

**UNITED STATES DISTRICT COURT
DISTRICT OF DELAWARE**

LARRY QUICK, Individually And On Behalf of All Others Similarly Situated,)	CIVIL ACTION NO.
)	
Plaintiff,)	
)	CLASS ACTION
vs.)	COMPLAINT
)	FOR VIOLATIONS OF
ASTROPOWER, INC., ALLEN M. BARNETT AND THOMAS J. STINER,)	FEDERAL SECURITIES
)	LAWS
)	
Defendants.)	<u>JURY TRIAL DEMANDED</u>
)	

Plaintiff alleges the following based upon the investigation of plaintiff’s counsel, which included a review of United States Securities and Exchange Commission (“SEC”) filings by AstroPower, Inc. (“AstroPower” or the “Company”), as well as regulatory filings and reports, securities analysts’ reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of purchasers of the securities of AstroPower between February 22, 2002 and August 1, 2002, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission (“SEC”) [17 C.F.R. § 240.10b-5].

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337 and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

4. Venue is proper in this District pursuant to Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b). Many of the acts and practices complained of herein occurred in substantial part in this District and AstroPower maintains its principal executive offices in this District.

5. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

6. Plaintiff Larry Quick, purchased the securities of AstroPower at artificially inflated prices, as set forth in the accompanying certification, during the Class Period and has been damaged thereby.

7. Defendant AstroPower is a Delaware corporation with its principal executive offices located at 300 Executive Drive, Newark, Delaware. At all relevant times, AstroPower described itself as “the world’s largest independent manufacturer of solar electric power products, and one of the world’s fastest growing solar electric power companies.”

8. Defendant Allen M. Barnett served as President and Chief Executive Officer of the Company at all times relevant to this action.

9. Defendant Thomas J. Stiner served as Chief Financial Officer of the Company at all times relevant to this action.

10. Messrs. Barnett and Stiner are referred to herein as the “Individual Defendants.”

11. Because of the Individual Defendants’ positions with the Company, they had access to the adverse undisclosed information about its business, operations, products, operational trends, financial statements, markets and present and future business prospects via access to internal

corporate documents (including the Company's operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

12. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the Individual Defendants by virtue of their high-level positions with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, products, growth, financial statements, and financial condition, as alleged herein. Said defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

13. As officers and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was traded on the NASDAQ National Market (the "NASDAQ"), and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly, accurate and truthful information with respect to the Company's financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful and accurate information. The Individual

Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

14. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with AstroPower, each of the Individual Defendants had access to the adverse undisclosed information about AstroPower's business prospects and financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about AstroPower and its business issued or adopted by the Company materially false and misleading.

15. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

16. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of AstroPower common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding AstroPower's business, operations, management and the intrinsic value of AstroPower's shares; and (ii) caused plaintiff and

other members of the Class to purchase AstroPower securities at artificially inflated prices.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

17. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired the securities of AstroPower between February 22, 2002 and August 1, 2002, inclusive (the "Class Period") and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

18. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, AstroPower securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by AstroPower or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

19. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

20. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

21. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

a. whether the federal securities laws were violated by defendants' acts as alleged herein;

b. whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of AstroPower; and

c. to what extent the members of the Class have sustained damages and the proper measure of damages.

22. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

23. AstroPower develops, manufactures, markets and sells a range of solar electric power generation products, including photovoltaic (PV) solar cells, modules, panels and the "SunChoice" pre packaged system in the United States and select international markets, including Germany, Spain, Japan, China and South Africa.

24. The Company's solar power generation products are based on crystalline silicon wafers and generate electricity directly from the sun's energy. The Company's products are used either in an "off-grid" application, where they provide the primary source of power instead of the traditional utility grid, or "on-grid," where they provide an alternative and/or backup source of power in conjunction with power from the grid.

