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

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 30, 2006

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

For the transition period from to

Commission File Number 0-27892

SIPEX CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**04-6135748**
(State of Incorporation)	*(IRS employer identification number)*
233 South Hillview Drive, Milpitas, California	**95035**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (408) 934-7500

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.01 per share
Name of exchange on which registered: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☐ Accelerated filer ☐ Non-accelerated filer ☑

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the issuer as of the last business day of the registrant's most recently completed second fiscal quarter (July 1, 2006) was approximately $57,570,000 based upon the last reported price on the Pink Sheets of $5.98 per share. The number of shares outstanding reflects a 1-for-2 reverse stock split effected by the Registrant on February 23, 2007.

The number of shares of the registrant's common stock outstanding on March 26, 2007 was approximately 18,661,000 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after close of the fiscal year ended December 30, 2006 are incorporated by reference into Part III of this report.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements that involve risks and uncertainties. The statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this annual report on Form 10-K are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "intends," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot offer any assurance of future results, levels of activity, performance or achievements. Important factors that may cause actual results to differ from expectations include those discussed in "Risk Factors" beginning on Item 1A in this document. The terms "Sipex," "the Company," "we," "us," "its" and "our" as used in this annual report on Form 10-K refer to Sipex Corporation and its subsidiaries and its predecessors as a combined entity, except where the context requires otherwise.

PART I

Item 1. *Business:*

Company Overview

Based in Milpitas, California, Sipex Corporation was incorporated in May 1965 under the laws of the State of Massachusetts. The state of incorporation was changed from Massachusetts to Delaware in October 2003. Sipex designs, manufactures and markets high performance, analog integrated circuits or "ICs" that primarily are used by original equipment manufacturers, or OEMs, operating in the computing, consumer electronics, communications and networking infrastructure markets. Some of the end product applications that contain our ICs are cellular phones, base stations, computers, DVD players, and digital cameras. Our products are sold either directly or through an international network of manufacturers' representatives and distributors. We are a global company with operations in Asia, Europe and North America.

Hereinafter, the years ended December 30, 2006, December 31, 2005 and January 1, 2005 are also referred to as "2006," "2005" and "2004."

Recent Developments

In an effort to achieve significant cost savings, in the third quarter of 2005, we decided to close down the Milpitas wafer fabrication facility and transfer our IC manufacturing processes from there to a wafer fabrication facility operated by Hangzhou Silan Integrated Circuit Co., Ltd., or Silan, in Hangzhou, China and a wafer fabrication facility operated by Episil Technologies, Inc., or Episil, in Taiwan. Definitive agreements regarding this transfer were entered into in February 2006, and the closure of the Milpitas fabrication facility was fully completed in early October 2006. In December 2006, we announced a workforce reduction plan that was implemented in response to our transitioning to a fabless semiconductor company, de-emphasizing optical products, reducing dependency on commodity products and with the goal of improving our cost structure.

On January 30, 2007, Sipex's stockholders at a special meeting of stockholders approved a 1-for-2 reverse split. Sipex completed the reverse stock split effective at 1:31 p.m. Pacific Standard Time on February 23, 2007. All references to share and per share data have been retroactively adjusted to reflect the reverse stock split in this report except for Item 4.

On March 29, 2007, we entered into a Securities Purchase Agreement with Rodfre Holding LLC., or Rodfre, an affiliate of Future Electronics Inc., or Future, our largest distributor worldwide and an affiliate of our largest stockholder (Alonim Investment Inc.), to provide an unsecured promissory note facility of up to $10.0 million. This facility expires, and the borrowings and accrued interest under any notes issued under this facility are due and payable, on June 30, 2008, or upon certain other events such as a change of control. Borrowings under this promissory note facility bear interest of 9% per annum subject to an increased interest rate of up to 20% in case of default or after maturity. This promissory note facility is subordinate to our Loan and Security Agreement with Silicon Valley Bank and to our 5.5% Redeemable Convertible Senior Notes due 2026.

Semiconductor Industry Background

Integrated circuits, the essential building blocks of today's electronic products, are classified as either digital or analog ICs. Digital ICs which include memory products, microprocessors and digital signal processors, or DSPs process binary signals composed of strings of "0s" and "1s." Often they are constrained by market-based standards and depend on a company's ability to design and manufacture very large-scale circuits, using expensive, state-of-the-art process technologies that minimize device size.

Analog ICs act as the bridge between the digital world and physical world. They transform signals derived from the physical environment, such as heat, pressure, sound and light, or monitor and condition analog signals derived from external electronic inputs. In contrast with digital ICs, analog ICs are most often designed and optimized for specialized applications in specialized markets. Their development and successful market adoption requires close customer contact and the deployment of small, tightly coordinated teams of experienced and highly

skilled engineers who understand the complexities of the ICs and understand the interrelationships with their layout, process technology, packaging and end application.

Analog and digital IC manufacturers often share the characteristics of the semiconductor industry including cyclical market demands, capacity limitations, oversupply conditions, manufacturing variations, accelerated product life cycles, price erosion, global competition, capital equipment expenditures and rapid technological changes. Product life cycles in the analog IC market, with some exceptions, tend to be longer and customer pricing less volatile than digital ICs because competition is more limited and customers tend to avoid major changes in the analog components of their products because of the design complexities involved and the performance requirements in typical analog IC applications. In addition, the capital expenditures for analog IC manufacturers are typically lower because analog ICs usually consume less silicon area and their fabrication processes are focused on device matching and careful layout and do not require frequent and expensive equipment upgrades or replacements to remain competitive.

Sipex's Business Strategy

We supply our customers in target markets with an array of standard product choices as well as custom products, which compete on the basis of features, performance, size, and pricing. We maintain close working relationships with strategic customers. Through our close relationships, we can understand the problems that our customers are facing and will be facing which enables us to define and create our future products and technology roadmaps, and shorten our customers' product development cycles. In addition, we have been restructuring our operations since 2002 and will continue to do so in 2007 to reduce costs, improve productivity, and improve quality.

Sipex Markets, Applications and Products

We sell products into a variety of applications and markets including networking and communications, computer and peripherals, industrial controls and instrumentation, and consumer products. The customer end-products in these markets are driven by basically the same requirements: higher operating efficiency, higher accuracy, more power output at lower voltages, faster data transfer and higher bandwidth. These requirements provide opportunities for us to develop our products with features designed for applications, ranging from power modules in routers to pick-up heads in CD/DVD systems.

We currently support our customers with over 2,500 products in three categories: power management, interface and optical storage. These products, whether custom or proprietary, are designed for specific end applications that require unique feature sets, specific electrical performance criteria (speed, precision, power, etc.), and additional system-level integration. We focus on developing these products as standard analog ICs in order to serve larger markets and reduce the risk of dependency on single customer requirements. Our interface product category represents more than one half of our total sales followed by power management and optical storage, which is our smallest product line.

Power Management Products — These ICs regulate, control, monitor or provide the reference voltage for a system or portion of a system. Direct current/direct current or DC/DC regulators and pulse-width modulation/pulse-frequency modulation controllers convert voltage up or down within a system and provide a controlled level of power to the system, independent of normal operating load, line and temperature fluctuations. Supervisory ICs monitor power levels and notify controller ICs of out-of-range power conditions. Voltage references establish benchmark voltages within a system and provide constant outputs independent of temperature and other operating variations. Within this product category, Sipex develops white light-emitting diode or LED drivers needed in virtually every consumer portable device and in liquid crystal display LCD monitors. This product family is replacing the electroluminescent lamp or EL driver family, which developed high voltage alternating current or AC signals from low voltage battery sources that provide backlighting for LCDs.

The power management product portfolio continued to expand in 2006 with proprietary ICs including white LED drivers, DC/DC regulators and controllers. These new products deliver improved power efficiency, increased miniaturization and more power at lower output voltage levels in portable power and distributed power applications.

Interface Products — Interface products facilitate the transfer of digital signals between or within electronic systems and ensure reliable connectivity between networks, computers and the rapidly expanding mix of digital peripherals and consumer portable devices that connect to them. Our single protocol RS-232 and RS-485 transceivers comply with international standards in delivering multi-channel digital signals between two systems. Our proprietary multi-protocol transceivers enable network equipment to communicate with a large population of peripherals that use a diverse set of serial protocol standards without the added burden of multiple add-on boards and cables.

The focus on lower voltage and low power consumption to conserve energy has made our low voltage, interface ICs popular in a variety of digital peripherals including data cables for personal digital assistants (PDAs), cellular phones and digital cameras. Multi-protocol ICs continue to be used in networking and telecommunications equipment.

Optical Storage Products — Our optical storage product family shipped in volume started in the second quarter of 2002. During the fourth quarter of 2006, we decided to de-emphasize the optical storage products. This product family provides electronic solutions for pick-up heads used in optical storage systems, such as CD and DVD devices. Optical storage products are customized to each customer, tend to have shorter design cycles, time-to-volume and product lives than interface and power management products.

Optical storage products consist of photo-detector ICs, advanced power control ICs and laser diode drivers. The photo-detector ICs capture a portion of the light reflected from the optical storage medium, convert it to a set of electronic digital signals and forward them to the chipset for processing. The reflected light contains both data and tracking information. The advanced power control ICs capture a portion of the optical power coming from the laser and feed it back into a control system that regulates laser intensity. This control function is used to prevent damage to the laser diode and extend the life of the system. For both of these functions, we have developed technology that permits the photo-detection functions to be incorporated with their signal conditioning circuitry. This functional integration enables faster read speeds and smaller footprints in DVD-R/W, DVD-RAM and CD-R/W systems.

We have a family of laser diode drivers that control the laser diode in the pick-up head. Our devices are designed to drive two lasers at high speed. This will allow the customer to build a 780nm and 650nm system on one pick-up head for combo CD/DVD devices. We introduced our first product in this product family during 2003.

Sales, Distribution and Marketing

We sell our products to OEM customers primarily through our distributor network, as well as through a direct sales force and a network of independent sales representatives. The direct sales force consists of country managers, regional sales managers and field applications engineers who support our sales representatives, distributors and customers with technical support services. Our sales staff and field application engineers also manage, train and support our network of distributors and representatives. The sales and field applications staff are located in our Billerica, Massachusetts and Milpitas, California facilities and in field offices in China, Germany, Japan, South Korea, Taiwan, France and the United Kingdom (See Note 16 to our consolidated financial statements regarding Segment Information and Major Customers). International sales accounted for approximately 80% of net sales in each of fiscal years 2006, 2005 and 2004.

Most of our sales are generated through the worldwide distributor network. Most of our "design win" activity is generated through our network of independent representatives and through our direct sales force. Design wins are decisions by customers to include our products as a component of the designs for their own future products.

We are subject to normal semiconductor market seasonality which is driven by two factors: (a) the consumer product markets that build during the late summer for holiday season; and (b) the general cyclical nature of the semiconductor industry. We are also subject to the normal risks of conducting business internationally, including exchange rate fluctuations. To date, we have not hedged the risks associated with fluctuations in exchange rates, but we may undertake such transactions in the future.

Our marketing team develops long-term product and technology roadmaps based on first-hand market knowledge, close customer relationships, industry experience, and a variety of public and private market data. Detailed technical information in the form of data sheets, application notes and tutorials are posted on our website

and a variety of technical and sales materials are published and distributed to customers, sales representative and distributors. We engage in print advertising to raise market awareness of our products and services.

Future Electronics Inc.

Future, a related party, is our exclusive distributor for North America and Europe. Future is also our largest distributor worldwide, and accounted for 43%, 44%, and 39% of total net sales for the years ended December 30, 2006, December 31, 2005, and January 1, 2005, respectively. We have a distribution agreement that provides for Future to act as our sole distributor for certain products within North America and Europe. Sales to this distributor are made under an agreement that provides protection against market price reduction for its inventory of our products. We maintain a separate price list for products sold to Future, which is different from the prices charged to customers in direct sales transactions. On a quarterly basis, Future is permitted to return for credit up to 10% of its total purchases during the most recent three-month period (credit is reduced to 5% with a 2% scrap allowance applicable to all purchases from us starting April 1, 2006). We recognize revenue on sales to Future under the distribution agreement when it sells the products through to the end customer, which is referred to as sell-through accounting.

On September 8, 2006, we appointed two executive vice presidents working for Future to our board of directors. The board has determined that both directors are not independent within the meaning of Rule 4200(a)(15) of the NASDAQ Manual by virtue of their relationships with Future. Accordingly, the board does not appoint them to any standing committees of the board. In connection with their appointment as directors, both directors have agreed to excuse themselves from any board discussions that relate to transactions between Sipex and Future. From time to time, Future's senior management meets with Sipex senior management to discuss strategic direction, sales and marketing considerations and other issues facing us. In addition, Future's sales and marketing personnel frequently meet with our sales and marketing staff regarding sales prospects and other concerns related to the market for our products in a manner consistent with Future's practices with our other distribution partners. Future has also provided information technology, accounting and other supporting services to us.

Asian Distributors

In Asia, we sell products through a number of distributors in addition to Future. All sales to these international locations are denominated in U.S. dollars. We maintain separate price lists for products sold to distributors, which typically reflect discounts from the prices charged to customers in direct sales transactions, but do not provide price protection to these distributors on items that are included in their inventory. Effective in the first quarter of 2004, all distributors were permitted to return products up to 5% of their most recent three-month purchases from Sipex. Effective as of January 1, 2003, we recognize revenue on sales to these distributors when they sell the products through to their end customers. Prior to January 1, 2003, we recognized revenue on sales to these Asian distributors using a ship-to accounting methodology for which we recognized revenue upon shipment to the distributors less estimated reserves for returns.

Customers

Our customer base is comprised of industrial distributors, OEMs, original design manufacturers, or ODMs, and electronic manufacturing services companies, or EMS. Industrial distributors provide logistical and supply chain services to their customers. (See our disclosure regarding Future, our exclusive distributor for North America and Europe under "Sales, Distribution and Marketing" above). The OEMs and ODMs use our products as components in their equipment and systems. In certain cases, we sell our products to EMS companies who buy our products and use them in the systems and subsystems they manufacture for OEMs and ODMs. Selected end users of our products include Bird Communications, Dell Computer, Hewlett-Packard, Huawei, IBM, Motorola, Nortel Networks, Panasonic, Philips, Research In Motion, Samsung, Siemens AG, Toshiba and ZTE.

Backlog

Our product backlog was approximately $14.9 million at December 30, 2006 compared to $13.0 million at December 31, 2005. The higher backlog was due to increased customer purchase order activities for delivery in

2007. We include in backlog all orders scheduled for delivery within one year. However, our business is characterized by short-term orders and shipment schedules. We generally permit orders to be canceled or rescheduled without significant penalty to customers. As a result, the quantities of our products to be delivered and their delivery schedules may be revised by customers to reflect changes in their needs. Since backlog can be canceled or rescheduled, our backlog at any time is not necessarily indicative of future shipments and/or revenues. In addition, due to the high percentage of our sales going through the distribution channel, our backlog may be affected by inventory levels at our distributors.

Manufacturing

We have historically maintained a wafer fabrication facility in Milpitas, California which has supplied most of our product needs, except for the optical storage products and certain power products requiring more advanced process technologies. This wafer fabrication facility commenced manufacturing operations in the second half of 1999, and was used to produce both four-inch and six-inch diameter wafers. Previously we also used a four-inch wafer facility located in San Jose, California, but that lease was assumed by an unrelated third party in early 2003 as a part of a restructuring initiative. Likewise, at the end of December of 2002, we ceased all test operations at our Billerica, Massachusetts facility and transferred those operations to our subcontractors in Asia.

In the third quarter of 2005, we decided to transition to a "fabless" manufacturing structure and to outsource all of our wafer fabrication operations to third party suppliers and subcontractors. As such we closed the Milpitas, California fabrication facility in early October 2006 and transferred most of our wafer production to Silan, in Hangzhou, China, and Episil, in HsinChu, Taiwan. We believe this conversion will lower our manufacturing costs and enable us to pursue market opportunities where historically we were unable to provide a cost effective solution to our customers. The conversion to a fully fabless manufacturing model along with the use of third-party foundries should enable us to minimize fixed costs and capital expenditures while providing access to diverse manufacturing technologies without bearing the full risk of the obsolescence of such technologies.

We test ICs or "die" on the wafers produced internally and by our foundries for compliance with performance specifications before assembly. Our commercial products are assembled and tested by a variety of subcontractors in Asia which have been certified as ISO-9002, TL16949 compliant. Following testing, the packaged units are shipped directly from our subcontractors to our customers worldwide.

Product Quality Assurance and Reliability

We are committed to customer satisfaction and continuous improvement in all aspects of our business. This is accomplished through a comprehensive quality and reliability system founded on documented procedures. Quality tools such as statistical process control; cross-functional teaming and advanced statistical analysis are used in qualification, production processes and quality improvement activities. We maintain close relationships with our subcontractors and routinely qualify suppliers to established standards. We are ISO-9001-2000 certified and have continuously maintained our ISO certification since 1996. The Milpitas facility was ISO-14000 certified in 2005 and recertified to both ISO standards in 2006.

