sale

Edgar Filing: SPIRE CORP - Form 10-Q

investments, are described below:

11

Level 1 - Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date. As required by FAS 157, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Level 2 - Pricing inputs are quoted prices for similar investments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

Level 3 - Pricing inputs are unobservable for the investment, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes investments that are supported by little or no market activity.

The following table presents the financial instruments carried at fair value as of September 30, 2008 by FAS 157 valuation hierarchy (as defined above).

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|------------|------------|---------|-------------|
| | ----- | ----- | ----- | ----- |
| Available for sale investments | \$ 792,000 | \$ 662,000 | -- | \$1,454,000 |
| Percent of total | 54% | 46% | -- | 100% |

10. NOTES PAYABLE AND CREDIT ARRANGEMENTS

The Company had a \$2,000,000 Loan Agreement with Citizens Bank of Massachusetts which expired on June 26, 2007. On May 25, 2007, the Company and its wholly-owned subsidiary, Spire Semiconductor, LLC, entered into a Loan and Security Agreement (the "Equipment Credit Facility") with Silicon Valley Bank (the "Bank"). Under the Equipment Credit Facility, for a one-year period, the Company and Spire Semiconductor could borrow up to \$3,500,000 in the aggregate to finance certain equipment purchases (including reimbursement of certain previously-made purchases). Advances made under the Equipment Credit Facility would bear interest at the Bank's prime rate, as determined, plus 0.5% and payable in thirty-six (36) consecutive monthly payments following the funding date of that advance.

On March 31, 2008, the Company entered into a second Loan and Security Agreement (the "Revolving Credit Facility") with the Bank. Under the terms of the Revolving Credit Facility, the Bank agreed to provide the Company with a credit line up to \$5,000,000. The Company's obligations under the Equipment Credit Facility are secured by substantially all of its assets and advances under the Revolving Credit Facility are limited to 80% of eligible receivables and the lesser of 25% of the value of its eligible inventory, as defined, or \$2,500,000 if the inventory is backed by a customer letter of credit. Interest on outstanding borrowings accrues at a rate per annum equal to the greater of Prime Rate plus one percent (1.0%) or seven percent (7%). In addition, the Company agreed to pay to the Bank a collateral monitoring fee of \$750 per month in the event the Company is in default of its covenants and agreed to the following additional terms: (i) \$50,000 commitment fee; (ii) an unused line fee in the amount of 0.75% per annum of the average unused portion of the revolving line; and (iii) an early termination fee of 0.5% of the total credit line if the Company terminates the Revolving Credit Facility prior to 12 months from the

Edgar Filing: SPIRE CORP - Form 10-Q

Revolving Credit Facility's effective date. The Revolving Credit Facility, if not sooner terminated in accordance with its terms, expires on March 30, 2009. In addition, on March 31, 2008 the Company's existing Equipment Credit Facility was amended whereby the Bank granted a waiver for the Company's defaults for not meeting its December 31, 2007 quarter liquidity and profit covenants and for not meeting its January and February 2008 liquidity covenants. Further, the covenants were amended to match the covenants as discussed below contained in the Revolving Credit Facility. The Company's interest rate under the Equipment Credit Facility was also modified from Bank Prime plus one half percent to the greater of Bank Prime plus one percent (1%) or seven percent (7%).

On May 13, 2008, the Bank amended the Equipment Credit Facility and the Revolving Credit Facility, modifying the Company's net income profitability covenant requirements in exchange for a three quarters percent (0.75%) increase in the Company's interest rate (7.75% at September 30, 2008) and waiver restructuring fee equal to one half percent (0.5%) of amounts outstanding under the Equipment Credit Facility and committed under the Revolving Credit Facility. In addition, the Company's term loan balance will be factored in when calculating the Company's borrowing base under the Revolving Credit Facility.

Under the amended terms of both credit facilities, as long as any commitment remains outstanding under the facilities, the Company must comply with an adjusted quick ratio covenant and a minimum monthly net income covenant. In addition, until all amounts under the credit facilities with the Bank are repaid, covenants under the credit facilities impose restrictions on the Company's ability to, among other things, incur additional indebtedness, create or permit liens on the Company's assets, merge, consolidate or dispose of assets (other than in the ordinary course of business), make dividend and other restricted payments, make certain debt or equity investments, make certain acquisitions, engage in certain transactions with affiliates or change the business conducted by the Company and its subsidiaries. Any failure by the Company to comply with the covenants and obligations under the credit facilities could result in an event of default, in which case the Bank may be entitled to declare all amounts owed to be due and payable immediately. The Company's obligations under the credit facilities are secured by substantially all of its assets.

12

At September 30, 2008, the Company's outstanding borrowings from the Equipment Credit Facility amounted to \$2,042,000 and there were no borrowings from the Revolving Credit Facility. The Company was in compliance with its covenants as of September 30, 2008.

11. STOCK OPTION PLAN AND STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment ("Statement 123(R)") using the modified prospective method. Based on an analysis of the Company's historical data, for the three months ended September 30, 2008 and 2007, the Company applied 7% and 11% forfeiture rates, respectively, to stock options outstanding in determining its Statement 123(R) stock-based compensation expense which it believes are reasonable forfeiture estimates for the periods. The impact of Statement 123(R) on the Company's results of operations resulted in recognition of stock-based compensation expense of approximately \$185,000 and \$181,000 for the three months ended September 30, 2008 and 2007, respectively, and approximately \$594,000 and \$389,000 for the nine months ended September 30, 2008 and 2007, respectively. The total non-cash, stock-based compensation expense included in the condensed consolidated statement of operations for the periods presented is included in the following expense categories:

Edgar Filing: SPIRE CORP - Form 10-Q

| | Three Months Ended September 30, | | Nine Month September |
|--|-------------------------------------|------------|-------------------------|
| | 2008 | 2007 | 2008 |
| Cost of contract research, services and licenses | \$ 12,000 | \$ 12,000 | \$ 39,000 |
| Cost of goods sold | 36,000 | 14,000 | 104,000 |
| Selling, general and administrative | 137,000 | 155,000 | 451,000 |
| Total stock-based compensation | \$ 185,000 | \$ 181,000 | \$ 594,000 |

At September 30, 2008 the Company had outstanding options under two stock option plans: the 1996 Equity Incentive Plan (the "1996 Plan") and the 2007 Stock Equity Plan (the "2007 Plan"). Both plans were approved by stockholders and provided that the Board of Directors may grant options to purchase the Company's common stock to key employees and directors of the Company. Incentive and non-qualified options must be granted at least at the fair market value of the common stock or, in the case of certain optionees, at 110% of such fair market value at the time of grant. The options may be exercised, subject to certain vesting requirements, for periods up to ten years from the date of issue. The 1996 Plan expired with respect to the issuance of new grants as of December 10, 2006. Accordingly, future grants may be made only under the 2007 Plan.

A summary of options outstanding under the 2007 Plan and 1996 Plan as of September 30, 2008 and changes during the nine-month period is as follows:

| | Number of Shares | Weighted- Average Exercise Price | Average Remaining Contractual Life (Years) |
|---|---------------------|--|---|
| Options Outstanding at December 31, 2007 | 495,177 | \$ 7.10 | |
| Granted | 70,500 | \$ 12.06 | |
| Exercised | (9,500) | \$ 2.22 | |
| Cancelled/expired | (14,500) | \$ 9.49 | |
| Options Outstanding at September 30, 2008 | 541,677 | \$ 7.77 | 7.20 |
| Options Exercisable at September 30, 2008 | 295,037 | \$ 6.72 | 6.22 |

The per-share weighted-average fair value of stock options granted during the three and nine months ended September 30, 2008 was \$5.68 and \$6.97, respectively, and during the three and nine months ended September 30, 2007 was \$6.08 and \$6.29, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| Year | Expected Dividend Yield | Risk-Free Interest Rate | Expected Option Life | Expected Volatility Factor |
|------|----------------------------|----------------------------|-------------------------|-------------------------------|
| 2008 | -- | 2.88% | 4.5 years | 71.2% |

The risk free interest rate reflects treasury yields rates over a term that approximates the expected option life. The expected option life is

Edgar Filing: SPIRE CORP - Form 10-Q

calculated based on historical lives of all options issued under the plan. The expected volatility factor is determined by measuring the actual stock price volatility over a term equal to the expected useful life of the options granted.

