

Edgar Filing: SPIRE CORP - Form 10QSB

SPIRE CORP
Form 10QSB
November 14, 2005

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2005; or
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 0-12742

SPIRE CORPORATION

(Name of small business issuer as specified in its charter)

MASSACHUSETTS

04-2457335

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

ONE PATRIOTS PARK
BEDFORD, MASSACHUSETTS 01730-2396

(Address of principal executive offices)

781-275-6000

(Issuer's telephone number)

Securities registered under Section 12(g) of the Act:

COMMON STOCK, \$0.01 PAR VALUE; REGISTERED ON THE NASDAQ STOCK MARKET

(Title of class)

Check whether the issuer: (1) filed all reports required to be filed by

Edgar Filing: SPIRE CORP - Form 10QSB

Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 [X] No []

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: There were 7,207,987 outstanding shares of the issuer's only class of common equity, Common Stock, \$0.01 par value, on November 4, 2005.

Transitional Small Business Disclosure Format (check one): Yes [] No [X]

=====

TABLE OF CONTENTS

	Page

PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Unaudited Condensed Consolidated Balance Sheet as of September 30, 2005	1
Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2005 and 2004....	2
Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2005 and 2004	3
Notes to Unaudited Condensed Consolidated Financial Statements.	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Controls and Procedures	23
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds....	24
Item 3. Defaults Upon Senior Securities	24
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 5. Other Information	24
Item 6. Exhibits	25

Edgar Filing: SPIRE CORP - Form 10QSB

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPIRE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	SEPTEMBER 30, 2005

ASSETS	
Current assets	

Cash and cash equivalents	\$ 5,372,446
Restricted cash	900,649

	6,273,095
Accounts receivable - trade, net	2,828,522
Inventories, net	3,618,182
Prepaid expenses and other current assets	584,918

Total current assets	13,304,717
Net property and equipment	4,891,799
Intangible and other assets (less accumulated amortization of	689,280
	\$ 674,577)
Available-for-sale investments at quoted market value	969,927
Restricted cash - long-term	199,821
Deposit - related party	191,250

Total assets	\$ 20,246,794
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	

Current portion of capital lease obligation	\$ 549,748
Current portion of capital lease obligation - related party	677,193
Accounts payable	825,943
Accrued liabilities	2,220,482
Accrued lease obligation - related party	87,480
Advances on contracts in progress	2,395,359

Total current liabilities	6,756,205

Long-term portion of capital lease obligation	--
Long-term portion of capital lease obligation - related party	1,720,944

Edgar Filing: SPIRE CORP - Form 10QSB

Deferred compensation	969,927
Unearned purchase discount	--

Total long-term liabilities	2,690,871

Total liabilities	9,447,076

Commitments and Contingencies:

Stockholders' equity

Common stock, \$0.01 par value; 20,000,000 shares authorized; 7,202,899 shares issued and outstanding	72,029
Additional paid-in capital	10,678,792
Retained earnings	39,698
Accumulated other comprehensive income	9,199

Total stockholders' equity	10,799,718

Total liabilities and stockholders' equity	\$ 20,246,794
	=====

See accompanying notes to condensed consolidated financial statements.

1

SPIRE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER	
	2005	2004	2005	2004
	-----	-----	-----	-----
Net sales and revenues				

Contract research, service and license revenues	\$ 3,172,940	\$ 2,290,456	\$ 8,714,611	\$ 7,621,5
Sales of goods	1,309,160	1,437,047	7,294,120	5,394,1
	-----	-----	-----	-----
Total net sales and revenues	4,482,100	3,727,503	16,008,731	13,015,6
	-----	-----	-----	-----
Costs and expenses				

Cost of contract research, service and licenses	2,359,714	1,791,787	6,635,179	5,911,1
Cost of goods sold	1,268,977	1,353,809	6,979,557	4,662,4
Selling, general and administrative expenses	2,400,309	1,994,725	6,286,914	6,083,6
Internal research and development expenses	411,749	308,531	1,069,818	1,039,1
	-----	-----	-----	-----
Total costs and expenses	6,440,749	5,448,852	20,971,468	17,696,4
	-----	-----	-----	-----
Gain on extinguishment of purchase				

Edgar Filing: SPIRE CORP - Form 10QSB

commitment	593,313	--	593,313	
Gain on sale of licenses	--	--	6,319,600	3,000,000
<hr/>				
Earnings (loss) from operations	(1,365,336)	(1,721,349)	1,950,176	(1,680,700)
<hr/>				
Other expense, net	(63,287)	(77,084)	(261,088)	(217,000)
<hr/>				
Earnings (loss) before income taxes	(1,428,623)	(1,798,433)	1,689,088	(1,897,700)
Income tax benefit (expense)	--	--	--	--
<hr/>				
Net earnings (loss)	\$ (1,428,623)	\$ (1,798,433)	\$ 1,689,088	\$ (1,897,700)
<hr/>				
Earnings (loss) per share of common	<hr/>			
stock - basic	\$ (0.20)	\$ (0.26)	\$ 0.24	\$ (0.26)
<hr/>				
Earnings (loss) per share of common	<hr/>			
stock - diluted	\$ (0.20)	\$ (0.26)	\$ 0.24	\$ (0.26)
<hr/>				
Weighted average number of common and common equivalent shares outstanding - basic	6,983,556	6,835,928	6,898,381	6,797,000
<hr/>				
Weighted average number of common and common equivalent shares outstanding - diluted	6,983,556	6,835,928	7,172,985	6,797,000
<hr/>				

See accompanying notes to condensed consolidated financial statements.

2

SPIRE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER	
	2005	2004
	<hr/>	<hr/>
Cash flows from operating activities:		
<hr/>		
Net income (loss)	\$ 1,689,088	\$ (1,897,700)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,914,932	1,887,210
Gain on sale of licenses	(6,319,600)	(3,000,000)
Gain on extinguishment of purchase commitment	(593,313)	--

Edgar Filing: SPIRE CORP - Form 10QSB

Deferred compensation	(15,357)	-
Unearned purchase discount	(64,754)	(108,88)
Changes in assets and liabilities:		
Restricted cash	(290,760)	43,19
Accounts receivable, net	1,399,356	811,76
Inventories	(893,744)	(875,27
Prepaid expenses and other current assets	(30,504)	44,30
Accounts payable, accrued liabilities and other liabilities	(824,800)	(642,50
Deposit - related party	(22,500)	(168,75
Advances on contracts in progress	(203,387)	(80,66
	-----	-----
Net cash used in operating activities	(4,255,343)	(3,987,39
	-----	-----
Cash flows from investing activities:		

Proceeds from sale of licenses	6,319,600	3,000,00
Additions to property and equipment	(288,419)	(334,75
Payment to extinguish purchase commitment	(275,000)	-
Restricted cash - long term	17,979	-
Increase in intangible and other assets	(20,861)	(493,43
	-----	-----
Net cash provided by investing activities	5,753,299	2,171,80
	-----	-----
Cash flows from financing activities:		

Principal payment on capital lease obligations	(298,617)	(278,49
Principal payment on capital lease obligations - related parties	(398,210)	(287,85
Proceeds from exercise of stock options	1,234,450	156,86
	-----	-----
Net cash provided by (used in) financing activities	537,623	(409,48
	-----	-----
Net increase (decrease) in cash and cash equivalents	2,035,579	(2,225,07
Cash and cash equivalents, beginning of period	3,336,867	5,999,09
	-----	-----
Cash and cash equivalents, end of period	\$ 5,372,446	\$ 3,774,01
	=====	=====
Cash paid (received) during the period for:		
Interest	\$ 37,899	\$ 61,55
	=====	=====
Interest - related party	\$ 148,821	\$ 162,13
	=====	=====
Income taxes	\$ 150,064	\$ (193,60
	=====	=====

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: SPIRE CORP - Form 10QSB

Spire Corporation (the "Company") develops, manufactures and markets highly-engineered products and services in four principal business areas: biomedical, solar equipment, solar systems and optoelectronics bringing to bear expertise in materials technologies across all four business areas.

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 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 the solar equipment 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 more than 150 factories in 43 countries.

In the solar systems area, the Company provides custom and building integrated photovoltaic modules, stand alone emergency power backup and electric power grid-connected distributed power generation systems employing photovoltaic technology developed by the Company.