Patents, Licenses and Trademarks

We seek to protect our proprietary technology through patents and trade secret protection. Currently, we hold a number of patents expiring between now and 2021 and have additional United States patent applications pending, although we cannot offer assurance that any patents will result from these applications. In 2006, we substantially increased our spending on intellectual property protection and plan to significantly expand our intellectual property portfolio. In addition to seeking patent coverage for our products and manufacturing technology, we believe that our success heavily depends on the technical expertise and innovative abilities of our personnel. Accordingly, we also rely on trade secrets and confidential technological know-how in the conduct of our business. We cannot offer assurance that our patents or applicable trade secret laws will provide adequate protection for our technology against competitors who may develop or patent similar technology or reverse engineer our products. In addition, the laws of certain territories in which our products are or may be developed, manufactured or sold, including Asia, Europe and Latin America, may not protect our products and intellectual property rights to the same extent as the

laws of the United States of America. Pursuant to license agreements, we pay a royalty to Maxim Integrated Products for certain interface product sales.

Research and Development

We believe that continued introduction of new products in target markets is essential to growth. As performance demands and complexity of analog circuits have increased, the design and development process have become a multi-disciplinary effort, requiring diverse competencies to achieve customers' desired performance. In addition to our staff of design engineers, we have an infrastructure of product and test engineers who perform various support functions.

We spent $17.3 million in 2006, $17.2 million in 2005 and $14.7 million in 2004 on research and development, representing 22.0%, 23.7% and 19.5% of net sales for these years, respectively. The decrease in 2006 as a percentage of net sales was primarily due to the increase in net sales. We expect to focus more on the productivity of our research and development investment through better product definition, consistent strategy and improved tools. Overall expenditures in support of research and development activity are likely to decrease in absolute dollars in the near future in conjunction with the planned closure of the design center in Belgium which supported our optical products.

Our ability to compete depends in part upon continued introduction of technologically innovative products on a timely basis. Research and development efforts are directed primarily at designing and introducing new products and technologies. We seek to continually upgrade our internal technology while also working with foundries to develop new technologies for new generations of products. In addition, we seek to continually refine the practices and technology used to manufacture our products to improve product yields.

Competition

We compete in multiple segments of the analog integrated circuit market. This market is intensely competitive and many major semiconductor companies presently compete or could compete with us in the same applications or products. Our current primary competitors include AATI, Analog Devices, Intersil, Linear Technology, Maxim Integrated Products, Micrel Semiconductor, National Semiconductor, On Semiconductor, Pioneer, Semtech, Sharp, Sony and Texas Instruments among others. Our primary competitors have substantially greater financial, technical, manufacturing, marketing, distribution, other resources and broader product lines than we do. In addition, there are foreign semiconductor makers that compete primarily on a price basis. Although foreign companies active in the semiconductor market have not traditionally focused on the high performance analog market, with the exception of the optical marketplace, many foreign companies have the financial and other resources to participate successfully in these markets and may become formidable competitors in the future.

We believe that product innovation, quality, reliability, solution, performance and the ability to introduce products rapidly are important competitive factors in our target markets. We compete primarily during the customer's design-in stage of product development. We further believe that cost competitiveness is paramount in every segment of the semiconductor industry.

Employees

At December 30, 2006, we had 285 full-time employees including 83 in manufacturing, 74 in engineering, 85 in sales and marketing, and 43 in finance and administration. At December 31, 2005, we had 357 full-time employees including 154 in manufacturing, 83 in engineering, 71 in sales and marketing, and 49 in finance and administration.

We believe that our future success will depend, in part, on our ability to attract and retain qualified technical and manufacturing personnel. This is particularly important in the areas of product design and development, where competition for skilled personnel is intense. None of our employees are subject to a collective bargaining agreement, and we have never experienced a work stoppage.

Availability of Reports and Other Information

Our Internet website is www.sipex.com. On this website, the public can access our annual, quarterly and current reports free of charge through a hyperlink to the Securities and Exchange Commission, or the SEC, website as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We intend to satisfy the disclosure requirements under Item 10 of Form 10-K regarding amendment to, or waiver from, our code of ethics by posting such information on our website at www.sipex.com, provided such method of disclosure is then in compliance with the rules of the Nasdaq Global Market and the rules of the SEC. Our common stock is currently traded on the "Pink Sheets" electronic trading system for over-the-counter securities, where market makers and brokers can submit bid and ask prices for our common stock on a daily basis. However, there can be no assurances that our common stock will continue to be eligible for trading or quotation on this or any alternative exchanges or markets.

Item 1A. *Risk Factors:*

Our quarterly and annual operating results are volatile and difficult to predict and may cause our stock price to fluctuate.

Our quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect net sales and profitability from period-to-period, including:

- the cyclical nature of the semiconductor industry;
- the volatility of the optical device market;
- competitive pressures on selling prices;
- the mix of product sales, as our margins vary across product lines;
- the timing and cancellation of customer orders;
- the effect of the timing of sales by our resellers may have on our reported results as a result of our sell-through revenue recognition policies;
- our ability to maintain and expand our distributor relationships;
- our ability to design and manufacture products to meet customers' and distributors' specifications and expectations;
- our ability to introduce new products and technologies on a timely basis;
- market acceptance of our products and our customers' products;
- the introduction of products and technologies by our competitors;
- the level of orders received that can be shipped in a quarter;
- delays in shipments from our fabrication plants to assembly houses;
- the availability of foundry capacity, raw materials and assembly and test capacity;
- our ability to manufacture and have products manufactured for us, the correct mix to respond to orders on hand and new orders received in the future;
- fluctuations in yields;
- changes in product mix;
- the level of future product returns;
- the timing of investments in research and development, including tooling expenses associated with product development, process improvements and production;

- costs associated with increased regulation of corporate governance and disclosure and risks of non-compliance with such regulation; and
- the overall economic conditions in the United States and abroad.

Due to the absence of substantial non-cancelable backlog, we typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially.

Our expense levels are based, in part, on expectations of future revenues and are, to a large extent, fixed in the short-term. For example, we have a minimum purchase arrangement with two of our suppliers based on requirements forecasted in advance. Our future revenues are difficult to predict and at times in the past we have failed to achieve revenue expectations. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. If revenue levels are below expectations for any reason, operating results are likely to be unfavorably affected. We may also take steps to adjust our strategic product families and change our cost structure, which may result in our incurring additional restructuring, reorganization and other charges. Based on forecasts, we may increase our operating expenses for personnel and new product development and for inventory in anticipation of increasing sales levels; therefore, operating results would be worsened if increased sales are not achieved.

Our business depends on market demand for products using analog semiconductors. A less robust semiconductor market could negatively impact our net sales, results of operations and cash flows. As a result of the foregoing and other factors, we may experience material fluctuations in future operating results on a quarterly or annual basis, which could substantially negatively affect our business, financial condition and operating results.

We may need to obtain a significant amount of additional capital in the future and may not be able to secure adequate funds on a timely basis or on terms acceptable to us.

We believe that the cash, cash equivalents and investments on hand, the cash we expect to generate from operations and borrowings under our bank line of credit and unsecured promissory note facility will be sufficient to meet our liquidity and capital spending requirements for at least the next twelve months. However, it is possible that we may need to raise additional funds to fund our activities during and/or beyond that time. We could raise these funds by selling more stock to the public or to selected investors, or by borrowing money.

In addition, even though we may not need additional funds, we may still elect to sell additional equity securities or obtain credit facilities for other reasons. We may not be able to obtain additional funds on favorable terms, or at all. If adequate funds are not available, we may be required to curtail our operations significantly or to obtain funds through other arrangements. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing stockholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock.

It is possible that our future capital requirements may vary materially from those now planned. The amount of capital that we will need in the future will depend on many factors, including:

- whether we are able to reduce our recent negative cash flows;
- the market acceptance of our products;
- volume price discounts;
- the levels of inventory and accounts receivable that we maintain;
- our business, product, capital expenditure and research and development plans and product and technology roadmaps;
- our competitors' response to our products;
- our relationships with suppliers and customers;

- capital expenditures for equipment to meet customer demand for our products;
- technological advances, and
- the levels of promotion and advertising that will be required to launch our products and achieve and maintain a competitive position in the marketplace.

In addition, we may require additional capital to accommodate planned growth, hiring, infrastructure and facility needs or to consummate acquisitions of other businesses, products or technologies.

Our management has identified certain "material weaknesses" in the design and operation of our internal controls, which, if not adequately addressed, could result in accounting errors, call into question the accuracy of our financial results.

For the year ended January 1, 2005, our management informed the Audit Committee that they identified "material weaknesses," as defined by the Public Company Accounting Oversight Board (PCAOB), in the design and operation of our internal controls. These weaknesses related to entity-level control activities, revenue accounting and controls related to the financial closing process.

For the years ended December 31, 2005 and December 30, 2006, we were not an accelerated filer, and therefore we are not required to make the annual report on internal control over financial reporting required by Item 308(a) of Regulation S-K and our independent registered public accounting firm is not required to issue a separate attestation on management's assessment of our internal control over financial reporting under Item 308(b).

During fiscal year 2006, our management continued efforts to improve our internal controls over financial reporting, in particular to remediate the material weaknesses reported as of January 1, 2005. Our management believes that these efforts have or are reasonably likely to have, a material improvement on the design and effectiveness of our internal controls over financial reporting and to remediate the material weaknesses. However, as we were not an accelerated filer, and therefore not subject to the requirements of Item 308(a) and Item 308(b) of Regulation S-K, as noted above, there can be no assurance that we have fully remediated the material weaknesses reported as of January 1, 2005 or that our internal control over financial reporting is effective.

Our ability to implement our business plan successfully in a volatile market requires effective management systems and a system of financial processes and controls. We have identified a need to further evaluate and improve our sell-through accounting systems and procedures as well as our inventory valuation estimation procedures and tools. In addition, we have begun the process of implementing a new enterprise requirements planning system, which is expected to be completed in 2008. During the process of preparing our consolidated financial statements, we have continued to experience some delays and difficulties due to reliance on manual reconciliations and analyses. If we are unable to maintain an adequate level of processes and controls and improve our systems and procedures, we may not be able to accurately report our financial performance on a timely basis and our business and stock price would be adversely affected.

If we are unable to accurately forecast demand for our products, we may be unable to efficiently manage our inventory.

Due to the absence of substantial non-cancelable backlog, we typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. As a consequence of inaccuracies inherent in forecasting, inventory imbalances periodically occur that result in surplus amounts of some of our products and shortages of others. Such shortages can adversely affect customer relations and surpluses can result in larger-than-desired inventory levels, which can adversely affect our financial position. In the fourth quarter of 2006, we experienced an abrupt reduction in customer demand and internal forecast for sales of our products resulting in inventory write-down of $3.5 million and additional charges of $1.4 million related to provision for purchase commitments on excess inventories.

We are not currently listed on a national exchange or market, and can offer no assurance that we will ever be listed.

As a result of our failure to timely file our annual report on Form 10-K for the year ended January 1, 2005 and our quarterly report on Form 10-Q for the three months ended April 2, 2005, we were delisted from the Nasdaq Global Market effective June 23, 2005, and our common stock is not currently listed on any national stock exchange or market. In order to be eligible for re-listing on the Nasdaq Global Market we must meet Nasdaq's initial listing criteria. We cannot assure you that we will be able to meet these criteria or that our common stock will ever be relisted on the Nasdaq or listed on any other national stock exchange or market. Our common stock is currently traded on the Pink Sheets, LLC electronic trading system for over-the-counter securities, which has not historically provided investors with the level of liquidity found in other markets and exchanges.

We may face unforeseen complications from the transfer our manufacturing processes to Silan in China and Episil Technologies in Taiwan.

We have transferred our manufacturing processes to foundries operated by Silan in China and Episil in Taiwan in conjunction with the closure of the Milpitas, California wafer fabrication facility. The transfer has been a complicated and time-consuming process that has been met with significant unforeseen complications that delayed the integration transfer and required additional allocation of our resources. There can be no guarantees that additional unforeseen integration issues will not arise in the future related to the integration that could cause additional delays which could materially adversely affect our ability to timely produce our products for distribution.

In addition, the parties may be unable to achieve all or any of the expected benefits of the relationship within the anticipated time-frames. The anticipated synergies between Sipex and Silan or Episil may not be as significant as originally expected. The market for our products in China may not grow as rapidly or as large as both parties currently anticipate. The manufacturing processes and wafer testing for certain products may not be qualified by Sipex following the transfer from Sipex to Silan or Episil or the qualification process may take significantly longer than currently expected. This could result in additional operating costs, loss of customers, and business disruption.

We may experience difficulties in developing and introducing new or enhanced products necessitated by technological advances.

Our future success will depend, in part, upon our ability to anticipate changes in market demand and evolving technologies. To remain competitive, we must enhance our current products and develop and introduce new products that keep pace with technological advancements and address the increasingly sophisticated needs of our customers. Our products may be rendered obsolete if we fail to anticipate or react to change, and, as a result, our revenues and cash flow may be negatively impacted. Our success depends on our ability to develop new semiconductor devices for existing and new markets, to introduce these products in a timely manner and to have these products selected for design into new products of our customers. The development of these new devices is highly complex and from time to time we have experienced delays in completing the development of new products. Successful product development and introduction depends on a number of factors, including:

- accurate new product definition;
- timely completion and introduction of new product designs;
- availability of foundry capacity;
- achievement of manufacturing yields; and
- market acceptance of our products and our customers' products.

Our success also depends upon our ability to accurately specify and certify the conformance of our products to applicable standards and to develop our products in accordance with customer requirements. We may not be able to adjust to changing market conditions as quickly and cost-effectively as necessary to compete successfully. We may not be able to introduce new products in a timely and cost-effective manner or in sufficient quantities to meet customer demand. Furthermore, we cannot guarantee that these products will achieve market acceptance.

The introduction of our new products may be delayed in order to test for and resolve design flaws.

Our products are complex and must meet stringent quality requirements. They may contain undetected errors or defects, especially when new products are first introduced or when new versions are released. We recently delayed the introduction of some of our new products in order to perform further tests on the products and to identify and resolve any of these errors. We may further delay the release of our new product lines. Such delays could have an adverse effect on our market reputation and ability to generate sales.

We depend on distributors who sell directly to OEMs and the loss of one or more of our significant distributors could have a material adverse effect on our business.

For the fiscal years 2006, 2005 and 2004 approximately 77%, 83%, and 83%, respectively, of our net sales were from shipments of our products to distributors who sell directly to OEMs. Our agreements with distributors contain limited provisions for return of our products, including stock rotations whereby distributors may return a percentage of their purchases from us based upon a percentage of their most recent three months of shipments. In addition, in certain circumstances upon termination of the distributor relationship, distributors may return some portion of their prior purchases. The loss of business from any of our significant distributors or the delay of significant orders from any of them, even if only temporary, could significantly reduce our income, delay recognition of revenue and impact our ability to accurately predict cash flow.

We may not successfully expand our sales and distribution channels.

An integral part of our strategy is to expand our sales and distribution channels, particularly internationally. We are increasing resources dedicated to developing and expanding these channels but we may not be successful in doing so. If we are successful in increasing our sales through indirect sales channels, we expect that those sales will be at lower per unit prices than sales through direct channels, and revenues we receive for each sale will be less than if we had sold the same product to the customer directly. Selling through indirect channels may also limit our contact with our customers. As a result, our ability to accurately forecast sales, evaluate customer satisfaction and recognize emerging customer requirements may be hindered. Even if we successfully expand our distribution channels, any new distributors may not have the technical expertise required to market and support our products successfully. If distributors do not provide adequate levels of services and technical support, our customers could become dissatisfied, we could be required to devote additional resources for customer support and our brand name and reputation could be negatively impacted. Our strategy of marketing products directly to our customers and indirectly through distributors may result in distribution channel conflicts.

We derive a substantial portion of our revenues from Future, a related party, and our revenues would likely decline significantly if Future elected not to make, cancel, reduce or defer purchases of our products.

Future is a related party and has historically accounted for a significant portion of our revenues. Future is our largest distributor worldwide and accounted for 43%, 44% and 39% of total net sales in fiscal 2006, 2005 and 2004, respectively. We anticipate that sales of our products to Future will continue to account for a significant portion of our revenues. The loss of Future as a distributor, or a significant reduction in orders from Future would materially and adversely affect our operating results, our business, our financial condition and our stock price.

We have a distributor agreement with Future that provides for Future to act as our sole distributor for certain products within North America and Europe. If Future were to cease distributing these products, we could experience a reduction in sales as we locate replacement distributors for these products. Sales to Future are made under an agreement that provides protection against price reduction for their inventory of our products. As such, we could be exposed to significant liability if the inventory value of the products held by Future declined dramatically. Our distributor agreement with Future does not contain minimum purchase commitments. As a result, Future could cease purchasing our products with short notice to us. In addition, Future may defer or cancel orders without penalty, which would likely cause our revenues, our business, our financial condition and our stock price to decline.

