Canadian Solar Inc.
Form 20-F
June 08, 2009

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

Form 20-F

(Mark One)

- o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

- þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
  For the fiscal year ended December 31, 2008.

OR

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

OR

- o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
  Date of event requiring this shell company report
  For the transition period from to

Commission file number: 001-33107

CANADIAN SOLAR INC.
(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant s name into English)

Canada

(Jurisdiction of incorporation or organization)

199 Lushan Road
Suzhou New District
Suzhou, Jiangsu 215129
People s Republic of China
(Address of principal executive offices)

Arthur Chien, Chief Financial Officer
675 Cochrane Drive
East Tower, 6th Floor
Markham, Ontario L3R 0B8
Canada

Tel: (1-905) 530-2334
Fax: (1-905) 530-2001
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common shares with no par value	The NASDAQ Stock Market LLC (The NASDAQ Global Market)

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

35,686,313 common shares issued and outstanding, excluding 58,250 restricted shares which were subject to restrictions on voting, dividend rights and transferability, as of December 31, 2008

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP þ
International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

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INTRODUCTION

Unless otherwise indicated, references in this annual report on Form 20-F to:

CSI, we, us, our company and our are to Canadian Solar Inc., its predecessor entities and its consolidated subsidiaries;

$, US$ and U.S. dollars are to the legal currency of the United States;

RMB and Renminbi are to the legal currency of China;

C$ and Canadian $ are to the legal currency of Canada;

and Euro are to the legal currency of the European Union; and

China and the PRC are to the People s Republic of China, excluding, for the purposes of this annual report on Form 20-F only, Taiwan and the special administrative regions of Hong Kong and Macau.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 and as of December 31, 2007 and 2008.

All translations from Renminbi to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translation of Renminbi into U.S. dollars has been made at the noon buying rate in effect on December 31, 2008, which was RMB6.8225 to $1.00. We make no representation that the Renminbi or dollar amounts referred to in this annual report on Form 20-F could have been or could be converted into dollars or Renminbi, as the case may be, at any particular rate or at all. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Fluctuations in exchange rates could adversely affect our business, including our financial condition and results of operations. On June 1, 2009, the noon buying rate was RMB6.8270 to $1.00.

FORWARD-LOOKING INFORMATION

The information in this annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, results of operations, business strategy and financial needs, all of which are largely based on our current expectations and projections. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as may, will, expect, anticipate, future, intend, plan, believe, estimate, is/are likely to or other and si Forward-looking statements involve inherent risks and uncertainties. These forward-looking statements include, among other things, statements relating to:

our expectations regarding the worldwide demand for electricity and the market for solar power;

our beliefs regarding the importance of environmentally friendly power generation;

our expectations regarding governmental support for the deployment of solar power;

our beliefs regarding the future shortage or availability of the supply of high-purity silicon;

our beliefs regarding the acceleration of adoption of solar power technologies and the continued growth in the solar power industry;

our beliefs regarding the competitiveness of our solar module products;

our expectations with respect to increased revenue growth and improved profitability;

our expectations regarding the benefits to be derived from our supply chain management and vertical integration manufacturing strategy;

our beliefs and expectations regarding the use of upgraded metallurgical grade silicon materials (UMgSi) and solar power products made of this material;

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our ability to continue developing our in-house solar components production capabilities and our expectations regarding the timing and production capacity of our internal manufacturing programs;

our beliefs regarding our securing adequate silicon and solar cell requirements to support our solar module production;

our beliefs regarding the effects of environmental regulation;

our beliefs regarding the changing competitive arena in the solar power industry;

our future business development, results of operations and financial condition; and

competition from other manufacturers of solar power products and conventional energy suppliers.

Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. See Item 3. Key Information D. Risk Factors for a discussion of some risk factors that may affect our business and results of operations. These risks are not exhaustive. Other sections of this annual report may include additional factors that could adversely impact our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. It is not possible for our management to predict all risk factors, nor can we assess the impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual result to differ materially from those expressed or implied in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

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PART I

Item 1. *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS*

Not applicable.

Item 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

Item 3. *KEY INFORMATION*

A. Selected Financial Data

Selected Consolidated Financial and Operating Data

The following selected statement of operations data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet data as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements, which have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm. The report of Deloitte Touche Tohmatsu CPA Ltd. on those financial statements is included elsewhere in this annual report on Form 20-F. You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report on Form 20-F.

Our selected consolidated statement of operations data for the years ended December 31, 2004 and 2005 and our consolidated balance sheet data as of December 31, 2004, 2005 and 2006 have been derived from audited consolidated financial statements that are not included in this annual report.

All audited financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods.

	Years Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands of US$, except share and per share data, and operating data and percentages)				
Statement of operations data:					
Net revenues	$ 9,685	$ 18,324	$ 68,212	$ 302,798	$ 705,006
Net income (loss)	$ 1,457	$ 3,804	$ (9,430)	$ (210)	$ (9,388)
Earnings (loss) per share, basic and diluted	$ 0.09	$ 0.25	$ (0.50)	$ (0.01)	$ (0.30)
Shares used in computation, basic and diluted	15,427,995	15,427,995	18,986,498	27,283,305	31,566,503

Other financial data:					
Gross margin	33.2%	38.8%	18.1%	7.8%	10.1%
Operating margin	19.0%	28.5%	1.6%	(0.6)%	3.4%
Net margin	15.0%	20.8%	(13.8)%	(0.1)%	(1.3)%
Selected operating data:					
Products sold (in MW)					
Standard solar modules	1.8	3.4	14.7	83.4	166.5
Specialty solar modules and products	0.4	0.7	0.2		
Total	2.2	4.1	14.9	83.4	166.5
Average selling price (in $ per watt)					
Standard solar modules	$ 3.62	$ 3.92	$ 3.97	$ 3.75	$ 4.23

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	As of December 31,				
	2004	2005	2006	2007	2008
	(In thousands of US$, except share data)				
Balance Sheet Data:					
Total assets	$ 6,145	$ 27,430	$ 129,634	$ 284,503	$ 570,731
Net assets	$ 2,961	$ 6,967	$ 112,904	$ 126,266	$ 332,161
Long-term debt	$	$	$	$ 17,866	$ 45,357
Convertible notes	$	$ 3,387	$	$ 75,000	$ 1,000
Capital stock[(1)]	$ 211	$ 211	$ 97,302	$ 97,454	$ 294,707
Number of shares outstanding[(2)]	15,427,995	15,427,995	27,270,000	27,320,389[(2)]	35,686,313[(2)]

(1) Excluding long-term debt and convertible notes.

(2) Excluding 566,190 and 58,250 restricted shares, which were subject to restrictions on voting and dividend rights and transferability, as of December 31, 2007 and 2008 respectively.

Exchange Rate Information

Our manufacturing activities are primarily conducted in China and a portion of our expenses are denominated in RMB. Periodic reports made to shareholders will be expressed in U.S. dollars using the then current exchange rates. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of RMB into U.S. dollars in this annual report on Form 20-F is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report on Form 20-F were made at a rate of RMB6.8225 to $1.00, the noon buying rate in effect as of December 31, 2008. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On June 1, 2009, the noon buying rate was RMB6.8270 to $1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York.

		Noon Buying Rate		
Period	**Period End**	**Average[(1)]**	**Low**	**High**
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800

December	6.8225	6.8539	6.8842	6.8225
2009				
January	6.8392	6.8360	6.8403	6.8225
February	6.8395	6.8363	6.8470	6.8241
March	6.8329	6.8360	6.8438	6.8240
April	6.8180	6.8304	6.8361	6.8180
May	6.8278	6.8235	6.8326	6.8176
June (through June 1)	6.8270	6.8270	6.8270	6.8270

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Company and Our Industry

As polysilicon supply increases, the corresponding oversupply of solar cells and panels may cause substantial downward pressure on the prices of such products, resulting in lower revenues and earnings.