13

12. COMPREHENSIVE LOSS

Comprehensive loss includes certain changes in equity that are excluded from net loss and consists of the following:

| | For the Three Months Ended September 30, | | For the Nine Months September 30, | |
|---|---|-------------|--------------------------------------|------|
| | 2008 | 2007 | 2008 | |
| Net income (loss) | \$ 445,000 | \$2,755,000 | \$ (347,000) | \$ (|
| Other comprehensive income (loss): | | | | |
| Unrealized gain (loss) on available for sale marketable securities, net of tax | (124,000) | 20,000 | (245,000) | |
| Total comprehensive income (loss) | \$ 321,000 | \$2,775,000 | \$ (592,000) | \$ (|

14

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

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SECTION AND OTHER PARTS OF THIS REPORT CONTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES

Edgar Filing: SPIRE CORP - Form 10-Q

ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT"), WHICH STATEMENTS INVOLVE RISKS AND UNCERTAINTIES. THESE STATEMENTS RELATE TO OUR FUTURE PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS. THESE STATEMENTS MAY BE IDENTIFIED BY THE USE OF WORDS SUCH AS "MAY", "COULD", "WOULD", "SHOULD", "WILL", "EXPECTS", "ANTICIPATES", "INTENDS", "PLANS", "BELIEVES", "ESTIMATES", AND SIMILAR EXPRESSIONS. OUR ACTUAL RESULTS AND THE TIMING OF CERTAIN EVENTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS AND TIMING DESCRIBED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, THOSE FACTORS DISCUSSED OR REFERRED TO IN THIS REPORT AND IN THE ANNUAL REPORT ON FORM 10-K/A FOR THE YEAR ENDED DECEMBER 31, 2007. THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN LIGHT OF THOSE FACTORS AND IN CONJUNCTION WITH OUR ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO.

OVERVIEW

We principally develop, manufacture and market customized turnkey solutions for the solar industry, including manufacturing equipment and full turnkey lines for cell and module production and testing. We also offer through our subsidiary Spire Semiconductor concentrator cell and light-emitting diode ("LED") fabrication services and through our joint venture Gloria Spire Solar photovoltaic ("PV") system integration services. We also operate a line of business associated with advanced biomedical applications. The foundation for our business is our industry-leading expertise in materials technologies and surface treatments; this proprietary knowledge enables us to further develop our offerings in solar equipment, optoelectronics and biomedical products and services.

Our initial focus on high-energy physics led to the development of our first product, the SPI-PULSE electron beam generator, to support research in radiation effects testing. We moved into the space solar cell business after signing a contract to develop solar cell coverslip for radiation hardening. In addition, we began to develop a new technology based on ion implantation and pulsed electron beam annealing of silicon solar cells. As a result of the energy crisis in the early 1980s, which forced the United States to consider photovoltaics for terrestrial applications, we received our first terrestrial solar cell contract for low cost production using our ion implantation technology. We leveraged this knowledge to develop our state-of-the-art manufacturing equipment, in addition to our offerings in the optoelectronics and biomaterials industries.

As photovoltaic cell and module manufacturers ramp up production to meet increasing demand, they will first need to acquire greater quantities of turnkey equipment in order to produce more photovoltaic cells and modules. We believe that we are one of the world's leading suppliers of the manufacturing equipment and technology needed to produce solar photovoltaic power systems. Our individual manufacturing equipment products and our SPI-LINETM integrated turnkey cell and module production lines can be highly scaled, customized, and automated with high throughput. These systems are designed to meet the needs of a broad range of customers ranging from manufacturers relying on mostly manual processes, to some of the largest photovoltaic manufacturing companies in the world.

In addition to our cell and module manufacturing solutions, we have a device fabrication facility where we produce, under contract with our customers, gallium arsenide (GaAs) concentrator cells. The state-of-the-art semiconductor fabrication and foundry facility is the foundation of our solar cell process technology for silicon, polysilicon, thin film and GaAs concentrator cells. Under the name Spire Semiconductor, this division produces GaAs concentrator cells, high performance LEDs, and other custom semiconductor foundry services

Edgar Filing: SPIRE CORP - Form 10-Q

for our customers.

In July 2007, we entered into a joint venture with Gloria Solar Co., Ltd., a leading module manufacturer in Taiwan, which designs, sells and manages installations of photovoltaic systems. Our 45% ownership stake in the joint venture, Gloria Spire Solar, LLC, was obtained through the contribution of our integrated photovoltaic business to Gloria Solar. This transaction has allowed us to focus more of our attention on our core solar business, while continuing to expand the Spire brand name in the marketplace.

Capitalizing on our expertise in surface treatments, we also have a biomedical division which manufactures medical devices and provides advanced medical device surface treatment processes to our customers. Our medical device business develops, manufactures and sells premium products for vascular access in chronic kidney disease patients. Our surface treatment business modifies the surfaces of medical devices to improve their performance.

We have been in the solar business for over 30 years and have been active in research and development in the space, with over \$100 million of research and development conducted which has led to over 60 patents granted to date, as well as cell and module production, having been a pioneer in the early development of solar technology. This expertise has provided the platform and expertise for our manufacturing equipment. We have equipment deployed in approximately 50 countries.

Operating results will depend upon revenue growth and product mix, as well as the timing of shipments of higher priced products from our solar equipment line. Export sales, which amounted to 60% of net sales and revenues for the nine months ended September 30, 2008, continue to constitute a significant portion of our net sales and revenues.

15

Restatements

We restated our previously issued consolidated financial statements as of and for the year ended December 31, 2007 and as of and for the quarters ended March 31, 2008 and June 30, 2008 to correct errors under generally accepted accounting principles ("GAAP") in the United States relating to the recognition of revenue. We determined that a single customer of our solar equipment business unit was provided certain upgrade rights in connection with the sale of products, as a result of which the revenue associated with those sales should not have been recognized upon shipment of the products to the customers under GAAP because the upgrade was not available at that time. We determined that revenue for the entire contract should have been deferred until the upgrade was provided to the customer. These orders resulted in aggregate gross revenues of approximately \$1.4 million during the fourth quarter of 2007 and \$380,000 during the first quarter of 2008. To correct this error, we reversed this revenue and the associated cost of goods sold in each of those quarters. See Note 2 to the unaudited condensed consolidated financial statements.

Results of Operations

The following table sets forth certain items as a percentage of net sales and revenues for the periods presented:

| | Three Months Ended September 30, | Nine Se |
|--|-------------------------------------|------------|
| | ----- | ----- |
| | 2008 | 2008 |
| | 2007 | |

Edgar Filing: SPIRE CORP - Form 10-Q

| | | | |
|--|------|------|------|
| Net sales and revenues | 100% | 100% | 100% |
| Cost of sales and revenues | 66 | 86 | 69 |
| Gross profit | 34 | 14 | 31 |
| Selling, general and administrative expenses | 30 | 34 | 29 |
| Internal research and development expenses | 1 | 1 | 1 |
| Gain on sale of trademark | 0 | 27 | 0 |
| Income (loss) from operations | 3 | 6 | 1 |
| Other income (loss), net | 0 | 0 | (2) |
| Income (loss) before income tax benefit | 3 | 6 | (1) |
| Income tax benefit | 0 | 9 | 0 |
| Net income (loss) | 3 | 15 | (1) |
| Extraordinary gain | 0 | 13 | 0 |
| Net income (loss) after extraordinary gain | 3% | 28% | (1%) |

OVERALL

Our total net sales and revenues for the nine months ended September 30, 2008 were \$48,959,000 as compared to \$25,421,000 for the nine months ended September 30, 2007, which represents an increase of \$23,538,000 or 93%. The increase was primarily attributable to a \$21,302,000 increase in solar sales and a \$1,493,000 increase in optoelectronics sales.