In the optoelectronics area, the Company provides compound semiconductor foundry services on a merchant basis to customers involved in biomedical/biophotonic instruments, telecommunications and defense applications. Services include compound semiconductor wafer growth, other thin film processes and related device processing and fabrication services. The Company also provides materials testing services and performs services in support of sponsored research into practical applications of optoelectronic technologies.

2. INTERIM FINANCIAL STATEMENTS

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, 2005 and the results of its operations and cash flows for the three and nine months ended September 30, 2005 and 2004. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2005.

The accounting policies followed by the Company are set forth in Footnote 2 to the Company's consolidated financial statements in its annual report on Form 10-KSB for the year ended December 31, 2004.

Certain prior period accounts have been reclassified to conform with current presentation.

3. ACCOUNTS RECEIVABLE/ADVANCES ON CONTRACTS IN PROGRESS

Net accounts receivable, trade consists of the following:

	SEPTEMBER 30, 2005

Amounts billed	\$ 2,315,361
Retainage	34,869
Accrued revenue	643,160

Edgar Filing: SPIRE CORP - Form 10QSB

	2,993,390
Less: Allowance for sales returns and doubtful accounts	(164,868)

Net accounts receivable	\$ 2,828,522
	=====
Advances on contracts in progress	\$ 2,395,359
	=====

4

SPIRE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)
SEPTEMBER 30, 2005

Accrued revenue represents revenue 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.

Retainage represents revenues on certain United States government 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. Included in retainage are amounts expected to be collected after one year, which totaled \$35,000 at September 30, 2005. All other accounts receivable are expected to be collected within one year.

All contracts with United States government agencies have been audited by the government through December 2002. The Company has not incurred significant losses or adjustments as a result of government audits.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to pay amounts due. Bad debts are written off against the allowance when identified. 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 but revenue has not been recognized.

4. INVENTORIES

Inventories consist of the following:	SEPTEMBER 30, 2005

Raw materials	\$ 1,554,033
Work in process	1,821,273
Finished goods	242,876

	\$ 3,618,182
	=====

5. EARNINGS (LOSS) PER SHARE

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

Edgar Filing: SPIRE CORP - Form 10QSB

the periods ended:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Weighted average number of common and common equivalent shares outstanding - basic	6,983,556	6,835,928	6,898,381	6,797,073
Add: Net additional common shares upon assumed exercise of common stock options	--	--	274,604	--
Adjusted weighted average number of common and common equivalents shares outstanding - diluted	6,983,556	6,835,928	7,172,985	6,797,073

5

SPIRE CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
 (UNAUDITED)
 SEPTEMBER 30, 2005

For the three and nine months ended September 30, 2005, 6,318 and 25,613 shares, respectively, and for the three and nine months ended September 30, 2004, 155,793 and 227,026 shares, respectively, of common stock issuable relative to stock options had exercise prices per share that exceeded the average market price of the Company's common stock and were excluded from the calculation of diluted shares since their inclusion would be anti-dilutive. For the three months ended September 30, 2005, 354,694 shares of common stock issuable relative to stock options were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive due to the Company's net loss position in the period. For the three and nine months ended September 30, 2004, 120,777 and 96,433 shares, respectively, of common stock issuable relative to stock options were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive due to the Company's net loss position in the period.

6. 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 EQUIPMENT	SOLAR SYSTEMS	BIOMEDICAL	OP
For the three months ended September 30, 2005				
Net sales and revenues	\$ 907,341	\$ 115,735	\$ 2,683,952	\$
Earnings (loss) from operations	(483,718)	119,541	(385,830)	
For the three months ended September 30, 2004				

Edgar Filing: SPIRE CORP - Form 10QSB

Net sales and revenues	\$ 317,808	\$ 748,418	\$ 2,221,709	\$
Earnings (loss) from operations	(511,096)	(166,696)	(524,861)	
For the nine months ended September 30, 2005				
Net sales and revenues	\$ 4,286,656	\$ 1,691,726	\$ 7,962,091	\$
Earnings (loss) from operations	1,769,192	(352,153)	2,369,406	
For the nine months ended September 30, 2004				
Net sales and revenues	\$ 2,292,499	\$ 2,536,289	\$ 6,402,408	\$
Earnings (loss) from operations	(1,180,299)	(228,755)	1,243,145	

Earnings from operations for the solar equipment segment includes a gain on the sale of a license of \$3,319,600 for the nine months ended September 30, 2005. Earnings from operations for the biomedical segment includes a gain on the sale of a license of \$3,000,000 for the nine months ended September 30, 2005 and 2004, respectively. These gains are more fully described in Footnote 12.

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

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
	2005	%	2004	%	2005	%	2004	
Foreign	\$ 1,088,000	24%	\$ 359,000	10%	\$ 4,365,000	27%	\$ 1,510,000	
United States	3,394,000	76%	3,369,000	90%	11,644,000	73%	11,506,000	
	\$4,482,000	100%	\$3,728,000	100%	\$16,009,000	100%	\$13,016,000	

Revenues from contracts with United States government agencies for the three months ended September 30, 2005 and 2004 were \$876,000 and \$588,000, or 20% and 16% of consolidated net sales and revenues, respectively.

6

SPIRE CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
 (UNAUDITED)
 SEPTEMBER 30, 2005

Revenues from contracts with United States government agencies for the nine months ended September 30, 2005 and 2004 were \$2,557,000 and \$2,053,000, or 16% and 16% of consolidated net sales and revenues, respectively.

Two customers accounted for approximately 32% and 34% of the Company's gross sales during the three months ended September 30, 2005 and 2004, respectively. Two customers accounted for approximately 26% and one customer accounted for approximately 15% of the Company's gross sales during the nine months ended September 30, 2005 and 2004, respectively. One customer represented approximately 10% of net trade account receivables at September 30, 2005. No customer represented more than 10% of trade account receivables at September 30, 2004.

Edgar Filing: SPIRE CORP - Form 10QSB

7. INTANGIBLE AND OTHER ASSETS

Patents amounted to \$537,473, net of accumulated amortization of \$593,059, at September 30, 2005. Licenses amounted to \$143,482, net of accumulated amortization of \$81,518 at September 30, 2005. 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. 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. For disclosure purposes, the table below includes future amortization expense for licenses and patents owned by the Company as well as \$454,876 of estimated amortization expense related to patents that remain pending. Estimated amortization expense for the periods ending December 31, is as follows:

YEAR	AMORTIZATION EXPENSE
-----	-----
2005	\$ 111,260
2006	171,465
2007	164,314
2008	137,123
2009 and beyond	96,793

	\$ 680,955
	=====

Also included in other assets are \$8,325 of refundable deposits made by the Company.

8. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale securities consist of the following:

	SEPTEMBER 30, 2005

Equity investments	\$ 745,110
Government bonds	155,222
Cash and money market funds	69,595

	\$ 969,927
	=====

These investments have been classified as available-for-sale and are reported at fair value, with unrealized gains and losses included in accumulated other comprehensive loss, net of related tax effect. As of September 30, 2005, the net unrealized gain on these marketable securities was \$17,000.

9. NOTES PAYABLE AND CREDIT ARRANGEMENTS

The Company has a \$2,000,000 Loan Agreement (the "Agreement") with Citizens Bank of Massachusetts (the "Bank"). The Agreement provides Standby Letter of Credit guarantees for certain foreign and domestic customers, which are 100% secured with cash. At September 30, 2005, the Company had approximately \$1,100,000 of restricted cash associated with outstanding Letters of Credit. Standby Letters of Credit under this Agreement bear interest at 1%. The

Edgar Filing: SPIRE CORP - Form 10QSB

SPIRE CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
 (UNAUDITED)
 SEPTEMBER 30, 2005

Agreement also provides the Company with the ability to convert to a \$2,000,000 revolving line of credit, based upon eligible accounts receivable and certain conversion covenants. Loans under this revolving line of credit bear interest at the Bank's prime rate, as determined, plus 1/2% (7.25% at September 30, 2005.) At September 30, 2005, the Company had not exercised its conversion option and no amounts were outstanding under the revolving line of credit. A commitment fee of .25% is charged on the unused portion of the borrowing base. On June 29, 2005, the Company entered into a Second Amendment to extend the expiration date of the Agreement to June 27, 2006. The Agreement contains covenants including certain financial reporting requirements. At September 30, 2005, the Company was in compliance with its financial reporting requirements and cash balance covenants.