Affiliates of Future, our largest distributor, beneficially own a significant percentage of our common stock, which will allow them to significantly influence matters requiring stockholders' approval and could discourage potential acquisition of our Company.

As of December 30, 2006, the affiliates of Future held approximately 8.6 million shares of our common stock, or approximately 47%, of our outstanding common stock and held 50% of our outstanding 5.5% Redeemable Convertible Senior Notes due 2026. We have also entered into a Securities Purchase Agreement with Rodfre pursuant to which we may issue to Rodfre up to $10.0 million of 9% unsecured junior notes. In addition, two members of our board of directors, Dan Casey and Pierre Guilbault, are representatives of Future. Due to its ownership of a significant percentage of our common stock and our convertible debt, Future will be able to exert significant influence over, and effectively control, actions requiring the approval of our stockholders, including the election of directors, many types of change of control transactions and amendments to our charter documents. The significant ownership percentage of Future could have the effect of delaying or preventing a change of control of Sipex or otherwise discouraging a potential acquirer from obtaining control of Sipex. Conversely, by virtue of Future's percentage ownership of our stock and debt, Future could facilitate a takeover transaction that our board of directors did not approve.

Occasionally, we enter into agreements that expose us to potential damages that exceed the value of the agreement.

We have given certain customers increased indemnification for product deficiencies that is in excess of the standard limited warranty indemnification and could possibly result in greater costs, in excess of the original contract value. In an attempt to limit this liability, we have also increased our errors and omission insurance policy to partially offset these potential additional costs; however, our insurance coverage could be insufficient to prevent us from suffering material losses if the indemnification amounts are large enough.

We may face significant risks related to our international operations.

We derive a significant portion of our net sales from international sales, including to Asia, which are subject to certain risks, including:

- unexpected changes in legal and regulatory requirements;
- changes in tariffs;
- exchange rates and other barriers;
- political and economic instability;
- difficulties in accounts receivable collection;
- difficulties in managing distributors or representatives;
- difficulties in staffing and managing international operations;
- difficulties in protecting our intellectual property overseas;
- the seasonality of sales; and
- potentially adverse tax consequences.

Our international sales (sales to customers outside the United States) in the year ended December 30, 2006 were $62.7 million, or 80% of total net sales and $58.0 million and $60.3 million for the years ended 2005 and 2004, respectively, and 80% of total net sales for both years of 2005 and 2004. There can be no assurance that economic and geopolitical troubles in any area of the world will not have a material adverse effect on our business, results of operations and financial condition.

Our inability to meet any increase in demand could reduce our market share.

Demand shifts in the semiconductor industry are rapid and difficult to predict, and we may not be able to respond quickly enough to an increase in demand, if any. Our ability to increase sales of our products depends, in part, upon our ability to optimize the use of our manufacturing and suppliers' manufacturing capacities in a timely manner and, if necessary, expand our manufacturing and suppliers' manufacturing capacities. If we are unable to respond to rapid increases in demand, if any, for our products on a timely basis or to manage any corresponding expansion of our manufacturing capacity effectively, our customers could increase their purchases from our competitors, which would reduce our market share.

If we are unable to compete effectively with existing or new competitors, we will experience fewer customer orders, reduced revenues, reduced gross margins and lost market share.

We compete in markets that are intensely competitive, and which are subject to both rapid technological change and continued price erosion. Our competitors include many large domestic and foreign companies that have substantially greater financial, technical and management resources than we have. Loss of competitive position could result in price reductions, fewer customer orders, reduced revenues, reduced gross margins and loss of market share, any of which would affect our operating results and financial condition. To remain competitive, we continue to evaluate our manufacturing operations, looking for additional cost savings and technological improvements. If we are not able to successfully implement new process technologies and to achieve volume production of new products at acceptable yields, our operating results and financial condition may be affected. In addition, if competitors in Asia reduce prices on commodity products, it would adversely affect our ability to compete effectively in that region. Our future competitive performance depends on a number of factors, including our ability to:

- accurately identify emerging technological trends and demand for product features and performance characteristics;
- develop and maintain competitive products;
- enhance our products by adding innovative features that differentiate our products from those of our competitors;
- bring products to market on a timely basis at competitive prices;
- respond effectively to new technological changes or new product announcements by others;
- increase device performance and improve manufacturing yields;
- adapt products and processes to technological changes; and
- adopt or set emerging industry standards.

There can be no assurance that our design, development and introduction schedules for new products or enhancements to our existing and future products will be met. In addition, there can be no assurance that these products or enhancements will achieve market acceptance, or that we will be able to sell these products at prices that are favorable.

The implementation of a new management information system may disrupt our business.

We have begun the process of implementing a new enterprise resource planning and financial accounting and planning system, and integrating this new system with our customer relationship management system and our product management system. Implementation of the new management information system, including the integration with other systems, is a very complex and time consuming process that requires significant financial resources and personnel time, as well as unifying operating policies and procedures to ensure that the total system operates efficiently and effectively. Further delays or any errors in the implementation could result in additional costs and cause disruptions to our business, which could adversely affect our ability to accurately report our financial results on a timely basis, comply with our periodic reporting requirements on a timely basis and could have a material adverse effect on our business, financial condition and operating results.

A failure of our information systems would adversely impact our ability to process orders for and manufacture products.

We operate a multinational business enterprise with manufacturing, administration and sales groups located in Asia, Europe and North America. These disparate groups are connected by a virtual private network-based enterprise resource planning system, where daily manufacturing operations and order entry functions rely on maintaining a reliable network among locations. Any failure of our computer network or our enterprise resource planning system would impede our ability to schedule orders, monitor production work in process and ship and bill our finished goods to our customers.

We have only limited protection for our proprietary technology.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. Although we are not aware of any pending or threatened patent litigation that we consider material, there can be no assurance that third parties will not assert claims against us with respect to existing or future products or technologies and we have been subject to such claims in the past. To determine the validity of any third party claims, such litigation, whether or not determined in our favor could result in significant expense to us and divert the efforts of our management personnel from productive tasks. In the event of an adverse ruling in such litigation, we may be required to discontinue the use of certain processes, cease the manufacture, use and sale of infringing products, and expend significant resources to develop non-infringing technology or obtain licenses to the infringing technology. There can be no assurance that licenses will be available on acceptable terms, or at all, with respect to disputed third party technology. In the event of a successful claim against us and our failure to develop or license a substitute technology at a reasonable cost, our business, financial condition and results of operations would be materially and adversely affected.

There can be no assurance that foreign intellectual property laws will protect our intellectual property rights. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate our products or design around any of our patents. We may be subject to, or may initiate, interference proceedings in the U.S. patent office, which can demand significant financial and management resources.

Our future success depends on retaining our key personnel and attracting and retaining additional highly qualified employees.

Our success depends upon the continued service of our executive officers and other key management and technical personnel, and on our ability to continue to attract, retain and motivate qualified personnel, such as experienced analog circuit designers. The competition for these employees is intense. Our employee's are employed at-will, which means that they can terminate their employment at any time. There can be no assurance that we will be able to retain our design engineers, executive officers and other key personnel. The loss of the services of one or more of our design engineers, executive officers or other key personnel or our inability to recruit replacements for these personnel or to otherwise attract, retain and motivate qualified personnel could seriously impede our success.

Product defects or compatibility problems with our products could damage our reputation, decrease market acceptance of our technology, cause us to replace defective or incompatible products at a substantial cost and result in potentially costly litigation.

A number of factors, including design flaws, materials failures, manufacturing problems, and misapplication of our products may cause our products to contain undetected errors, defects or compatibility problems. Defects or compatibility problems with our products may:

- cause delays in product introductions and shipments;
- result in increased costs and diversion of development resources;

- result in increased product returns and cause us to incur costs due to unusable inventory or replacement of defective or incompatible products; or
- require design modifications.

If any of our products contain defects, or have reliability, quality or compatibility problems, our reputation might be damaged significantly and customers might be reluctant to buy our products. This could result in the loss of existing customers and impair our ability to attract new customers in the future. In addition, we may discover defects or failures in our products after they are installed by customers. In such cases, we may incur significant costs and devote substantial management resources to correcting these problems. Our customers may also sue us for, or otherwise seek to recover from us, any losses resulting from alleged defects or errors in our products.

The manufacturing processes for our products are very complex, which may result in manufacturing difficulties.

The manufacturing processes for our products are highly complex and are continuously being modified in an effort to improve yields and product performance. Process changes can result in interruptions in production or significantly reduced yields causing product introduction or delivery delays. In addition, yields can be adversely affected by minute impurities in the environment or other problems that occur in the complex manufacturing process. Many of these problems are difficult to diagnose and are time-consuming or expensive to remedy. From time to time we have experienced unfavorable yield variances. In particular, new process technologies or new products can be subject to especially wide variations in manufacturing yields and efficiency. There can be no assurance that our foundries or the foundries of our suppliers will not experience unfavorable yield variances or other manufacturing problems that result in delayed product introduction or delivery delays. This risk is particularly significant in the near term as we transfer our manufacturing processes to Silan and Episil.

We increasingly rely on outside foundries to supply certain of our wafers and those foundries may not produce at acceptable levels.

Beginning in 2006, we began to increasingly rely on outside foundries to supply certain of our fully processed semiconductor wafers. There can be no assurance that we will not be totally dependent on outside foundries. This reliance on outside foundries presents the following potential risks:

- lack of adequate wafer supply;
- limited control over delivery schedules;
- unavailability of or delays in obtaining access to key process technologies; and
- limited control over quality assurance, manufacturing yields and production costs.

Additionally, we do not have a guaranteed level of production capacity at any of these foundries with the exception of two of our foundries for whom we provide minimum purchase commitments in accordance with our supply agreements. The ability of each foundry to provide wafers to us is limited by the foundry's available capacity, and the foundry's allocation of its available capacity among multiple customers. There can be no assurance that our third party foundries will allocate sufficient capacity to satisfy our requirements. We have experienced decreased allocations of wafer supplies from our suppliers in the past, which reduced our capacity to ship products, and, thus, recognize revenues. Furthermore, any sudden reduction or elimination of any primary source or sources of fully processed wafers could result in a material delay in the shipment of our products. If any other delays or shortages occur in the future, our business and operating results will be negatively impacted.

Our ability to meet current demand or any increase in demand for our products may be limited by our ability to test our semiconductor wafers.

As part of our manufacturing process, we must test all of our semiconductor wafers using certain "probe testing" equipment. As such, our ability to meet current demand or any increase in demand for our products depends, in part, on our ability to purchase and install sufficient testing equipment. Obtaining and installing this equipment is a time and capital intensive process and depends on our ability to accurately predict future sales. In the

first quarter of 2006, due to a lack of sufficient "probe testing" equipment, we were unable to test an adequate number of wafers, incurred delays in shipping products and were unable to meet the demand for our products. If we are unable to estimate future sales correctly or we are unable to obtain the necessary testing equipment on a timely basis, we will continue to be unable to meet the current demand or any increased demand for our products.

The facilities of certain of our significant customers and third party wafer suppliers are located in areas susceptible to earthquakes and other natural disasters.

The facilities of certain of our significant customers and third-party wafer suppliers are located in areas that are susceptible to earthquakes and other natural disasters. Damage caused by earthquakes or other natural disasters may result in shortages in water or electricity or transportation, which could limit the production capacity of our wafer facility or the ability of certain of our subcontractors to provide needed products. Any reduction in production capacity or the ability to obtain fully processed semiconductor wafers could cause delays or shortages in our product supply, which would negatively impact our business. If the facilities of our customers or our third party wafer suppliers are damaged by future earthquakes or other natural disasters, it could have a materially adverse effect on our business.

We rely on outside suppliers to assemble, test and ship product to our customers.

We rely on outside assembly houses to assemble, test and ship our product to end customers. There can be no assurance that our third party suppliers will allocate sufficient capacity to us to meet our requirements. Any sudden reduction or elimination of a primary source could result in material delay in the shipment of our product and could have a material adverse affect on our business and operating results.

In addition, we may transition the testing of our products to new assembly houses. If the transition does not proceed smoothly, this could also result in delays in the shipment of our products.

Because we rely on outside assembly house to assemble, test and ship our products, we have limited control over quality assurance, manufacturing yields and production costs, and we have in the past experienced yield issues and delays. We could experience delays or yield issues in the future due to the transfer of products from development to production, which could negatively impact our business and operating results. In addition, if defects in our products are undetected, we may experience higher warranty expenses than anticipated, which could negatively impact our reputation, business and operating results.

We must comply with significant environmental regulations, employment tax regulations, employment practices and other governmental regulations which are difficult and expensive.

We are subject to a variety of international, federal, state and local governmental regulations related to employment taxes, employment practices and other governmental regulations and regulations regarding the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing processes or residing in our products. The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production or a cessation of operations. Any failure by us to control the use of, or adequately restrict the discharge of hazardous substances, or otherwise comply with environmental regulations, could subject us to significant future liabilities. Any failure to conform to employment tax regulations, employment practices regulations and other governmental regulations, could result in remediation or other significant liabilities.

We substantially increased our outstanding indebtedness with the issuance of 5.5% Redeemable Convertible Senior Notes Due 2026, and we may not be able to pay our debt and other obligations.

In May 2006 we issued notes in the aggregate principal amount of $30.0 million in a private placement to Future and certain institutional investors. As of December 30, 2006, $30.2 million with interest remained outstanding under the notes. The notes accrue interest at a rate of 5.5% per annum, subject to adjustment, with accrued interest payable on May 15 and November 15 of each year. The interest rate is subject to increase upon failure to comply with certain covenants, such as our failure to be listed on a national exchange such as the New York Stock Exchange or the Nasdaq Global Market or our failure to have declared effective a registration statement registering the notes, warrants and underlying shares of our common stock. As a result of our failure to comply with

these conditions we are effectively obligated to pay up to an additional 2.7% of interest on the notes, and our current effective interest rate is 8.2% per annum. By issuing the notes we increased our indebtedness substantially. In addition, the holders of the notes have imposed certain restrictive covenants, including limits on our future indebtedness and limits on our ability to incur future liens and make certain restricted payments. The holders of the notes also have the option of causing us to repurchase the notes for cash at a price equal to the principal amount of the notes plus accrued interest on each of May 15, 2011, May 15, 2016, or May 15, 2021 or upon a change of control (as defined in the notes). An event of default would occur under the notes for a number of reasons, including our failure to pay when due any principal, interest or late charges on the notes, certain defaults on our indebtedness, certain events of bankruptcy and our breach or failure to perform certain representations and obligations under the notes. Upon the occurrence of an event of default, our obligations under the notes may become due and payable in accordance with the terms thereof.

If the investors in our 5.5% Redeemable Convertible Senior Notes Due 2026 convert their notes or exercise their warrants, it will have a dilutive effect upon our stockholders.

In May 2006 we issued notes and warrants to Future and certain institutional investors. Pursuant to the terms of these notes, the holders of such notes may convert the notes into shares of common stock at any time prior to their maturity at a conversion price of $5.36 per share, subject to certain adjustments, such as for stock splits and certain other situations specified in the notes. Subject to certain conditions, we can automatically convert all of the outstanding notes into common stock if the average price of our common stock exceeds 150% of the then effective conversion price for any 20 trading days during any 30-day period. The warrants are exercisable at any time on or before May 18, 2011 at an exercise price of $6.432 per share, subject to certain adjustments similar to the provisions set forth in the notes. If the note holders convert the notes or exercise the warrants, we will issue shares of our common stock and such issuances will be dilutive to our stockholders. If the note holders were to convert the remaining unconverted notes in full at the current conversion price, we would be obligated to issue an additional 5.6 million shares of common stock. If such holders were to exercise the remaining warrants in full at the current exercise price, we would be obligated to issue 419,776 shares of common stock, for an aggregate of 6.0 million shares of our common stock. These 6.0 million shares would represent approximately 25% of the then outstanding shares of common stock (assuming such conversion and exercise as of December 30, 2006). In addition, if such holders or our other stockholders sell substantial amounts of our common stock in the public market during a short period of time, our stock price may decline significantly.

Our stock price has been volatile and could continue to remain volatile.