SOLAR BUSINESS UNIT

Sales in our solar business unit increased 144% during the nine months ended September 30, 2008 to \$36,078,000 as compared to \$14,776,000 in the nine months ended September 30, 2007. The increase is the result of shipments of solar equipment reflecting the overall increase in activity in the solar power industry. We have focused our sales and marketing efforts on establishing ourselves as one of the premier suppliers of equipment to the solar power industry for the manufacture of photovoltaic power modules.

BIOMEDICAL BUSINESS UNIT

Revenues of our biomedical business unit increased 9% during the nine months ended September 30, 2008 to \$8,691,000 as compared to \$7,948,000 in the nine months ended September 30, 2007. The increase reflects increased revenues from our research and development contracts and orthopedics coatings services offset by reduced revenues from catheter products.

OPTOELECTRONICS BUSINESS UNIT

Revenues in our optoelectronics business unit increased 55% to \$4,190,000 during the nine months ended September 30, 2008 as compared to \$2,697,000 in the nine months ended September 30, 2007. The increase reflects an overall increase in optoelectronics activities attributable to a shift in product mix to larger scale commercial orders compared with smaller sized research and development projects.

Edgar Filing: SPIRE CORP - Form 10-Q

Three and Nine Months Ended September 30, 2008 Compared to Three and Nine Months

Ended September 30, 2007

NET SALES AND REVENUES

The following table categorizes our net sales and revenues for the periods presented:

| | Three Months Ended September 30, | |
|--|-------------------------------------|--------------|
| | 2008 | 2007 |
| Sales of goods | \$ 13,697,000 | \$ 6,343,000 |
| Contract research, services and license revenues | 3,839,000 | 3,502,000 |
| Net sales and revenues | \$ 17,536,000 | \$ 9,845,000 |

The 116% increase in sales of goods for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007 was primarily due to an increase in solar equipment revenues and, to a lesser extent, an increase in catheter products sales. Solar equipment sales increased 141% in 2008 as compared to 2007 primarily due to an overall increase in solar power industry activity. Sales of catheters increased approximately 7%.

The 10% increase in contract research, services and license revenues for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007 is primarily attributable to an increase in royalties, optoelectronics, research and development activities and in orthopedics, partially offset by \$708,000 in additional service revenue associated with the sale of technology services delivered to Gloria Solar in the fiscal third quarter of 2007. Revenue from royalties increased 412% in 2008 compared to 2007 as a result of an increase in royalties from Nisshinbo Industries, Inc. ("Nisshinbo") along with an acceleration of deferred royalty revenue related to the Development, Manufacturing and Sales Consortium Agreement (the "Nisshinbo Agreement") with Nisshinbo that is now scheduled to terminate in February 2009, as a result of early termination by Nisshinbo (see Liquidity and Capital Resources). Revenue from our optoelectronics processing services (Spire Semiconductor) increased 32% in 2008 compared to 2007 as a result of an overall increase in optoelectronics activities attributable to a shift in product mix to larger scale commercial orders compared with smaller sized research and development projects. Revenues from our research and development activities increased 38% in 2008 as compared to 2007 primarily due to an increase in the number and value of contracts associated with funded research and development. Revenues from our orthopedic activities increased 17% in 2008 as compared to 2007.

The following table categorizes the our net sales and revenues for the periods presented:

| | Nine Months Ended September 30, | |
|----------------|------------------------------------|---------------|
| | 2008 | 2007 |
| Sales of goods | \$ 38,202,000 | \$ 16,782,000 |

Edgar Filing: SPIRE CORP - Form 10-Q

| | | |
|--|---------------|---------------|
| Contract research, services and license revenues | 10,757,000 | 8,639,000 |
| | ----- | ----- |
| Net sales and revenues | \$ 48,959,000 | \$ 25,421,000 |
| | ===== | ===== |

The 128% increase in sales of goods for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007 was primarily due to an increase in solar equipment revenues, partially offset by a 6% decrease in catheter products sales. Solar equipment sales increased 159% in 2008 as compared to 2007 primarily due to an overall increase in solar power industry activity.

The 25% increase in contract research, services and license revenues for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007 is primarily attributable to an increase in royalties, optoelectronics, research and development activities and in orthopedics, partially offset by \$708,000 in additional service revenue associated with the sale of technology services delivered to Gloria Solar in the fiscal third quarter of 2007. Revenue from royalties increased 171% in 2008 compared to 2007 as a result of an increase in royalties from Nisshinbo along with an acceleration of deferred royalty revenue related to the Nisshinbo Agreement that is now scheduled to terminate in February 2009, as a result of early termination by Nisshinbo (see Liquidity and Capital Resources). Revenue from our optoelectronics processing services (Spire Semiconductor) increased 55% in 2008 compared to 2007 as a result of an overall increase in optoelectronics activities attributable to a shift in product mix to larger scale commercial orders compared with smaller sized research and development projects. Revenues from our research and development activities increased 66% in 2008 as compared to 2007 primarily due to an increase in the number and value of contracts associated with funded research and development. Revenues from our orthopedic activities increased 8% in 2008 as compared to 2007.

17

COST OF SALES AND REVENUES

The following table categorizes our cost of sales and revenues for the periods presented, stated in dollars and as a percentage of related sales and revenues:

| | Three Months Ended September 30, | | | |
|--|----------------------------------|-------|--------------|-------|
| | 2008 | % | 2007 | % |
| | ----- | ----- | ----- | ----- |
| Cost of goods sold | \$ 8,777,000 | 64% | \$ 6,062,000 | 96% |
| Cost of contract research, services and licenses | 2,794,000 | 73% | 2,363,000 | 67% |
| | ----- | | ----- | |
| Net cost of sales and revenues | \$ 11,571,000 | 66% | \$ 8,425,000 | 86% |
| | ===== | | ===== | |

Cost of goods sold increased 45% for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007, primarily as a result of the 116% increase in related revenues. As a percentage of sales, cost of goods sold was 64% of sales of goods in 2008 as compared to 96% of sales in 2007. This reduction in the percentage of sales in 2008 is due to a favorable product mix with improved margins along with better utilization of solar manufacturing overhead.

Edgar Filing: SPIRE CORP - Form 10-Q

Cost of contract research, services and licenses increased 18% for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007, primarily as a result of the 10% increase in related revenues and increased costs at our optoelectronics facility (Spire Semiconductor) along with increased costs of our contract research activities due to higher volumes. Cost of contract research, services and licenses as a percentage of revenue increased to 73% of revenues in 2008 from 67% in 2007, primarily due to favorable margin related to \$708,000 in additional service revenue associated with the sale of technology services delivered to Gloria Solar in the fiscal third quarter of 2007, partially offset by absorption of overhead costs improving margins in biomedical and optoelectronic services in 2008.

Cost of sales and revenues also includes approximately \$48,000 and \$26,000 of stock-based compensation for the three months ending September 30, 2008 and 2007, respectively.

The following table categorizes our cost of sales and revenues for the periods presented, stated in dollars and as a percentage of related sales and revenues:

| | Nine Months Ended September 30, | | | | |
|--|---------------------------------|-----|---------------|-----|------|
| | 2008 | % | 2007 | % | |
| Cost of goods sold | \$ 26,339,000 | 69% | \$ 14,801,000 | 88% | \$ 1 |
| Cost of contract research, services and licenses | 7,510,000 | 70% | 6,813,000 | 79% | |
| | \$ 33,849,000 | 69% | \$ 21,614,000 | 85% | \$ 1 |
| Net cost of sales and revenues | \$ 33,849,000 | 69% | \$ 21,614,000 | 85% | \$ 1 |

The \$11,538,000 (78%) increase in cost of goods sold for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007 was primarily due to increased costs within our solar equipment product line corresponding to the 159% increase in solar equipment sales. As a percentage of sales, cost of goods sold was 69% of sales of goods in 2008 as compared to 88% of sales in 2007. This reduction in the percentage of sales in 2008 is due to a favorable product mix with improved margins along with better utilization of solar manufacturing overhead.