25. During the five years preceding the Class Period, demand for solar power had increased by 35%, creating a favorable environment for manufacturers with sufficient capacity,

according to a research report published by CIBC World Market Corp. on March 14, 2002. Throughout the Class Period, AstroPower presented itself as such a manufacturer. In its press releases, the Company repeatedly described itself as “the world’s largest independent manufacturer of solar electric power products, and one of the world’s fastest growing solar electric power companies.” The Company stated, in its Form 10-K for the period ended December 31, 2001, that it had quadrupled production during the two years preceding the Class Period. The Company also stated that it was developing a method for manufacturing solar cells called Silicon Film Technology. The Company claimed that Silicon Film Technology was more efficient and cost effective than its manufacturing process at that time and that it would therefore increase the Company’s profit margins.

26. In September 2001, the Company acquired Aplicaciones Tecnicas de la Energia, S.A., located in Valencia, Spain (“Atersa”), for \$22.2 million in stock and cash. Atersa was purportedly a leader in the Spanish residential rooftop solar system market. During the Class Period, AstroPower manufactured solar products from the Atersa facility and two facilities in Delaware. Throughout the Class Period, the Company represented that it was ramping up production while remaining cost efficient, that it had sufficient expertise to adjust solar product capacity to demand, and that it had minimized the risk of oversupply and a concomitant inventory glut and/or price and margin erosion.

27. In September 2001, the Company announced an agreement with Home Depot to sell AstroPower’s SunChoice on-grid residential and commercial rooftop solar power systems at three stores in San Diego and, during the Class Period, the Company said that it planned to expand into at least 70 Home Depot stores in California in 2002. The Company entered into agreements with several nationally recognized homebuilders that provided for the use of the SunChoice systems in new home construction and, in April 2002, announced an agreement with Premier Homes to supply a minimum of 50 solar electric home power systems for newly

constructed Premier Homes.

28. The Company further claimed that, as a result of its management, manufacturing, and marketing expertise, it was well positioned to take advantage of the increasing demand for solar power products and, throughout the Class Period, the Company reported strong revenue and earnings growth. As a result of these statements and reports, which were disseminated to the investing public, and which formed the basis for research analysts' reports on the Company, the Company's stock price traded well above the industry average and reached a Class Period high of \$27 per share on March 28, 2002.

29. In truth and in fact, throughout the Class Period, the Company was unable to effectively manage its expanding and increasingly complex operations; it was, *inter alia*, unable to allocate resources among its various manufacturing facilities to effectively meet regional demand or to tailor its production capacity to actual demand. Consequently, during the time that the Company was stating that it was well positioned to take advantage of the increased demand for solar products, it was in fact losing ground to more effective competitors, especially in Europe, which was the Company's largest market. Additionally, to maintain the illusion that its operations were successful, the Company throughout the Class Period reported artificially inflated revenue and earnings by, *inter alia*, recording revenue in advance of shipment, contrary to its stated principles of revenue recognition.

30. The truth was revealed on August 1, 2002 when, after the close of trading, the Company announced its results for the second quarter ended June 30, 2002. Analysts were stunned. Reported revenue and net income had not grown but, on the contrary, second quarter income was \$365,000, or \$0.02 per diluted share compared to \$1.7 million, or \$0.07 per diluted share in the year earlier second quarter and revenue of \$20.4 million represented only a one percent increase over reported revenue for the prior quarter and was approximately \$4.9 million below analysts' consensus estimate. Contrary to the Company's Class Period statements, its ramp up

to meet increased demand was not low risk but resulted in an inventory glut, which included \$2 million in inventory which the Company described as “stranded.”

31. On this news, AstroPower’s share price plunged 48%, down to \$7.77, its lowest price in almost three years. On August 2, 2002, Brean Murray & Co., Inc. issued a research report on the Company that reflected analysts’ response to AstroPower’s disappointing second-quarter performance, in which it stated, “Management will, over time, have to re-establish its own credibility in the investment community as well as demonstrating the viability of its business model before investors revisit the stock.”

FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

32. The Class Period begins on February 22, 2002. On February 21, 2002, after the close of trading, the Company issued a press release over the *PR Newswire* under the headline: “AstroPower, Inc. Reports Record Fourth Quarter and Full Year Results.” In the release, the Company announced revenue of \$20.7 million for the fourth quarter ended December 31, 2001, an increase of 46.9% from the fourth quarter of 2000, and net income of \$1.87 million, or \$0.12 per share for the fourth quarter ended December 31, 2001, as compared to \$761,000 or \$0.06 per share for the fourth quarter of 2000. For the year ended December 31, 2001, the Company reported revenue of \$69.5 million, an increase of 39.5% from the previous year, and net income of \$3.5 million, or \$0.23 per diluted share, compared to the previous year’s net income of \$3.4 million, or \$0.27 per diluted share. These results were in-line with analysts’ consensus estimate.

33. The release also contained “Management Comments” which stated in pertinent part, as follows:

Commenting on the quarter, Dr. Allen Barnett, President and CEO of AstroPower, said “We are pleased to report another record quarter – our 24th consecutive quarter of sequential product revenue growth. This performance has allowed us to increase product revenues over the past five years at a compound rate of over 60%.

“During Q4, we achieved our target of having 65 megawatts of manufacturing capacity in place and we will be ramping up our production rate during 2002. Substantially all of our growth in megawatts during 2002 is expected to be driven by expansion of our SiliconFilm(TM) production capacity. Our goal is to finish 2002 with 115 megawatts of manufacturing capacity in place. Our new manufacturing lines are being configured to reduce the number of process modules and handling steps, which will enable us to bring new capacity on-line faster and to reduce manufacturing and capital costs. [. . .]

“We have substantially completed our integration of Atersa, which we acquired during the third quarter. The sales and marketing and finance organization have been operationally integrated on a worldwide basis, and integration of the manufacturing function is proceeding on schedule. Our announcement earlier this week concerning Atersa’s \$3 million project award in Brazil is an early example of how we expect Atersa to expand our presence in the rural power business around the world.

Dr. Barnett continued “For the first quarter of 2002, we expect product revenues to be in the range of \$20.5 – \$21.5 million. Product gross margin is expected to be in the range of 31.0% to 32.0%. Operating expenses are expected to be in the range of 19.5% to 20.5% of the total revenues for the quarter.

34. Similarly, in their comments to analysts, defendants stated that the Company’s increasingly strong financial performance was driven by increased manufacturing capacity and strong demand. Credit Suisse Boston Corp. issue an analyst report on AstroPower on February 22, 2002 and stated as follows:

* AstroPower reported 4Q01 and FY2001 financial results in line with expectations. For FY2001, revenue and operating EPS were \$69.5MM and \$0.41 versus \$49.8MM and \$0.27 for FY2000 and our estimates of \$68.5MM and \$0.41, respectively. [. . .] Management attributed the strong results primarily to its increased manufacturing capacity and the continued strong demand for its solar products across all geographic regions and market segments including both on-grid and off-grid.

* During the quarter, AstroPower substantially completed the integration of Atersa and achieved its stated goal of reaching 65MW of manufacturing capacity by FYE2001. Management said it planned to increase capacity to 115MW by FYE 2002. [. . .]

* We believe AstroPower will continue to grow earnings in the 50% range primarily driven by low cost capacity expansion coupled with strong demand. AstroPower remains on allocation with its customers in the capacity constrained solar industry. [. . .]

The company said demand for its rooftop solar systems continued to grow both domestically with Home Depot and others, and with its rooftop program in Spain. Management reaffirmed its goal of having AstroPower products sold in 70 Home Depot stores in California by FYE2002 and said there could be

potential expansion beyond the state during the year.