Due to rapid industry-wide silicon production capacity expansion since 2008, the solar power industry is experiencing an oversupply of high-purity silicon. If additional polysilicon becomes available in the market in the future, polysilicon prices will continue to decrease. Increases in polysilicon production and an oversupply of solar wafers, cells and panels have resulted in substantial downward pressure on prices throughout the value chain. According to SolarBuzz, spot prices for polysilicon have fallen dramatically from a peak of over $400 per kilogram in mid-2008 to a low of $120 per kilogram in the first quarter of 2009. Similarly, SolarBuzz reported that solar panel prices have fallen from a high of approximately 3.10 per watt in the third quarter of 2008 to as low as approximately 2.10 per watt in the first quarter of 2009.

We have been renegotiating our supply agreements to bring them in line with market pricing for raw materials, and we wrote down our inventory in the fourth quarter of 2008. But if we are unable, on an ongoing basis, to continue to procure silicon and wafers at prices that decline in line with solar panel pricing, our revenues and margins could be adversely impacted, either due to higher costs compared to our competitors or due to further write-downs of inventory, or both. In addition, our market share could decline if our competitors are able to price their products more competitively than ours.

The execution of our growth strategy is dependent upon the continued availability of third-party financing arrangements for our customers, which is affected by general economic conditions. Tight credit markets could depress demand for solar products, hamper our expansion and materially affect our results of operations.

The general economy and limited liquidity and availability of credit could materially and adversely affect our business and results of operations. Most solar projects are financed using third-party debt and the cost of capital and the gearing ratio impact both systems demand and price. High cost of capital materially impacts the internal rate of return for solar projects and therefore puts downwards pressure on both solar systems and module prices, which typically comprise approximately 50% to 60% of the system equipment cost. In particular, a rise in interest rates could render existing financings more expensive and present an obstacle for potential financings that would otherwise spur the growth of the solar power industry. Lower gearing ratios may mean fewer projects are executed due to increased equity requirements combined with the limited availability of equity. In the event that suitable financing cannot be arranged, customers may be unable to honor their purchasing obligations to us. Collecting payment from customers facing liquidity challenges due to either their customer defaults or bank default on project loans may also be difficult. Tight credit markets could thus hamper our expansion and materially and adversely affect our results of operations.

Revision, reduction or elimination of government subsidies and economic incentives for solar power could cause demand for our products and our revenues, profits and margins to decline.

The market for on-grid applications, where solar power is used to supplement a customer s electricity purchased from the utility network or sold to a utility under tariff, depends in large part on the availability and size of government mandates and economic incentives because, at present, the cost of solar power exceeds retail electric rates in many locations. Such incentives vary by geographic market. Government bodies in many countries, most notably Spain, the United States, Germany, Italy, South Korea, Canada, Japan, Portugal, Greece, France and

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Australia, have provided incentives in the form of feed-in tariffs, rebates, tax credits, renewable portfolio standards, and other incentives and mandates to end-users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependency on other forms of energy. Some of these government mandates and economic incentives, such as the German EEG law, are scheduled to be reduced or to expire, or could be eliminated altogether. For example, in 2008, the digression rate of the feed-in tariffs was accelerated in both Germany and Spain. Depending on system size and total installations, the digression rate can be as much as 10% per year. This means that solar system costs will likely have to fall more quickly than previously anticipated. In addition, an annual project installation cap was introduced in Spain that will significantly reduce the demand for solar products in Spain in 2009 and thereafter. Because we sell into the on-grid market, the reduction, modification or elimination of government mandates and economic incentives in one or more of our customer markets could materially and adversely affect the growth of such markets or result in increased price competition, either of which could cause our revenue to decline and harm our financial results.

Advance payments to our polysilicon and silicon wafer suppliers and credit term sales offered to some of our customers expose us to the credit risks of such suppliers and customers and may increase our costs and expenses, which could in turn have a material adverse effect on our liquidity.

Under supply contracts with certain of our multi-year silicon wafer suppliers, and consistent with historical industry practice, we have made advance payments to some of our suppliers prior to the scheduled delivery dates for polysilicon and silicon wafer supplies. In many cases, the advance payments were made without collateral for such payments. In addition, we offer some of our customers short-term and/or medium-term credit sales based on our relationship with them and market conditions, also without collateral. As a result, our claim for such payments or sales credit would rank as unsecured claims, which would expose us to the credit risks of our suppliers and/or customers in the event of their insolvency or bankruptcy. We employ a number of mechanisms to mitigate credit sales risk, such as export credit insurance, factoring arrangements and letters of credit. Additionally, we have been renegotiating our supply agreements to obtain more favorable payment terms. However, these risks may have a material adverse effect on our financial condition, results of operations and liquidity.

Our ability to adjust our raw materials costs may be limited as a result of our entering into long-term supply agreements with many of our polysilicon and wafer suppliers, and our cost of revenues and profitability could be materially and adversely affected if we fail to adjust such costs in a timely manner.

In early 2008, due to the shortages of polysilicon and silicon wafer supplies, we entered into a number of multi-year supply agreements in an effort to secure raw materials for our production demand with some of our major silicon and wafer suppliers. In response to the decline in prices of polysilicon and silicon wafers, beginning in the fourth quarter of 2008, we have temporarily suspended our orders of polysilicon and silicon wafers and have been re-negotiating the unit price and volume terms with most of these suppliers. We continue to purchase from most of these suppliers at adjusted prices in line with market prices for such products after signing supplemental agreements in the first quarter of 2009. If the prices of polysilicon or silicon wafers continue to decrease in the future and we are unable to re-negotiate, we may not be able to adjust our materials costs, and our cost of revenues could be materially and adversely affected. In the event that we are unable to re-negotiate these agreements, we may be required to make further inventory write-downs, which could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, during the course of such negotiations we may be subject to litigation if agreement cannot be reached with our suppliers. Such litigation may be costly and may divert management attention and other resources away from our business and could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects.

The impact of seasonal variations in demand linked to construction cycles and weather conditions may impact our results of operation.

Our business is subject to seasonal variations in demand linked to construction cycles and weather conditions. Purchases of solar products tend to decrease during the winter months in our key markets, such as Germany, due to adverse weather conditions that can complicate the installation of solar power systems. For example, in the fourth quarter of 2008 and the first quarter of 2009, severe winter weather in Germany prevented the installation of a

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significant number of solar systems, which resulted in reduced demand for solar products. Other countries, such as Canada, the U.S., China and Korea, may also experience significant seasonality.

Because the markets in which we compete are highly competitive and many of our competitors have greater resources than us, we may not be able to compete successfully and we may lose or be unable to gain market share.