Cost of contract research, services and licenses increased 10% in the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007, primarily as a result of the 25% increase in related revenues and increased costs at our optoelectronics facility (Spire Semiconductor) along with increased costs of our contract research activities due to higher volumes. Cost of contract research, services and licenses as a percentage of revenue decreased to 70% of revenues in 2008 from 79% in 2007, primarily due to absorption of overhead costs improving margins in biomedical and optoelectronic services in 2008, partially offset by favorable margin related to \$708,000 in additional service revenue associated with the sale of technology services delivered to Gloria Solar in the fiscal third quarter of 2007.

Cost of sales and revenues also includes approximately \$143,000 and \$53,000 of stock-based compensation for the nine months ending September 30, 2008 and 2007, respectively.

OPERATING EXPENSES

Edgar Filing: SPIRE CORP - Form 10-Q

The following table categorizes our operating expenses for the periods presented, stated in dollars and as a percentage of total sales and revenues:

18

| | Three Months Ended September 30, | | | | |
|-------------------------------------|----------------------------------|-----|--------------|-----|----|
| | 2008 | % | 2007 | % | |
| Selling, general and administrative | \$ 5,242,000 | 30% | \$ 3,388,000 | 34% | \$ |
| Internal research and development | 200,000 | 1% | 96,000 | 1% | |
| Operating expenses | \$ 5,442,000 | 31% | \$ 3,484,000 | 35% | \$ |

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expense increased 55% in the three months ended September 30, 2008 as compared to the three months ended September 30, 2007, primarily as a result of an increase in marketing activities, professional services and higher head count and related employee costs to support our overall growth. In addition, commissions to our network of independent sales representatives related to sales of solar equipment were up due to increased sales and revenues. Selling, general and administrative expense decreased to 30% of sales and revenues in 2008 as compared to 34% in 2007. The reduction was primarily due to the absorption of selling, general and administrative overhead costs by the 78% increase in sales and revenues.

Operating expenses includes approximately \$137,000 and \$155,000 of stock-based compensation for the three months ending September 30, 2008 and 2007, respectively.

INTERNAL RESEARCH AND DEVELOPMENT

Internal research and development expense increased 108% in the three months ended September 30, 2008 as compared to the three months ended September 30, 2007, primarily as a result of our cost sharing contract with the National Renewable Energy Laboratory ("NREL") reducing 2007 costs. In addition, Spire Semiconductor had higher head count and related employee costs for the period. As a percentage of sales and revenue, however, internal research and development expenses remained at 1% for both periods.

The following table categorizes the our operating expenses for the periods presented, stated in dollars and as a percentage of total sales and revenues:

| | Nine Months Ended September 30, | | | | |
|-------------------------------------|---------------------------------|-----|--------------|-----|----|
| | 2008 | % | 2007 | % | |
| Selling, general and administrative | \$ 14,017,000 | 29% | \$ 9,252,000 | 36% | \$ |
| Internal research and development | 482,000 | 1% | 219,000 | 1% | |
| Operating expenses | \$ 14,499,000 | 30% | \$ 9,471,000 | 37% | \$ |

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Edgar Filing: SPIRE CORP - Form 10-Q

Selling, general and administrative expense increased 52% in the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007, primarily as a result of an increase in marketing activities, professional services, stock-based compensation, and higher head count and related employee costs to support our overall growth. In addition, commissions to our network of independent sales representatives related to sales of solar equipment were up due to increased sales and revenues. Selling, general and administrative expense decreased to 29% of sales and revenues in 2008 as compared to 36% in 2007. The reduction was primarily due to the absorption of selling, general and administrative overhead costs by the 93% increase in sales and revenues.

Operating expenses includes approximately \$451,000 and \$336,000 of stock-based compensation for the nine months ending September 30, 2008 and 2007, respectively.

INTERNAL RESEARCH AND DEVELOPMENT

Internal research and development expense increased 120% in the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007, primarily as a result of our cost sharing contract with the NREL reducing 2007 costs. In addition, Spire Semiconductor had higher head count and related employee costs for the period. As a percentage of sales and revenue, however, internal research and development expenses remained at 1% for both periods.

GAIN ON SALE OF TRADEMARK

For the three and nine months ending September 30, 2007 we recorded a one-time gain of \$2,707,000 on the sale of a trademark to Gloria Solar as part of a \$4,000,000 PV module line and technology sale transaction.

19

OTHER INCOME (EXPENSE), NET

We earned \$1,000 and \$5,000 of interest income for the three months ended September 30, 2008 and 2007, respectively. The decreased interest income is due to lower cash balances held by us during 2008 compared with 2007. We incurred interest expense of \$50,000 and \$88,000 for the three months ended September 30, 2008 and 2007, respectively. The decreased interest expense is due to the capital lease associated with the semiconductor foundry ending in May 2008, partially offset by higher interest payments in 2008 associated with the Equipment Credit Facility outstanding with Silicon Valley Bank. We recorded a \$45,000 loss on equity investment in joint venture with Gloria Solar for the three months ended September 30, 2008. We had a currency exchange gain of approximately \$16,000 and a currency exchange loss of less than \$1,000 during the three months ended September 30, 2008 and 2007, respectively.

We earned \$12,000 and \$58,000 of interest income for the nine months ended September 30, 2008 and 2007, respectively. The decreased interest income is due to lower cash balances held by us during 2008 compared with 2007. We incurred interest expense of \$169,000 and \$138,000 for the nine months ended September 30, 2008 and 2007, respectively. The increased interest expense is due to higher interest payments associated with the Equipment Credit Facility outstanding with Silicon Valley Bank compared with 2007 interest expenses primarily associated with interest incurred on capital leases associated with the semiconductor foundry. The capital leases ended in May 2008. We recorded a \$409,000 loss on equity investment in joint venture with Gloria Solar for the nine months ended September 30, 2008. We had a currency exchange loss of approximately \$392,000 and \$14,000 during the nine months ended September 30,

Edgar Filing: SPIRE CORP - Form 10-Q

2008 and 2007, respectively.

INCOME TAXES

We did not record an income tax benefit for the three and nine months ended September 30, 2008. We recorded an income tax benefit of \$884,000 for the three and nine months ended September 30, 2007, representing the reversal of the valuation allowance due to the expected utilization of net operating losses. A valuation allowance has been provided against the current period tax benefit due to uncertainty regarding the realization of the net operating loss in the future.

EXTRAORDINARY GAIN ON INVESTMENT IN JOINT VENTURE

For the three and nine months ending September 30, 2007 we recorded an extraordinary gain on investment in joint venture of \$1,311,000, net of tax, based upon our 45% portion of tangible assets in the joint venture.

NET INCOME

We reported a net income for the three months ended September 30, 2008 and 2007 of approximately \$445,000 and \$2,755,000, respectively. The net decrease in income of approximately \$2,310,000 is primarily due to gains from the sale of assets to Gloria Solar, and the extraordinary gain on our equity investment in our joint venture with Gloria Solar in 2007 partially offset by the increase in sales and revenues and the improvement in gross margins in 2008.

We reported a net loss for the nine months ended September 30, 2008 and 2007 of approximately \$347,000 and \$856,000, respectively. The net loss decreased approximately \$509,000 primarily due to the increase in sales and revenues and the improvement in gross margins in 2008 partially offset by gains from the sale of assets to Gloria Solar, and the extraordinary gain on our equity investment in our joint venture with Gloria Solar in 2007.

Liquidity and Capital Resources

| | September 30, 2008 | December 31, 2007 As Restated | Increase/ (Decrease) \$ | % |
|---------------------------|-----------------------|-------------------------------------|----------------------------|-------|
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents | \$2,309,000 | \$2,372,000 | \$ (63,000) | (3%) |
| Working capital | \$1,617,000 | \$2,587,000 | \$ (970,000) | (38%) |

Cash and cash equivalents decreased due to cash used in investing and financing activities, partially offset by cash provided by operating activities. The overall reduction in working capital is due to an increase in current liabilities, partially offset by operating cash flow. We have historically funded our operating cash requirements using operating cash flow, proceeds from the sale and licensing of technology and proceeds from the sale of equity securities.

We had a \$2,000,000 Loan Agreement with Citizens Bank of Massachusetts which expired on June 26, 2007. On May 25, 2007, we and our wholly-owned subsidiary, Spire Semiconductor, LLC, entered into a Loan and Security Agreement (the "Equipment Credit Facility") with Silicon Valley Bank (the "Bank"). Under the Equipment Credit Facility, for a one-year period, we and Spire Semiconductor could borrow up to \$3,500,000 in the aggregate to finance certain equipment purchases (including reimbursement of certain previously-made purchases).