35. Other analysts made similar comments on AstroPower's reported fourth-quarter and year-end results and noted AstroPower's purported growth and leading market position and, in this regard, stated:

We expect APWR will continue to realize sequential product revenue growth as capacity continues to ramp up in the coming quarters. [Brean Murray & Co., Inc., Feb. 22, 2002]

We believe AstroPower (as one of only two profitable companies in this sector) is well positioned to benefit from increasing interest on the part of consumers and federal, state and local governments in increasing environmentally friendly sources of energy, and promoting energy independence. [J.P. Morgan Chase & Co., Feb. 22, 2002]

A growth machine that continues to meet our expectations. [. . .]

The greater-than-expected increase in product revenue is due to strong demand for the company's SunChoice residential rooftop program out of the conventional channels as well as new channels consisting of national homebuilder programs and the expansion of the Home Depot market test in San Diego. [. . .] We believe this latest stage of the [Home Depot] pilot program is indicative that the program is thus far exceeding expectations. Management is confident that the program will expand to at least 70 stores throughout California during the course of 2002. [Wedbush Morgan Securities, Feb. 22, 2002]

36. On February 22, 2002, the *News Journal* reported that AstroPower was moving its headquarters from Newark, Delaware to a new, \$12.6 million, 160,000 square-foot manufacturing plant and headquarters in Glasgow, Delaware, "as the solar-powered cell maker struggles to keep up with an increased demand for its products."

37. On March 15, 2002, CIBC World Markets Corp. initiated coverage of AstroPower, and described the Company as follows:

Low cost and profitable producer with visible earnings growth in a rapidly growing industry . Also seen as a 'flight-to-quality' name within the group. Core holding. Price target \$45.

38. The statements referenced above were each materially false and misleading when made because they misrepresented and/or omitted the following adverse facts which then existed and disclosure of which was necessary to make the statements not false and/or misleading, including, but not limited to:

a. the integration of Ate rsa were not “substantially” completed, the sales and finance organization had not been operationally integrated on a worldwide basis and the integration of the manufacturing function was not proceeding on schedule;

b. the company was unable to manage its rapidly expanding and increasingly complex manufacturing processes and was unable to allocate resources effectively among its various manufacturing facilities;

c. the Company was unable to gauge demand and adjust its manufacturing process accordingly and consequently, it was producing large quantities of product for which there was no market, and recognizing revenue on a material portion of this production even though it had not been billed for or shipped; and

d. reported 2001 revenue and net income were artificially inflated because the Company had (i) stuffed its distribution channels by distributing products in excess of demand and (ii) improperly recognized revenue on products that it had not shipped and on products and research for which it had not billed.

39. On March 29, 2002, the Company filed its Form 10-K for the fiscal year ended December 31, 2001, signed by the Individual Defendants, in which the Company repeated the financial results set forth above. With respect to the Company’s manufacturing processes, the Form 10-K stated:

We have developed an innovative and proprietary set of technologies and processes for the manufacture of solar cells which optimizes several stages in the manufacturing process to progressively reduce production costs while increasing mechanical and electrical yields. We have also introduced several solar cell design features that allow us to generate more power per solar cell, which ultimately reduces the cost per kilowatt. Our manufacturing and design innovations address the primary challenges in solar cell production. These include:

- Silicon wafer formation and sourcing. We have developed two proprietary manufacturing processes that allow us to significantly reduce silicon wafer cost. Our recycled semiconductor wafer technology recycles silicon wafers from the semiconductor industry for the production of solar cells. Our Silicon-Film (TM) technology does not require high-purity silicon and produces large area silicon sheets in a fraction of the time of traditional ingot-based wafer

manufacturing. Both our processes are based on crystalline silicon and build on this material's established track record of performance and reliability.

- Equipment and process engineering. We have designed a range of proprietary equipment and processes that allow us to increase our manufacturing productivity and to generate a higher level of power output per production asset. For example, our Silicon-Film technology is a continuous, high-speed production process that produces silicon wafers in minutes. In contrast, traditional ingot-based silicon wafer manufacturing requires expensive wafer formation and sawing equipment and takes several days to produce the same quantity of solar power. [. . .]

Our focus on silicon wafer sourcing, equipment and process engineering and product design has allowed us to significantly reduce our production cost per watt and has provided us with significant operating leverage to grow out our business.