10. STOCK-BASED COMPENSATION

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") which is an amendment of SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and continues to apply Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock plans. If the Company had elected to recognize compensation cost for all of the plans based upon the fair value at the grant dates for awards under those plans, consistent with the method prescribed by SFAS 123, net earnings (loss) and earnings (loss) per share would have been changed to the pro forma amounts indicated below.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Net earnings (loss), as reported	\$ (1,428,623)	\$ (1,798,433)	\$ 1,689,088	\$ (1,890,000)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(81,416)	(86,411)	(240,073)	(240,000)
Pro forma net earnings (loss)	\$ (1,510,039)	\$ (1,884,844)	\$ 1,449,015	\$ (2,130,000)
Earnings (loss) per share:				
Basic - as reported	\$ (0.20)	\$ (0.26)	\$ 0.24	\$ (0.28)
Basic - pro forma	\$ (0.22)	\$ (0.28)	\$ 0.21	\$ (0.28)
Diluted - as reported	\$ (0.20)	\$ (0.26)	\$ 0.24	\$ (0.28)
Diluted - pro forma	\$ (0.22)	\$ (0.28)	\$ 0.20	\$ (0.28)

The per-share weighted-average fair value of stock options granted during the quarters ended September 30, 2005 and 2004 was \$3.25 and \$3.94,

Edgar Filing: SPIRE CORP - Form 10QSB

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
2005	--	4.34%	5 years	77.4%
2004	--	4.13%	5 years	77.1%

For the quarter ended September 30, 2005, 6,250 stock options were granted.

8

SPIRE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)
SEPTEMBER 30, 2005

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, SHARE-BASED PAYMENT. SFAS No. 123R requires companies to expense the value of employee stock option and similar awards. SFAS No. 123R is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. As of the effective date, the Company will be required to expense all awards granted, modified, cancelled or repurchased as well as the portion of prior awards for which the requisite service has not been rendered, based on the grant-date fair value of those awards as calculated for pro forma disclosures under SFAS No. 123. The adoption of SFAS No. 123R's fair value method will have an impact on the Company's results of operations. The Company is currently in the process of determining the effects on its financial position, results of operations and cash flows that will result from the adoption of SFAS No. 123R.

11. COMPREHENSIVE INCOME (LOSS)

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Net earnings (loss)	\$ (1,428,623)	\$ (1,798,433)	\$ 1,689,088	\$ (1,897,778)
Other comprehensive loss:				
Net unrealized gain (loss) on available for sale marketable securities, net of tax	8,050	--	(15,357)	--
Total comprehensive income (loss)	\$ (1,420,573)	\$ (1,798,433)	\$ 1,673,731	\$ (1,897,778)

12. SALE OF LICENSES

In October 2002, the Company sold an exclusive patent license for a hemodialysis split-tip catheter to Bard Access Systems, Inc. ("Bard"), a wholly

Edgar Filing: SPIRE CORP - Form 10QSB

owned subsidiary of C. R. Bard, Inc., in exchange for \$5,000,000 upon the execution of the agreement, with another \$5,000,000 due upon the earlier to occur of: (a) the date of the first commercial sale of a licensed product by Bard; or (b) no more than 18 months after signing. The agreement further provided for two additional contingent cash payments of \$3,000,000 each upon the completion of certain milestones by Bard in 2004 and 2005. Bard had the right to cancel the agreement at any time subsequent to the second payment. During the year ended December 31, 2002, the Company recorded the initial payment under the agreement, resulting in a gain of \$4,464,929, net of direct costs. Due to the potential length of time between the first and second payments and the cancellation provisions within the agreement, the Company did not record the potential remaining payments at that time. During June 2003, in accordance with the agreement, the Company received notification from Bard of the first commercial sale, collected the \$5,000,000 payment due and recorded a gain of \$4,989,150, net of direct costs. In June 2004, the Company received the first contingent milestone payment and recorded a gain of \$3,000,000. In June 2005, the Company received the second and final contingent milestone payment and recorded a gain of \$3,000,000. There were no direct costs associated with these payments. These gains have been recorded in the accompanying unaudited condensed consolidated statements of operations for the nine months ended September 30, 2005 and 2004, respectively.

In conjunction with the sale, the Company received a sublicense, which permits the Company to continue to manufacture and market hemodialysis catheters for the treatment of chronic kidney disease. In addition, the Company granted Bard a right of first refusal should the Company seek to sell the catheter business.

On May 26, 2005, the Company entered into a global consortium agreement (the "Consortium Agreement") with Nisshinbo Industries, Inc. ("Nisshinbo") for the development, manufacturing, and sales of solar photovoltaic module manufacturing equipment. Under the terms of the Consortium Agreement, Nisshinbo purchased a license to manufacture and sell the Company's module manufacturing equipment for an upfront fee plus additional royalties based on ongoing equipment sales over a ten-year period. In addition, the Company and Nisshinbo agreed, but are not obligated, to pursue joint research and development, product improvement activities and sales and marketing efforts. On June 27, 2005, the Company received JPY 400,000,000 from the sale of this permanent license. The Company has determined the fair value

9

SPIRE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)
SEPTEMBER 30, 2005

of the license and royalty based on an appraisal. As a result, a \$3,319,600 gain has been recognized as a gain on sale of license in the accompanying unaudited condensed consolidated statements of operations for the nine months ended September 30, 2005. In addition, approximately \$34,000 of royalty income was recognized during the nine months ended September 30, 2005.

As of June 30, 2005, JPY 400,000,000 was held in a Japanese yen account. The Company converted JPY 350,000,000 into \$3,139,295 on August 3, 2005 resulting in an approximate \$17,000 currency translation loss. The Company continues to maintain a 50,000,000 Japanese yen account. As of September 30, 2005, approximately \$422,000 has been reflected in cash and cash equivalents in the accompanying unaudited condensed consolidated balance sheet utilizing the closing yen/dollar exchange rate as of September 30, 2005. A \$9,000 currency translation loss was recognized related to the conversion of this Yen balance

Edgar Filing: SPIRE CORP - Form 10QSB

into U.S. dollars and is reflected in Other expense, net on the accompanying unaudited condensed consolidated statements of operations. Total currency translation loss for the quarter was approximately \$26,000. Total currency translation loss for the nine months ended September 30, 2005 was approximately \$89,000.

The Company believes that the sale of these licenses does not reflect the day-to-day operations of the Company. Accordingly, the net proceeds received have been classified under investing activities in the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2005 and September 30, 2004, respectively.

13. NASDAQ LISTING

On April 6, 2005, the Company received a letter from the Nasdaq Listing Qualifications Panel (the "Nasdaq Panel") indicating that the Company is no longer in compliance with the \$10,000,000 minimum stockholders' equity requirement for continued listing set forth in Nasdaq Marketplace Rule 4450(a)(3) (the "Rule"). The Nasdaq Panel requested that the Company provide, by April 13, 2005, the Company's plan to achieve and sustain compliance with this requirement. On April 13, 2005, the Company presented such plan to the Nasdaq Panel.

On April 25, 2005, the Company received a letter from the Nasdaq Panel informing the Company that the Nasdaq Panel was remanding this case to the Nasdaq Staff. The Nasdaq Panel indicated that it believes that the Nasdaq Staff is the appropriate body to review and evaluate the Company's plan of compliance, following its normal procedures and processes.

On April 27, 2005, the Nasdaq Staff issued a Determination letter reiterating the Nasdaq Panel's April 6, 2005 finding that the Company is no longer in compliance with the Rule, and that the Nasdaq Staff will review the Company's eligibility for continued National Market listing. The Nasdaq Staff requested that the Company provide a plan to achieve and sustain compliance with Nasdaq listing standards. On May 12, 2005, the Company submitted such a plan to the Nasdaq Staff.

On May 24, 2005, the Nasdaq Staff requested additional information from the Company regarding certain projected nonrecurring license sales that were expected to occur during the second quarter of 2005. On June 3, 2005, the Company submitted a revised plan to achieve compliance with the Rule incorporating the subject license sales. On June 6, 2005, the Company received a letter from the Nasdaq Staff stating that the Company provided a definitive plan evidencing its ability to achieve and sustain compliance with the Rule, and as such, granted the Company an extension of time to achieve compliance. The terms of the extension required the Company to file a Form 8-K providing an update on the Company's listing status. The Company made such filing on August 5, 2005. The license sales completed during the three months ended June 30, 2005 are described in Footnote 12 above.

On August 17, 2005, the Company received a letter from the Nasdaq Staff indicating that the Nasdaq Staff had determined that the Company complies with the Rule and that this matter was closed.