Edgar Filing: SPIRE CORP - Form 10-Q

Advances made under the Equipment Credit Facility would bear interest at the Bank's prime rate, as determined, plus 0.5% and payable in thirty-six (36) consecutive monthly payments following the funding date of that advance.

20

On March 31, 2008, we entered into a second Loan and Security Agreement (the "Revolving Credit Facility") with the Bank. Under the terms of the Revolving Credit Facility, the Bank agreed to provide us with a credit line up to \$5,000,000. Our obligations under the Equipment Credit Facility are secured by substantially all of our assets and advances under the Revolving Credit Facility are limited to 80% of eligible receivables and the lesser of 25% of the value of our eligible inventory, as defined, or \$2,500,000 if the inventory is backed by a customer letter of credit. Interest on outstanding borrowings accrues at a rate per annum equal to the greater of Prime Rate plus one percent (1.0%) or seven percent (7%). In addition, we agreed to pay to the Bank a collateral monitoring fee of \$750 per month in the event we are in default of our covenants and agreed to the following additional terms: (i) \$50,000 commitment fee; (ii) an unused line fee in the amount of 0.75% per annum of the average unused portion of the revolving line; and (iii) an early termination fee of 0.5% of the total credit line if we terminate the Revolving Credit Facility prior to 12 months from the Revolving Credit Facility's effective date. The Revolving Credit Facility, if not sooner terminated in accordance with its terms, expires on March 30, 2009. In addition, on March 31, 2008 our existing Equipment Credit Facility was amended whereby the Bank granted a waiver for our defaults for not meeting our December 31, 2007 quarter liquidity and profit covenants and for not meeting our January and February 2008 liquidity covenants. Further, the covenants were amended to match the covenants as discussed below contained in the Revolving Credit Facility. Our interest rate under the Equipment Credit Facility was also modified from Bank Prime plus one half percent to the greater of Bank Prime plus one percent (1%) or seven percent (7%).

On May 13, 2008, the Bank amended the Equipment Credit Facility and the Revolving Credit Facility, modifying our net income profitability covenant requirements in exchange for a three quarters percent (0.75%) increase in our interest rate (7.75% at September 30, 2008) and waiver restructuring fee equal to one half percent (0.5%) of amounts outstanding under the Equipment Credit Facility and committed under the Revolving Credit Facility. Interest on outstanding borrowings accrues at a rate per annum equal to the greater of Prime Rate plus one percent (1.0%) or seven percent (7%). In addition, our term loan balance will be factored in when calculating our borrowing base under the Revolving Credit Facility.

Under the amended terms of both credit facilities, as long as any commitment remains outstanding under the facilities, we must comply with an adjusted quick ratio covenant and a minimum monthly net income covenant. In addition, until all amounts under the credit facilities with the Bank are repaid, covenants under the credit facilities impose restrictions on our ability to, among other things, incur additional indebtedness, create or permit liens on our assets, merge, consolidate or dispose of assets (other than in the ordinary course of business), make dividend and other restricted payments, make certain debt or equity investments, make certain acquisitions, engage in certain transactions with affiliates or change the business conducted by us and our subsidiaries. Any failure by us to comply with the covenants and obligations under the credit facilities could result in an event of default, in which case the Bank may be entitled to declare all amounts owed to be due and payable immediately. Our obligations under the credit facilities are secured by substantially all of our assets.

At September 30, 2008, we had outstanding borrowings from the Equipment Credit Facility amounting to \$2,042,000 and there were no borrowings from the

Edgar Filing: SPIRE CORP - Form 10-Q

Revolving Credit Facility. We were in compliance with our covenants as of September 30, 2008.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to pay amounts due. We actively pursue collection of past due receivables as the circumstances warrant. Customers are contacted to determine the status of payment and senior accounting and operations management are included in these efforts as is deemed necessary. A specific reserve will be established for past due accounts when it is probable that a loss has been incurred and we can reasonably estimate the amount of the loss. We do not record an allowance for government receivables and invoices backed by letters of credit as realizability is reasonably assured. Bad debts are written off against the allowance when identified. There is no dollar threshold for account balance write-offs. While rare, a write-off is only recorded when all efforts to collect the receivable have been exhausted and only in consultation with the appropriate business line manager.

There are no material commitments by us for capital expenditures. At September 30, 2008, our accumulated deficit was approximately \$12,036,000, compared to accumulated deficit of approximately \$11,689,000 as of December 31, 2007.

We have an effective shelf registration statement on file with the Securities and Exchange Commission allowing us to sell up to \$60 million of common stock. We believe it is prudent to maintain shelf registration capacity in order to facilitate future capital raising activities. To date there have been no issuances of common stock under this shelf registration statement. Due to the late filing of this Form 10-Q, we will not be able to use this shelf registration statement after we file our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

21

We believe we have sufficient resources to finance our current operations for the foreseeable future from operating cash flow and working capital. We may, however, raise additional capital through the sale of equity or equity-related securities, under the shelf registration statement or otherwise, under appropriate circumstances. We may also sell or license our assets or technology.

On August 29, 2008, we delivered to Principia Lightworks, Inc. ("Principia") a Notice of Breach and Pending Termination (the "Notice") of a certain Manufacturing Agreement, dated August 29, 2006, by and between Spire Semiconductor and Principia (the "Manufacturing Agreement"). Under the terms of the Manufacturing Agreement, Principia made an up-front payment for nonrecurring engineering and facility access costs and, in addition was required to make monthly facility availability payments throughout the term of the agreement. As a result of Principia's failure to make recent monthly facility availability payments, we have reserved \$225,000 against Principia's accounts receivable balance. Subsequent to September 30, 2008, we have entered into a mutual standstill agreement with Principia until December 29, 2008. The purpose of the standstill is to give the parties the time to try to negotiate a business resolution of the issues and disputes between the parties. Also subsequent to September 30, 2008, we received an up-front payment of \$75,000 from Principia to be applied against future services. Prior to December 29, 2008, the parties have agreed to hold a meeting where the status of opportunities will be assessed.

On September 1, 2008, Nisshinbo Industries, Inc ("Nisshinbo") delivered a letter to us stating its intention to terminate the Development, Manufacturing, and Sales Consortium Agreement (the "Consortium Agreement") entered into between Nisshinbo and us on May 16, 2005. Pursuant to the Consortium Agreement, Nisshinbo provided its 180 day prior notice to terminate

Edgar Filing: SPIRE CORP - Form 10-Q

the Consortium Agreement effective as of February 28, 2009.

Under the Consortium Agreement, Nisshinbo manufactured laminators for us and we received royalties based upon Nisshinbo sales to third parties. Under the terms of the Consortium Agreement, early termination by Nisshinbo for convenience entitles us to a termination penalty payment of approximately \$5.8 million. Upon all payments being satisfied, we shall grant Nisshinbo a perpetual, royalty-free, non-exclusive license to our existing solar photovoltaic module manufacturing equipment methods of engineering, designing, manufacturing and other related methods that were in effect when we entered into the Consortium Agreement. We are in discussions with Nisshinbo on concluding the Consortium Agreement, including alternative manufacturing arrangements and technology license agreements concerning technology developed under the Consortium Agreement.

Foreign Currency Fluctuation

We sell only in U.S. dollars, generally against an irrevocable confirmed letter of credit through a major United States bank. Accordingly, we are not directly affected by foreign exchange fluctuations on our current orders. However, fluctuations in foreign exchange rates do have an effect on our customers' access to U.S. dollars and on the pricing competition on certain pieces of equipment that we sell in selected markets. We received Japanese yen in exchange for the sale of a license to our solar technology. In addition, purchases made and royalties received under our Consortium Agreement with Nisshinbo are in Japanese yen. We have committed to purchase certain pieces of equipment from European vendors; these commitments are denominated in Euros. We bear the risk of any currency fluctuations that may be associated with these commitments. We attempt to hedge known transactions when possible to minimize foreign exchange risk.