We compete with a large number of competitors in the solar module market. These include international competitors such as SunPower Corporation, or SunPower, First Solar, Inc., or First Solar, BP Solar International Inc., or BP Solar, Sharp Solar Corporation, or Sharp Solar, and Renewable Energy Corporation, or REC, and China-based competitors such as Suntech Power Holdings Co., Ltd., or Suntech, Yingli Green Energy Holding Company Limited, or Yingli, and Trina Solar Limited, or Trina. We expect to face increasing competition in the future. Further, some of our competitors are developing and are currently producing products based on new solar power technologies that may ultimately have costs similar to, or lower than, our projected costs. For example, some of our competitors are developing or currently producing products based on alternative solar technologies, such as thin film photovoltaic materials, which they believe will ultimately cost the same as or less than the crystalline silicon technologies that we use. Solar modules produced using thin film materials, such as amorphous silicon, cadmium telluride and copper indium gallium diselenide (CIGS) technology, require either no silicon or significantly less silicon to produce than crystalline silicon solar modules such as the ones that we produce, and are less susceptible to increases in silicon costs. We may also face competition from semiconductor manufacturers, several of which have either announced plans to start or have already started production of solar modules. In addition, from a technological and capital investment perspective, the entry barriers in the solar module manufacturing business are relatively low given the low capital requirements and relatively low technological complexity involved.

Some of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and resources and significantly greater economies of scale. In addition, our competitors may have stronger relationships or may enter into exclusive relationships with some of the key distributors or system integrators to whom we sell our products. As a result, they may be able to respond more quickly to changing customer demand or to devote greater resources to the development, promotion and sales of their products than we can. The sale of our solar module products generated 87.6%, 96.0% and 98.2% of our net revenues in 2006, 2007 and 2008, respectively. Some of our competitors have more diversified product offerings and may be better positioned to withstand a decline in demand for solar power products. Some of our competitors are more vertically integrated than we are, from upstream silicon wafer manufacturing to solar power system integration. This may allow them to capture higher margins or have lower costs in the near term. It is possible that new competitors or alliances among existing competitors could emerge and rapidly acquire significant market share, which would harm our business. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

Due to the industry-wide oversupply of high-purity silicon and solar wafers, cells and modules, and customers becoming more knowledgeable and selective, we believe that the key to competing successfully in the industry has shifted to sales and marketing activities, cost and quality management. We have conducted very limited advertising to date, focusing primarily on medium to larger sized solar power distributors and integrators in the European market. Although we are in the process of building a stronger marketing and sales force, we cannot assure you that we will be able to make that transition successfully. The greater name recognition of some of our competitors may make it difficult for us to compete as a result of this industry transition. Banks are becoming more selective about the equipment they will finance in solar projects. In addition to quality considerations, they are evaluating solar manufacturers for their financial strength and sustainability in order to assess the likelihood that the manufacturer will be in a position to honor a 25-year product warranty. In addition, the solar power market in general competes with other sources of renewable energy and conventional solar power generation. If prices for conventional and other renewable energy resources decline, or if these resources enjoy greater policy support than solar power, the solar power market could suffer.

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Evaluating our business and prospects may be difficult because of our limited operating history.

There is limited historical information available about our company upon which you can base your evaluation of our business and prospects. We began business operations in October 2001 and shipped our first solar module products in March 2002. With the rapid growth of the solar power industry, we have experienced a high growth rate since our inception and, in particular, after we began to sell standard solar modules in 2004. As a result, our historical operating results may not provide a meaningful basis for evaluating our business, financial performance and prospects. We may not be able to achieve growth rates in future periods similar to those we have experienced in the past, and our business model at higher volumes is unproven. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance. You should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture new products in a rapidly growing and changing market.

Our quarterly operating results may fluctuate from period to period in the future.

Our quarterly operating results may fluctuate from period to period based on a number of factors, including:

- the average selling prices of our solar modules and products;
- the availability and pricing of raw materials, particularly high-purity silicon and UMgSi silicon;
- the availability, pricing and timeliness of delivery of solar cells and wafers from our suppliers and toll manufacturers;
- the rate and cost at which we are able to expand our internal manufacturing capacity to meet customer demand and the timeliness and success of these expansion efforts;
- the impact of seasonal variations in demand linked to construction cycles and weather conditions, with purchases of solar products tending to decrease during the winter months in our key markets, such as Germany, due to adverse weather conditions that can complicate the installation of solar power systems;
- timing, availability and changes in government incentive programs and regulations, particularly in our key and target markets;
- unpredictable volume and timing of customer orders, some of which are not fixed by contract but vary on a purchase order basis;
- the loss of one or more key customers or the significant reduction or postponement of orders from these customers;
- availability of financing for on-grid and off-grid solar power applications;
- unplanned additional expenses such as manufacturing failures, defects or downtime;
- acquisition and investment related costs;
- geopolitical turmoil within any of the countries in which we operate or sell products;
- foreign currency fluctuations, particularly in the Euro, U.S. dollar and RMB;

our ability to establish and expand customer relationships;

changes in our manufacturing costs;

changes in the relative sales mix of our products;

our ability to successfully develop, introduce and sell new or enhanced solar modules and products in a timely manner, and the amount and timing of related research and development costs;

the timing of new product or technology announcements or introductions by our competitors and other developments in the competitive environment; and

increases or decreases in electricity rates due to changes in fossil fuel prices or other factors.

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We base our planned operating expenses in part on our expectations of future revenues, and a significant portion of our expenses will be fixed in the short-term. If the revenue for a particular quarter is lower than we expect, we likely will be unable to proportionately reduce our operating expenses for that quarter, which would harm our operating results for that quarter. This may cause us to miss analysts guidance or any guidance announced by us. If we fail to meet or exceed analyst or investor expectations or our own future guidance, even by a small amount, our share price could decline, perhaps substantially.

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

The market for electricity generation products is heavily influenced by government regulations and policies concerning the electric utility industry, as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In a number of countries, these regulations and policies have been modified and may continue to be modified. Customer purchases of, or further investment in the research and development of, alternative energy sources, including solar power technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our products. For example, without a regulatory mandated exception for solar power systems, utilities customers are often charged interconnection or standby fees for putting distributed power generation on the electric utility grid. These fees could increase the cost to our customers of using our solar module products and make them less desirable, thereby harming our business, prospects, results of operations and financial condition. In addition, pricing regulations and policies may place limits on our ability to increase the price of our solar module products in response to increases in our solar raw material costs, including solar cells.

We anticipate that our products and their installation will be subject to oversight and regulation in accordance with national and local regulations relating to building codes, safety, environmental protection, utility interconnection and metering and related matters. It is difficult to track the requirements of individual jurisdictions and design products to comply with the varying standards. For example, the European Union s Restriction of Hazardous Substances Directive, which took effect in July 2006, is a general directive requiring each European Union member state to adopt its own enforcement and implementation policies using the directive as a guide. Therefore, there could be many different versions of this law that we will have to comply with to maintain or expand our sales in Europe. Any new government regulations or utility policies pertaining to our solar module products may result in significant additional expenses to us and, as a result, could cause a significant reduction in demand for our solar module products. In particular, any changes to existing regulations and policies or new regulations and policies in Germany could have a material adverse effect on our business and operating results. Sales to customers located in Germany accounted for 56.9%, 68.3% and 62.1% of our net revenues in 2006, 2007 and 2008, respectively, in part because of the availability and amounts of government subsidies and economic incentives in Germany.

If solar power technology is not suitable for widespread adoption, or sufficient demand for solar power products does not develop or takes longer to develop than we anticipate, our revenues may not continue to increase or may even decline, and we may be unable to sustain our profitability.

The solar power market is at a relatively early stage of development, and the extent of acceptance of solar power products is uncertain. Market data on the solar power industry is not as readily available as for other more established industries where trends can be assessed more reliably from data gathered over a longer period of time. In addition, demand for solar power products in our targeted markets, including but not limited to Germany, Italy, Spain, the U.S., France, Korea and China, may not develop or may develop to a lesser extent than we anticipate. Many factors may affect the viability of widespread adoption of solar power technology and demand for solar power products, including:

cost-effectiveness, performance and reliability of solar power products compared to conventional and other renewable energy sources and products;

availability of government subsidies and incentives to support the development of the solar power industry;

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success of other alternative energy generation technologies, such as wind power, hydroelectric power, geothermal and biomass;

fluctuations in economic and market conditions that affect the viability of conventional and other renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels;

capital expenditures by end users of solar power products, which tend to decrease when the economy slows down;

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

changes in seasonal demands for our products.