40. Regarding the cost-effectiveness and efficiency of its operations, and its

ability to adapt to changes in demand, the Company stated as follows:

We believe that our recent experience of building and operating our second plant in Delaware, has allowed us to develop a formal, replicable model for capacity expansion and that this process reduces the risks associated with further capacity expansion. [. . .] Some of the key elements contributing to this low risk approach are:

- utilization of previously proven processes and equipment; increases in solar cell size which allow for greater power output with existing production processes; and flexible manufacturing which enables us to run multiple product configurations through the same line.

For the past several years, we have been constrained by manufacturing capacity and, in response, have been adding equipment and manufacturing space to increase capacity. Historically, the photovoltaic industry has taken a number of years to make its new capacity fully productive. Our experience in making our new manufacturing equipment fully productive is 9-18 months. At the end of 2001, we had 65 megawatts of manufacturing equipment in place. In late February 2002, we assumed occupancy of a third facility for manufacturing and office space. The manufacturing area of this facility contains space to allow the construction of an additional 125 megawatts over the next few years, which when fully equipped will bring our total installed manufacturing equipment capacity to 190 megawatts.

41. With respect to revenue recognition, the Company stated:

Revenue from product sales is recognized when products are shipped. Revenue related to the Company's fixed price, cost-plus and cost-sharing research contracts are recognized at the time costs benefitting the contracts are incurred, which approximates the percentage of completion method. Provisions for estimated losses are made in the period in which losses are determined. Accounts receivable includes unbilled accounts receivable

consisting of material labor and overhead expended on contracts.

Our research contract revenue is generated from contracts with various federal government agencies to conduct research on advanced Silicon-Film (TM) products and optoelectronic devices. Generally these contracts last from six months to three years. We recognize research contract revenue at the time costs benefitting the contracts are incurred, which approximates the percentage of completion method.

42. The statements referenced above were each materially false and misleading for the reasons set forth above and for the additional reason that the Company did not have “significant operating leverage” to grow its business.

43. On May 2, 2002, AstroPower issued a release over the *PR Newswire* in which it announced its financial results for the first quarter ended March 31, 2002. The Company reported revenue of \$20.7 million, an increase of 44.7% from the first quarter of 2001, and net income of \$2.0 million, or \$0.13 per diluted share, compared to a loss of \$1.5 million, or \$0.13 per diluted share in the year-earlier period. The release contained “Management Comments” which stated:

Commenting on the quarter, Dr. Allen Barnett, President and CEO of AstroPower said, “We are pleased to report another record quarter. We continue to focus on growing our manufacturing capacity and again achieved record production levels during the quarter. This performance was driven in part by contribution from our fourth solar cell manufacturing line which is dedicated to running our proprietary Silicon-Film (TM) wafers.” Dr. Barnett continued, “As in previous years, our product mix in Q1 shifted significantly toward solar cells. This had the effect of reducing sequential quarterly revenue growth but significantly increased product gross margins. For the balance of the year, we expect our product mix weighting to shift back toward modules and systems. As in previous years, this should lead to acceleration of sequential revenue growth in subsequent quarters.”

“One component of our SunChoice (TM) business is the homebuilder market, and we are pleased to have recently announced another builder agreement. Premier Homes, an innovative California builder, will feature our 2.4 kilowatt SunLine (TM) packaged solar electric system as a standard feature in one of their California communities. In addition, we are continuing to expand our program with The Home Depot.”

Dr. Barnett continued, “For the second quarter of 2002, we expect product revenues to be in the range of \$23.0 to \$25.0 million. Product gross margin is expected to be in the range of 32% to 34%. Operating expenses are expected to be in the range of 20% to 21% of the total revenues for the quarter.”