Related Party Transactions

We subleased 77,000 square-feet in a building leased by Mykrolis Corporation, who in turn leased the building from SPI-Trust, a Trust of which Roger Little, our Chairman of the Board, Chief Executive Officer and President, is the sole trustee and principal beneficiary. The 1985 sublease, originally was for a period of ten years, was extended for a five-year period expiring on November 30, 2000 and was further extended for a five-year period expiring on November 30, 2005. The sublease agreement provided for minimum rental payments plus annual increases linked to the consumer price index. Effective December 1, 2005, we entered into a two-year Extension of Lease Agreement (the "Lease Extension") directly with SPI-Trust.

We assumed certain responsibilities of Mykrolis, the tenant under the former lease, as a result of the Lease Extension including payment of all building and real estate related expenses associated with the ongoing operations of the property. We will allocate a portion of these expenses to SPI-Trust based on pre-established formulas utilizing square footage and actual usage where applicable. These allocated expenses will be invoiced monthly and be paid utilizing a SPI-Trust escrow account of which we have sole withdrawal authority. SPI-Trust is required to maintain three (3) months of its anticipated operating costs within this escrow account. On December 1, 2006, we and SPI-Trust amended the Lease Extension to include the lease of an additional 15,000 square feet from SPI-Trust for a one-year term. The additional space was leased at a rate of \$8.06 per square foot on annual basis. The additional space was used to expand our solar operations.

On November 30, 2007, we entered into a new Lease Agreement (the "New Lease") with SPI-Trust, with respect to 144,230 square feet of space comprising

Edgar Filing: SPIRE CORP - Form 10-Q

the entire building in which we have occupied space since December 1, 1985. The term of the New Lease commenced on December 1, 2007 and continues for five (5) years until November 30, 2012. We have the right to extend the term of the New Lease for an additional five (5) year period. The annual rental rate for the

22

first year of the Lease is \$12.50 per square foot on a triple net basis, whereby the tenant is responsible for operating expenses, taxes and maintenance of the building. The annual rental rate increases on each anniversary by \$0.75 per square foot. If we exercises our right to extend the term of the New Lease, the annual rental rate for the first year of the extended term will be the greater of (a) the rental rate in effect immediately preceding the commencement of the extended term or (b) the market rate at such time, and on each anniversary of the commencement of the extended term the rental rate will increase by \$0.75 per square foot. We believe that the terms of the New Lease are commercially reasonable. Rent expense under the New Lease for the three and nine months ended September 30, 2008 was \$505,000 and \$1,514,000, respectively.

In conjunction with our acquisition of Spire Semiconductor in May 2003, SPI-Trust purchased from Stratos Lightwave, Inc. (Spire Semiconductor's former owner) the building that Spire Semiconductor occupies in Hudson, New Hampshire for \$3.7 million. Subsequently, we entered into a lease for the building (90,000 square feet) with SPI-Trust whereby we agreed to pay \$4.1 million to the SPI-Trust over an initial five-year term expiring in May 2008 with an option for us to extend for five years. In addition to the rent payments, the lease obligated us to keep on deposit with SPI-Trust the equivalent of three months rent. The lease agreement did not provide for a transfer of ownership at any point. Interest costs were assumed at 7%. This lease was classified as a related party capital lease and a summary of payments (including interest) follows:

| Year | Rate Per Square Foot | Annual Rent | Monthly Rent | Security Deposit |
|-----------------------------|-------------------------|--------------|--------------|---------------------|
| June 1, 2003 - May 31, 2004 | \$6.00 | \$ 540,000 | \$ 45,000 | \$135,000 |
| June 1, 2004 - May 31, 2005 | 7.50 | 675,000 | 56,250 | 168,750 |
| June 1, 2005 - May 31, 2006 | 8.50 | 765,000 | 63,750 | 191,250 |
| June 1, 2006 - May 31, 2007 | 10.50 | 945,000 | 78,750 | 236,250 |
| June 1, 2007 - May 31, 2008 | 13.50 | 1,215,000 | 101,250 | 303,750 |
| | | \$ 4,140,000 | | |
| | | ===== | | |

Upon the expiration of the lease in May 2008, we did not exercise our option to extend the lease for an additional 5 years. On May 20, 2008, we agreed with SPI-Trust to continue the current lease, under the current terms and conditions on a month-to-month basis for a maximum of three (3) months beyond the current term.

On August 29, 2008, we entered into a new Lease Agreement (the "Hudson Lease") with SPI-Trust, with respect to 90,000 square feet of space comprising the entire building in which Spire Semiconductor has occupied space since June 1, 2003. The term of the Hudson Lease commenced on September 1, 2008, and continues for seven (7) years until August 31, 2015. We have the right to extend the term of the Hudson Lease for an additional five (5) year period. The annual rental rate for the first year of the Hudson Lease is \$12.50 per square foot on a triple-net basis, whereby the tenant is responsible for operating expenses, taxes and maintenance of the building. The annual rental rate increases on each anniversary by \$0.75 per square foot. If we exercise our right to extend the term of the Hudson Lease, the annual rental rate for the first year of the extended term will be the greater of: (a) the rental rate in effect immediately preceding the commencement of the extended term; or (b) the market rate at such

Edgar Filing: SPIRE CORP - Form 10-Q

time, and on each anniversary of the commencement of the extended term the rental rate will increase by \$0.75 per square foot. In addition, we are required to deposit with SPI-Trust \$300,000 as security for performance by us for our covenants and obligations under the Hudson Lease. SPI-Trust is responsible, at its sole expense, to make certain defined tenant improvements to the building by no later than February 28, 2009. We believe that the terms of the Hudson Lease are commercially reasonable and reflective of market rates. The lease agreement did not provide for a transfer of ownership at any point. The Hudson Lease was classified as a related party operating lease. Rent expense under the Hudson Lease for the three and nine months ended September 30, 2008 was \$111,000.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting our consolidated financial statements are those relating to revenue recognition, reserves for doubtful accounts and sales returns and allowances, reserve for excess and obsolete inventory, impairment of long-lived assets, income taxes, and warranty reserves. We regularly evaluate our estimates and assumptions based upon historical experience and various other factors that it believes 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. To the extent actual results differ from those estimates, our future results of operations may be affected. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. Refer to Footnote 3 of the notes to consolidated financial statements in our Annual Report on Form 10-K/A for the year ended December 31, 2007 for a description of our significant accounting policies.

23

REVENUE RECOGNITION

We derive our revenues from three primary sources: (1) commercial products including, but not limited to, solar energy manufacturing equipment, solar energy systems and hemodialysis catheters; (2) biomedical and semiconductor processing services; and (3) United States government funded research and development contracts.

We generally recognizes product revenue upon shipment of products provided there are no uncertainties regarding customer acceptance, persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collectibility is reasonably assured. These criteria are generally met at the time of shipment when the risk of loss and title passes to the customer or distributor, unless a consignment arrangement exists. Revenue from consignment arrangements is recognized based on product usage indicating sales are complete.

We utilize a distributor network to market and sell our hemodialysis catheters domestically. We generally recognizes revenue when the catheters are shipped to our distributors. Gross sales reflect reductions attributable to customer returns and various customer incentive programs including pricing discounts and rebates. Product returns are permitted in certain sales contracts and an allowance is recorded for returns based on our history of actual returns. Certain customer incentive programs require management to estimate the cost of those programs. The allowance for these programs is determined through an analysis of programs offered, historical trends, expectations regarding customer

Edgar Filing: SPIRE CORP - Form 10-Q

and consumer participation, sales and payment trends, and experience with payment patterns associated with similar programs that had been previously offered. An analysis of the sales return and rebate activity for the three months ended September 30, 2008, is as follows:

| | Rebates | Returns | Total |
|------------------------------|------------|-----------|------------|
| | ----- | ----- | ----- |
| Balance - June 30, 2008 | \$ 96,000 | \$ 9,000 | \$ 105,000 |
| Provision | 175,000 | 1,000 | 176,000 |
| Utilization | (153,000) | -- | (153,000) |
| | ----- | ----- | ----- |
| Balance - September 30, 2008 | \$ 118,000 | \$ 10,000 | \$ 128,000 |
| | ===== | ===== | ===== |

- o Credits for rebates are recorded in the month of the actual sale.
- o Credits for returns are processed when we receive the actual returned merchandise.
- o Substantially all rebates and returns are processed no later than three months after our original shipment.