14. COMMITMENTS AND CONTINGENCIES

Agreement with BP Solarex

On October 8, 1999, the Company entered into an agreement with BP Solarex

Edgar Filing: SPIRE CORP - Form 10QSB

("BPS") in which BPS agreed to purchase certain production equipment built by the Company, for use in the Company's Chicago factory ("Spire Solar

10

SPIRE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)
SEPTEMBER 30, 2005

Chicago") and in return the Company agreed to purchase solar cells of a minimum of two megawatts per year over a five-year term for a fixed fee from BPS (the "Purchase Commitment"). BPS had the right to reclaim the equipment if the Company failed to meet its obligations in the Purchase Commitment. The proceeds from the sale of the production equipment purchased by BPS were classified as an unearned purchase discount in the Company's condensed consolidated balance sheets in prior periods. The Company has amortized this discount as a reduction to cost of sales as it purchases materials from BPS. During the quarter ended September 30, 2003, the Company and BPS retroactively amended the agreement to include all purchases of solar modules, solar systems, inverter systems and other system equipment purchased by the Company from BPS in the purchase commitment calculation. Amortization of the purchase discount amounted to approximately \$65,000 and \$109,000 for the nine months ended September 30, 2005 and September 30, 2004, respectively. The production equipment had been classified as a component of fixed assets. Depreciation amounted to approximately \$211,000 for the nine months ended September 30, 2005.

In addition, the agreement contained a put option for BPS to have the Company create a separate legal entity for Spire Solar Chicago and for BPS to convert the value of the equipment and additional costs, as defined, into equity of the new legal entity. The percentage ownership in the joint venture would be determined based on the cumulative investments by BPS and the Company. The amended agreement also allowed the Company to terminate the agreement on 30 days notice in consideration for a termination payment based on the aggregate amount of Spire purchases of BPS products and the fair market value of the production equipment purchased by BPS at the time of the termination election.

On August 16, 2005, the Company entered into a Settlement and Contract Termination Agreement (the "Termination Agreement") with BPS effective September 30, 2005. Under the terms of the Termination Agreement, the Company and BPS agreed to terminate the amended agreement including the Purchase Commitment. In exchange, the Company paid BPS \$275,000 and retained ownership of the production equipment. The unamortized unearned purchase discount as of the effective date was approximately \$1,205,000 and the net book value of the production equipment was approximately \$287,000. As result of this action, Spire reevaluated the recoverability of the long-lived assets associated with this segment as part of its third quarter review. Based on current updated cash flow projections for the Solar System segment, the Company determined that the production equipment was impaired and should be written-off. As a result, an impairment loss of \$287,000 was recorded.

The Company has recorded an approximate \$593,000 gain from these actions, which is reflected as a Gain on extinguishment of purchase commitment in the accompanying unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2005. The components of this gain are outlined below:

Unearned purchase discount	\$1,205,000
Net book value of production equipment	(287,000)
Payment to extinguish purchase commitment	(275,000)
Accrued relocation costs	(50,000)

Edgar Filing: SPIRE CORP - Form 10QSB

Gain on extinguishment of purchase commitment	\$ 593,000
---	------------

\$ 593,000
=====

Legal Matters

From time to time, the Company is subject to legal proceedings and claims arising from the conduct of its business operations. The Company does not expect the outcome of these proceedings, either individually or in the aggregate, to have a material adverse effect on its financial position, results of operations, or cash flows.

The Company has been named as a defendant in 58 cases filed from August 2001 to July 2003 in state courts in Texas by persons claiming damages from the use of allegedly defective mechanical heart valves coated by a process licensed by the Company to St. Jude Medical, Inc., the valve manufacturer, which has also been named as a defendant in the cases. In June 2003, a judge in a state court in Harris County, Texas agreed to grant the Company's motion for summary judgment based upon the principle of federal preemption with regard to 57 of those cases and to order that the cases against the Company be dismissed with prejudice. An order to this effect was signed in late July 2003. The remaining case is still

11

SPIRE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)
SEPTEMBER 30, 2005

pending, and due to aspects of its fact situation is not subject to the principle of federal preemption. From August 2003 to date, a total of seven new cases were filed against the Company in courts in Harris County. Activity with regard to these cases is likely to occur only after the disposition of the original 57 cases is finally settled. The plaintiffs whose cases were dismissed have filed appeals with the Texas appellate court. In June 2005, the Texas Court of Appeals upheld the summary judgment granted by the lower court. Attorneys for the Company anticipate that the plaintiffs may file a motion for rehearing, and an appeal with the Texas Supreme Court is also possible. Attorneys who represent the Company with respect to these cases in Texas do not believe at this time that the actions of a federal district court judge in Minnesota in denying St. Jude Medical's request for summary judgment will materially affect the Company's position in the Texas complaints.

During the second quarter of 2005 a suit was filed by Arrow International, Inc. against Spire Biomedical, Inc., a wholly owned subsidiary of the Company, alleging patent infringement by the Company. The complaint claims one of the Company's catheter products induces and contributes to infringement when medical professionals insert it. The Company has responded to the complaint denying all allegations and has filed certain counterclaims. The Company intends to vigorously defend this matter. The parties are engaged in the early stages of discovery. In the opinion of management, an unfavorable outcome of this matter could have a material adverse effect on the Company's financial position as well as its results of operations and cash flows.

15. SUBSEQUENT EVENT

Related Party Operating Lease

Edgar Filing: SPIRE CORP - Form 10QSB

The Company subleases 77,000 square-feet in a building leased by Mykrolis Corporation, who in turn leases the building from SPI-Trust, a Trust of which Roger Little, Chairman of the Board, Chief Executive Officer, President and Treasurer of the Company, is the sole trustee and principal beneficiary. The Company believes that the terms of the third-party sublease are commercially reasonable. 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 Agreement provides for minimum rental payments plus annual increases linked to the consumer price index. Rent expense under this sublease for the nine months ended September 30, 2005 and 2004 was \$887,000 and \$809,000, respectively. In connection with this sublease, the Company is invoiced and pays certain SPI-Trust related expenses, including building maintenance and insurance. The Company invoices SPI-Trust on a monthly basis and SPI-Trust reimburses the Company for all such costs. No amounts were due from SPI-Trust as of September 30, 2005.

On November 11, 2005, the Company entered into an Extension of Lease Agreement (the "Lease Extension") directly with SPI-Trust the term of which commences on December 1, 2005. The Lease Extension is for a period of two years and maintains the rental payments at the now current rental rate over the two (2) year period. All other terms of the Lease Extension are substantially the same as were in effect under the current lease and sublease agreements. The Company will assume certain responsibilities of Mykrolis, the tenant under the lease expiring on November 30, 2005, 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. The Company 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 the Company has sole withdrawal authority. SPI-Trust is required to maintain three (3) months of its anticipated operating costs within this escrow account. The Company believes that the terms of the Lease Extension are commercially reasonable.

12

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

THIS QUARTERLY REPORT ON FORM 10-QSB, INCLUDING THIS ITEM 2, CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH STATEMENTS INVOLVE RISKS AND UNCERTAINTIES. READERS CAN IDENTIFY THESE STATEMENTS BY FORWARD-LOOKING WORDS SUCH AS "MAY," "COULD," "SHOULD," "WOULD," "INTEND," "WILL," "EXPECT," "ANTICIPATE," "BELIEVE," "ESTIMATE," "CONTINUE" OR SIMILAR WORDS. THE COMPANY'S ACTUAL RESULTS AND THE TIMING OF CERTAIN EVENTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS AND TIMING DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED OR REFERRED TO IN THIS REPORT AND IN ITEM 6 OF THE ANNUAL REPORT ON FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2004. THE FOLLOWING DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN LIGHT OF THOSE FACTORS AND IN CONJUNCTION WITH THE COMPANY'S ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO.

Overview

The Company develops, manufactures and markets highly-engineered products and services in four principal business areas: biomedical, solar equipment,

Edgar Filing: SPIRE CORP - Form 10QSB

solar systems and optoelectronics bringing to bear expertise in materials technologies across all four business areas.

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 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 the solar equipment 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 more than 150 factories in 43 countries.

In the solar systems area, the Company provides custom and building integrated photovoltaic modules, stand alone emergency power backup and electric power grid-connected distributed power generation systems employing photovoltaic technology developed by the Company.