If solar power technology is not suitable for widespread adoption or sufficient demand for solar power products does not develop or takes longer to develop than we anticipate, our revenues may suffer and we may be unable to sustain our profitability.

We may be unable to procure adequate sources of needed capital due to market conditions beyond our control, which may adversely impact our ability to grow our business.

Our operations are capital intensive. Despite our ability as a publicly traded company to raise capital via public equity and debt issuances in addition to traditional commercial banking credit, weakness in global capital and debt markets may adversely affect our results of operations if we are unable to access necessary capital to achieve our performance targets and expansion goals. We rely on working capital financing from PRC commercial banks for our daily operations. Although we are currently able to obtain new commercial loans from these PRC commercial banks, we cannot guarantee that we can continue to do so, which may have a material and adverse impact on us and our ability to expand our business. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

our future financial condition, results of operations and cash flows;

general market conditions for financing activities by manufacturers of photovoltaic and related products; and

economic, political and other conditions in the PRC and elsewhere.

If we are unable to obtain funding in a timely manner, on commercially acceptable terms, or at all, our growth prospects and future profitability may be adversely affected.

Our dependence on a limited number of solar wafer, solar cell and silicon raw material suppliers, and the limited number of suppliers for other components, such as silver and aluminum paste, solar module backsheet, ethylene vinyl acetate (EVA) encapsulation sheet, high-transparent tempered glasses, junction boxes and connectors, could prevent us from timely delivering our products to our customers in the required quantities, which could result in order cancellations and decrease in revenues.

Currently, silicon materials are readily available at historically low prices. However, there is no guarantee that in the future this will remain the case. Historically silicon prices have fluctuated substantially and cycled between periods of oversupply and undersupply. We purchase silicon raw materials, which include solar grade silicon, solar wafers and solar cells, from a limited number of third-party suppliers. Our major suppliers of silicon raw materials include LDK

Solar Co., Ltd., or LDK, ReneSola Ltd, or ReneSola, and Konca Solar Cell (Wuxi) Ltd., or Konca, which provide us with solar wafers; and Neo Solar Power Corp., or Neo Solar, and China Sunergy Co., Ltd., or China Sunergy, which provide us with solar cells. We have entered into long term supply agreements with LDK for the supply of wafers, with Neo Solar for the supply of cells, and with a few other overseas and domestic Chinese companies for the supply of solar wafers and solar cells. These suppliers may not be able to meet our quantities requirements, or keep pace with the price reductions or quality improvements necessary for us to price our products competitively. Supply may also be interrupted by accidents or disasters. For example, in late 2006, one of our major suppliers of solar wafers incurred serious fire damage to its silicon ingot furnaces, which in turn caused a shortage of multi-crystalline solar wafers, a key material for our products. In the first three quarters of 2008, we experienced

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serious delays from another one of our major suppliers of solar wafers, which in turn caused delays and price increases of our solar modules for some of our customers. Delivery problems may also occur with suppliers for other components, such as silver and aluminum paste, solar module backsheets, EVA encapsulation sheets, high-transparency tempered glass, or junction boxes and connectors. The failure of a supplier for whatever reason to supply solar wafers, solar cells silicon raw materials or other essential components that meet our quality, quantity and cost requirements in a timely manner could impair our ability to manufacture our products or increase our costs, particularly if we are unable to access alternative sources on a timely basis or on commercially reasonable terms, and we could be prevented from delivering our products to our customers in the required quantities and at prices that are profitable. Problems of this kind could cause us to experience order cancellations and loss of market share and harm our reputation.

Our dependence on a limited number of customers and our lack of long-term customer contracts may cause significant fluctuations or declines in our revenues.

We currently sell a substantial portion of our solar module products to a limited number of customers, including distributors, system integrators, and various manufacturers who either integrate our products into their own products or sell them as part of their product portfolio. Our top five customers collectively accounted for approximately 78.8% and 52.6% of our net revenues in 2007 and 2008, respectively. Our top three customers each contributed over 10% of our net revenues in 2008. Sales to our customers are typically made through one-year framework sales agreements with quarterly firm orders stipulating prices and product amounts as adjusted or negotiated with customers. We anticipate that our dependence on a limited number of customers will continue for the foreseeable future. Consequently, any of the following events may cause material fluctuations or declines in our revenues:

- reduction, delay or cancellation of orders from one or more of our significant customers;
- loss of one or more of our significant customers and our failure to identify additional or replacement customers;
- failure of any of our significant customers to make timely payment for our products; and
- financial problems or even insolvencies of one or more of our significant customers.

Even though our top five customers have contributed to a significant portion of our revenues, we have experienced changes in our top customers. As we continue to expand our business and operations, our top customers may continue to change. We cannot assure you that we will be able to develop a consistent customer base.

Cancellation of customer product orders may make us unable to recoup any prepayments made to suppliers.

We have generally been required to make prepayments to certain suppliers of solar wafers, cells and silicon raw materials in the past. While we sometimes require our customers to make partial prepayments, there is typically a lag between the time of our prepayment for solar wafers, cells and silicon raw materials and the time that our customers make prepayments to us. As a result, the purchase of solar wafers, cells and silicon feedstock, and other silicon raw materials through toll manufacturing arrangements, has required us to make significant working capital commitments beyond that generated from our cash flows from operations to support our estimated production output. In the event our customers cancel their orders, we may not be able to recoup prepayments made to suppliers in connection with our customers orders, which could have an adverse impact on our financial condition and results of operations. For example, on August 1, 2008, we entered into a one-year agreement with a customer for the sale of our solar modules, but the customer failed to comply with its contractual obligations due to sluggish domestic demand.

We may not be able to manage our expansion of operations effectively.

We commenced business operations in October 2001 and have since grown rapidly. We expect to continue to significantly expand our business to meet the growth in demand for our products, as well as to capture new market opportunities. To manage the potential growth of our operations, we will be required to improve our operational and financial systems and procedures and controls. Our rapid growth has strained our resources and made it difficult to

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maintain and update our internal procedures and controls as necessary to meet the expansion of our overall business. We must also increase production output, expand, train and manage our growing employee base, and successfully establish new subsidiaries to operate new or expanded facilities. Additionally, access to sufficient funds to support the expansion of our business may not always be available to us. Furthermore, we will be required to maintain and expand our relationships with our customers, suppliers and other third parties.

In addition, we have been actively exploring financing and investing opportunities in systems integrators and solar projects, either independently or in partnership with financial institutions or other third parties. Since we have little operating experience with these and related activities such as engineering, procurement, and construction contracting, negotiating power purchase agreements and operating power plants, we will be subject to new risks. These risks include but are not limited to failure to manage relationships with financial partners providing loans, completion risks associated with construction, regulatory risks such as those pertaining to grid connection, and contract risks with utility companies or other counterparties such as land owners regarding contracts such as power purchase agreements and land leases. Some of these contracts may contain material penalties or otherwise impact project viability. Moreover, investing in projects or systems integrators may impact our balance sheet, including but not limited to our cash and debt position, accounts receivable, and revenue recognition for prolonged periods of time.

We cannot assure you that our current and planned operations, personnel, systems and internal procedures and controls will be adequate to support our future growth. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures.