The trading price of our common stock may be subject to wide fluctuations in response to quarter-to-quarter variations in operating results, announcements of technological innovations or new products by us or our competitors, general conditions in the semiconductor manufacturing and electronic markets, changes in earnings estimates by analysts, or other events or factors. In addition, the public stock markets have experienced extreme price and trading volume volatility in recent months. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

Item 1B. ***Unresolved Staff Comments:***

Not Applicable

Item 2. *Properties:*

Our corporate office is located in Milpitas, California. Information regarding our principal plants and properties as of December 30, 2006 appears below:

Location	Description	Approximate Facility Size (Square Feet)	Owned or Leased	Lease Expiration Date
Milpitas, CA	Manufacturing/Design Center/General Office	95,700	Leased	3/20/2011
Billerica, MA	Design Center/General Office	64,260	Leased	1/30/2008
Zaventem, Belgium	Design Center/General Office	6,660	Leased	2/28/2012
Ipoh, Perak, Malaysia	Warehouse	3,430	Leased	6-month notice
Pointe-Claire, Ontario, Canada	General Office	3,200	Leased	1/31/2008
Munich, Germany	General Office	2,740	Leased	3/31/2010
Taipei, Taiwan	General Office	2,600	Leased	3/31/2008
Tokyo, Japan	General Office	2,500	Leased	1/31/2009
Shanghai, China	General Office	1,670	Leased	11/19/2007
Shenzhen, China	General Office	1,310	Leased	4/25/2007
Beijing, China	General Office	1,180	Leased	9/10/2008
Seoul, South Korea	General Office	1,130	Leased	5/29/2008
Toronto, Ontario, Canada	Design Center	1,000	Leased	4/30/2010

We believe that our existing facilities adequately serve our current needs. We have sublet a portion of the facility located in Billerica, Massachusetts.

Item 3. *Legal Proceedings:*

See Note 14 to our consolidated financial statements for the discussion of legal proceedings.

Item 4. *Submission of Matters to a Vote of Security Holders:*

The Company held an Annual Meeting of Stockholders on November 30, 2006 and a Special Meeting of Stockholders on January 30, 2006. The record date was October 2, 2006 and December 14, 2006, respectively, for the Annual Meeting and the Special Meeting of Stockholders. The number of shares issued, outstanding and eligible to vote as of the record date was 35,585,148 and 35,785,885, for the Annual Meeting and the Special Meeting of Stockholders, respectively. The reverse stock split was not effective until February 23, 2007. This means that the following voting results reflect pre-reverse stock split security holder figures.

At the Annual Meeting of Stockholders of Sipex, the following numbers of votes were cast for the matters indicated:

1. The proposal of amending the Company's Certificate of Incorporation to effect a one-for-three Reverse Stock Split of the outstanding shares of Sipex's Common Stock.

FOR	30,598,039
AGAINST	530,425
ABSTAIN	35,381

2. The proposal of amending the Company's Certificate of Incorporation to reset the classes of members of the Board of Directors:

FOR	20,177,247
AGAINST	1,867,919
ABSTAINT	176,941
NON-VOTES	8,941,738

3A. The proposal of election of Directors if Proposal 2 is approved by the Stockholders.

Directors	For	Withheld
Thomas Redfern — *Class I*	29,313,796	1,850,049
John Arnold — *Class I*	29,309,296	1,854,549
Ralph Schmitt — *Class II*	29,394,529	1,769,316
Brian Hilton — *Class II*	29,398,396	1,765,449
Dan Casey — *Class III*	29,394,129	1,769,716
Pierre Guilbault — *Class III*	29,309,529	1,854,316
Alan Krock — *Class III*	29,412,254	1,751,591

3B. The proposal of election of Directors if Proposal 2 is not approved by the Stockholders.

Directors	For	Withheld
Brian Hilton — *Class II*	29,398,396	1,765,449
John Arnold — *Class II*	29,309,296	1,854,549
Pierre Guilbault — *Class II*	29,309,529	1,854,316
Alan Krock — *Class III*	29,412,254	1,751,591
Ralph Schmitt — *Class III*	29,394,529	1,769,316

4. The proposal of ratification of the appointment of Deloitte & Touche LLP as our Independent Registered Public Accounting Firm from the fiscal year ending December 30, 2006.

FOR	30,987,377
AGAINST	167,071
ABSTAIN	9,397

5. The proposal of approval the 2006 Equity Incentive Plan.

FOR	20,096,503
AGAINST	2,107,202
ABSTAIN	18,402
NON-VOTES	8,941,738

As a result of the votes cast at the Annual Meeting of Stockholders of Sipex, the proposals under items 1, 2, 3A, 4 and 5 listed above were approved by our stockholders. Given that the proposal under item 3A was approved, stockholders' action on the proposal under item 3B had no practical effects.

At the Special Meeting of Stockholders of Sipex, the following numbers of votes were cast for the matter indicated:

1. To approve the grant of discretionary authority to the Board of Directors to amend the Company's amended and restated certificate of incorporation to effect a reverse stock split for the Company's issued common stock at any time prior to March 30, 2007, at one of the following ratios (the exact ratio to be determined by the Board of Directors); one share for one and one-half shares, one share for two shares, or one share for two and one-half shares.

FOR	27,793,948
AGAINST	275,229
ABSTAIN	55,779

As a result of the votes cast at the Special Meeting of Stockholders of Sipex, this proposal was approved by our stockholders.

Executive Officers of Sipex

Information relating to the executive officers of Sipex is set forth below. All officers held office as of December 30, 2006, except as noted.

Name, Age & Position	Business Experience
Ralph Schmitt — Age 46 Chief Executive Officer and Director	Mr. Schmitt joined Sipex in June 2005 as chief executive officer and member of the board of directors. Mr. Schmitt received his BSEE from Rutgers University and began his career as a computer and communications system hardware designer. Prior to joining Sipex, Mr. Schmitt was the vice president of sales and marketing at Cypress Semiconductor Corporation. Mr. Schmitt had also served on the boards of Cypress subsidiaries, Silicon Light Machines and Cypress Microsystems, and on the board of Azanda Networks. He also currently serves on the board of StarGen, Inc., a privately held company.
Clyde R. Wallin — Age 53 Chief Financial Officer and Senior Vice President of Finance	Mr. Wallin joined Sipex in April 2004 as chief financial officer and senior vice president of Finance. Previously, from October 2002 to April 2004, Mr. Wallin served as chief financial offers of iWatt, Inc., a private analog semiconductor company. Prior to iWatt, from September 2000 to October 2002, Mr. Wallin was the chief financial officer for Kendin Communications, which was acquired by Micrel, Inc., and after this acquisition Mr. Wallin continued with Micrel, Inc. Mr. Wallin earned a Bachelors of Science in Economics from the University of Oregon and an MBA in Finance from the University of Chicago.
Rick C. Hawron — Age 52 Senior Vice President Worldwide Sales	Mr. Hawron joined Sipex in February 2004 and left Sipex in January 2007 as senior vice president of worldwide sales. Prior to joining Sipex, Mr. Hawron was the corporate vice president at Future Electronics Inc. Mr. Hawron was employed by Future Electronics Inc. for 27 years in various capacities around the globe, including vice president and managing director for Europe.
Ed Lam — Age 46 Senior Vice President Marketing and Business Development	Mr. Lam is senior vice president of marketing and business development. He joined Sipex in September 2005, and has over 20 years of analog semiconductor industry experience with National Semiconductor Corporation. Mr. Lam earned his BSEE from San Francisco State University.
Joel Camarda — Age 58 Senior Vice President of Operations	Mr. Camarda joined Sipex in November 2005 as senior vice president of operations. Mr. Camarda started his career as a senior Manufacturing engineer for National Semiconductor Corporation and later worked for companies including Rockwell and Cypress Semiconductor Corporation. Mr. Camarda has over 30 years of semiconductor industry experience. Prior to joining Sipex, Mr. Camarda worked for Kulicke & Soffa (K&S) Industries, where he served as the vice president of operations for their test products division. Prior to K&S, he worked for Silicon Storage Technology, Inc. Mr. Camarda earned his BS in Engineering from New York University's School of Engineering.

Name, Age & Position	Business Experience
Lee Cleveland — Age 44 Senior Vice President of Engineering	Mr. Cleveland joined Sipex in September of 2003. Mr. Cleveland was promoted to senior vice president of engineering, effective October 1, 2005. Mr. Cleveland has held various technical and management positions at AMD and Sipex. Mr. Cleveland graduated from UC Berkeley with a degree in Electrical Engineering.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:*

Delisting from the Nasdaq Global Market

From April 2, 1996, the date of our initial public offering, our common stock was available for quotation on the Nasdaq Global Market under the symbol "SIPX."

On April 5, 2005, we received a Staff Determination notice from the Nasdaq Global Market stating that we were not in compliance with Nasdaq's Marketplace Rule 4310(c)(14) because we had not yet filed the Annual Report on Form 10-K for the year ended January 1, 2005. The notice stated that our securities would be delisted from the Nasdaq Global Market at the opening of business on April 14, 2005. On May 17, 2005, we received a Staff Determination notice from the Nasdaq Global Market stating we were not in compliance with Nasdaq's Marketplace Rule 4310(c) (14) because we had not yet filed the Quarterly Report on Form 10-Q for the quarterly period ended April 2, 2005 and that the Nasdaq Listing Qualifications Panel (the "Panel") would consider the filing delinquency in rendering a determination regarding the continued listing on the Nasdaq Global Market. We addressed the issues related to the delays in filing our Quarterly Report on Form 10-Q for the period ended April 2, 2005 and Annual Report on Form 10-K for the year ended January 1, 2005 and our request for continued listing on the Nasdaq Global Market, at an oral hearing before the Panel on May 19, 2005.

On June 23, 2005, we were delisted from the Nasdaq Global Market. On February 22, 2007, we announced a 1-for-2 reverse stock split effective February 23, 2007. Sipex's trading symbol was changed to "SXCP" effective March 1, 2007. The quotation of our common stock currently appears on the Pink Sheets, an electronic quotation system with a trading symbol "SXCP" where market makers and brokers can submit bid and ask prices on a daily basis.

On December 7, 2006, we announced that we had filed an application for listing on the Nasdaq Global Market. On March 22, 2007, we attended a hearing before the Nasdaq Hearing Department regarding our application for listing and are currently awaiting a decision from the Nasdaq Global Market. We cannot provide assurance that our common stock will continue to be eligible for trading or quotation on this or any alternative exchanges or markets.

The following table sets forth, for the period indicated, the high and low closing sale prices per share as reported on the Nasdaq Global Market or on the Pink Sheets for the periods:

Quarterly Stock Market Data

Fiscal 2006	Dec. 30, 2006	Sept. 30, 2006	July 1, 2006	April 1, 2006
Stock price range per share:				
High	$9.62	$7.10	$6.90	$6.00
Low	6.36	5.50	5.36	3.22

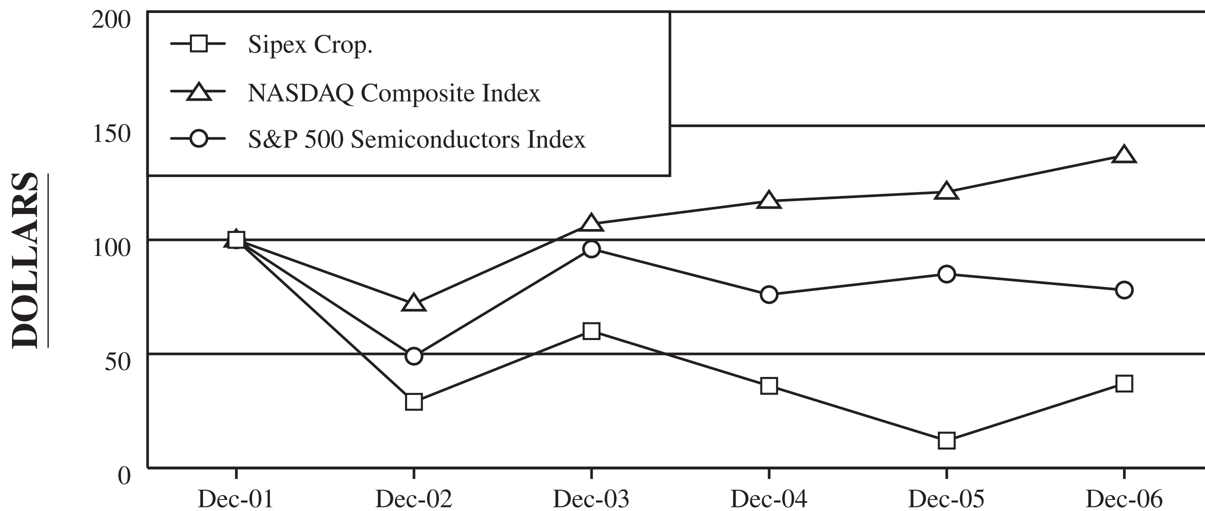
Fiscal 2005	Dec. 31, 2005	Oct. 1, 2005	July 2, 2005	April 2, 2005
Stock price range per share:				
High	$3.90	$4.96	$4.28	$9.00
Low	2.58	3.30	2.30	4.02

As of December 30, 2006, there were 61 stockholders of record. We believe that as of December 30, 2006, the number of beneficial holders of common stock exceeded 2,800. The last reported sale price of the common stock on March 26, 2007 was $8.58 per share, as quoted on the Pink Sheets electronic trading market. We have never declared or paid a cash dividend on our capital stock. We currently intend to retain all of our earnings to finance future growth and, therefore, do not anticipate paying any cash dividends on our common stock in the foreseeable future. In addition, our bank and the holders of our 5.5% Redeemable Convertible Senior Notes Due 2026 have imposed dividend restriction on us.

The information required by Item 201(d) is incorporated by reference from Sipex's definitive proxy statement in connection with its 2007 Annual Meeting of Stockholders, to be filed with the Commission no later than 120 days after the close of the fiscal year ended December 30, 2006, under the caption "Equity Compensation Plan Information."

The following performance graph compares the percentage change in the cumulative total stockholder return on the Company's Common Stock during the five year periods from December 2001 through December 2006, with the cumulative total return on (i) the S&P 500 Semiconductors Index and (ii) the Nasdaq Composite Index. The comparison assumes $100 was invested on December 31, 2001 in the Company's Common Stock, the S&P 500 Semiconductors Index and the Nasdaq Composite Index and assumes reinvestment of dividends, if any.

CUMULATIVE TOTAL RETURN
Based upon an initial investment of $100 on December 31, 2001
with dividends reinvested



Company/Index	Indexed Returns Years Ending Base Period Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
Sipex Corp.	$100	$29	$ 60	$ 36	$ 12	$ 37
NASDAQ Composite Index	$100	$72	$107	$117	$121	$137
S&P 500 Semiconductors Index	$100	$49	$ 96	$ 76	$ 85	$ 78

During February 2004, Alonim Investments Inc., or Alonim, one of the affiliates of Future, exercised rights to convert promissory notes from us into our common stock for 2.3 million shares, which have not been registered with the SEC (See Note 2 to our consolidated financial statements for Related Parties). Likewise, on August 5, 2004, Alonim exercised an outstanding warrant to purchase 450,000 shares of our common stock at an exercise price of $5.8916 per share for a total of $2,651,000. These transactions were conducted pursuant to certain private placement exemptions from the registration requirements of the Securities Act. In connection with the warrant exercise, we also agreed to modify certain standstill restrictions on the affiliates of Future to enable them to hold the lesser of (i) 49% of our issued and outstanding voting capital stock and (ii) 42.5% of our issued and outstanding voting capital stock, measured on a "Fully Diluted Basis," as defined using the following equation: The numerator includes all voting capital stock and securities convertible into or exercisable for voting capital stock held by the affiliates of Future and the denominator is the greater of (i) all shares of our voting capital stock outstanding or issuable upon the exercise or conversion of vested securities convertible into or exercisable for voting capital stock and (ii) 20,000,000 (as adjusted for stock dividends, splits or like transactions). We used the proceeds from these transactions to help finance our working capital needs. In addition, on August 9, 2004, Alonim purchased 1.25 million shares of our common stock on the open market.

On January 19, 2006, we completed a $7.0 million private loan transaction in which we issued a 9% secured note with convertible interest due January 19, 2008 to Rodfre, an affiliate of Future. The issuance of the note was not registered under the Securities Act and was issued in a private placement. The note was secured by a deed of trust on our headquarters property located in Milpitas, California. During March 2006, we sold our Milpitas property to Mission West Properties for $13.4 million and used a portion of the proceeds from that transaction to pay off and terminate this note.

On May 16, 2006, we placed $30.0 million of 5.5% Redeemable Convertible Senior Notes due 2026, or the 2006 Notes, in a private placement. Rodfre, an affiliate of Alonim and of Future, purchased 50% of the 2006 Notes, or $15.0 million aggregate principal amount, sold in this offering. The remainder of the 2006 Notes was purchased by other accredited investors. We have used the net proceeds of $28.7 million from the private placement for general corporate purposes. The 2006 Notes are convertible into common stock at any time at a fixed conversion price of $5.36 per share. If fully converted, the principal amount of the 2006 Notes would convert into approximately 5,597,015 shares of our common stock. In conjunction with the issuance of the 2006 Notes, we issued warrants to purchase an aggregate of 839,552 shares of our common stock to the investors. Each warrant is exercisable for one share of Sipex's common stock at an initial exercise price of $6.432 per share. On December 21, 2006, Rodfre exercised its warrant to purchase 419,776 shares of our common stock in cash at $6.432 per share. As of December 30, 2006, the affiliates of Future held 8.6 million shares, or 47% of our outstanding capital stock.

A more detailed description of the terms of the 2006 Notes is provided in our Form 8-K filed with the SEC on May 22, 2006.