In the optoelectronics area, the Company provides compound semiconductor foundry services on a merchant basis to customers involved in biomedical/biophotonic instruments, telecommunications and defense applications. Services include compound semiconductor wafer growth, other thin film processes and related device processing and fabrication services. The Company also provides materials testing services and performs services in support of sponsored research into practical applications of optoelectronic technologies.

Operating results will depend upon product mix, as well as the timing of shipments of higher priced products from the Company's solar equipment line and delivery of solar systems. Export sales were 27% of net sales and revenues for the nine months ended September 30, 2005 and are expected to continue to constitute a significant portion of the Company's net sales and revenues.

13

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 MON SEPTEMBER
	2005	2004	2005
	-----	-----	-----
Net sales and revenues	100%	100%	100%
Cost of sales and revenues	(81)	(84)	(85)
	-----	-----	-----
Gross profit	19	16	15
Selling, general and administrative expenses	(53)	(54)	(39)
Internal research and development	(9)	(8)	(7)
Gain on extinguishment of purchase commitment	13	--	4
Gain on sale of licenses	--	--	39
	-----	-----	-----
Earnings (loss) from operations	(30)	(46)	12

Edgar Filing: SPIRE CORP - Form 10QSB

Other expense, net	(2)	(2)	(2)
	-----	-----	-----
Earnings (loss) before income taxes	(32)	(48)	10
Income tax expense	--	--	--
	-----	-----	-----
Net earnings (loss)	(32%)	(48%)	10%
	=====	=====	=====

OVERALL

The Company's total net sales and revenues for the nine months ended September 30, 2005 ("2005") increased 23% compared to the nine months ended September 30, 2004 ("2004"). The increase was attributable to increases within all business units.

SOLAR BUSINESS UNIT

Sales in the Company's solar business unit increased 24% during 2005 as compared to 2004 primarily due to a 120% increase in solar equipment sales resulting from the volume and timing of the delivery of equipment partially offset by a 33% decrease in solar systems sales.

BIOMEDICAL BUSINESS UNIT

Revenues of the Company's biomedical business unit increased 24% during 2005 as compared to 2004 as a result of a 68% increase in revenue from Spire's line of hemodialysis catheters and a 39% increase in revenue from Spire's government-funded research and development activities.

OPTOELECTRONICS BUSINESS UNIT

Sales in the Company's optoelectronics business unit increased 16% during 2005.

Three and Nine Months Ended September 30, 2005 Compared to Three and Nine Months Ended September 30, 2004

NET SALES AND REVENUES

The following table categorizes the Company's net sales and revenues for the periods presented:

	THREE MONTHS ENDED SEPTEMBER 30,		INCREASE/ (DECREASE)
	2005	2004	
	-----	-----	-----
Contract research, service and license revenues	\$ 3,173,000	\$ 2,291,000	\$ 882,000
Sales of goods	1,309,000	1,437,000	(128,000)
	-----	-----	-----
Net sales and revenues	\$ 4,482,000	\$ 3,728,000	\$ 754,000
	=====	=====	=====

The 39% increase in contract research, service and license revenues for the three months ended September 30, 2005 as compared to the three months ended

Edgar Filing: SPIRE CORP - Form 10QSB

September 30, 2004 is primarily attributable to increases in research and development activities and Bandwidth foundry services. Revenues from research and development activities increased 61% in 2005 as compared to 2004 primarily due to an increase in the dollar value and number of contracts associated with funded research and development activities and in increase in revenue from activities associated with our cost sharing agreement with the Department of Energy National Renewable Energy Laboratory ("NREL"). Revenues from Bandwidth foundry services increased 76% in 2005 compared to 2004 due to the timing and delivery of customer orders.

The 9% decrease in sales of goods for the three months ended September 30, 2005 as compared to the three months ended September 30, 2004 was primarily due to a decrease in solar systems revenues partially offset by increases in solar equipment and biomedical product sales. Solar systems revenues decreased 85% as compared to 2004 primarily due to the volume and timing of customer orders. The 2004 results included the completion of a large solar system installation in Chicago versus none in 2005. Solar equipment revenues increased 257% as compared to 2004 primarily due to the volume and timing of equipment sales. Biomedical product sales increased 31% in 2005 as compared to 2004 as a result of increased demand for Spire's line of hemodialysis catheters.

The following table categorizes the Company's net sales and revenues for the periods presented:

	NINE MONTHS ENDED SEPTEMBER 30,		INCREASE/ (DECREASE)
	2005	2004	\$
Contract research, service and license revenues	\$ 8,715,000	\$ 7,622,000	\$ 1,093,000
Sales of goods	7,294,000	5,394,000	1,900,000
Net sales and revenues	\$ 16,009,000	\$ 13,016,000	\$ 2,993,000

The 14% increase in contract research, service and license revenues for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004 is primarily attributable to increases in research and development activities and Bandwidth foundry services. Revenues from the Company's research and development activities increased 31% in 2005 as compared to 2004 primarily due to an increase in the number and dollar value of contracts associated with funded research and development. Revenues from Bandwidth foundry services increased 16% in 2005 compared to 2004 due to the timing and delivery of customer orders.

The 35% increase in sales of goods for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004 was primarily due to increases in solar equipment revenues and biomedical product sales partially offset by a decrease in solar system revenue. Solar equipment revenues increased 120% in 2005 as compared to 2004 due to the volume and timing of customer orders. The 2005 results include the sale of two photovoltaic module production lines in 2005 versus none in 2004. Biomedical product sales increased 68% in 2005 as compared to 2004 as a result of increased demand for the Company's line of hemodialysis catheters. Solar systems revenues decreased 33% in 2005 as compared to 2004 primarily due to the volume and timing of customer orders.

COST OF SALES AND REVENUES

The following table categorizes the Company's cost of sales and revenues

Edgar Filing: SPIRE CORP - Form 10QSB

for the periods presented, stated in dollars and as a percentage of related sales and revenues:

	THREE MONTHS ENDED SEPTEMBER 30,			
	2005	%	2004	%
Cost of contract research, services and licenses	\$ 2,360,000	74%	\$ 1,792,000	78%
Cost of goods sold	1,269,000	97%	1,354,000	94%
Net cost of sales and revenues	\$ 3,629,000	81%	\$ 3,146,000	84%

The \$568,000 (32%) increase in cost of contract research, services and licenses in 2005 is primarily due to a 64% increase in Bandwidth foundry services associated with its 76% increase in revenues and 52% increase in the cost of the Company's research and development activities associated with its 61% increase in revenues. Cost of contract research, services and licenses as a percentage of revenue decreased 4% primarily due to margin improvements within the Bandwidth segment and, to a lesser extent, margin improvement within the biomedical processing services product line.

15

The \$85,000 (6%) decrease in cost of goods sold is primarily due to a 52% decrease in Spire's solar systems direct costs resulting from its 85% decrease in revenues discussed above substantially offset by increases in solar equipment and biomedical products unit's direct costs resulting from their 257% and 31% increases in revenues, respectively. The increase in cost of goods sold as a percentage of revenue is due to a lower than expected contribution margin in the solar system segment substantially offset by improved contribution margins in the solar equipment and biomedical products product lines.

COST OF SALES AND REVENUES

	NINE MONTHS ENDED SEPTEMBER 30,			
	2005	%	2004	%
Cost of contract research, services and licenses	\$ 6,635,000	76%	\$ 5,911,000	78%
Cost of goods sold	6,980,000	96%	4,662,000	86%
Net cost of sales and revenues	\$ 13,615,000	85%	\$ 10,573,000	81%

The \$724,000 (12%) increase in cost of contract research and service revenues in 2005 is primarily due to a 41% increase in the cost of the Company's research and development activities associated with its 31% increase in revenues and a 22% increase in Bandwidth costs associated with its 16% increase in revenues. Cost of contract research, services and licenses as a percentage of revenue decreased 2% primarily due to margin improvement within the biomedical processing services product line partially offset by lower margins within the biomedical research and development product line and Bandwidth segment.

The \$2,318,000 (50%) increase in cost of goods sold is primarily due to an increase in the Company's solar equipment direct costs resulting from its

Edgar Filing: SPIRE CORP - Form 10QSB

120% increase in revenues discussed above and, to a lesser extent, an increase in biomedical products unit's direct costs resulting from its 68% increase in revenues discussed above. The increase in cost of goods sold as a percentage of revenue is primarily the result of lower than expected contribution margins in the solar systems and equipment segments. The effect of these lower than expected contribution margins was partially offset by an improved contribution margin in the Company's biomedical products group.