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

The solar power market is characterized by evolving technology standards that require improved features, such as more efficient and higher power output, improved aesthetics and smaller size. This requires us to develop new solar module products and enhancements for existing solar module products to keep pace with evolving industry standards and changing customer requirements. Technologies developed by others may prove more advantageous than ours for the commercialization of solar module products and may render our technology obsolete. Failure to further refine our technology and develop and introduce new solar module products could cause our products to become uncompetitive or obsolete, which could reduce our market share and cause our revenues to decline. We will need to invest significant financial resources in research and development to maintain our market position, keep pace with technological advances in the solar power industry and effectively compete in the future. If we are unable to keep pace with technological advances, or if we are unable to adapt to changes in market demand brought on by technological advances, our business and results of operations would be negatively affected.

We have begun to develop and expand the use of UMgSi as a component of our solar products. We cannot assure you that these efforts will continue to yield successful results.

In response to the shortage of high-purity silicon in the past, we believed that UMgSi provided a viable alternative source of silicon materials, and we have made efforts to develop technologies related to UMgSi solar products. We believe that we have made significant progress in this area, and we launched full scale commercial production of and sales of UMgSi solar products during 2008. However, we have less manufacturing experience with this material than with high-purity silicon, and we may be unable to continue to improve the efficiencies of cells and the production yield and cost of wafers, cells and modules made with UMgSi in order to reach our targets. Additionally, in the event that the market response to our UMgSi solar products is unfavorable, the use of this material may not be economically viable. Finally, the rapid reduction in high-purity silicon prices may render this product line uneconomical to produce if polysilicon prices fall far enough.

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We have limited experience in the high value-added building integrated photovoltaic (BIPV) market and we may be unable to manage the growth of our BIPV business or successfully operate in the BIPV market.

Our first BIPV project was completed in Luoyang, China in 2007. BIPV products generally enjoy higher profit margins than standard photovoltaic modules, or PV modules, due to solar energy generation capabilities being integrated into the design of a building or structure. We intend to further expand our capabilities in the BIPV market and invest in research and development activities in such products. Due to our limited experience in the BIPV market, and the relatively small portion of our revenue that these projects currently comprise, there can be no assurance that we will successfully expand into this new area of business. We may not have the necessary research and development capabilities or marketing and sales personnel required to meet customer needs or manage our growth. In addition, we may face competitors in the BIPV market with substantially greater financial, technical, manufacturing and other resources. If we are unable to manage the growth of our BIPV business or if our BIPV products fail to meet the needs of our customers, there may be a material adverse effect on our reputation, existing business, financial condition or results of operations.

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

In 2008, 96.4% of our products were sold to customers outside China. The international marketing, distribution and sale of our PV products exposes us to a number of risks, including:

- difficulties staffing and managing overseas operations;
- fluctuations in foreign currency exchange rates;
- increased costs associated with maintaining the ability to understand local markets and trends, as well as developing and maintaining an effective marketing and distributing presence in various countries;
- providing customer service and support in these markets;
- our ability to manage our sales channels effectively as we expand beyond distributors to include direct sales to systems integrators, end users and installers;
- difficulties and costs relating to compliance with the different commercial, legal and regulatory requirements of the overseas markets in which we offer our products;
- failure to develop appropriate risk management and internal control structures tailored to overseas operations;
- inability to obtain, maintain or enforce intellectual property rights;
- unanticipated changes in prevailing economic conditions and regulatory requirements; and
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive in some countries.

If we are unable to effectively manage these risks, they could impair our ability to expand our business abroad.

Our future success depends partly on our ability to significantly expand our internal solar components manufacturing capacity, which exposes us to a number of risks and uncertainties.

Our future success depends on our ability to significantly increase our internal solar components manufacturing capacity. If we are unable to do so, we may be unable to expand our business, decrease our costs per watt, maintain our competitive position and improve our profitability. Our ability to establish additional manufacturing capacity is subject to significant risks and uncertainties, including:

- the need to raise significant additional funds to purchase raw materials and to build additional manufacturing facilities, which we may be unable to obtain on commercially viable terms or at all;

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delays and cost overruns as a result of a number of factors, many of which are beyond our control, including delays in equipment delivery by vendors;

delays or denial of required approvals by relevant government authorities;

diversion of significant management attention and other resources; and

failure to execute our expansion plan effectively.

If we are unable to establish or successfully operate our internal solar components manufacturing capabilities, or if we encounter any of the risks described above, we may be unable to expand our business as planned. Moreover, even if we do expand our manufacturing capacity we might not be able to generate sufficient customer demand for our solar power products to support our increased production levels.

Our business depends substantially on the continuing efforts of our executive officers, and our business may be severely disrupted if we lose their services.

Our future success depends substantially on the continued services of our executive officers, especially Dr. Shawn Qu, our founder, chairman, president and chief executive officer and Arthur Chien, our director and chief financial officer. If one or more of our executive officers are unable or unwilling to continue to serve in their positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers, in particular those with a significant mix of both international and China-based solar power industry experience as many of our current officers have. In addition, if any of our executives joins a competitor or forms a competing company, whether in violation of their agreements with us or otherwise, we may lose some of our customers.

Problems with product quality or product performance, including defects in our products, could damage our reputation, or result in a decrease in customers and revenue, unexpected expenses and loss of market share.

Because we cannot test for all possible scenarios, our products may contain defects that are not detected until after they are shipped or installed. These defects could cause us to incur significant costs, divert the attention of our personnel from product development efforts and significantly affect our customer relations and business reputation. If we deliver solar module products with errors or defects, or if there is a perception that our products contain errors or defects, our credibility and the market acceptance and sales of our solar module products could be harmed. For example, in one instance in 2008, the differences between the visual quality inspection standards of our customer and us prompted us to replace a batch of solar modules for that customer. In another instance, in 2009, customers raised concerns about the encapsulation quality of certain solar modules. Although these quality concerns did not affect the electrical output of the modules, we decided to replace the solar modules in question. We have studied the root causes of these quality issues and have implemented the necessary containment and corrective actions. However, the corrective actions and procedures that we took may turn out to be inadequate to prevent further incidents of the same problem or to protect against future errors or defects. As we continue to develop our internal solar cell manufacturing capabilities and expand into in-house solar ingot and solar wafer production, we may have problems standardizing product quality in these new areas of business.

We obtain some of the solar wafers and solar cells that we use in our products from third parties, either directly or through toll manufacturing arrangements, and we have limited control over the quality of that portion of the solar wafers and solar cells we incorporate into our solar modules. Unlike solar modules, which are subject to certain uniform international standards, solar wafers and solar cells generally do not have uniform international standards, and

it is often difficult to determine whether solar module product defects are a result of the solar cells or other components or reasons. We also rely on third-party suppliers for other components that we use in our products, such as glass, frame and backing for our solar modules, and electronic components for our specialty solar modules and products. Furthermore, the solar cells and other components that we purchase from third-party suppliers are typically sold to us without any, or with only limited warranty. The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. Furthermore, widespread product failures may damage our market reputation, reduce our market share and cause our revenues to decline.

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Since we cannot test our products for the duration of our standard warranty periods, we may be subject to unexpected warranty expense.

Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10% and 20%, respectively, from the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects in materials and workmanship and may, depending on the characteristics of the product, contain a limited warranty of up to ten years against declines of the minimum power generation capacity specified at the time of delivery. We believe our warranty periods are consistent with industry practice. Due to the long warranty period, we bear the risk of extensive warranty claims long after we have shipped our products and recognized revenue. We began selling specialty solar modules and products in 2002 and only began selling standard solar modules in 2004. Any increase in the defect rate of our products would cause us to increase the amount of warranty reserves and have a corresponding negative impact on our operating results. Although we conduct quality testing and inspection of our solar module products, our solar module products have not been and cannot be tested in an environment simulating the up-to-25-year warranty periods. Similarly, our UMgSi solar products, while silicon based and theoretically durable and viable as a reliable component for solar power products, are relatively new to the market and are subject to the same testing limitations as our other solar products. In particular, issues that are currently unknown may surface in the future after extended use. These issues could potentially affect our market reputation and adversely affect our revenues, giving rise to potential warranty claims by our customers. As a result, we may be subject to unexpected warranty expense and associated harm to our financial results as long as 25 years after the sale of our products. Should these future warranty claims exceed accrued provisions, this may require us to adjust our financial forecasts and adversely affect our future earnings and operating results.

Our future growth depends in part on our ability to make strategic acquisitions and investments and to establish and maintain strategic relationships, and our failure to do so could have a material adverse effect on our market penetration and revenue growth.

The solar power industry is evolving and circumstances may require us to make significant investments and strategic acquisitions or enter into strategic relationships with third parties in the future. Some of our competitors have already undertaken limited acquisitions and investments. We cannot assure you that we will be able to successfully make strategic acquisitions and investments or establish strategic relationships with third parties that will prove to be effective for our business. Our inability in this regard could have a material adverse effect on our market penetration, our revenue growth and our profitability.

Investments, strategic acquisitions and relationships with third parties could subject us to a number of risks, including risks associated with sharing proprietary information and loss of control of operations that are material to our business. Moreover, strategic acquisitions, investments and relationships may be expensive to implement and subject us to the risk of non-performance by a counterparty, which may in turn lead to monetary losses that materially and adversely affect our business.

We may not continue to be successful in developing and maintaining a cost-effective solar cell manufacturing capability.

We plan to continue expanding our in-house solar cell manufacturing capabilities to support our core solar module manufacturing business. We completed installation of our first four solar cell production lines in 2007, and annual solar cell production capacity from these production lines reached 100 MW by the end of 2007 and 270 MW by the end of 2008. However, we only have limited and recent operating experience in this area and we may face significant product development challenges in the solar cell business. Manufacturing solar cells is a highly complex process and we may not be able to produce solar cells of sufficient quality to meet our solar module manufacturing standards.

Minor deviations in the manufacturing process can cause substantial decreases in yield and in some cases cause production to be suspended or yield no output. We will need to make capital expenditures to purchase manufacturing equipment for solar cell production and will also need to make significant investments in research and development to keep pace with technological advances in solar power technology. The technologies, designs and customer preferences for solar cells change more rapidly, and solar cell product life cycles are shorter than those

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for solar modules. We may not be able to successfully address these new challenges. We will also face increased costs to comply with environmental laws and regulations. Any failure to successfully develop and maintain cost-effective solar cell manufacturing capability may have a material adverse effect on our business and prospects.

In addition, although we intend to continue direct purchasing of solar cells and toll manufacturing arrangements through a limited number of strategic partners, our existing relationships with solar cell suppliers may be disrupted if we engage in the large scale production of solar cells ourselves. If solar cell suppliers discontinue or reduce the supply of solar cells to us, either through direct sales or through toll manufacturing arrangements, and we are not able to compensate for the loss or reduction with our own manufacturing of solar cells, our business and results of operations may be adversely affected.

We may experience difficulty in developing our internal production capabilities for ingots and wafers and, if developed, in achieving acceptable yields and product performance as a result of manufacturing problems.

We have developed and been increasing our internal production capabilities for the manufacture of silicon ingots and wafers. We completed the initial phase of our ingot and wafer plant in the third quarter of 2008, reaching a nameplate capacity of ingots of 120 150 MW by December 2008. We have limited prior operational experience in ingot and wafer production and will face significant challenges in further increasing our internal production capabilities, and we may not be successful in doing so. The technology is complex and will require costly equipment and the hiring of highly skilled personnel to implement. In addition, we may experience delays in further developing these capabilities and in obtaining governmental permits required to carry on these operations.

If we are able to develop these production capabilities successfully, we will need to continuously enhance and modify these capabilities in order to improve yields and product performance. Microscopic impurities such as dust and other contaminants, difficulties in the manufacturing process, disruptions in the supply of utilities or defects in the key materials and tools used to manufacture wafers can cause a percentage of the wafers to be rejected, which in each case negatively affects our yields. We may experience production difficulties that cause manufacturing delays and lower than expected yields.

Problems in our facilities, including but not limited to production failures, construction delays, human errors, weather conditions, equipment malfunction or process contamination, may limit our ability to manufacture products, which could seriously harm our operations. We may also experience floods, droughts, power losses and similar events beyond our control that would affect our facilities. A disruption to any step of the manufacturing process will require us to repeat each step and recycle the silicon debris, thus adversely affecting our yields.

We may fail to successfully bring to market our new specialty solar modules and products, which may prevent us from achieving increased sales, margins and market share.

We expect to continue to derive a small part of our revenues from sales of our new specialty solar modules and products, which our customers ask us to tailor design for them. We will increase our research and development expenses in connection with developing these products. If we fail to successfully develop our new specialty solar modules and products, we will likely be unable to recover the expenses that we will incur to develop these products and may be unable to increase our sales and market share and to increase our margins. Many of our new specialty solar modules and products have yet to receive market acceptance, and it is difficult to predict whether we will be successful in completing their development or whether they will be commercially successful. We may also need to develop new manufacturing processes that have yet to be tested and which may result in lower production output.

Failure to protect our intellectual property rights in connection with new specialty solar modules and products may undermine our competitive position.

As we develop and bring to market new specialty solar modules and products, we may need to increase our expenditures to protect our intellectual property. Failure to protect our intellectual property rights may undermine our competitive position. We currently have 6 issued patents and 18 patent applications pending in the PRC for products that make up a relatively small percentage of our net revenues. We applied for registration of the Canadian Solar trademark in the United States in March 2009 and subsequently in a number of other jurisdictions. Currently, we also have 2 registered trademarks and 20 trademark applications pending in China for registration.

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These intellectual property rights afford only limited protection and the actions we take to protect our rights as we develop new specialty solar modules and products may not be adequate. Policing unauthorized use of proprietary technology can be difficult and expensive. Also, litigation, which can be costly and divert management attention, may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others.

We may be exposed to infringement, misappropriation or other claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.

Our success depends on our ability to use and develop our technology and know-how and sell our solar module products without infringing the intellectual property or other rights of third parties. We do not have, and have not applied for, any patents for our proprietary technologies outside China, although we have sold, and expect to continue to sell, a substantial portion of our products outside China. The validity and scope of claims relating to solar power technology patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. As a result, we could be subject to trademark disputes and may not be able to police the unauthorized use of our trade name. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Additionally, we use imported equipment in our production lines, without supplier guarantees that our use does not infringe on third-party intellectual property rights in China. This creates a potential source of litigation or infringement claims arising from such use. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

In addition, our competitors and other third parties may initiate legal proceedings against us or our employees, which may strain our resources, divert our management attention and damage our reputation. For example, in March 2002, ICP Global Technologies Inc., or ICP Global, a manufacturer of solar power products, filed an action in the Superior Court of the Province of Quebec, Canada (Action No. 500-05 071241-028) against our president of European sales, Gregory Spanoudakis, and ATS Automation Tooling Systems Inc., or ATS. ICP Global subsequently amended the complaint to include us, our subsidiary, CSI Solartronics (Changshu) Co., Ltd., or CSI Solartronics, and our founder, chairman, president and chief executive officer Dr. Shawn Qu as defendants. The amended complaint contends that all of the defendants jointly engaged in unlawful conduct and unfair competition in directing a business opportunity away from ICP Global to us. Although there have been no meaningful discovery, court filings or communications from the plaintiff on this matter since early 2004, we cannot assure you that ICP Global will not move forward with this case or that the litigation will not be determined adversely to us. We also cannot assure you that similar proceedings will not occur in the future.