Item 6. ***Selected Financial Data:***

Selected financial data for the last five years appear below (in thousands, except per-share, ratio and percentage data):

Operating Results:	Years Ended 2006	2005	2004	2003	2002
Net sales	$ 78,750	$ 72,674	$ 75,453	$ 36,535**	$ 66,260
Gross profit (loss)	9,351	13,749	11,796	(9,068)**	(8,488)
As a % of net sales	11.9%	18.9%	15.6%	(24.8)%	(12.8)%
Depreciation and amortization	9,410	10,952	6,559	7,587	7,675
Research and development expenses	17,332	17,248	14,710	13,252	12,944
Loss from operations	(38,866)	(38,515)	(23,066)	(38,495)	(47,455)
Loss before income taxes	(41,109)	(37,915)	(22,881)	(39,489)	(47,542)
Net loss	(41,234)	(38,107)	(22,748)	(39,807)	(79,276)
As a % of net sales	(52.4)%	(52.4)%	(30.1)%	(109.0)%	(119.6)%
Net loss per common share — basic and diluted	$ (2.32)	$ (2.14)	$ (1.38)	$ (2.82)	$ (5.84)
Cash and cash equivalents	$ 13,041	$ 1,969	$ 15,523	$ 18,338	$ 6,489
Short-term investment securities	2,388	—	249	2,994	9,980
Restricted cash equivalents and securities	407	1,000	1,838	—	—
Total assets	59,549	50,442	88,066	101,296	98,786*
Long-term obligations	39,474	621	1,294	21,929	10,455
Working capital (deficit)	11,977	(3,385)	14,346	24,468	27,775
Current ratio	1.4	0.9	1.5	2.0	3.0
Purchase of property, plant and equipment	3,799	878	1,921	2,024	4,108
Stockholders' equity (deficit)	(8,125)	22,521	60,080	54,233	74,520

* The 2002 decrease in total assets was mainly due to the establishment of a 100% valuation allowance of $31.9 million for deferred tax assets, the disposition of machinery and equipment with a net book value of $6.7 million and a $3.0 million write-off of goodwill.

** The decrease in net sales and increase in gross loss in 2003 were primarily due to non-cash charges as a reduction to sales of $14.1 million in 2003 reflecting the fair value of conversion rights related to the 2003 convertible note issued to Future, a related party, and $12.6 million initial impact for the revenue values of our products in the distribution channel upon conversion to sell-through accounting.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations:***

The following discussion should be read together with our consolidated financial statements and the related notes contained elsewhere in this annual report on Form 10-K.

Significant Developments

In December 2006, we announced a workforce reduction plan that was implemented in response to our transitioning to a fabless semiconductor company, de-emphasizing optical products, reducing dependency on commodity products and with the goal of improving our cost structure. As a result, we recorded total restructuring costs of $1.1 million related to employee severance compensation, including $0.1 million for vesting acceleration of stock options in lieu of a severance payment for a senior executive officer. Of the $1.1 million, $0.1 million was paid during December 2006. Our current business plans focus our product development and marketing programs toward a greater emphasis on our power management and interface products as we believe these products align greater development synergies and provide greater opportunities for growth and profitability in contrast to other areas such as our optical products.

On September 20, 2006, we announced that we had received a notification from the Staff of the SEC that the investigation into matters related to our historical financial reports and revenue recognition practices had been terminated, and no enforcement had been recommended to the SEC with respect to the Company.

On September 8, 2006, we announced the appointment of Pierre Guilbault, Dan Casey, both members of the senior management team of Future, an affiliate of our largest stockholder, and Alan Krock, CFO of PMC Sierra, to our board of directors.

Based upon our plans initially announced in the third quarter of 2005, in early October of 2006, we completed the shut down of our Milpitas wafer fabrication operations. The products that we formerly manufactured at the Milpitas fab are now manufactured by our wafer fab partner Silan and a wafer fab operated by Episil. We anticipate the financial impact of this transition will require multiple quarters to be realized in our operating results as we sell through higher cost inventory manufactured at our Milpitas fab. The conversion to a fully fabless manufacturing model along with the use of third-party foundries should enable us to minimize fixed costs and capital expenditures while providing access to diverse manufacturing technologies without bearing the full risk of the obsolescence of such technologies.

In conjunction with our previously announced internal investigation and restatement (as described in our annual reports on Forms 10-K for the year ended December 31, 2005), we were not in compliance with Nasdaq's Marketplace Rule 4310(c)(14) because we did not timely file the annual report on Form 10-K for the year ended January 1, 2005 and quarterly report on Form 10-Q for the three months ended April 2, 2005. On June 21, 2005, a Nasdaq Listing Qualifications Panel, or the Panel, notified us that the Panel had denied our request for continued inclusion on the Nasdaq Global Market. Our common stock was delisted from the Nasdaq Global Market effective with the beginning of trading on June 23, 2005.

On August 17, 2006, we announced the completion of our restatement of our financial statements for the fiscal year 2003 and related fiscal quarters of 2003 as well as completing the restatement of the first three quarters of 2004. In addition, we filed our 2004 Annual Report on Form 10-K and 2005 Annual Report on Form 10-K along with our 2005 Quarterly Reports on Forms 10-Q.

On September 21, 2006, we filed our Forms 10-Q Quarterly Reports with the SEC for the first and second quarters of 2006. Together with these reports, along with our Form 10-K/A and Form 10-K for 2005, our Form 10-K for 2004 and our Forms 10-Q for 2005, we became current with our periodic SEC reporting requirements.

Business Overview

We design, manufacture and market, high performance, analog ICs that are used primarily by OEMs, operating in the computing, consumer, communications and networking infrastructure markets. Some of the end product applications that contain our ICs are cellular phones, base stations, computers, DVD players, and digital cameras. Our products fall into three major product families: power management, interface and optical storage.

We focus on several key areas to drive operating and financial performance, including product mix, new product introductions, cost reductions, manufacturing yield improvements and productivity. All of these key areas are interrelated and important in achieving improved gross margin.

Product mix between our three product families and the sale of new products within each of our product families can significantly impact overall gross margin. Power management product margins have a wide range depending on the mix of sales within this product family. The very high volume commodity products sold into the Asian market, such as power regulators, typically have lower product margins. By contrast, our advanced power management product offerings, such as white LED (light emitting diode) drivers, and our Power Blox™ family, are newer products, and contribute typically higher product margins. Many Interface products are commodity products as well, but overall the product family typically has more moderate margins, because of our higher margin multi-protocol interface products and our newer low-voltage interface products. Optical storage product margins are typically within range of our average product margin. The products in this family are typically proprietary, but alternative suppliers have introduced competitive solutions.

Capacity utilization of our wafer fabrication facility in Milpitas, California was historically an important factor in driving gross margin improvement. In the past, a large portion of our fabrication cost structure was fixed, such as depreciation and payroll expense for process engineering and manufacturing support, and this structure provided for lower per unit costs as the volume of completed wafers increased. In the third quarter of 2005, we decided to outsource all of our wafer fabrication operations and in October 2006, we completed the shut-down of our Milpitas,

California wafer fabrication facility. We believe that this transition to an outsourced or "fabless" manufacturing model will improve the overall margins of our interface and certain of our commodity market power management products which we historically manufactured at the Milpitas facility. However, because of this transition away from a fixed cost structure in a captive wafer fab, we may not recognize the same decrease in per unit manufacturing costs as production volumes increase.

Cost reductions and productivity improvements are required in order to remain competitive in our marketplace. Cost reductions are achieved in several ways, such as re-designing the products to "shrink" the size of the "die" providing more individual products per wafer produced. This generates increased output without adding significant incremental cost. Other cost reductions and productivity improvements come through product assembly and test yield improvements and test time reductions.

New product introductions represent a key driver of opportunities to improve our product margins. New products are typically proprietary in nature and therefore command a stronger market position and we typically have higher product margins. In 2006, we introduced 69 new products, 15 of which were proprietary in nature. We continuously strive to improve our product mix toward higher margin products by eliminating older legacy products and by focusing on increasing sales of our newer products introduced in our three core product families. Net sales of our three core product families were $78.7 million, $72.1 million, and $74.7 million in 2006, 2005 and 2004, respectively. Net sales attributed to legacy products were $0.1 million, $0.6 million, and $0.8 million in 2006, 2005 and 2004, respectively.

Our wafer fabrication operation in Milpitas produced approximately 45%, 84% and 81% of our wafer requirements in 2006, 2005 and 2004, respectively. Our wafer fabrication utilization in Milpitas was 58%, 56%, and 62% in 2006, 2005 and 2004, respectively. Wafer production declined by 20%, 12% and 10% in 2006, 2005 and 2004, respectively, as compared to each prior year.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those significant estimates that are particularly susceptible to change, which include revenue recognition, inventory valuation, restructurings and impairments, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates.

We have identified the accounting policies below as the policies most critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results.

Revenue Recognition. We recognize revenue in accordance with SEC Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition." SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured.

Prior to January 1, 2004, we entered into arrangements that were not within the original contractual distributor agreements in that we allowed return rights and other concessions beyond the levels provided in the distributor agreements. As a result, our management concluded it is unable to reasonably estimate sales returns for arrangements with its distributors; accordingly, effective January 1, 2003, sales and related cost of sales on shipments to distributors are deferred until the resale to the end customer.

Sales to Future are made under an agreement that provides protection against price reductions of Sipex's products in Future's inventory. In addition, Future has stock rotation rights. Pursuant to these stock rotation rights,

Future is permitted on a quarterly basis to return for credit up to 5% of its total purchases during the most recent three-month period (reduced from 10%, effective April 1, 2006). In addition, effective April 1, 2006, Future is permitted a quarterly scrap allowance credit against accounts receivable for up to 2% of the most recent three-month purchases when they provide evidence of destruction of inventory of Sipex products up to this quarterly amount. As the price of products sold to Future is not fixed or determinable until resold by Future to the end customer, Sipex is using sell-through revenue accounting and deferring recognition of such sales and related cost of goods sold until the product is sold by Future to its customers.

Under sell-through revenue accounting, accounts receivable are recognized and inventory is relieved upon shipment to the distributor as title to the inventory is transferred upon shipment; at which point we have a legally enforceable right to collection under normal terms. The associated sales and cost of sales are deferred by recording "deferred income" (gross profit margin on these sales) as shown on the face of the consolidated balance sheet. When the related product is sold by our distributors to their end customers, we recognize previously deferred income as sales and cost of sales.

For non-distributor customers, we recognize revenue when title to the product is transferred to the customers, which occurs upon shipment or delivery, depending upon the terms of the customer order, provided that persuasive evidence of a sales arrangement exists, the price is fixed and determinable, title has transferred, collection of the resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations. Provisions for returns and allowances for non-distributor customers are provided for at the time product sales are recognized. An allowance for sales returns and allowances for customers is recorded based on historical experience or specific identification of an event necessitating an allowance.

From time to time, we develop custom products for various customers under engineering service contracts culminating in delivery of known functional development samples. We recognize revenue under these agreements upon delivery of known functional development samples as delivery of such represents the culmination of utility of the contract to the customer and agreed to milestones. We recognize the costs as incurred associated with these contracts and present such costs as research and development expenses due to the uncertain nature of the development efforts until delivery of the known functional development samples. Certain of these engineering service contracts include payments in advance of delivery of known functional development samples. These payments are recorded in deferred income, other, until the time of delivery of the functional samples.

Valuation of Inventories. Sipex writes down the value of its inventories for estimated excess quantities, obsolescence, and/or marketability deficiencies. In addition, we write down inventory costs to the lower of cost or market which becomes the new cost basis. Excess and obsolete inventories are determined by comparing current inventory quantities to current backlog, anticipated future demand and shipment history. We also evaluate the net realizable value of inventories to be acquired under purchase commitments with our wafer foundries. If such inventories are also considered to be excess when compared to future demand, we record reserves and charges to cost of sales for these purchase commitments. Lower of cost or market adjustments are determined by reviewing shipments during the quarter as well as quarter beginning backlog and comparing standard cost to anticipated market pricing. In estimating anticipated market pricing, we also consider current market conditions, industry performance, distributor inventory levels and sales to end-users and other relevant factors. If actual market conditions become less favorable than those anticipated by management, additional write-downs of inventories may be required in the future. Inventories, which had previously been written down to zero, with an original cost of $1.4 million, $1.0 million and $0.9 million, were sold in 2006, 2005 and 2004, respectively. The Company recorded inventory write-downs for excess and obsolete inventories of $5.0 million, $5.0 million and $8.6 million, during 2006, 2005 and 2004, respectively. In addition, during 2006, the Company recorded $1.4 million of charges to cost of sales for purchase commitments for excess inventories.

Restructuring and Fixed Asset Impairment. The determination of the estimated restructuring accrual and impairment requires significant management judgment. To estimate the restructuring accrual, we prepare a plan that includes the number of employees to be terminated and the related severance cost, the amount of impairment for certain fixed assets, the termination costs of certain leases and the related actions required to execute the plan. It is possible that future events such as voluntary employee terminations, sublease agreements or a shift in the timing of the execution of the plan could result in significant changes to the original estimate.

We account for restructuring charges in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The restructuring reserve represents the present value of future lease payments subsequent to abandonment less any estimated sublease income net of associated costs. However, due to the uncertainty of collectibility, our sublease income is recorded on a cash basis.

In December 2006, our board of directors approved a plan to reduce the workforce by approximately 75 positions. This reduction was part of a strategic restructuring plan implemented in response to our transition to a fabless semiconductor company and in an effort to de-emphasize optical products, reduce dependency on our commodity products and with a goal to improve cost structure. As a result, we recognized restructuring charges of approximately $1.1 million in the fourth quarter of 2006 related to this plan representing severance costs for the reduction in our workforce.

We review long-lived assets and certain identifiable intangibles for impairment in accordance with the guidelines of SFAS No. 144 "Accounting for Impairment of Disposal of Long Lived Assets" whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If impairment is indicated, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. In estimating future net cash flows, management makes certain assumptions including future sales levels, gross profit margins and expense levels and proceeds from disposition. The future net cash flows can vary from original management estimates due to unforeseen circumstances that may result in additional impairment charges required to be recognized in the income statement.

In the second quarter of 2005, we tested our wafer fabrication asset grouping, for which cash flows from the wafer fabrication operations provide the lowest level of cash flows that are largely independent of the cash flows of our other assets and liabilities, for recoverability in accordance with SFAS No. 144 given that an appraisal indicated the carrying amount of the asset grouping may not be recoverable. An impairment loss of $9.4 million was recognized, representing the difference between the carrying value and the fair value of the wafer fabrication asset grouping which management determined with the assistance of an independent appraisal firm.

In August 2005, our board of directors approved terminating the wafer fabrication operations and the sale of the related assets. Also in August 2005, we identified a potential buyer, Silan, who would purchase, take title to and be trained to use a substantial portion of our wafer fabrication asset grouping by the end of the third quarter of 2006. Accordingly, we continued to use the wafer fabrication assets until September 2006 and recorded depreciation expense based on the estimated remaining useful life at the time of impairment.

In September 2005, we tested our Milpitas corporate headquarters facility given an appraisal indicated that the carrying amount might not be recoverable. Our headquarters facility housed the wafer fabrication operations as well as the sales and marketing department, the research and development department and the corporate administration functions. Our Milpitas corporate headquarters facility does not have identifiable cash flows that are largely independent of our cash flows of other assets and liabilities. Accordingly, our Milpitas corporate headquarters facility, which includes all assets located at the Milpitas facility except for the wafer fabrication asset grouping, is included in the asset grouping which includes all of our assets and liabilities. No impairment loss was recognized given the carrying value of all of our assets and liabilities was less than the fair value, determined based on the quoted market value of Sipex.

Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

In assessing the net realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become taxable. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets were deductible, management assessed that it is more likely than not that the deferred tax assets at December 30, 2006 will not be realized in the future. Therefore, we maintained a full valuation allowance against our deferred tax assets.

Results of Operations

For the periods indicated, the following table sets forth the percentages of net sales represented by the respective line items in our consolidated statements of operations.

	Years Ended		
	2006	**2005**	**2004**
Net sales	100.0%	100.0%	100.0%
Cost of sales	88.1	81.1	84.4
Gross profit	11.9	18.9	15.6
Operating expenses:			
Research and development	22.0	23.7	19.5
Marketing and selling	19.7	14.6	11.4
General and administrative	17.1	19.8	13.0
Restructuring and impairment	2.4	13.8	2.3
Total operating expenses	61.2	71.9	46.2
Loss from operations	(49.3)	(53.0)	(30.6)
Other income (expense), net	(2.9)	0.8	0.3
Loss before income taxes	(52.2)%	(52.2)%	(30.3)%

Fiscal Year Ended December 30, 2006 compared to Fiscal Year Ended December 31, 2005

Net Sales. The table in Note 16 to our consolidated financial statements shows details of our net sales by product family and geographic location for 2006, 2005 and 2004.