OPERATING EXPENSES

The following table categorizes the Company's operating expenses for the periods presented, stated in dollars and as a percentage of related sales and revenues:

	THREE MONTHS ENDED SEPTEMBER 30,			
	2005	%	2004	%
Selling, general and administrative	\$ 2,400,000	54%	\$ 1,995,000	54%
Internal research and development	412,000	9%	309,000	8%
Operating expenses	\$ 2,812,000	63%	\$ 2,304,000	62%

INTERNAL RESEARCH AND DEVELOPMENT

The increase in research and development costs was primarily a result of the Company's increased effort in the "next generation" solar energy module manufacturing equipment under a cost-sharing contract with NREL. The increase in research and development expenses as a percentage of sales and revenues was primarily due to the increased costs associated with the NREL program partially offset by the increase in net sales and revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the three months ended September 30, 2005 increased by \$405,000. The increase was primarily due to increased sales, marketing and compliance costs, which were partially offset by a reduction in insurance expense for the quarter. Selling, general and administrative expenses remained relatively flat as a percentage of sales and revenues as the 20% increase in costs discussed above was substantially offset by the 20% increase in net sales and revenues.

16

The following table categorizes the Company's operating expenses for the periods presented, stated in dollars and as a percentage of related sales and revenues:

	NINE MONTHS ENDED SEPTEMBER 30,			
	2005	%	2004	%
Selling, general and administrative	\$ 6,287,000	39%	\$ 6,084,000	47%
Internal research and development	1,070,000	7%	1,039,000	8%
Operating expenses	\$ 7,357,000	46%	\$ 7,123,000	55%

Edgar Filing: SPIRE CORP - Form 10QSB

INTERNAL RESEARCH AND DEVELOPMENT

The increase in research and development costs was primarily due to increased development efforts within the biomedical products group. The decrease in research and development expenses as a percentage of sales and revenues was primarily due to the increase in sales and revenue.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The increase was due primarily to increased cost associated with sales and marketing efforts of the Company's Bandwidth, biomedical products and solar equipment product lines due to the 23% increase in net sales and revenues. These increases were partially offset by decreased cost associated with insurance costs. The decrease in selling, general and administrative expenses as a percentage of sales and revenues was primarily due to the increase in sales and revenues.

OTHER EXPENSE, NET

The Company earned \$25,000 and \$13,000 of interest income for the three months ended September 30, 2005 and 2004, respectively. The Company incurred interest expense of \$62,000 and \$90,000 for the three months ended September 30, 2005 and 2004, respectively. The interest expense is primarily associated with interest incurred on capital leases associated with the semiconductor foundry.

The Company earned \$43,000 and \$48,000 of interest income for the nine months ended September 30, 2005 and 2004, respectively. The Company incurred interest expense of \$215,000 and \$265,000 for the nine months ended September 30, 2005 and 2004, respectively. The interest expense is primarily associated with interest incurred on capital leases associated with the semiconductor foundry.

During the third quarter of 2005, the Company recorded \$26,000 of currency transaction loss related to the conversion of a Japanese Yen account into U.S. dollars. Total currency transaction loss for the nine months ended September 30, 2005 was \$89,000.

INCOME TAXES

The Company did not record an income tax provision for the three and nine months ended September 30, 2005 and 2004 as earnings (loss) before income taxes is expected to be substantially offset by net operating loss carryforwards of approximately \$4.0 million. A valuation allowance was provided against the deferred tax assets generated in 2004.

NET EARNINGS (LOSS)

The Company reported a net loss for the three months ended September 30, 2005 of \$1,429,000, compared to a net loss of \$1,798,000 in 2004. The decrease in the net loss in 2005 versus 2004 is primarily due to the gain on extinguishment of purchase commitment.

The Company reported net earnings for the nine months ended September 30, 2005 of \$1,689,000, compared to a net loss of \$1,898,000 in 2004. The increase in net earnings in 2005 versus 2004 is primarily due to the gain on the sale of a license to the Company's solar technology.

Edgar Filing: SPIRE CORP - Form 10QSB

	SEPTEMBER 30, 2005	DECEMBER 31, 2004	INCREASE/ (DECREASE)
	-----	-----	-----
Cash and cash equivalents	\$ 5,372,000	\$ 3,337,000	\$ 2,035,000
Working capital	6,549,000	3,996,000	2,553,000

Cash and cash equivalents increased primarily due to the proceeds from sale of licenses and proceeds from the exercise of stock options partially offset by cash used in operations and, to a lesser extent, investments in property and equipment and payments on capital leases.

The Company has historically funded its operating cash requirements using operating cash flow and proceeds from the sale and licensing of technology. The Company's liquidity position benefited as a result of a cash receipt of \$3,000,000 in both 2005 and 2004, arising from the sale of a hemodialysis patent license to Bard Access Systems. The Company received its final \$3,000,000 payment under this arrangement in June 2005. In addition, the Company received JPY 400,000,000 (approximately \$3.7 million) in June 2005 from the sale of a license to the Company's solar technology.

The Company has a \$2,000,000 Loan Agreement (the "Agreement") with Citizens Bank of Massachusetts (the "Bank"). The Agreement provides Standby Letter of Credit guarantees for certain foreign and domestic customers, which are 100% secured with cash. At September 30, 2005, the Company had \$1,100,000 of restricted cash associated with outstanding Letters of Credit. Standby Letters of Credit under this Agreement bear interest at 1%. The Agreement also provides the Company with the ability to convert to a \$2,000,000 revolving line of credit, based upon eligible accounts receivable and certain conversion covenants. Loans under this revolving line of credit bear interest at the Bank's prime rate as determined plus 1/2% (7.25% at September 30, 2005.) At September 30, 2005, the Company had not exercised its conversion option and no amounts were outstanding under the revolving line of credit. A commitment fee of .25% is charged on the unused portion of the borrowing base. On June 29, 2005, the Company entered into a Second Amendment to extend the expiration date of the Agreement to June 27, 2006. The Agreement contains covenants including certain financial reporting requirements. At September 30, 2005, the Company was in compliance with its financial reporting requirements and cash balance covenants.

To date, there are no material commitments by the Company for capital expenditures. At September 30, 2005, the Company's retained earnings were \$40,000, compared to an accumulated deficit of \$1,649,000 as of December 31, 2004. Working capital as of September 30, 2005 increased 64% to \$6,549,000, compared to \$3,996,000 as of December 31, 2004.

The Company believes it has sufficient resources to finance its current operations for the foreseeable future from operating cash flow and working capital.

Impact of Inflation and Changing Prices

Historically, the Company's business has not been materially impacted by inflation. Manufacturing equipment and solar systems are generally quoted, manufactured and shipped within a cycle of approximately nine months, allowing for orderly pricing adjustments to the cost of labor and purchased parts. The Company has not experienced any negative effects from the impact of inflation on long-term contracts. The Company's service business is not expected to be seriously affected by inflation because its procurement-production cycle

Edgar Filing: SPIRE CORP - Form 10QSB

typically ranges from two weeks to several months, and prices generally are not fixed for more than one year. Research and development contracts usually include cost escalation provisions.

Foreign Currency Fluctuation

The Company sells only in U.S. dollars, generally against an irrevocable confirmed letter of credit through a major United States bank. Therefore the Company is not directly affected by foreign exchange fluctuations on its current orders. However, fluctuations in foreign exchange rates do have an effect on the Company's customers' access to U.S. dollars and on the pricing competition on certain pieces of equipment that the Company sells in selected markets. The Company received Japanese yen in exchange for the sale of a license to its solar technology. In addition, purchases made and royalties received under the Company's Consortium Agreement with its Japanese partner will be in Japanese yen. The Company does not believe that foreign exchange fluctuations will materially affect its operations.

18

Related Party Transactions

The Company subleases 77,000 square-feet in a building leased by Mykrolis Corporation, who in turn leases the building from SPI-Trust, a Trust of which Roger Little, Chairman of the Board, Chief Executive Officer, President and Treasurer of the Company, is the sole trustee and principal beneficiary. The Company believes that the terms of the third-party sublease are commercially reasonable. 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 Agreement provides for minimum rental payments plus annual increases linked to the consumer price index. Rent expense under this sublease for the nine-months ended September 30, 2005 and 2004 was \$888,000 and \$809,000, respectively. In connection with this sublease, the Company is invoiced and pays certain SPI-Trust related expenses, including building maintenance and insurance. The Company invoices SPI-Trust on a monthly basis and SPI-Trust reimburses the Company for all such costs. No amounts were due from SPI-Trust as of September 30, 2005.