We rely on dividends paid by our subsidiaries for our cash needs.

We conduct substantially all of our operations through our subsidiaries, CSI Solartronics, CSI Solar Manufacture Inc., or CSI Manufacturing, CSI Central Solar Power Co., Ltd., or CSI Luoyang, CSI Cells Co., Ltd., or CSI Cells, and Changshu CSI Advanced Solar Inc., or CSI Advanced, which are companies established in China. We rely on dividends paid by these subsidiaries for our cash needs, including the funds necessary to pay any dividends or other cash distributions that we may make to our shareholders, to service our debt and to pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and

regulations in China. These subsidiaries are also required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their general reserves until the accumulative amount of such reserves reach 50% of their registered capital. These reserves are not distributable as cash dividends. In addition, if any of these subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

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If we are unable to attract, train and retain technical personnel, our business may be materially and adversely affected.

Our future success depends, to a significant extent, on our ability to attract, train and retain technical personnel. Recruiting and retaining capable personnel, particularly those with expertise in the solar power industry, are vital to our success. There is substantial competition for qualified technical personnel, and there can be no assurance that we will be able to attract or retain sufficient technical personnel. If we are unable to attract and retain qualified employees, our business may be materially and adversely affected.

Fluctuations in exchange rates could adversely affect our business, including our financial condition and results of operations.

Prior to 2007, the majority of our sales were denominated in U.S. dollars. Since the beginning of 2007, the majority of our sales have been denominated in Euros, although we may seek to have more sales denominated in U.S. dollars, depending on market conditions. Meanwhile, we have entered into multi-year supply contracts under which, consistent with industry practice, we have made advance payments in exchange for silicon wafers. These contract prices are fixed in either Euros or Renminbi. Our Renminbi costs and expenses are primarily related to domestic sourcing of solar cells, wafers, silicon and other raw materials, toll manufacturing fees, labor costs and local overhead expenses. From time to time, we enter into loan arrangements with Chinese commercial banks that are denominated in U.S. dollars and Renminbi. In addition, the greater part of our cash and cash equivalents are denominated in Renminbi.

The value of the Renminbi against the U.S. dollar, Euro and other currencies is affected by, among other things, changes in China s political and economic conditions and China s foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. This change in policy caused the Renminbi to appreciate approximately 21.5% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow band against the U.S. dollar, remaining within 1% of its July 2008 high but never exceeding it. As a consequence, the Renminbi has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. For example, the Renminbi appreciated approximately 27% against the Euro between July 2008 and November 2008. It is difficult to predict how long the current situation may last and when and how it may change again.

In 2007, we incurred a net foreign currency exchange gain, caused by the depreciation of the U.S. dollar against the Euro, in the amount of $2.7 million. However, in 2008 we incurred a foreign exchange loss, caused by the appreciation of the U.S. dollar against the Euro, of $5.6 million, in spite of foreign exchange hedging. We cannot predict the impact of future exchange rate fluctuations and we may incur net foreign currency losses in the future. Furthermore, volatility in foreign exchange rates will to some extent hamper our ability to plan our pricing strategy. Also, since our revenues and expenses are distributed differently among the U.S. dollar, Renminbi and Euro, fluctuations in foreign exchange rates will affect our gross and net profit margins and our operating gains and losses. In particular, any future appreciation of the Renminbi against the U.S. dollar or Euro would tend to increase our costs relative to our revenue. To the extent that we are unable to pass along increased costs to our customers, our profitability may be materially reduced. Fluctuations in currency exchange rates could have a material adverse effect on our financial condition and results of operations.

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

We, along with other solar module product manufacturers, are exposed to risks associated with product liability claims if the use of our solar module products results in injury. Since our products generate electricity, it is possible that users could be injured or killed by our products as a result of product malfunctions, defects, improper installation or other causes. We only shipped our first products in March 2002 and, because of our limited operating history, we cannot predict whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. Although we carry limited product liability insurance, we may not

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have adequate resources to satisfy a judgment if a successful claim is brought against us. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments. Even if the product liability claims against us are determined in our favor, we may suffer significant damage to our reputation.

Our founder, Dr. Shawn Qu, has substantial influence over our company and his interests may not be aligned with the interests of our other shareholders.

As of April 30, 2009, Dr. Shawn Qu, our founder, chairman and chief executive officer, beneficially owned 13,530,000 common shares, or 37.9% of our outstanding share capital, excluding restricted shares granted but yet to be vested and subject to restrictions on voting, dividend rights and transferability. As a result, Dr. Qu has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our common shares. These actions may be taken even if they are opposed by our other shareholders.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages, fines, suspension or even termination of our business operations.

We are required to comply with all national and local regulations regarding protection of the environment. As we have expanded our silicon reclamation program and research and development activities and moved into solar ingot, solar wafer and solar cell manufacturing, we have begun to generate material levels of noise, waste water, gaseous wastes and other industrial wastes in the course of our business operations. Additionally, as we expand our internal solar components production capacity, our risk of facility incidents with a potential environmental impact also increases. Except for a failure to obtain certain approvals prior to starting production as disclosed in Risks Related to Doing Business in China We may face penalties for failing to comply with certain PRC legal requirements, we believe that we are in compliance with present environmental protection requirements and have all necessary environmental permits to conduct our business as it is presently conducted. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with present or future environmental regulations, we may also be required to pay substantial fines, suspend production or cease operations. Any failure by us to control the use or to restrict adequately the discharge of hazardous substances could subject us to potentially significant monetary damages and fines or suspensions of our business operations.

Our solar modules and products must comply with the applicable environmental regulations where they are installed, and we may incur expenses to design and manufacture our products so as to comply with such regulations. For example, we increased our expenditures to comply with the European Union s Restriction of Hazardous Substances Directive, which took effect in July 2006, by reducing the amount of lead and other restricted substances used in our solar module products. Furthermore, we may need to comply with the European Union s Waste Electrical and Electronic Equipment Directive if solar modules and products are re-classified as consumer electronics under the directive or if our customers located in other markets demand that they comply with this directive. This would require us to implement manufacturing process changes, such as changing the soldering materials used in panel manufacturing, in order to continue to sell into these markets. If compliance is unduly expensive or unduly difficult, we may lose market share and our financial results may be adversely affected.

We may not be successful in establishing our brand names among all consumers in important markets and the products we sell under our brand name may compete with the products we manufacture on an original equipment manufacturer, or OEM, basis for our customers.

We sell our products primarily under our own brand name and also on an OEM basis for our customers. In certain markets our brand may not be as prominent as other more established solar power vendors, and there can be no assurance that the CSI or Canadian Solar brand name or any of our possible future brand names will gain acceptance among customers. Moreover, because the range of products that we sell under our own brands and those

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we manufacture for our customers may be substantially similar, there can be no assurance that, currently or in the future, there will not be direct or indirect competition between products sold under the CSI or Canadian Solar brand name or any of our possible future brand names and products that we manufacture on an OEM basis. This could negatively affect our relationship with these customers.

If we grant employee share options, restricted shares or other share-based compensation in the future, our net income could be adversely affected.