The reserve percentage of inventory held by distributors over the past quarters has increased to approximately 12.9% at September 30, 2008, when compared to 8% at December 31, 2007. We perform various sensitivity analyses to determine the appropriate reserve percentage to use. To date, actual quarterly reserve utilization has approximated the amount provided. The total inventory held by distributors was approximately \$988,000 at September 30, 2008.

If sufficient history to make reasonable and reliable estimates of returns or rebates does not exist, revenue associated with such practices is deferred until the return period lapses or a reasonable estimate can be made. This deferred revenue will be recognized as revenue when the distributor reports to us that it has either shipped or disposed of the units (indicating that the possibility of return is remote).

Our OEM capital equipment solar energy business builds complex customized machines to order for specific customers. Most of these orders are sold on a FOB Bedford, Massachusetts (or EX-Works Factory) basis. It is our policy to recognize revenues for this equipment as the product is shipped to the customer, as customer acceptance is obtained prior to shipment and the equipment is expected to operate the same in the customer's environment as it does in our environment. When an arrangement with the customer includes future obligations or customer acceptance, revenue is recognized when those obligations are met or customer acceptance has been achieved. For arrangements with multiple elements, we allocate fair value to each element in the contract and revenue is recognized upon delivery of each element. If we are not able to establish fair value of undelivered elements, all revenue is deferred.

We recognize revenues and estimated profits on long-term government contracts on the accrual basis where the circumstances are such that total profit can be estimated with reasonable accuracy and ultimate realization is reasonably assured. We accrue revenue and profit utilizing the percentage of completion method using a cost-to-cost methodology. A percentage of the contract revenues and estimated profits is determined utilizing the ratio of costs incurred to date to total estimated cost to complete on a contract by contract basis. Profit estimates are revised periodically based upon changes and facts, and any losses on contracts are recognized immediately. Some of the contracts include provisions to withhold a portion of the contract value as retainage until such time as the United States government performs an audit of the cost incurred under the contract. Our policy is to take into revenue the full value of the contract, including any retainage, as we perform against the contract because we have not experienced any substantial losses as a result of audits performed by the United States government.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including fixed assets and intangible assets, are continually monitored and are evaluated at least annually for impairment. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance. Our estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to our business model or changes in our operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

STOCK-BASED COMPENSATION

On January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123(R), Share-Based Payment ("Statement 123(R)") using the modified prospective method. In accordance with the modified prospective method, we have not restated our consolidated financial statements for prior periods. Under this transition method, stock-based compensation expense includes stock-based compensation expense for all of our stock-based compensation awards granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation ("Statement 123"). Stock-based compensation expense for all stock-based compensation awards granted on or after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). The impact of Statement 123(R) on our results of operations resulted in recognition of stock compensation expense of approximately \$185,000 and \$181,000 for the three months ended September 30, 2008 and 2007, respectively. Stock compensation expense was \$594,000 and \$389,000 for the nine months ended September 30, 2008 and 2007, respectively.

Contractual Obligations, Commercial Commitments and Off-Balance Sheet

Arrangements

The following table summarizes our gross contractual obligations at September 30, 2008 and the maturity periods and the effect that such obligations are expected to have on our liquidity and cash flows in future periods:

| Contractual Obligations | Total | Payments Due by Period | | |
|---------------------------------|--------------|------------------------|----------------|----------------|
| | | Less than 1 Year | 2 - 3 Years | 4 - 5 Years |
| Equipment Credit Facility (SVB) | \$ 2,189,000 | \$ 1,285,000 | \$ 904,000 | -- |
| Revolving Credit Facility (SVB) | -- | -- | -- | -- |
| Purchase obligations | \$24,035,000 | \$24,035,000 | -- | -- |
| Capital leases: | | | | |
| Related party capital lease | -- | -- | -- | -- |

Edgar Filing: SPIRE CORP - Form 10-Q

Operating leases:

| | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|
| Unrelated party operating leases | \$ 307,000 | \$ 142,000 | \$ 165,000 | - |
| Related party operating leases | \$17,792,000 | \$ 3,024,000 | \$ 6,574,000 | \$ 5,324,000 |

Purchase obligations include all open purchase orders outstanding regardless of whether they are cancelable or not. Included in purchase obligations are raw material and equipment needed to fulfill customer orders.

Capital lease and credit facility obligations outlined above include both the principal and interest components of these contractual obligations.

Total foreign exchange gain for the quarter ended September 30, 2008 of approximately \$16,000 is reflected in other income (expense), net in the accompanying unaudited condensed consolidated statement of operations.

Outstanding letters of credit totaled approximately \$161,000 at September 30, 2008. The letters of credit principally secure performance obligations, and allow holders to draw funds up to the face amount of the letter of credit if we do not perform as contractually required. These letters of credit expire through 2009 and are 100% secured by cash.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk to which we are subject consists of the risk of loss arising from adverse changes in market interest rates and foreign exchange rates. Exposure to market rate risk for changes in interest rates relates to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We seek to place our investments with high-quality issuers and we have policies limiting, among other things, the amount of credit exposure to any one issuer. We seek to limit default risk by purchasing only investment-grade securities. We do not believe we have any material market risk with respect to our financial instruments.

25

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report, September 30, 2008.

Based on its evaluation, and taking into consideration the material weaknesses in internal control over financial reporting referenced below, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of September 30, 2008.

As previously reported in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC) on March 31, 2008, in connection with our assessment of the effectiveness of our internal control over financial reporting at the end of our last fiscal year, management identified material weaknesses in the internal control over financial reporting as of December 31, 2007.

We had an ineffective control environment. This has been previously

Edgar Filing: SPIRE CORP - Form 10-Q

disclosed in prior filings. Efforts to remediate deficiencies were impeded by an evolving control environment brought on by the rapid expansion in our business over the past twelve months. We did not maintain an effective financial reporting process, ensure timely and accurate completion of financial statements and we did not maintain effective monitoring controls including reconciliations and analysis of key accounts. We did not have a sufficient level of staffing with the necessary knowledge, experience and training to ensure the completeness and accuracy of our financial statements. Specifically, the financial reporting organization structure was not adequate to support the size, complexity or activities of our Company.

This affected our ability to maintain effective monitoring controls and related segregation of duties over automated and manual transactions processes. Specifically, inadequate segregation of duties led to untimely identification and resolution of accounting and disclosure matters and failure to perform timely and effective supervision and reviews. We did not maintain effective controls over our IT environment. Specifically, we did not perform a review of restricted user access in our application software system and file server critical worksheet directories. We lacked sufficient business continuity and back-up policies and procedures.

In addition to the material weaknesses discussed above, we did not maintain effective controls to identify and monitor the existence of side agreements. In November 2008, we became aware of a preexisting undocumented side agreement made in connection with a multiple element arrangement. Timely notification of the existence of the oral agreement was not communicated to the Finance Department, and therefore the impact of such agreement was not considered in the evaluation of revenue recognition on the contract. As a result, our recognition of revenue was materially misstated with respect to the fourth quarter of 2007 and the first quarter of 2008 which required restatement of previously issued financial statements.

As a result of the foregoing, management concluded that our internal control over financial reporting was not effective as of December 31, 2007.

Changes in Internal Control Over Financial Reporting

Except as described below, there have been no changes during our fiscal quarter ended September 30, 2008 in our internal control over financial reporting that may have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management is actively addressing the above noted material weaknesses and other operational, financial and internal control remediation efforts are also underway. New policies and procedures have been created and existing policies and procedures are being reviewed and have been modified as part of our documentation and testing of internal control over financial reporting. Management believes these new internal control policies and procedures, when fully implemented, along with the training of key personnel and testing of these key controls will be effective in remediating these material weaknesses.

In February 2008, we hired a Director of Financial Reporting who has the primary responsibility for the financial close and reporting process and our internal control and monitoring environment related to financial reporting. In July 2008, we hired a Senior Financial Analyst, who is actively involved in the financial close and reporting process and assisting us in our remediation efforts.