Net sales increased by 8.4% to $78.8 million for the year ended December 30, 2006, as compared to $72.7 million for the year ended December 31, 2005. The increase in net sales was due to a $6.1 million increase in net sales for the interface product family, and a $3.8 million increase in net sales for the power management product family, partially offset by a $3.3 million decline in net sales for the optical storage product family. The increase in net sales for the interface product family was driven by an increase in unit volume shipments, partially offset by a decline in average selling prices for this product family. The decline in average selling prices was driven by pricing pressures in the commodity related interface products. The increase in unit volume shipments was driven by gains in market share in this product category. The increase in net sales for the power management product family was driven by an increase in average selling prices as our mix of product sales shifted toward higher value proprietary products away from commodity power management products. The decline in net sales of our optical product family was driven by a reduction in unit volume shipments as certain product programs approached the end of their product life cycles.

Geographically during 2006, international net sales were $62.7 million or 80% of total net sales, as compared to $58.0 million or 80% in 2005. In 2006, sales in Japan declined by $4.7 million or 28%. This decline was principally driven by a decline in the optical storage product family. In Asia, other than Japan, net sales increased by $9.0 million or 35% related to growth in the interface and power management product families. Net sales in Europe

and the rest of the world increased by $0.4 million or 2%, in 2006. Domestic net sales increased by $1.4 million or 9% in 2006.

Gross Profit (Loss). Gross profit decreased to $9.4 million in 2006 or 12% of net sales, as compared to $13.7 million or 19% in 2005. The reduction in gross profit was partially driven by a decline in standard gross profit due to a mix shift toward higher volumes of lower margin commodity products resulting in approximately $1.5 million of gross profit reduction. The gross profit was further reduced by approximately $2.9 million of added manufacturing yield and price variances as well as additional inventory write-downs, purchase commitments on excess inventories and warranty reserves of $1.4 million. These additional costs were partially offset by $1.0 million of lower manufacturing overhead spending variances and a $0.5 million recovery of previously paid royalty costs.

Research and Development. Research and development expenses in 2006 were $17.3 million compared to $17.2 million in 2005. The increase of $0.1 million was primarily due to increased stock-based compensation expenses of $1.2 million (due to the adoption of SFAS 123R, effective January 1, 2006) along with higher salaries, benefits and employee travel costs of approximately $283,000 and higher spending on design automation software licenses of approximately $262,000. These higher costs were partially offset by reduced spending on prototype wafers and product development costs of approximately $650,000, an approximately $494,000 reduction in facilities costs, an approximately $324,000 reduction in outside design services costs and an approximately $200,000 reduction in depreciation expenses. As a percentage of net sales, research and development costs were 22.0% in 2006 compared to 23.7% in the prior year. This percentage reduction was due to the increase in net sales in 2006. We anticipate that research and development spending will decline in 2007, as we focus our research and development efforts in the power management and interface product families.

Marketing and Selling. Marketing and selling expenses were $15.5 million in 2006 compared to $10.6 million in 2005. The increase of $4.9 million was primarily due to increased headcount resulting in higher salary and benefits costs of approximately $2,960,000, along with approximately $816,000 for stock-based compensation expenses (due to the adoption of SFAS 123R, effective January 1, 2006). In addition, the increased sales and marketing headcount resulted in an approximately $501,000 increase in travel costs. Finally, the increase in net sales drove an approximately $385,000 increase in sales commissions paid to independent sales representatives. These increases were primarily due to increased sales and marketing efforts to grow our net sales. Marketing and selling expenses were 19.7% of net sales in 2006 compared to 14.6% of net sales in 2005. This percentage increase was primarily driven by marketing and selling expenses increasing at a higher percentage rate than the increase in the net sales growth rate in 2006 along with the increase in expenses. We anticipate that marketing and selling expenses will decline in 2007, as we focus our efforts in the power management and interface product families.

General and Administrative. General and administrative expenses were $13.5 million in 2006 compared to $14.4 million in 2005 or a decrease of $0.9 million. This decrease was principally due to a reduction in legal fees of approximately $1,706,000 associated with the completion of the internal investigation and resolution of related litigation, a reduction in audit and consulting fees of approximately $994,000 related to the completion of the financial restatement process filing our financial reports with the SEC, and a reduction in bad debt expense of approximately $340,000 associated with the collection of amounts previously reserved as bad debts. These expense reductions were partially offset by the inclusion of stock-based compensation expense of approximately $1,266,000 (due to the adoption of SFAS 123R, effective January 1, 2006) and higher salary and benefits costs of approximately $1.0 million. General and administrative expenses were 17.1% of net sales in 2006 compared to 19.8% of net sales in 2005. This percentage decrease was primarily driven by the reduction in these expenses along with an increase in net sales in 2006. We anticipate that general and administrative expenses will decline in 2007.

Restructuring and Fixed Asset Impairment. During the year ended December 30, 2006, we incurred additional restructuring costs of $677,000 that related to employee retention payments for the closure of the wafer fabrication operations located in Milpitas, California, announced in August 2005. For employee costs, we utilized $1.4 million and recognized an accrual expense adjustment of $54,000. We recognized approximately $200,000 in expense for contract termination in the fourth quarter of 2006 associated with gas usage and service agreements with a vendor. For facility costs related to the Milpitas wafer fabrication closure, restructuring charges utilized during 2006 totaling $91,000 was for facility decontamination. Additionally, the Company incurred

$116,000 of facility costs related to the unused fabrication portion of the Company's corporate headquarters facility in Milpitas, California, due to the transfer of wafer fabrication to Silan.

In the fourth quarter of 2006, we announced a workforce reduction plan that was implemented in response to our transitioning to a fabless semiconductor company, de-emphasizing optical products, reducing dependency on our commodity products and with a goal of improving cost structure. As a result, we recorded total restructuring costs of $1.1 million related to employee severance compensation, including $0.1 million for vesting acceleration of stock options in lieu of a severance payment to a senior executive officer. Of the $1.0 million (excluding the stock-based compensation charge), $0.1 million was paid during December 2006.

In 2006, we utilized restructuring accruals of $726,000 for the unused portion of the Billerica facility. The adjustment to the accrual for the Billerica facility primarily related to sub-lease income of $565,000 being received.

As of December 30, 2006, the balance of the restructuring accrual principally consisted of employee severance costs, contract termination costs and facility lease costs, which are anticipated to be paid over the next 15 months. The balance of the accrual as of December 30, 2006 was $1.8 million, of which $1.7 million was the short-term portion and $0.1 million was the long-term portion.

The following is a summary of the activities related to accrued restructuring costs and fixed asset impairment for fiscal years 2006 and 2005 (in thousands):

	Total Restructuring Costs	Fixed Asset Impairment
Accrual balance January 1, 2005	$ 1,847	$ —
Incurred 2005	871	9,377
Charges utilized	(726)	(9,377)
Sub-lease income received	293	—
Adjustments to accrual	(294)	—
Accrual balance December 31, 2005	1,991	—
Incurred in 2006	2,010	—
Charges utilized	(2,299)	(12)
Employee stock options accelerated as severance pay	(137)	—
Sub-lease income received	565	—
Adjustments to accrual	(263)	12
Accrual balance, December 30, 2006	$ 1,867	$ —

Other Income (Expense), Net. Other income (expense), net was $2.2 million of net other expense in 2006 compared to $0.6 million of net other income in the prior year. The increase in other expense, was primarily due to a $3.0 million increase in interest expense, $1.9 million of which related to the convertible senior notes issued in May 2006 and $0.9 million of which related to the lease financing obligation executed in March 2006. The interest expense was partially offset by a $0.5 million increase in interest income attributable to higher balances of interest bearing cash equivalents and short-term investments from the proceeds of the convertible senior notes.

Income Tax Expense. Our income tax expense primarily relates to our foreign operations as we continue to incur losses from domestic operations. In 2006, we recorded an income tax provision of $125,000, compared to a provision of $192,000 in 2005. Notwithstanding our net operating losses, we did not record a tax benefit as we believed that it was more likely than not, considering the level of historical taxable income and expectations for future taxable income, that the operating loss would not be utilized in the future.

Fiscal Year Ended December 31, 2005 compared to Fiscal Year Ended January 1, 2005

Net Sales. Net sales decreased by 3.7% to $72.7 million for the year ended December 31, 2005, as compared to $75.5 million for the year ended January 1, 2005. The decrease in net sales was due to a $2.2 million decline in net sales for the power management product line and a $1.1 million decline in the interface product line, partially offset

by a $0.8 million increase in the optical storage product line. The decrease in net sales of the power product line was driven by an overall softness in demand that led to a unit volume decline as well as a decline in average selling prices. The decline in demand for the commodity products was only partially offset by increasing demand for our proprietary power management products. The decline in net sales of the interface product line was driven by a decline in average selling prices while unit volume increased. The increase in net sales for the optical storage product line was primarily driven by an increase in unit volume as demand for these products was strong.

Geographically during 2005, international net sales were $58.0 million or 80% of total net sales, as compared to $60.3 million or 80% in 2004. In 2005, sales in Japan declined by $1.7 million or 9%. This decline was driven by declines in power management and interface products off-set by increases in optical storage products. In Asia, other than Japan, net sales decreased by $1.3 million or 5% related to the declines in power management and interface. Net sales in Europe and the rest of the world increased by $0.7 million or 5%, in 2005. Domestic net sales declined by $0.5 million or 3% in 2005.

Gross Profit (Loss). Gross profit increased to $13.7 million in 2005 or 19% of net sales, as compared to $11.8 million or approximately 16% in 2004. The improvement in gross profit was comprised of improvements in manufacturing yields lowering overall product costs as well as reductions in inventory write-downs for excess and obsolete products. These cost reductions were offset by recognition of $4.3 million of increased depreciation on the Milpitas, California facility after determination that the facility had a shorter economic useful life to Sipex recorded in the fourth quarter of 2005. The improvement in gross profit was comprised of the following: product mix, higher margins at standard cost due to manufacturing yield and process improvements.

Research and Development. Research and development expenses in 2005 were $17.2 million compared to $14.7 million in 2004. The increase of $2.5 million was primarily due to increased product development costs for outside design services costs of approximately $893,000 and prototype wafers costs of approximately $665,000. In addition, approximately $1.1 million of increased depreciation for the reduction in the economic life of the Milpitas, California facility was recorded in 2005. As a percentage of net sales, research and development costs were 23.7% in 2005 compared to 19.5% in the prior year. This was primarily due to the increase in research and development expenses along with the lower net sales in 2005.

Marketing and Selling. Marketing and selling expenses were $10.6 million in 2005 compared to $8.6 million in 2004. The increase of $2.0 million was primarily due to increased headcount resulting in higher salary and benefits costs of approximately $1,147,000, marketing activities and travel costs of approximately $440,000. In addition, approximately $313,000 of increased depreciation for the reduction in the economic life of the Milpitas, California facility was recorded in 2005. These increases were primarily due to increased sales and marketing efforts for our core product families. Marketing and selling expenses were 14.6% of net sales in 2005 compared to 11.4% of net sales in 2004. This was primarily due to the decline in net sales in 2005 as well as the increase in expenses.

General and Administrative. General and administrative expenses were $14.4 million in 2005 compared to $9.8 million in 2004 or an increase of $4.6 million. This increase was principally due to increase of approximately $2,320,000 of legal fees associated with the internal investigation and related litigation, approximately $707,000 of consulting and audit fees related to the financial restatement process and approximately $400,000 of higher salary and benefits costs as well as bad debt expense of approximately $256,000. In addition, approximately $707,000 of increased depreciation for the reduction in the economic life of the Milpitas, California facility was recorded in 2005.

Restructuring and Fixed Asset Impairment. During the year ended January 1, 2005, we incurred restructuring expenses reflecting the continuation of our plans initiated in 2003 to move our manufacturing operations from Billerica, Massachusetts to Milpitas, California. These restructuring expenses consisted of $1.4 million for future lease payments, $447,000 write-off of leasehold improvements and $32,000 for severance payments. For the same period, we utilized $1.0 million of restructuring reserves, which was primarily the $447,000 write-off of leasehold improvements, and $463,000 of lease costs associated with the unused portion of our Billerica facility. We made additional adjustments to the restructuring for changes to the lease obligation totaling $60,000. For the year ended January 1, 2005, the balance of the restructuring accrual principally consisted of facility lease costs, and was expected to be paid over the next three years. The balance as of the year ended January 1, 2005 was $1.8 million, of which $566,000 was the short-term portion and $1.3 million was long term portion.

In the second quarter of 2005, Sipex recognized a $9.4 million impairment charge for its long-lived assets. Based on changes in the planned use for its wafer fabrication assets, we performed an impairment evaluation in accordance with SFAS No. 144. Sipex determined that the appropriate grouping for this impairment evaluation was the wafer fabrication assets taken together and the associated cash flows for these assets. These assets were evaluated on a held-for-use basis as we were required to operate our wafer fabrication facility until new wafer fabrication partner processes were qualified. As the carrying value exceeded the undiscounted cash flows of the wafer fabrication assets for the period of planned use by us, an impairment charge was recorded for the difference between the carrying value and the fair value of the wafer fabrication assets which management determined with the assistance of an independent appraisal firm. While we subsequently agreed to sell a substantial portion of its wafer fabrication machinery and equipment to Silan by the end of the third quarter of 2006, the wafer fabrication assets remain in use and Sipex will continue to record depreciation expense based on the estimated remaining useful life at the time of impairment.

In August 2005, our board of directors approved a plan to close our wafer fabrication operations located in Milpitas, California and transfer the fabrication to Silan in China, Episil in Taiwan and other vendors to reduce costs and improve operating efficiencies. As a result, we recognized total restructuring charges of approximately $871,000 in the second half of 2005 including severance and retention benefits totaling $766,000 for approximately 70 employees and other exit costs of $105,000. In addition, during the third quarter of 2005, Sipex decided not to transfer the remaining operations in Billerica to Milpitas that was originally anticipated to be completed by the end of 2005. The adjustment to the restructuring accrual of $294,000 during 2005 primarily included exiting costs of $213,000, offset by sublease income of $293,000 and $195,000 recorded in the third quarter of 2005 as a reduction to future lease payment obligation for not transferring such remaining operations in Billerica. Sublease income is recorded on a cash basis due to the uncertainty of collectibility. The restructuring accrual balance as of December 31, 2005 consisted of a short-term portion of $1.4 million and a long-term portion of $584,000. The $2.0 million restructuring accrual balance included $1.2 million of facility lease costs to be paid out over the next two years and the remaining portion to be paid out in less than a year.

In November 2005, based on the previous decision to close our wafer fabrication operation located at the Milpitas, California headquarters facility, we decided to sell this facility. As a result of a decision, we reduced the remaining estimated depreciation life for our headquarters building and related improvements from 25 years to approximately four months. This change resulted in an increase in depreciation expense recorded in the fourth quarter of 2005 of $6.5 million (including $4.3 million included in cost of sales).

The following is a summary of the activity related to accrued restructuring costs and fixed asset impairment for fiscal years 2004 and 2005 (in thousands):

	Total Restructuring Costs	Fixed Asset Impairment
Accrual balance December 31, 2003	$ 1,070	$ —
Incurred 2004	1,858	—
Charges utilized	(1,036)	—
Deferred rent adjustment	15	—
Adjustments to accrual	(60)	—
Accrual balance January 1, 2005	1,847	—
Incurred 2005	871	9,377
Charges utilized	(726)	(9,377)
Sub-lease income received	293	—
Adjustments to accrual	(294)	—
Accrual balance December 31, 2005	$ 1,991	$ —

Other Income (Expense), Net. Other income (expense), net was $0.6 million in 2005 compared to $185,000 in the prior year. The increase in other income (expense), net was attributable to higher interest income on short-

term investments, other income and lower interest expense associated with the two convertible notes with Future (See Note 2 to our consolidated financial statements for Related Parties). Both convertible notes were extinguished and converted into 2.3 million of our common shares as of February 18, 2004.

Income Tax Expense. Our income tax expense primarily relates to our foreign operations as we continue to incur losses from domestic operations. In 2005, we recorded an income tax provision of $192,000 in contrast to an income tax benefit of $133,000 in 2004 due to a reversal of the previously established expected tax liability from our off-shore operations, primarily Belgium. Notwithstanding our net operating losses, we did not record a tax benefit as we believed that it was more likely than not, considering the level of historical taxable income and expectations for future taxable income, that the operating loss would not be utilized in the future to offset taxable income.

Financial Condition, Liquidity and Capital Resources

As of December 30, 2006, cash, cash equivalents and short-term investments, were $15.4 million as compared to $2.0 million at December 31, 2005. The increase of $13.5 million was principally due to our net cash inflows from financing activities during 2006 of $43.5 million along with a reduction in restricted cash of $0.6 million, partially offset by our net cash outflows from operations of $27.9 million along with our cash payments for capital expenditures of $3.8 million. The two most significant sources of cash from financing activities were the net proceeds from our convertible debt offering completed in May 2006 of $28.7 million and the $12.6 million net proceeds from our lease financing obligation completed in March 2006.