On November 11, 2005, the Company entered into an Extension of Lease Agreement (the "Lease Extension") directly with SPI-Trust the term of which commence on December 1, 2005. The Lease Extension is for a period of two years and maintains the rental payments at the now current rental rate over the two (2) year period. All other terms of the Lease Extension are substantially the same as were in effect under the current lease and sublease agreements. The Company will assume certain responsibilities of Mykrolis, the tenant under the lease expiring on November 30, 2005, 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. The Company 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 the Company has sole withdrawal authority. SPI-Trust is required to maintain 3 months of its anticipated operating costs within this escrow account. The Company believes that the terms of the Lease Extension are commercially reasonable.

In conjunction with the acquisition of Bandwidth by the Company, the Company released Bandwidth from the lease agreement that had existed between Bandwidth and the Company. In November 2001, Bandwidth, under its previous

Edgar Filing: SPIRE CORP - Form 10QSB

owner, abandoned the space being subleased from the Company in Bedford, Massachusetts, to move to a new building and wafer fabrication lab in Hudson, New Hampshire. At that time, there were 48 months left on the lease. Subsequent to the move to Hudson, New Hampshire, Bandwidth was unable to sublease the Bedford, Massachusetts space, and was paying the Company for the unused space. In conjunction with the acquisition of Bandwidth in May 2003, the Company released Bandwidth from the remaining lease payments. However, the Company continues to be obligated to Mykrolis Corporation for the entire amount of the remaining lease agreement. As a result, the present value of the remaining lease obligation associated with the unused space was recorded as an assumed liability of \$1,247,241 in the purchase accounting. As of September 30, 2005, the remaining lease obligation is \$87,480, which is reflected as "accrued lease obligation - related party" in the September 30, 2005 unaudited condensed consolidated balance sheet. The difference between the actual rent payment and the discounted rent payment will be accreted to the consolidated statements of operations as interest expense. Interest of 4.75% has been assumed on this obligation. For the nine months ended September 30, 2005, interest expense was approximately \$11,000.

Also in conjunction with the acquisition of Bandwidth by the Company, SPI-Trust, a Trust of which Roger G. Little, Chairman of the Board, Chief Executive Officer, President and Treasurer of the Company, is sole trustee and principal beneficiary, purchased from Stratos (Bandwidth's former owner) the building that Bandwidth occupies in Hudson, New Hampshire for \$3.7 million. Subsequently, the Company entered into a lease for the building (90,000 square feet) with SPI-Trust whereby the Company will pay \$4.1 million to the SPI-Trust over an initial five-year term expiring in 2008 with a Company option to extend for five years. In addition to the rent payments, the lease obligates the Company to keep on deposit with SPI-Trust the equivalent of three months rent (\$191,250 as of September 30, 2005.) The lease agreement does not provide for a transfer of ownership at any point. Interest costs were assumed at 7%. For the nine months ended September 30, 2005, interest expense was approximately \$138,000. This lease has been classified as a related party capital lease and a summary of payments (including interest) follows:

19

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		
		=====		

At September 30, 2005, \$677,000 and \$1,721,000 are reflected as the current and long-term portions of capital lease obligation - related party, respectively, on the unaudited condensed consolidated balance sheet.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting

Edgar Filing: SPIRE CORP - Form 10QSB

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, acquisition accounting, income taxes, and warranty reserves. We regularly evaluate our estimates and assumptions based upon historical experience and various other factors that we believe 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 2 of our notes to consolidated financial statements in our annual report on Form 10-KSB for the year ended December 31, 2004 for a description of our accounting policies for income taxes and warranties.

REVENUE RECOGNITION

The Company derives its 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 recognize 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. 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 the Company's 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 and consumer participation, sales and payment trends, and experience with payment patterns associated with similar programs that had been previously offered. 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).

The Company's OEM capital equipment solar energy business builds complex customized machines to order for specific customers. Substantially all of these orders are sold on a FOB Bedford, Massachusetts (or EX-Works Factory) basis. It is the Company's 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 the Company's 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. The Company's solar energy systems business installs solar energy systems on

Edgar Filing: SPIRE CORP - Form 10QSB

customer-owned properties on a contractual

20

basis. Generally, revenue is recognized once the systems have been installed and the title is passed to the customer. For arrangements with multiple elements, the Company allocates fair value to each element in the contract and revenue is recognized upon delivery of each element. If the Company is not able to establish fair value of undelivered elements, all revenue is deferred.

The Company recognizes 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. The Company accrues 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. The Company's policy is to take into revenue the full value of the contract, including any retainage, as it performs against the contract since the Company has 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.

ACQUISITION ACCOUNTING

Through its acquisition, the Company has accumulated assets the valuation of which involves estimates based on fair value assumptions. Estimated lives assigned to the assets acquired in a business purchase also involve the use of estimates. These matters that are subject to judgments and estimates are inherently uncertain, and different amounts could be reported using different methodologies. Management uses its best estimate in determining the appropriate values and estimated lives to reflect in the consolidated financial statements, using historical experience, market data, and all other available information.

Contractual Obligations, Commercial Commitments and Off-Balance Sheet

----- Arrangements -----

The following table summarizes the Company's gross contractual obligations at September 30, 2005 and the maturity periods and the effect that such obligations are expected to have on its liquidity and cash flows in future periods:

Edgar Filing: SPIRE CORP - Form 10QSB

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	2 - 3 YEARS	4 - 5 YEARS
PURCHASE OBLIGATIONS	\$ 1,967,000	\$ 1,874,000	\$ 93,000	\$ --
CAPITAL LEASES:				
Unrelated party capital lease	\$ 605,000	\$ 605,000	\$ --	\$ --
Related party capital lease	2,659,000	825,000	1,834,000	--
OPERATING LEASES:				
Unrelated party operating leases	\$ 300,000	\$ 124,000	\$ 138,000	\$ 39,000
Related party operating lease	203,000	203,000	--	--

Purchase obligations include all open purchase orders outstanding regardless of whether they are cancelable or not.

Capital lease obligations outlined above include both the principal and interest components of these contractual obligations. Included in the related party operating lease is the accrued lease obligation in the amount of \$87,000.

21

On October 8, 1999, the Company entered into an agreement with BP Solarex ("BPS") in which BPS agreed to purchase certain production equipment built by the Company, for use in the Company's Chicago factory ("Spire Solar Chicago") and in return the Company agreed to purchase solar cells of a minimum of two megawatts per year over a five-year term for a fixed fee from BPS (the "Purchase Commitment"). BPS had the right to reclaim the equipment if the Company failed to meet its obligations in the Purchase Commitment. The proceeds from the sale of the production equipment purchased by BPS were classified as an unearned purchase discount in the Company's condensed consolidated balance sheets in prior periods. The Company has amortized this discount as a reduction to cost of sales as it purchases materials from BPS. During the quarter ended September 30, 2003, the Company and BPS retroactively amended the agreement to include all purchases of solar modules, solar systems, inverter systems and other system equipment purchased by the Company from BPS in the purchase commitment calculation. Amortization of the purchase discount amounted to approximately \$65,000 and \$109,000 for the nine months ended September 30, 2005 and September 30, 2004, respectively. The production equipment had been classified as a component of fixed assets. Depreciation amounted to approximately \$223,000 for the nine months ended September 30, 2005.

In addition, the agreement contained a put option for BPS to have the Company create a separate legal entity for Spire Solar Chicago and for BPS to convert the value of the equipment and additional costs, as defined, into equity of the new legal entity. The percentage ownership in the joint venture would be determined based on the cumulative investments by BPS and the Company. The amended agreement also allowed the Company to terminate the agreement on 30 days notice in consideration for a termination payment based on the aggregate amount of Spire purchases of BPS products and the fair market value of the production equipment purchased by BPS at the time of the termination election.

On August 16, 2005, the Company entered into a Settlement and Contract Termination Agreement (the "Termination Agreement") with BPS effective September 30, 2005. Under the terms of the Termination Agreement, the Company and BPS agreed to terminate the amended agreement including the Purchase Commitment. In exchange, the Company paid BPS \$275,000 and retained ownership of the production equipment. The unamortized unearned purchase discount as of the effective date

Edgar Filing: SPIRE CORP - Form 10QSB

was approximately \$1,205,000 and the net book value of the production equipment was approximately \$287,000. As result of this action, Spire reevaluated the recoverability of the long-lived assets associated with this segment as part of its third quarter review. Based on current updated cash flow projections for the Solar System segment, the Company determined that the production equipment was impaired and should be written-off. As a result, an impairment loss of \$287,000 was recorded.