We have implemented new IT policies and procedures to address user access, back-up and business continuity and have made progress in addressing

Edgar Filing: SPIRE CORP - Form 10-Q

these deficiencies. We have implemented new inventory, financial close and revenue recognition procedures and progress was made in addressing the controls over IT and Inventory and our financial reporting process.

Further, we have hired an outside consulting firm to assist us in our Sarbanes-Oxley control rationalization, 2008 testing and remediation efforts. Initial testing of controls was performed in the third quarter and additional testing and remediation (as needed) will be performed in the fourth quarter.

As a non-accelerated filer, our management will perform an evaluation of our internal control over financial reporting at the end of the year; however, our independent registered public accounting firm is not required to issue an opinion on the design or effectiveness on our internal control over financial reporting for the 2008 fiscal year.

27

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the second quarter of 2005 a suit was filed by Arrow International, Inc. against Spire Biomedical, Inc., our wholly owned subsidiary, alleging patent infringement by us. The complaint claimed one of our catheter products induced and contributed to infringement when medical professionals inserted it. We responded to the complaint denying all allegations and filed certain counterclaims. We also filed a motion for summary judgment, asserting patent invalidity resulting from plaintiff's failure to follow the administrative procedures of the U.S. Patent and Trademark Office ("USPTO"). On August 4, 2006, the Court granted our motion and dismissed this lawsuit without prejudice. Plaintiffs applied to revive the applicable patent, which application was granted by the USPTO later in August 2006. Plaintiffs refiled their lawsuit against us on August 31, 2006. We have filed our answer and resumed our defense. We have filed summary judgment motions with the Court and a hearing was held on November 12, 2008. Following this hearing, the Judge ordered discovery reopened on the issue of possible inequitable conduct by the Plaintiff, Arrow International, Inc. Based on information presently available to us, we believe we have meritorious legal defenses with respect to this action. If we are unsuccessful in our defenses, a portion of our product line may be enjoined or we may need to redesign certain products to avoid future infringement. However, if the plaintiff's patent is found valid and infringed, the parties have already agreed to a stipulated calculation of damages based on a pre-specified royalty rate.

ITEM 1A. RISK FACTORS

There have been no material changes in the Risk Factors described in Part I, Item 1A ("Risk Factors") of our Annual Report on Form 10-K for the year

Edgar Filing: SPIRE CORP - Form 10-Q

ended December 31, 2007, except for the following:.

DISPUTES IN THE CAPITAL AND CREDIT MARKETS RELATED TO THE CURRENT NATIONAL AND WORLD-WIDE FINANCIAL CRISIS, WHICH MAY CONTINUE OR INTENSIFY, COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL CONDITION, OR THOSE OF OUR CUSTOMERS OR SUPPLIERS.

The current disruptions in the capital and credit markets may continue indefinitely or intensify, and adversely impact our results of operations, cash flows and financial condition, or those of our customers and suppliers. These disruptions could adversely affect our ability to draw on our bank credit facilities. Disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our access to liquidity needed to conduct or expand our businesses or conduct acquisitions or make other discretionary investments, as well as our ability to effectively hedge our currency or interest rates. These same conditions and disruptions may also adversely impact the capital needs of our customers and suppliers, which, in turn, could adversely affect our results of operations, cash flows and financial condition.

WE MAY NOT BE ABLE TO MAINTAIN OUR LISTING ON THE NASDAQ GLOBAL MARKET, WHICH WOULD ADVERSELY AFFECT THE PRICE AND LIQUIDITY OF OUR COMMON STOCK.

Our stock is currently listed on the Nasdaq Global Market. Because we do not have a minimum of stockholders' equity of \$10,000,000 required under Standard No. 1 for continued listing on the Nasdaq Global Market, we have relied on Standard No. 2 for continued listing, which requires, among other things, that the value of our listed securities exceed \$50,000,000. In order to remain in compliance with Standard No. 2, the market value of our listed securities cannot fall below \$50,000,000 for ten consecutive trading days. However, since November 13, 2008, the market value of our listed securities has been below \$50,000,000 (for a total of 7 consecutive trading days). If the market value of our listed securities remains below \$50,000,000 for ten consecutive trading days, we will receive a deficiency notice from Nasdaq. Following receipt of a deficiency notice, we expect we would have 30 calendar days to regain compliance by having the market value of our listed securities exceed \$50,000,000 for at least 10 consecutive trading days. If we were to fail to meet the minimum market value standard for at least 10 consecutive trading days during the 30-day period, our common stock could be delisted. Even if we are able to comply with the minimum market value requirement, there is no assurance that in the future we will continue to satisfy Nasdaq listing requirements, with the result that our common stock may be delisted. For example, on November 20, 2008, we received a deficiency notice from Nasdaq indicating that, because we failed to timely file our Form 10-Q for the quarter ended September 30, 2008, we were no longer in compliance with the continued listing requirements set forth in Nasdaq Marketplace Rule 4310(c)(14). While we believe that, with the filing of this Form 10-Q, we have regained compliance with Nasdaq Marketplace Rule 4310(c)(14), we may fail to comply with this rule and other continued listing requirements in the future. If we fail to maintain compliance with these rules and our common stock is delisted from the Nasdaq Global Market, there could be a number of negative implications, including reduced liquidity in the common stock as a result of the loss of market efficiencies associated with the Nasdaq Global Market, the loss of federal preemption of state securities laws, the potential loss of confidence by suppliers, customers and employees, as well as the loss of analyst coverage and institutional investor interest, fewer business development opportunities and greater difficulty in obtaining financing.

Edgar Filing: SPIRE CORP - Form 10-Q

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

On November 20, 2008, we received a deficiency notice from the Nasdaq Stock Market ("Nasdaq") indicating that, because we failed to timely file our Form 10-Q for the quarter ended September 30, 2008 (the "Form 10-Q"), we were no longer in compliance with the continued listing requirements set forth in Nasdaq Marketplace Rule 4310(c)(14). The Nasdaq letter advised that, pursuant to Nasdaq rules, we have 60 calendar days to submit a plan to regain compliance. Following review of such plan, Nasdaq staff can grant us an exception, up to 180 calendar days from the due date of the Form 10-Q, or until May 18, 2009, to regain compliance. We believe, however, that, with the filing of this Form 10-Q, we have regained compliance with Nasdaq Marketplace Rule 4310(c)(14) and, accordingly, will not have to submit a plan to regain compliance to Nasdaq with respect to this matter.

ITEM 6. EXHIBITS

- 10(ae) Lease Agreement, dated September 1, 2008, between Roger G. Little, Trustee of SPI-Trust, and Spire Corporation, incorporated by reference to Exhibit 10(ae) to the Company's Form 8-K filed with the SEC on August 29, 2008.
- 31.1 Certification of the Chairman of the Board, Chief Executive Officer and President pursuant to ss.302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer and Treasurer pursuant to ss.302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chairman of the Board, Chief Executive Officer and President pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer and Treasurer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002.

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

Edgar Filing: SPIRE CORP - Form 10-Q

undersigned, thereunto duly authorized.

Spire Corporation

Dated: November 24, 2008

By: /s/ Roger G. Little

Roger G. Little
Chairman of the Board,
Chief Executive Officer and
President

Dated: November 24, 2008

By: /s/ Christian Dufresne

Christian Dufresne, Ph. D.
Chief Financial Officer and Treasurer

30

EXHIBIT INDEX

| Exhibit | Description |
|---------|--|
| ----- | ----- |
| 10(ae) | Lease Agreement, dated September 1, 2008, between Roger G. Little, Trustee of SPI-Trust, and Spire Corporation, incorporated by reference to Exhibit 10(ae) to the Company's Form 8-K filed with the SEC on August 29, 2008. |
| 31.1 | Certification of the Chairman of the Board, Chief Executive Officer and President pursuant to ss.302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer and Treasurer pursuant to |

Edgar Filing: SPIRE CORP - Form 10-Q

ss.302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chairman of the Board, Chief Executive Officer and President pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer and Treasurer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002.