Operating Activities

Net cash used in operating activities was $27.9 million, $17.4 million, and $8.9 million in 2006, 2005, and 2004, respectively. We will continue to depend upon our cash and cash equivalents to fund our operations until such time that we generate cash from operating activities.

Net cash used in operating activities of $27.9 million in 2006 resulted primarily from a $41.2 million net loss and the unfavorable impact of a $9.3 million net change in assets and liabilities, partially offset by $22.6 million of non-cash adjustments to net loss. The changes in assets and liabilities primarily included an increase in inventory of $7.0 million, an increase in accounts receivable of $1.3 million, decreases in accrued restructuring costs of $1.9 million and accrued expenses of $1.5 million, partially offset by an increase in accounts payable of $2.8 million, respectively. Non-cash adjustments primarily comprised depreciation and amortization of $9.4 million, a $5.0 million provision for inventories and $1.4 million purchase commitments on excess inventories, $3.8 million of stock-based compensation expense as a result of adopting SFAS No. 123R, effective January 1, 2006, a $1.6 million net provision for restructuring costs, a provision for uncollectible receivables and sales returns and allowances of $0.9 million, and $0.5 million for amortization of the notes payable discount and issuance costs.

Net cash used in operating activities of $17.4 million in 2005 resulted primarily from a $38.1 million net loss and the unfavorable impact of a $6.9 million net change in assets and liabilities, partially offset by $27.5 million of non-cash adjustments to net loss. The changes in assets and liabilities included an increase in inventory of $5.3 million, a decrease in accounts payable of $3.4 million, a decrease in deferred income of $1.2 million and a decrease in accrued restructuring costs of $433,000, partially offset by a decrease in accounts receivable of $1.7 million and an increase in accrued expenses of $1.4 million, respectively. The $1.2 million decrease in deferred income comprises of a decrease of $0.2 million from Future and a decrease of $1.0 million from other distributors. Non-cash adjustments primarily comprised depreciation and amortization of $11.0 million, $9.4 million of fixed asset impairment charges, and a $5.0 million provision for inventories, a provision for uncollectible receivables and sales returns and allowances of $1.5 million, and a $577,000 net provision for restructuring costs.

Net cash used in operating activities of $8.9 million in 2004 resulted primarily from a $22.7 million net loss and increase of $4.6 million in net assets and liabilities, partially offset by $18.5 million of non-cash adjustments to net loss. The changes in assets and liabilities included an increase in inventory of $5.4 million, an increase in accounts receivable of $0.9 million, a decreases in accrued restructuring costs of $608,000, partially offset by an increase in accrued expenses of $1.4 million, an increase of deferred income of $620,000 and an increase in accounts payable of $391,000. The $620,000 increase in deferred income comprises of an increase of $1.1 million from Future offset by a decrease of $449,000 from other distributors. Non-cash adjustments primarily comprised

$8.6 million provision for inventories, depreciation and amortization of $6.6 million, provision for uncollectible receivables and sales returns and allowances of $1.3 million, and a $1.8 million net provision for restructuring costs.

Accounts receivable, net of allowances, was $7.2 million and $6.7 million as of December 30, 2006 and December 31, 2005, respectively. The allowances for accounts receivable decreased to $0.9 million for 2006 from $1.3 million for 2005 primarily due to lower sales allowances for product returns.

In 2006, we recorded inventory write-downs for excess and obsolete inventories of $5.0 million. Similarly, we recorded write-downs of $5.0 million and $8.6 million, in 2005 and 2004, respectively. In addition, during 2006, we recorded $1.4 million of charges to cost of sales for purchase commitments for excess inventories. Inventories previously written off with an original cost of $1.4 million, $1.0 million and $0.9 million, were sold in 2006, 2005 and 2004, respectively.

In 2005, we began the transfer of our manufacturing processes to foundries operated by Silan in China and Episil in Taiwan in conjunction with the planned closure of our Milpitas, California wafer fabrication facility in 2006. The transfer has been a complicated and time-consuming process that has been met with significant unforeseen complications that delayed the integration transfer and required additional allocation of our resources. In 2006, we incurred approximately $1.6 million of manufacturing process transfer and qualification costs, as reflected in cost of sales. We anticipate that we will continue to incur similar costs in the future. There can be no guarantees that additional unforeseen integration issues will not arise in the future related to the integration that could cause additional delays which could materially adversely affect our ability to timely produce our products.

In addition, we may be unable to achieve all or any of the expected benefits of the relationship within the anticipated time-frames. The anticipated synergies between Sipex and Silan or Episil may not be as significant as originally expected. We may be unable to qualify the manufacturing processes and wafer testing following the transfer from Sipex to Silan or Episil or the qualification process may take significantly longer than currently expected. This could result in additional operating costs, loss of customers, and business disruption.

Investing Activities

Net cash used in investing activities in 2006 was $4.4 million, consisting of $8.0 million of purchases of short-term investment securities and $3.8 million of capital expenditures, partially offset by $5.6 million from the proceeds of maturities of short-term securities, $1.1 million for the sale of machinery and equipment and $593,000 from reductions in restricted cash.

Net cash provided by investing activities in 2005 was $209,000, consisting of $850,000 proceeds from maturities of short-term securities, $838,000 from reductions in restricted cash, offset by $878,000 of capital expenditures and $601,000 of purchases of short-term investment securities.

Net cash used in investing activities in 2004 was $1.0 million, consisting of $6.3 million purchases of short-term securities, purchase of property, plant and equipment of $1.9 million and $1.8 million of deposit to restricted cash to meet a contractual obligation with a vendor, mostly offset by the $9.0 million proceeds from maturity of short-term securities.

Financing Activities

Net cash provided by financing activities in 2006 was $43.5 million, resulting primarily from $28.7 million of net proceeds from the issuance of convertible senior notes and warrants, $12.6 million of net proceeds from lease financing obligation, $7.0 million of proceeds from related party borrowings, $3.4 million from the issuance of common stock upon the exercise of warrants relating to the 2006 convertible notes and employee stock option plans, and $2.0 million from the proceeds from bank borrowings. These cash inflows were partially offset by $7.0 million of repayments of related party borrowings, $3.0 million of repayments of bank borrowing in 2005 under our bank line of credit and $0.2 million of payments against our lease financing obligation.

Net cash provided by financing activities in 2005 was $3.7 million, resulting primarily from $3.0 million of borrowings under our bank line of credit and $0.7 million of net proceeds from issuance of common stock under

employee stock option plans. As of December 31, 2005, we violated the tangible net worth covenant under our bank line of credit. However, the borrowings of $3.0 million were subsequently repaid in January 2006.

Net cash provided by financing activities in 2004 was $7.1 million, resulting primarily from $2.7 million of net proceeds from the exercise of warrants relating to the 2002 convertible notes and $4.4 million of net proceeds from issuance of common stock under employee stock option plans.

On July 21, 2005, we entered into a Loan and Security Agreement, with Silicon Valley Bank, and this agreement was subsequently amended on October 7, 2005, November 10, 2005, January 19, 2006, May 18, 2006, August 1, 2006 and September 28, 2006. The agreement currently provides for a secured revolving line of credit with an aggregate principal amount of up to $5,000,000, which may be used to borrow revolving loans or to issue lines of credit on our behalf. We have granted to Silicon Valley Bank a security interest in all presently existing and later acquired collateral, including but not limited to goods, equipment, inventory, contract rights, and financial assets, in order to secure the obligations and duties under such loan and security agreement. Advances accrue interest on the outstanding principal balance at an annual rate, decided by us, either equal to Silicon Valley Bank's prime rate or LIBOR rate (depending upon the interest period of one, two or three months selected by us) plus 2.75%. In addition to the $5,000,000 secured revolving line of credit, we can borrow under term loans in an aggregate amount not to exceed $2,000,000. Each term loan shall be in an amount not less than $500,000. The number of term loans shall not exceed two (2). Interest accrues from the date of each term loan at a rate of 9.25%. Each term loan shall be payable in thirty-six (36) equal monthly installments of principal plus accrued interest. When repaid or prepaid, the term loan may not be re-borrowed. As of December 30, 2006, the unused portion of our line of credit was $3,735,000, and a $2,000,000 term loan was outstanding.

The agreement with Silicon Valley Bank has been extended to September 29, 2007 at which time all outstanding advances must be repaid, and all outstanding letters of credit must be cash collateralized. The agreement requires us to comply with a minimum liquidity ratio of 2.50:1.00 at each fiscal quarter end. It also requires us to retain a minimum tangible net worth as of the last day of each fiscal quarter. The liquidity ratio is calculated as the sum of (i) Sipex's unrestricted cash and cash equivalents, short-term marketable securities and 50% of consolidated Accounts divided by (ii) the Obligations. Sipex must maintain, as of the last day of each fiscal quarter set forth below, a tangible net worth of at least the amount set forth below for each fiscal quarter ending date. For purposes of this calculation, up to $5,000,000 in an aggregate amount of non-cash charges relating to inventory write-downs and/or restructuring charges may be added to tangible net worth. Fiscal quarter ending date: September 30, 2006, minimum tangible net worth: $600,000; fiscal quarter ending date: December 30, 2006, minimum tangible net worth (deficit): (-$5,500,000); fiscal quarter ending date: March 31, 2007, minimum tangible net worth (deficit): (-$10,000,000); fiscal quarter ending date: June 30, 2007, minimum tangible net worth (deficit): (-$13,000,000); Each fiscal quarter thereafter, minimum tangible net worth (deficit): (-$13,000,000) plus 50% of any positive net income (with no adjustment for losses) and 50% of any new equity raised. The agreement contains additional affirmative covenants, including, among others, covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. In addition, the agreement contains negative covenants limiting our ability to dispose of assets, change our business plans, be acquired or beneficially owned, merge or consolidate, incur indebtedness, grant liens, make investments, pay dividends, repurchase stock, and pay subordinated debt. The agreement contains events of default that include, among others, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violations of covenants, bankruptcy and insolvency events, any material adverse change, material judgments, cross defaults to certain other indebtedness and seizure of assets. The occurrence of an event of default will increase the applicable rate of interest by 5.0% and would, unless waived by Silicon Valley Bank, result in the immediate payment of all of our obligations under the agreement. As of December 30, 2006, total borrowing with Silicon Valley Bank was $2.0 million, of which $667,000 was the short-term portion and $1.3 million was the long-term portion. If we are unable to satisfy the financial covenant requirements and to obtain a waiver from the bank, we may be required to repay the outstanding borrowing amounts and/or classify such amounts as short-term bank borrowing.

On January 19, 2006, we announced the completion of a $7.0 million private loan financing in which we issued a 9% secured note with convertible interest due January 19, 2008 to Rodfre, an affiliate of Future. The note was

secured by a deed of trust on our headquarters property located in Milpitas, California. The holder of the note could require repayment of the loan in the event of, among other things, the sale of the property subject to the deed of trust.

On March 9, 2006, we entered into an Agreement for Purchase and Sale of Real Property with Mission West Properties, L.P. The agreement provides for the sale of Sipex's Hillview facility to Mission West Properties, L.P. for a price of $13.4 million in cash (net proceeds of $12.6 million). We used the proceeds from the sale of our Hillview facility to pay off and terminate the $7.0 million loan with Future. The remaining balance of $6.4 million from the sale of the property was used for operating activities.

Simultaneously with the sale of the Hillview property in March 2006, we entered into a Standard Form Lease agreement to lease back the facility from Mission West Properties, L.P. The lease term is 60 months. In addition, we provided a security deposit of $1,265,000 in the form of an irrevocable standby letter of credit issued to Mission West Properties, L.P. under our line of credit with Silicon Valley Bank. The security deposit is held as security for our faithful performance of the terms, covenants, and conditions prescribed under the lease agreement.

On May 16, 2006, we placed $30.0 million of 5.5% Redeemable Convertible Senior Notes due 2026, or the 2006 Notes, in a private placement. The 2006 Notes bear interest of 5.5% per year, payable semi-annually on May 15 and November 15 of each year, commencing on November 15, 2006, and mature on May 16, 2026. The 2006 Notes are convertible into common stock at any time at a fixed conversion price of $5.36 per share. If fully converted, the principal amount of the 2006 Notes would convert into approximately 5,597,015 shares of our common stock. At any time following the effectiveness of a registration statement related to the resale of the common stock issuable upon the conversion of the 2006 Notes, we may, subject to certain conditions, elect to automatically convert the 2006 Notes into common stock if the average price of our common stock exceeds 150% of the conversion price for at least 20 trading days during any consecutive 30 trading-day period, ending within 5 days of the notice of automatic conversion. We have the right to redeem the 2006 Notes at par plus accrued interest at anytime after May 15, 2009 and the purchasers have the right to require us to repurchase the 2006 Notes at par plus accrued interest on May 15 in 2011, 2016 and 2021.

The 2006 Notes are convertible into Sipex's common stock at any time prior to maturity, initially at a conversion price of $5.36 per share, subject to adjustment upon certain events, including, among other things, dividends, stock splits and recapitalizations. If fully converted, the principal amount of the 2006 Notes would convert into 5,597,015 shares of the Company's common stock.

The 2006 Notes contains certain covenants including a covenant restricting the amount of indebtedness that we can incur that is senior or pari passu with the 2006 Notes to an aggregate principal amount of $7.5 million, unless such restriction is waived by holders of over 66⅔% of the principal amount of the 2006 Notes then outstanding. Additionally, an event of default would occur under the 2006 Notes for a number of reasons, including our failure to pay when due any principal, interest or late charges on the 2006 Notes, the default and acceleration of indebtedness with our bank and other lenders in amounts greater than $2.5 million, certain events of bankruptcy and our breach or failure to perform certain representations and obligations under the 2006 Notes. Upon the occurrence of an event of default, our obligations under the 2006 Notes may become due and payable in accordance with the terms thereof.

The 2006 Notes provide that since we were not current in our SEC filings by August 15, 2006, we incurred additional interest on the 2006 Notes at an annual rate of 1.5% for the period beginning August 16, 2006 through the date that our filings became current. The Company filed all its late Forms 10-K and 10-Q to the SEC by September 21, 2006. In addition, as our common stock is not listed on the Nasdaq Global Market, the New York Stock Exchange or another national exchange or automated quotation system by December 31, 2006, we will pay additional interest on the 2006 Notes at an annual rate of 1.5% for the period beginning January 1, 2007 through the date that our common stock becomes listed for trading on one of the national exchanges. Likewise, the Registration Rights Agreement entered into in connection with the 2006 Notes provides that since we have not filed a registration statement for the shares of our common stock issuable upon conversion of the 2006 Notes or exercise of the warrants issued in connection with the 2006 Notes as of August 15, 2006, we must pay additional payments to the noteholders equal to a per annum rate of 0.8% times the principal amount of the 2006 Notes for the period beginning on August 16, 2006 through the date that the registration statement is filed. However, we have to pay increased interest payments at an annual rate of 1.2% as the filing of the registration statement was delayed by over 60 days, and the registration statement was not declared effective by December 31, 2006. We have not filed a registration

statement as contemplated in the Registration Rights Agreement. Our common stock is not listed on any one of the national exchanges. As a result of our failure to meet these conditions, we are effectively obligated to pay up to an additional 2.7% of interest on the notes and our current effective interest rate is 8.2% per annum. A more detailed description of the terms of the 2006 Notes is presented in Note 12 to our consolidated financial statements included in this 10-K filing.

On March 29, 2007, we entered into a Securities Purchase Agreement with Rodfre, an affiliate of Future, our largest distributor worldwide and an affiliate of our largest stockholder (Alonim Investment Inc.), to provide an unsecured promissory note facility of up to $10.0 million. This facility expires, and the borrowings and accrued interest under any notes issued under this facility are due and payable, on June 30, 2008, or upon certain other events such as a change of control. Borrowings under this promissory note facility bear interest of 9% per annum subject to an increased interest rate of up to 20% in case of default or after maturity. This promissory note facility is subordinate to our Loan and Security Agreement with Silicon Valley Bank and to our 5.5% Redeemable Convertible Senior Notes due 2026.

Based on our current plans and business conditions, we believe that our existing cash, cash equivalents and short-term investments together with available borrowings under our bank line of credit and unsecured promissory note facility will be sufficient to meet our liquidity and capital spending requirements for at least the next twelve months. In addition, if desirable or necessary, we may seek to raise additional capital through the sale of debt or equity. There can be no assurances, however, that future borrowings and capital resources will be available on favorable terms or at all. Our cash flows are highly dependent on demand for our products, timing of orders and shipments with key customers and our ability to manage our working capital, especially inventory and accounts receivable, as well as controlling our production and operating costs in line with our revenue.

Off-Balance Sheet Arrangement

As of December 30, 2006, we had no off-balance sheet arrangements as defined in Item 303(a) (4) of the SEC's Regulation S-K except for the $1,265,000 security deposit in the form of irrevocable standby letter of credit issued to Mission West Properties, L.P. as described under "Interest Rate Risk."