44. On May 10, 2002, the Company filed its Form 10-Q for the first-quarter ended

March 31, 2002, signed by the Individual Defendants, in which it repeated the financial results set forth above. With respect to revenues it stated:

We currently generate product revenues from the sale of solar cells, modules, panels and pre packaged systems. While the predominant source of our product revenues to date has been recycled wafer products, we are continuing a significant expansion of our Silicon Film manufacturing capacity. We recognize product sales revenue upon shipment. Product sales represented 98.3% of total revenues for the three months ended March 31, 2002. [. . .]

We also generate revenue from contracts with various federal government agencies to conduct research on advanced Silicon-Film products and optoelectronic devices. Generally, these contracts last from six months to three years. We recognize research contract revenue at the time costs benefitting the contracts are incurred, which approximates the percentage of completion method. Substantially all of our revenues from government contracts are subject to audit under various federal statutes.

45. On June 12, 2002, AstroPower issued a press release over the *PR Newswire* in which the Company announced its preliminary success in developing a silicon manufacturing process that would create a large-volume source of cost-effective solar-grade silicon feedstock for use in the construction of solar panels. In the release, the Company stated that this new source of supply would allow the Company to better meet the rapidly growing demand for solar products.

46. The statements referenced above were each materially false and misleading for the reasons set forth above.

THE TRUTH BEGINS TO EMERGE

47. On August 1, 2002, after the close of trading, AstroPower issued a press release over the *PR Newswire* in which the Company announced that its second quarter net income had fallen 78% to \$365,000, or \$0.02 per share, from \$1.7 million, or \$0.07 per share, in the same period a year earlier. Analysts had expected the Company to earn \$.11 per share. Moreover, the Company's gross profit margin did not increase but rather decreased from 34% to 28.1%, even though defendants had repeatedly stated during the Class Period that the Company's manufacturing processes were increasingly cost-effective and efficient. Total inventories increased

from \$31.2 million as of March 31, 2002 to \$38.3 million while the Company ended the second quarter with \$39.9 million in cash, down from 2002.

48. As a result of this news, AstroPower shares, opened for trading at \$9.94 on August 2, 2002, after having closed at \$14.89 on August 1, 2002. In fact, on August 1, 2002, the price of AstroPower shares dropped to an intra-day low of \$7.50 and closed out the day at \$7.77, down 48% from the previous day's closing price, and the shares' lowest price in almost three years.

49. In the "Management Comments" section of the release, the Company blamed lower-than-expected sales in Germany and California and poor allocation of product and stated:

Commenting on the quarter, Dr. Allen Barnett, President and CEO of AstroPower said, "Although we continue to show strong revenue gains year over year and remained profitable, we are disappointed with the results for this quarter. There were a number of external and internal factors that contributed to slower growth than planned.

"As has been widely reported in the trade press, the German market got off to a very slow start this year. AstroPower's shipments to Germany during Q2 were higher than in 2001, but did not increase as strongly as we planned. In addition, we experienced some uncertainty in California due to an announcement concerning possible elimination of a solar tax credit.

Temporary relative softness in these two key markets required us to shift geographic and product mix, and reduced our sales growth for the quarter. Internally, we experienced some difficulty in adjusting our forecasting and build planning systems to the above-mentioned market developments. The net result was a mismatch between products for which we had orders and the products that our factory built. This was an unusual situation for AstroPower, and resulted in a finished goods inventory increase of approximately \$2 million at the end of the quarter.

50. Analysts were shocked, in part because AstroPower management had assured them, less than a month before the earnings announcement, that the factors to which it attributed its poor performance had been eliminated. In this regard, Wedbush Morgan Securities published a research note on August 2, 2002 which stated as follows:

Downgrading to HOLD; The Sun Is not Quite Shining like It Used to [. . .]

We are frankly shocked at the size of this quarter's earnings miss, particularly when we consider all of the many growth initiatives that the company appears to be executing fairly well on, including the capacity build, the expansion of the Home Depot and homebuilder channels, and the large pipeline of products at Atersa. We believe that AstroPower lost market share during the quarter in both Europe and the U.S. to its more-aggressive competitors [. . .]