The Company has recorded an approximate \$593,000 gain from these actions, which is reflected as a Gain on extinguishment of purchase commitment in the accompanying unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2005. The components of this gain are outlined below:

Unearned purchase discount	\$ 1,205,000
Net book value of production equipment	(287,000)
Payment to extinguish purchase commitment	(275,000)
Accrued relocation costs	(50,000)

Gain on extinguishment of purchase commitment	\$ 593,000
	=====

In October 2002, the Company sold an exclusive patent license for a hemodialysis split-tip catheter to Bard Access Systems, Inc. ("Bard"), a wholly owned subsidiary of C. R. Bard, Inc., in exchange for \$5,000,000 upon the execution of the agreement, with another \$5,000,000 due upon the earlier to occur of: (a) the date of the first commercial sale of a licensed product by Bard; or (b) no more than 18 months after signing. The agreement further provided for two additional contingent cash payments of \$3,000,000 each upon the completion of certain milestones by Bard in 2004 and 2005. Bard had the right to cancel the agreement at any time subsequent to the second payment. During the year ended December 31, 2002, the Company recorded the initial payment under the agreement, resulting in a gain of \$4,464,929, net of direct costs. Due to the potential length of time between the first and second payments and the cancellation provisions within the agreement, the Company did not record the potential remaining payments at that time. During June 2003, in accordance with the agreement, the Company received notification from Bard of the first commercial sale, collected the \$5,000,000 payment due and recorded a gain of \$4,989,150, net of direct costs. In June 2004, the Company received the first contingent milestone payment and recorded a gain of \$3,000,000. In June 2005, the Company received the second and final contingent milestone payment and recorded a gain of \$3,000,000. There were no direct costs associated with these payments. These gains have been recorded in the accompanying unaudited condensed consolidated statements of operations for three and nine months ended September 30, 2005 and 2004, respectively.

22

In conjunction with the sale, the Company received a sublicense, which permits the Company to continue to manufacture and market hemodialysis catheters for the treatment of chronic kidney disease. In addition, the Company granted Bard a right of first refusal should the Company seek to sell the catheter business.

On May 26, 2005, the Company entered into a global consortium agreement (the "Consortium Agreement") with Nisshinbo Industries, Inc. ("Nisshinbo") for the development, manufacturing, and sales of solar photovoltaic module manufacturing equipment. Under the terms of the Consortium Agreement, Nisshinbo purchased a license to manufacture and sell the Company's module manufacturing equipment for an upfront fee plus additional royalties based on ongoing equipment sales over a ten-year period. In addition, the Company and Nisshinbo agreed, but are not obligated, to pursue joint research and development, product

Edgar Filing: SPIRE CORP - Form 10QSB

improvement activities and sales and marketing efforts. On June 27, 2005, the Company received JPY 400,000,000 from the sale of this permanent license. The Company has determined the fair value of the license and royalty based on an appraisal. As a result, a \$3,319,600 gain has been recognized as a gain on sale of license in the accompanying unaudited condensed consolidated statements of operations for the nine months ended September 30, 2005. In addition, approximately \$34,000 of royalty income was recognized during the nine months ended September 30, 2005.

As of June 30, 2005, JPY 400,000,000 was held in a Japanese yen account. The Company converted JPY 350,000,000 into \$3,139,295 on August 3, 2005 resulting in an approximate \$17,000 currency translation loss. The Company continues to maintain a 50,000,000 Japanese yen account. As of September 30, 2005, approximately \$422,000 has been reflected in cash and cash equivalents in the accompanying unaudited condensed consolidated balance sheet utilizing the closing yen/dollar exchange rate as of September 30, 2005. A \$9,000 currency translation loss was recognized related to the conversion of this Yen balance into U.S. dollars and is reflected in Other expense, net on the accompanying unaudited condensed consolidated statements of operations. Total currency translation loss for three months ended September 30, 2005 was approximately \$26,000. Total currency translation loss for the nine months ended September 30, 2005 was \$89,000.

The Company believes that the sale of these licenses does not reflect the day-to-day operations of the Company. Accordingly, the net proceeds received have been classified under investing activities in the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2005 and September 30, 2004, respectively.

Outstanding letters of credit totaled \$1,100,000 at September 30, 2005. 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 the Company does not perform as contractually required. These letters of credit expire through 2007 and are 100% secured by cash.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Chief Executive Officer, President and Treasurer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of September 30, 2005. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their desired control objectives. Additionally, in evaluating and implementing possible controls and procedures, the Company's management was required to apply its reasonable judgment. Based upon the required evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as of September 30, 2005 the Company's disclosure controls and procedures were effective (at the "reasonable assurance" level mentioned above) to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Edgar Filing: SPIRE CORP - Form 10QSB

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the third fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

23

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is subject to legal proceedings and claims arising from the conduct of its business operations. The Company does not expect the outcome of these proceedings, either individually or in the aggregate, to have a material adverse effect on its financial position, results of operations, or cash flows.

The Company has been named as a defendant in 58 cases filed from August 2001 to July 2003 in state courts in Texas by persons claiming damages from the use of allegedly defective mechanical heart valves coated by a process licensed by the Company to St. Jude Medical, Inc., the valve manufacturer, which has also been named as a defendant in the cases. In June 2003, a judge in a state court in Harris County, Texas agreed to grant the Company's motion for summary judgment based upon the principle of federal preemption with regard to 57 of those cases and to order that the cases against the Company be dismissed with prejudice. An order to this effect was signed in late July 2003. The remaining case is still pending, and due to aspects of its fact situation is not subject to the principle of federal preemption. From August 2003 to date, a total of seven new cases were filed against the Company in courts in Harris County. Activity with regard to these cases is likely to occur only after the disposition of the original 57 cases is finally settled. The plaintiffs whose cases were dismissed have filed appeals with the Texas appellate court. In June 2005, the Texas Court of Appeals upheld the summary judgment granted by the lower court. Attorneys for the Company anticipate that the plaintiffs may file a motion for rehearing, and an appeal with the Texas Supreme Court is also possible. Attorneys who represent the Company with respect to these cases in Texas do not believe at this time that the actions of a federal district court judge in Minnesota in denying St. Jude Medical's request for summary judgment will materially affect the Company's position in the Texas complaints.

During the second quarter of 2005 a suit was filed by Arrow International, Inc. against Spire Biomedical, Inc., a wholly owned subsidiary of the Company, alleging patent infringement by the Company. The complaint claims one of the Company's catheter products induces and contributes to infringement when medical professionals insert it. The Company has responded to the complaint denying all allegations and has filed certain counterclaims. The Company intends to vigorously defend this matter. The parties are engaged in the early stages of discovery. In the opinion of management, an unfavorable outcome of this matter could have a material adverse effect on the Company's financial position as well as its results of operations and cash flows.

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

None.

Edgar Filing: SPIRE CORP - Form 10QSB

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 11, 2005, the Company entered into an Extension of Lease Agreement (the "Lease Extension") directly with SPI-Trust the term of which commence on December 1, 2005. The Lease Extension is for a period of two years and maintains the rental payments at the now current rental rate over the two (2) year period. All other terms of the Lease Extension are substantially the same as were in effect under the current lease and sublease agreements. The Company will assume certain responsibilities of Mykrolis, the tenant under the lease expiring on November 30, 2005, 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. The Company will allocate a portion of these expenses to SPI-Trust based on pre-established formulas utilizing

24

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 the Company has sole withdrawal authority. SPI-Trust is required to maintain three (3) months of its anticipated operating costs within this escrow account. The Company believes that the terms of the Lease Extension are commercially reasonable.

ITEM 6. EXHIBITS

- 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 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 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 undersigned, thereunto duly authorized.

SPIRE CORPORATION

Dated: November 14, 2005

By: /s/ Roger G. Little

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

Dated: November 14, 2005

By: /s/ James F. Parslow

James F. Parslow
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit</u> -----	<u>Description</u> -----
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 pursuant to ss.302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chairman of the Board, Chief Executive Officer

Edgar Filing: SPIRE CORP - Form 10QSB

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 pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002