We adopted a share incentive plan in 2006. As of December 31, 2008, we had granted 2,124,979 share options and 566,190 restricted shares under our share incentive plan. In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 123R, Share-Based Payment. This statement, which became effective in our first quarter of 2006, prescribes how we account for share-based compensation, and may have an adverse or negative impact on our results of operations or the price of our common shares. SFAS No. 123R requires us to recognize share-based compensation as compensation expense in the statement of operations based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. This statement also requires us to adopt a fair value-based method for measuring the compensation expense related to share-based compensation. The additional expenses associated with share-based compensation may reduce the attractiveness of issuing share options or restricted shares under our share incentive plan. However, if we do not grant share options or restricted shares, or reduce the number of share options or restricted shares that we grant, we may not be able to attract and retain key personnel. If we grant more share options or restricted shares to attract and retain key personnel, the expenses associated with share-based compensation may adversely affect our net income.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on its internal control over financial reporting in its annual report, which contains management s assessment of the effectiveness of its internal control over financial reporting. In addition, an independent registered public accounting firm must report on the effectiveness of the company s internal control over financial reporting. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2008. See Item 15. Controls and Procedures. Our independent registered public accounting firm has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2008. See Item 15. Controls and Procedures Attestation Report of the Independent Registered Public Accounting Firm. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our common shares. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

Risks Related to Doing Business in China

Uncertainties with respect to the Chinese legal system could have a material adverse effect on us.

We conduct substantially all of our manufacturing operations through our subsidiaries in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be

cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these

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laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We may face penalties for failing to comply with certain PRC legal requirements.

We are required to comply with the PRC Environmental Protection Law. For example, some of our subsidiaries are required to have their manufacturing facilities examined and approved by the PRC environmental protection authorities prior to the start of production. However, due to discrepancies between interpretation of the written law and its application to date, our subsidiary CSI Luoyang began production without obtaining such approval. As a result, there is a risk that we may be ordered by the relevant environmental protection authorities to cease manufacturing at this site and subjected to fines. To date, the local environmental protection authority has not taken any action against us and we are currently working with them to complete the examination and obtain the requisite approval. There can be no assurance that we will obtain the necessary approvals for additions or expansions to our manufacturing operations in a timely manner, if at all.

We use dangerous chemicals, such as hydrochloric acid, in our production process. According to the PRC Regulations on the Safety Administration of Dangerous Chemicals, companies using dangerous chemicals shall conduct a safety evaluation on their manufacturing and storage instruments every two years, and the results of the safety evaluation shall be filed with the dangerous chemicals safety supervision and administration authorities. Because some of our PRC subsidiaries have either failed to conduct the safety evaluation or to complete the above filing procedure, we could be subject to fines or a revocation of relevant permits and licenses.

We are required to comply with the PRC Construction Law and relevant regulations in the process of constructing our manufacturing facilities. For example, our PRC subsidiaries CSI Cells and CSI Advanced are required to have their recently constructed manufacturing facilities examined and accepted by relevant agencies before commencing operations. However, CSI Cells and CSI Advanced began operating these facilities without completion of the required examination and acceptance procedure. We are currently working with the relevant parties to undergo the required examination and acceptance procedures. However, there is a risk that we may be ordered by the relevant construction administrative authorities to rectify such non-compliance and be subject to fines.

Our subsidiary, CSI Luoyang, commenced construction of its manufacturing facilities without obtaining a construction permit, which is required under PRC Construction Law. We are currently cooperating with relevant government agencies to obtain this required permit. However, there is a risk that we may be ordered by the relevant construction administrative authorities to rectify such non-compliance and be subject to fines.

The enforcement of the new labor contract law and increases in labor costs in the PRC may adversely affect our business and our profitability.

A new Labor Contract Law came into effect on January 1, 2008, and the Implementation Rules of the Labor Contract Law of the PRC were promulgated and became effective on September 18, 2008. The new Labor Contract Law and the Implementation Rules impose more stringent requirements on employers with regard to executing written employment contracts, hiring temporary employees, and dismissing employees. In addition, under the newly promulgated Regulations on Paid Annual Leave for Employees, which came into effect on January 1, 2008, and their Implementation Measures, which were promulgated and became effective on September 18, 2008, employees who have served for more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of the employer shall be compensated for each vacation day waived at a rate equal to three times their normal daily salary. As a result of these new laws and regulations, our labor costs are expected to increase. Higher labor costs and labor disputes with our

employees stemming from these new rules and regulations could adversely affect our business, financial condition, and results of operations.

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Our subsidiaries will lose certain tax benefits over the next several years and we expect to pay additional PRC taxes as a result, which could have a material adverse impact on our financial condition and results of operations.

On January 1, 2008, the new Enterprise Income Tax Law, or the new EIT Law, came into effective in China. Under the new EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a uniform enterprise income tax rate of 25%. There is a transition period for enterprises which had been given preferential tax treatment under the previous tax law. Enterprises that were subject to an enterprise income tax rate lower than 25% will see the new uniform rate of 25% phased in over a five-year period from the beginning of 2008. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires, subject to certain limitations.

Our subsidiary CSI Manufacturing currently enjoys a reduced EIT rate of 12.5% until the end of 2009, when its tax holiday expires. CSI Cell and CSI Luoyang are also subject to a reduced EIT rate of 12.5% until the end of 2011, when their tax holidays expire. CSI Advanced is exempt from tax this year and will be subject to an EIT rate of 12.5% until the end of 2012, at which time its tax holiday will expire as well. As the preferential tax benefits currently enjoyed by our PRC subsidiaries expire, their effective tax rates will increase significantly, which could have a material adverse effect on our financial condition and results of operations.

There are significant uncertainties on our tax liabilities regarding our income under the new Enterprise Income Tax Law of the PRC.

We are a Canadian company with substantially all of our manufacturing operations in China. Under the new EIT Law and its implementation regulations, both of which became effective on January 1, 2008, enterprises established outside China whose de facto management bodies are located in China are considered PRC tax residents and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the implementation regulations, the term de facto management bodies is defined as the bodies that have, in substance, overall management control over such aspects as the production and business, personnel, accounts and properties of an enterprise. Currently there are no detailed rules or precedents governing the procedures and specific criteria for determining a company s de facto management bodies, which are applicable to us. As a substantial number of the members of our management team are located in China, we may be considered as a PRC tax resident under the new EIT Law and, therefore, subject to the uniform 25% enterprise income tax rate as to our global income. If our global income is subject to PRC enterprise income tax at the rate of 25%, our financial condition and results of operation may be adversely affected.

Dividends payable by us to our foreign investors and gains on the sale of our common shares may become subject to PRC enterprise income tax liabilities.

The implementation regulations of the new EIT Law provide that (i) if the enterprise that distributes dividends is domiciled in the PRC or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains shall be treated as China-sourced income. Currently there are no detailed rules or precedents governing the procedures and specific criteria for determining what it means to be domiciled in the PRC. As such, it is not clear how the concept of domicile will be interpreted under the new EIT Law. Domicile may be interpreted simply as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered as a PRC tax resident enterprise for tax purposes, any dividends we pay to our overseas shareholders as well as any gains realized by such shareholders from the transfer of our common shares may be regarded as China-sourced income and, consequently, be subject to PRC withholding tax at a rate of up to 10%. If dividends we pay to our overseas shareholders as well as any gains realized by such shareholders from the transfer of our common shares are subject to PRC withholding tax, it may materially and adversely affect your investment return and the value of your investment in us.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

Certain portions of our revenue and expenses are denominated in Renminbi. If our revenues denominated in Renminbi increase or expenses denominated in Renminbi decrease in the future, we may need to convert a portion

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