

SunCentric Business Perspectives

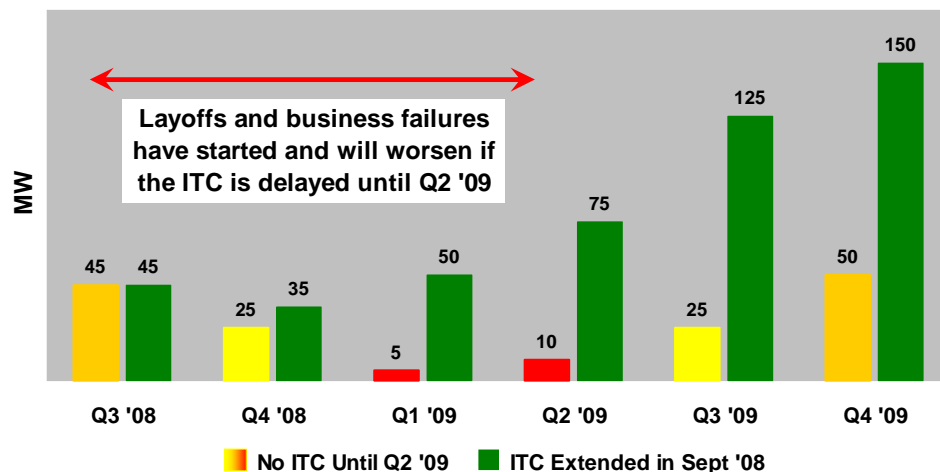
Battening Down the Hatches Will U.S. Solar Businesses Weather the Coming Storm?

Glenn Harris, CEO
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With just over 120 days left before Federal incentives expire, solar businesses in the U.S. are taking action to protect their core business. Layoffs, announced and unannounced, have started. Construction projects are being cancelled or postponed and new sales have dropped dramatically. Uncertainty is forcing our solar businesses into difficult decisions - not if, but when to cut and, how deep to cut. The coming loss of talented people and companies should be viewed as a loss of our country's intellectual property – and a national tragedy.

A delay in a new Federal program until a new administration can act in Q2 2009, is now a realistic scenario. This possibility makes it easy to imagine that U.S. grid-connected installations could fall to well below 100MW in 2009, down from forecasts of 300 to 500MW, and a radical decline after years of steady growth. Each part of the channel and each business sector will be impacted. Without immediate Federal action, here's a snapshot of what's ahead.

ITC Delayed Until Q2 2009 vs. Extended in September 2008
MW of Grid-Connected Installations



Integrators and Installers

Integrators and installation companies across the U.S. are most at risk. These local and regional businesses have no realistic way to create profitable new markets or work outside of the U.S. For those who focus on commercial projects, no Investment Tax Credit (ITC) equals no installations. Potential solar system owners won't purchase and install systems without ITC certainty. Some well managed and established residential installers will likely scrape by, but many companies will lay their work force off and go out of business. California's residential installers, our largest market, have already been suffering because of high costs and low incentives. The loss of the \$2,000 ITC for homeowners will make a bad situation worse. Solar on new homes, which has been getting some traction despite the downturn in the new home construction market, will virtually stop as even the most progressive solar homebuilders and their partners lose the foundation of their business plan.

Solar Distributors

Solar distributors will be hard hit as many of the under capitalized small and medium solar installation companies they serve will disappear overnight. If they are unable to sell the PV modules they have committed to, their life blood, the modules will be sent to other countries, severely impacting revenues. Most have been through tough times before and will adapt again by downsizing and shifting their emphasis to the small off-grid segment and other markets allowed by their supplier relationships.

PV Manufacturers

U.S. PV manufacturers and those international PV companies that support the U.S. market face many challenges and may consider the U.S. slowdown a minor market disruption. They will reallocate their products internationally and, based on world selling prices, make better margins. Some planned investments in U.S. manufacturing, organization and infrastructure growth will be cancelled or postponed and some companies will scale back U.S. operations.

Other Solar Manufacturers

Other U.S. based manufacturers of inverters, mounting structures, balance of system components and data monitoring who have already diversified their businesses into international markets have a fair chance. Few have. Those who were counting on a robust U.S. market will need to scramble to morph their

products for international markets. For the unprepared it's difficult to imagine gaining traction near term without significant investments in product and market development. The scale of the international markets and our favorable exchange rate, if it continues, gives those who are properly capitalized a fighting chance.

Finance Companies

Power Purchase Agreement companies and others who provide financing for solar systems, may continue to sell and do some preliminary work on projects, but with only 10% ITC there is no scenario short of radical electricity price increases or radical decreases in installed system cost that would allow investors to authorize many projects. Some have low overhead operations and will likely take a "solar vacation" and wait out the storm. Other more vertically integrated organizations will likely downsize while the industry is offline. A few risk takers may double down hoping to build a significant backlog of business that they can complete when the market restarts.

Last week PG&E announced two PV projects totaling 800MW – the type of projects that prove solar electricity can be relevant to utilities today. The press release includes the following statement, "Both projects are contingent upon the extension of the federal investment tax credit for renewable energy and processes to expedite transmission needs." OptiSolar, a U.S. based thin film startup will supply 550MW to the project, an amount that would certainly help create jobs, a potentially profitable company and a U.S. manufacturer – the exact reasons why governments around the world support developing industries.

It has been my habit over the years to look for the silver lining when it comes to the solar business in the U.S. Today, it's tough to find one. The worse case, the idea that we will have to take a giant step backwards and then rebuild, is coming true. Our people have worked tirelessly to move our fledgling industry ahead and gain momentum against enormous inertia and countless barriers. It is beyond my comprehension how 535 people in congress and 1 in the white house could let partisanship rule at a time when the right decision for the country is so obvious. Our industry's objectives of job creation, energy independence, and environmental stewardship should be treated as an urgent national priority.

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