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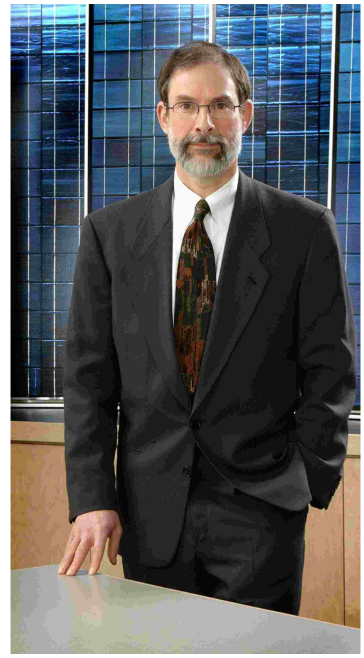
Reaching for the sun

Evergreen Solar Inc.

By Christina P. O'Neill



Mark Farber, president and CEO

The market isn't kind to companies based on forward-thinking technology these days. But that isn't stopping solar-panel maker Evergreen Solar Inc. from launching into a long-planned production scale-up at its 56,250-square-foot facility in Marlboro. The firm has almost doubled its headcount since 2001 - from 75 people to 135. Its second quarter 2002, ended June 30, was first million-dollar quarter, in terms of top-line revenue.

Evergreen Solar was founded in 1994 by three veterans of Mobil Solar Corp. who left that company when its parent, Mobil Oil, divested the alternative-energy subsidiary. Evergreen develops, manufactures and markets photovoltaic solar panels worldwide. After spending its three years in development-stage mode, the company made its first commercial sale in late 1997. A $5 million investment from Kawasaki Heavy Industries in 1999 brought Evergreen out of development mode and into manufacturing. To date, Evergreen has shipped more than 15,000 solar panels.

The company has proprietary technology - some developed internally and some licensed from MIT in Cambridge - that it maintains is better than existing methods. Instead of slicing blocks of silicon into wafers, Evergreen makes continuous ribbons, cutting down on waste.

But Evergreen's stock, which was initially publicly offered at $14 a share two years ago, has been taking a pummeling and is now trading in the 50-cent range (see chart). The bear market for technology stocks is one culprit. But Evergreen also delayed plans to build a second production line alongside its first in the Marlboro plant. That decision, in August 2001, drove the stock price down, and caused Evergreen to lower its 2002 revenue forecasts from $7 million to $6 million.

Sanjay Shrestha, an analyst with investment firm First Albany Corp., gives Evergreen's stock a neutral rating. First Albany was one of several participants in Evergreen's IPO. Shrestha commends Evergreen for its moderate approach. "The efficiency is up," he says, "and I think they're learning a lot from their first [production] line." Instead of rushing into building capacity on line two, he says, "I think the company actually made a prudent decision" to gain experience on line one before building line two. First Albany will revisit its neutral rating, he says, as Evergreen progresses in the installation of the second production line. That line should start producing in 2003, Evergreen President Mark Farber says.

Despite the setbacks, Evergreen has seen improvement in its top-line revenue between 2001 and 2002. In its latest second quarter, ended June 30, the firm posted product revenues of $1.1 million, up 407 percent from the same period a year earlier. Its latest second-quarter net loss was $3.5 million, or 30 cents a share, compared with a net loss of $2.8 million, or 25 cents a share, for the year ago quarter. Evergreen ended the latest second quarter with $18 million in cash.

The Evergreen co-founders' big-company experience should work in their favor in helping them to gauge the competition. The top four companies in the $3 billion photovoltaic industry are small divisions of big companies. "It's no longer a cottage industry," Farber says. Photovoltaics' big-gun competitors include BP Solar, Kyocera Corp., Royal Dutch Shell, Sharp Corp., Astropower Inc., and Photowatt International SA.

Though all of its competitors use the conventional block method for producing silicon wafers, they are also developing technologies that could become as cost effective as Evergreen's.

Evergreen has two target markets: on-grid uses, and off-grid uses. On-grid uses provide supplementary electricity to customers already on an electric grid, but who choose to generate some of their own electricity on-site, often on residential and commercial rooftops and building facades. On-grid use is the fastest-growing market for photovoltaic power. But it's not yet fully cost-effective, and carries a high front-end cost.

To crack the on-grid market requires federal subsidies such as those provided in Germany, Japan and the United States. On October 1, Evergreen announced it had received a $3 million, three-year, cost-shared contract awarded by the National Renewable Energy Laboratory to complete an R&D program under the NREL's photovoltaic-manufacturing technology program. The proceeds will defray half the cost of refining Evergreen's proprietary manufacturing technology. Closer to home, the Massachusetts Technology Collaborative's renewable energy trust, funded by a state tax on business and consumer electric bills, announced earlier this month that it would give out $2.6 million in grants to organizations using photovoltaic devices to generate electricity. The awards could mean more business for Evergreen, Farber concurs, but it would be up to the grantees to make public.

The MTC grant, Farber says, "is very much an important driver to help us bridge the current [slow] market situation into an expanded market. The United States is now one of the fastest growing markets in the world. We have a lot of catch-up to do. ... "

VITAL STATISTICS
Year founded: 1994 **IPO year**: 2000 **IPO proceeds**: $37.7 million **Price per share, 10/10/02:** 54 cents **Shares outstanding, 10/10/02:** 11.4 million **Market value, 10/10/02:** $5.8 million **Locations, total:** 1 (headquarters) **Employees, total:** 135 **Employees, in Mass.:** 135 **Fiscal year ends:** 12/31 **Exchange**: NASDAQ **Ticker symbol:** ESLR **Address:** 259 Cedar Hill St., Marlboro 01752 **Phone:** 508-357-2221 **Fax**: 508-357-2279 **Website:** www.evergreensolar.com

EXECUTIVE COMPENSATION (Total annual compensation, year ended 12/31/01
Mark Farber, president and CEO........……….. $157,770
John McCaffrey Jr. vice president of manufacturing and engineering........................ $138,420
Rex D'Agostino, vice president of marketing and sales............…............................... $137,705
Jack Hanoka, CTO...….......................... $128,770
Richard Chleboski, CFO...……......................... $122,455

LARGEST SHAREHOLDERS		
Number of common shares beneficially owned, as of 4/26/02		
VA Partners LLC	858,600	13.6%
Robert Shaw Jr. **(1)**	1,039,257	9.0%
Nth Power Technologies Fund I LP	1,016,914	8.9%
Kawasaki Heavy Industries Ltd.	923,787	8.1%
Arete Entities	903,132	7.9%
Swiss Reinsurance Co.	693,522	6.0%

Notes: Those beneficially owning 5 percent or more of the outstanding shares. Amounts add up to more t2han 100 percent because of diluted ownership. **(1)** Robert Shaw is chair of Evergreen Solar Inc

PERFORMANCE RECORD	**1999**	**2000**	**2001**
Revenue	$2,302,000	$2,172,000	$2,478,000
Operating income	-$3,095,000	-$6,510,000	-$14,322,000
Net income	-$4,163,000	-$7,488,000	-$12,477,000
Earnings per share	-$5.18	-$2.96	-$1.10
Stockholder equity	-$13,502,000	$54,143,000	$43,055,000

Sources: Company filings made with the federal SEC, as well as reporting done by the *Worcester Business Journal*.