Toward the end of the quarter and through July, APWR management stated that many of the factors that hurt 2Q had reversed themselves. Pricing had firmed overall, the German government voted to expand the PV program by nearly 200%, order flow began to pick up in Germany, California passed a budget that kept the PV tax credit intact and APWR collected some of its outstanding accounts receivable. Yet, we do not believe that APWR will return to generating 50% YOY top-line growth any time soon.

51. Commenting on the results, other analysts noted AstroPower's surprising inability to manage its production process contrary to the statements made by the defendants throughout the Class Period. In this regard they stated:

The sales shortfall was derived from new competition and pricing pressure in Germany, delays in receipt of several large systems orders and slow ramp-up of SunChoice Systems. Lower profits are indicative of lower sales volume and the company's inability, in the short run, to adjust production to other product applications and geographic markets. [William Blair & Co., August 2, 2002]

Gross margins were down to 28.1% from 34% in the prior quarter because of a disruption of factory operations in Delaware and Spain. [. . .] The weakness in the German market was noted in decreased megawatt volume due to a few large systems being a part of the product mix in this region. [. . .]

Unfortunately, this weak (German) market forced AstroPower to relocate its German products and the company experienced difficulty adjusting its internal forecasting and build planning systems accordingly. Products were mismatched and the incorrect geographic placement of these products led to the stranded finished products. [Morgan Keegan & Company, Inc., August 2, 2002]

52. In a research report published on August 2, 2002, RBC Capital Markets stated, "Management obviously has a credibility gap that, in our opinion, will take one or two quarters to close at a minimum."

Additional Scienter Allegations

53. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated by the Company were materially false and misleading; knew that such statements or documents would be issued or

disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding AstroPower, their control over, and/or receipt and/or modification of AstroPower's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning AstroPower, participated in the fraudulent scheme alleged herein.

**Applicability Of Presumption Of Reliance:
Fraud-On-The-Market Doctrine**

54. At all relevant times, the market for AstroPower's securities was an efficient market for the following reasons, among others:

(a) AstroPower's stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, AstroPower filed periodic public reports with the SEC and the NASD;

(c) AstroPower regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) AstroPower was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

55. As a result of the foregoing, the market for AstroPower's securities promptly

digested current information regarding AstroPower from all publicly available sources and reflected such information in AstroPower's stock price. Under these circumstances, all purchasers of AstroPower's securities during the Class Period suffered similar injury through their purchase of AstroPower's securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

56. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of AstroPower who knew that those statements were false when made.

FIRST CLAIM

Violation Of Section 10(b) Of The Exchange Act And Rule 10b-5 Promulgated Thereunder Against All Defendants

57. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein. This claim is brought against all defendants.

58. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including plaintiff and other Class members, as alleged herein; and (ii) cause

plaintiff and other members of the Class to purchase AstroPower's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

59. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for AstroPower's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

60. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of AstroPower as specified herein.

61. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of AstroPower's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about AstroPower and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of AstroPower securities during the Class Period.

62. Each of the Individual Defendants' primary liability, and controlling person

liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

63. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing AstroPower's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

64. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of AstroPower's securities was artificially inflated during the Class Period. In ignorance of the fact

that market prices of AstroPower's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, plaintiff and the other members of the Class acquired AstroPower securities during the Class Period at artificially high prices and were damaged thereby.

65. At the time of said misrepresentations and omissions, plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that AstroPower was experiencing, which were not disclosed by defendants, plaintiff and other members of the Class would not have purchased or otherwise acquired their AstroPower securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

66. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

67. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

SECOND CLAIM

Violation Of Section 20(a) Of The Exchange Act Against Individual Defendants

68. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein. This claim is brought against the Individual Defendants.

69. The Individual Defendants acted as controlling persons of AstroPower within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-

level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

70. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

71. As set forth above, AstroPower and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

WHEREFORE, plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of plaintiff and the other

Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Date d: April 16, 2003

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