Contractual Obligations

Our contractual obligations as of December 30, 2006 were as follows (in thousands):

	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Convertible note payable(1):					
Principal	$30,000	$ —	$ —	$ —	$30,000
Interest	32,654	2,129	3,300	3,300	23,925
Long-term lease financing obligation(2)	5,797	1,329	2,776	1,692	—
Restructuring liability(3)	771	617	154	—	—
Operating leases(4)	1,642	676	627	315	24
Purchase commitment — Polar Fab	3,653	3,653	—	—	—
Purchase commitment — Cadence Design	974	857	117	—	—
Verification software tools — Mentor Graphics	419	157	262	—	—
Other(5)	2,022	1,964	58	—	—
Total contractual obligations	$77,932	$11,382	$7,294	$5,307	$53,949

(1) $30.0 million Convertible Senior Notes issued on March 18, 2006 due May 18, 2026 with 5.5% interest payable semi-annually on May 15 and November 15 of each year beginning on November 15, 2006.

(2) Lease payments (excluding $11.2 million estimated final obligation settlement with the lessor by returning the Hillview facility due on our Hillview facility in Milpitas, California) under a 5-year Standard Form Lease agreement that we signed with Mission West Properties L.P. on March 9, 2006.
(3) Represents estimated lease payments with related costs for the unused portion of our Billerica, Massachusetts facility.
(4) Includes lease payments related to the used portion of our facility at our Billerica, Massachusetts facility.
(5) Includes wafer and part purchases as well as other services with various vendors including Episil and BCD Semiconductor Manufacture Limited.

Effect of Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements for the discussion on effect of recent accounting pronouncements.

Item 7A. *Quantitative and Qualitative Disclosure about Market Risk:*

Market Risk

We invest excess cash in financial investments that are sensitive to market risks as part of our investment strategy. None of these market-sensitive instruments are held for trading purposes. We do not own derivative financial instruments in our portfolio. The investment portfolio contains instruments that are subject to the risk of a decline in interest rates. As required by our investment policy, available funds are invested in a manner that assures maximum safety and liquidity and, secondarily, maximizes yield within such constraints.

Interest Rate Risk

Our financial investments consist primarily of high quality commercial paper and money market funds. We believe we have no material exposure to interest rate risk.

Our exposure to market risk for changes in interest rates relates primarily to the increase or decrease in the amount of interest income we can earn on our investment portfolio and interest expense we are charged on borrowings. We do not use derivative financial instruments or engage in hedging activities in our investment portfolio. We ensure the safety and preservation of our invested principal funds by limiting default risks, market risk and reinvestment risk. We mitigate default risk by investing in safe and high-credit quality securities.

We had short-term investment securities of $2.4 million as of December 30, 2006. Our short-term investments consisted of highly liquid investments with original maturities at the date of purchase of between 91 to 104 days. These investments are subject to interest rate risk and will fall in value if market interest rates increase. We believe a hypothetical increase in market interest rates by 10% from levels at December 30, 2006, would cause the fair value of these short-term investments to fall by an immaterial amount. Since we are not required to sell these investments before maturity, we have the ability to avoid realizing losses on these investments due to a sudden change in market interest rates. On the other hand, declines in the interest rates over time will reduce our interest income.

On March 9, 2006, we entered into an Agreement for Purchase and Sale of Real Property with Mission West Properties, L.P. The agreement provides for the sale of our Hillview facility to Mission West Properties, L.P. for a price of $13.4 million in cash (net proceeds of $12.6 million). Simultaneously, we entered into a Standard Form Lease agreement to lease back the Hillview facility from Mission West Properties, L.P. We provided a security deposit of $1,265,000 in the form of an irrevocable standby letter of credit issued to Mission West Properties, L.P.; accordingly, we have accounted for this sale and leaseback transaction as a financing transaction shown on the consolidated balance sheet as “lease financing obligation.” An effective interest rate of 9.3%, which approximates our estimated borrowing rate, is used to record the interest expense over the lease term of 60 months with average lease payments of approximately $1.4 million per year. Since the interest rate of this transaction was fixed, a hypothetical 10% increase in interest rates will not have a material effect on our financials.

On May 16, 2006 we placed $30.0 million of 5.5% Redeemable Convertible Senior Notes due 2026. The notes provide for a fixed interest rate of 5.5%, which has been increased to, and currently fixed at 8.2% as a result of our

failure to meet certain conditions. A hypothetical 10% increase in interest rates will not have a material effect on our financials. A more detailed description of the terms of the 2006 Notes is provided in Note 12 to our consolidated financial statements included in this 10-K filing, and in our Form 8-K filed with the SEC on May 22, 2006.

We have a Loan and Security Agreement with Silicon Valley Bank which provides us with a line of credit up to $5.0 million and charges interest at the bank's prime rate or LIBOR rate. However, we do not believe that a hypothetical increase in market interest rates by 10% from current levels would result in a material increase in our overall expenses. As part of the agreement, in addition to the $5.0 million secured revolving line of credit, Sipex borrowed $2.0 million under a separate term loan during December 2006. Interest accrues at a fixed rate of 9.25% per annum.

We have a promissory note facility with Rodfre which provides us with the ability to issue up to $10.0 million of promissory notes that would charge interest at the rate of 9% per annum. Since the interest rate is fixed in the promissory notes to be issued under the facility with Rodfre, a hypothetical 10% increase in interest rates will not have a material effect in our expenses under this promissory note facility, nor will it have a material effect on our financials.

Foreign Currency Exchange Risk

The majority of our sales, expense, and capital purchasing activities are transacted in U.S. dollars. However, since a portion of our operations consists of sales activities outside of the U.S., we enter into transactions in other currencies. We are primarily exposed to changes in exchange rates for the euro, British pound, Japanese yen, Canadian dollar and South Korean won. Currently, we have no plan to enter into any foreign currency hedging program since the amounts involved have not been material. Foreign currency fluctuations did not have a material impact on our consolidated financial position, results of operations or cash flows in fiscal 2006, 2005 and 2004.

Item 8. ***Financial Statements and Supplementary Data:***

Sipex's consolidated financial statements and related Report of Independent Registered Public Accounting Firm are presented in the following pages.

	Page
Report of Independent Registered Public Accounting Firm	42
Consolidated Balance Sheets as of December 30, 2006 and December 31, 2005	43
Consolidated Statements of Operations for the years ended December 30, 2006, December 31, 2005 and January 1, 2005	44
Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Loss for the years ended December 30, 2006, December 31, 2005, January 1, 2005	45
Consolidated Statements of Cash Flows for the years ended December 30, 2006, December 31 2005, January 1, 2005	46
Notes to consolidated financial statements	47

Schedules not listed above have been omitted since they are not applicable or are not required, or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Sipex Corporation:

We have audited the accompanying consolidated balance sheets of Sipex Corporation and subsidiaries (the "Company") as of December 30, 2006 and December 31, 2005, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive loss, and cash flows for each of the three years in the period ended December 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As of December 30, 2006, the Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting as of December 30, 2006. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sipex Corporation and subsidiaries as of December 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *"Share-Based Payment",* effective January 1, 2006.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
March 30, 2007

SIPEX CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except per-share data)

	December 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,041	$ 1,969
Restricted cash	350	500
Short-term investment securities	2,388	—
Accounts receivable, less allowances of $551 and $820, respectively	6,222	3,735
Accounts receivable, related party, less allowances of $306 and $529, respectively	949	3,011
Inventories	15,586	13,400
Prepaid expenses and other current assets	1,641	1,300
Total current assets	40,177	23,915
Property, plant, and equipment, net	19,113	25,803
Restricted cash — noncurrent	57	500
Other assets	202	224
Total assets	$ 59,549	$ 50,442
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Short-term bank borrowing	$ —	$ 3,000
Current portion of long-term bank borrowing	667	—
Current portion of lease financing obligation	191	—
Accounts payable	10,331	7,394
Accrued expenses	7,185	7,282
Accrued restructuring costs	1,728	1,407
Deferred income, related party	5,543	5,707
Deferred income, other	2,555	2,510
Total current liabilities	28,200	27,300
Long-term bank borrowing	1,333	—
Long-term lease financing obligation	12,152	—
Long-term accrued restructuring costs	139	584
Convertible senior notes	25,826	—
Other long-term liabilities	24	37
Total liabilities	67,674	27,921
Commitments and contingencies (Note 14)		
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value, 1,000 shares authorized and no shares issued or outstanding	—	—
Common stock, $0.01 par value, 60,000 shares authorized; 18,390 and 17,775 shares issued and outstanding at December 30, 2006 and December 31, 2005, respectively	184	178
Additional paid-in capital	234,785	224,203
Accumulated deficit	(243,075)	(201,841)
Accumulated other comprehensive loss	(19)	(19)
Total stockholders' equity (deficit)	(8,125)	22,521
Total liabilities and stockholders' equity (deficit)	$ 59,549	$ 50,442

See accompanying notes to consolidated financial statements

SIPEX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per-share data)

	Years Ended		
	December 30, 2006	December 31, 2005	January 1, 2005
Net sales	$ 44,733	$ 40,847	$ 46,219
Net sales, related party	34,017	31,827	29,234
Total net sales	78,750	72,674	75,453
Cost of sales	41,103	35,103	41,250
Cost of sales, related party	28,296	23,822	22,407
Total cost of sales	69,399	58,925	63,657
Gross profit	9,351	13,749	11,796
Operating expenses:			
Research and development	17,332	17,248	14,710
Marketing and selling	15,524	10,642	8,570
General and administrative	13,486	14,420	9,784
Restructuring	1,863	577	1,798
Impairment of fixed assets	12	9,377	—
Total operating expenses	48,217	52,264	34,862
Loss from operations	(38,866)	(38,515)	(23,066)
Other income (expense):			
Interest income	721	208	176
Interest expense	(3,046)	(35)	(194)
Other, net	82	427	203
Total other income (expense), net	(2,243)	600	185
Loss before income tax expense (benefit)	(41,109)	(37,915)	(22,881)
Income tax expense (benefit)	125	192	(133)
Net loss	$(41,234)	$(38,107)	$(22,748)
Net loss per common share — basic and diluted	$ (2.32)	$ (2.14)	$ (1.38)
Weighted average common shares outstanding — basic and diluted	17,807	17,772	16,468

See accompanying notes to consolidated financial statements

SIPEX CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE LOSS

	Common Stock		Additional		Accumulated	Total
	Number of Shares	$0.01 Par Value	Paid-In Capital	Accumulated Deficit	Other Comprehensive Loss	Stockholders' Equity (Deficit)
	(In thousands, except per share data)					
Balances at December 31, 2003	14,213	$142	$195,084	$(140,986)	$ (7)	$ 54,233
Net loss	—	—	—	(22,748)		(22,748)
Foreign currency translation adjustments	—	—	—	—	(12)	(12)
Comprehensive loss	—	—	—	—	—	(22,760)
Issuance of common stock under employee stock option plans	688	7	4,237	—	—	4,244
Issuance of common stock under employee stock purchase plan	46	—	426	—	—	426
Issuance of common stock on conversion of notes payable, net of discount and issuance costs	2,300	23	21,112	—	—	21,135
Issuance of common stock on exercise of warrants	450	5	2,646	—	—	2,651
Compensation from acceleration of stock option vesting	—	—	44	—	—	44
Other stock compensation expense	—	—	7	—	—	7
Consulting services provided by related party (see Note 2)	—	—	100	—	—	100
Balances at January 1, 2005	17,697	177	223,656	(163,734)	(19)	60,080
Net loss and comprehensive loss	—	—	—	(38,107)	—	(38,107)
Issuance of common stock under employee stock option plans	78	1	461	—	—	462
Compensation from acceleration of stock option vesting	—	—	60	—	—	60
Other stock compensation expense	—	—	9	—	—	9
Consulting services provided by related party (see Note 2)	—	—	17	—	—	17
Balances at December 31, 2005	17,775	178	224,203	(201,841)	(19)	22,521
Net loss and comprehensive loss	—	—	—	(41,234)	—	(41,234)
Issuance of common stock under employee stock option plans	195	2	727	—	—	729
Issuance of common stock on exercise of warrants	420	4	2,696	—	—	2,700
Beneficial conversion feature of convertible senior notes	—	—	1,639	—	—	1,639
Warrant issuance with convertible senior notes, net of issuance costs	—	—	1,568	—	—	1,568
Stock-based compensation	—	—	3,947	—	—	3,947
Consulting services provided by related party (see Note 2)	—	—	5	—	—	5
Balances at December 30, 2006	18,390	$184	$234,785	$(243,075)	$(19)	$ (8,125)

See accompanying notes to consolidated financial statements

SIPEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended		
	December 30, 2006	December 31, 2005	January 1, 2005
	(In thousands)		
Operating activities:			
Net loss	$(41,234)	$(38,107)	$(22,748)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation expense	3,780	69	51
Depreciation and amortization	9,410	10,952	6,559
Provision for inventories	4,997	5,031	8,628
Provision for purchase commitments on excess inventories	1,417	—	—
Provision for restructuring charges	1,610	577	1,798
Loss on disposal of fixed assets	9	39	—
Impairment of fixed assets	12	9,377	—
Amortization of discount and issuance costs on convertible senior notes	472	—	57
Provision for uncollectible receivables and sales returns and allowances	909	1,484	1,323
Consulting services provided by related party	5	17	100
Changes in assets and liabilities:			
Accounts receivable	(1,334)	1,678	(863)
Inventories	(7,016)	(5,290)	(5,365)
Prepaid expenses and other current assets	(341)	83	115
Other assets	22	261	(278)
Accounts payable	2,856	(3,444)	391
Accrued expenses	(1,532)	1,427	1,374
Accrued restructuring costs	(1,850)	(433)	(608)
Deferred income	(119)	(1,191)	620
Other long-term liabilities	(13)	24	(21)
Net cash used in operating activities	(27,940)	(17,446)	(8,867)
Investing activities:			
Proceeds from maturity of short-term investment securities	5,600	850	9,000
Purchase of short-term investment securities	(7,988)	(601)	(6,255)
Purchase of property, plant, and equipment	(3,799)	(878)	(1,921)
Net proceeds from sale of machinery and equipment	1,139	—	20
Restricted cash — decrease (increase)	593	838	(1,838)
Net cash provided by (used in) investing activities	(4,455)	209	(994)
Financing activities:			
Proceeds from issuance of common stock under employee stock option plans	729	683	4,449
Proceeds from issuance of common stock on exercise of warrants	2,700	—	2,651
Legal fees for conversion of convertible debt to common stock	—	—	(42)
Proceeds from borrowing — related party	7,000	—	—
Repayment of borrowing — related party	(7,000)	—	—
Proceeds from (repayment of) short-term bank borrowing	(3,000)	3,000	—
Net proceeds from lease financing obligation	12,578	—	—
Repayment of lease financing obligation	(235)	—	—
Proceeds from issuance of convertible senior notes and warrants	30,000	—	—
Debt issuance costs related to convertible senior notes	(1,305)	—	—
Proceeds from long-term bank borrowing	2,000	—	—
Net cash provided by financing activities	43,467	3,683	7,058
Effect of foreign currency exchange rate changes on cash and cash equivalents	—	—	(12)
Increase (decrease) in cash and cash equivalents	11,072	(13,554)	(2,815)
Cash and cash equivalents at beginning of period	1,969	15,523	18,338
Cash and cash equivalents at end of period	$ 13,041	$ 1,969	$ 15,523
Supplemental cash flow information:			
Cash paid during the period for:			
Income taxes	$ 32	$ 48	$ 13
Interest	$ 1,972	$ —	$ 5
Supplemental disclosure of non-cash investing and financing activities:			
Purchase of property, plant and equipment not paid at end of period	$ 169	$ 88	$ 113
Conversion of convertible debt to common stock	$ —	$ —	$ 21,177
Receivable from exercise of stock options	$ —	$ —	$ 221

See accompanying notes to consolidated financial statements

SIPEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

Sipex Corporation ("Sipex" or the "Company") is a semiconductor company that designs, manufactures and markets high performance, value-added analog ICs that are used primarily by original equipment manufacturers ("OEMs") operating in the computing, communications and networking infrastructure markets.

While advances in digital technology have fueled the demand for digital ICs, they have also created a rapidly growing demand for more precise, faster and more power efficient analog ICs. Sipex possesses a broad portfolio of analog ICs, organized into three product families: power management, interface and optical storage. Sipex's products are sold either directly to customers or through a global network of manufacturers' representatives and distributors.

The Company's wafer fabrication facility in Milpitas, California along with a number of third-party contractors fabricate, package and test its ICs. In an effort to achieve significant cost savings, in the third quarter of 2005 Sipex decided to close down the Milpitas wafer fabrication facility and transfer the IC manufacturing processes from there to a wafer fabrication facility operated by Hangzhou Silan Integrated Circuit Co., Ltd. ("Silan") in China and a wafer fabrication facility operated by Episil Technologies, Inc. in Taiwan. The closure of the Milpitas wafer fabrication facility was fully completed in early October 2006.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates that are particularly susceptible to changes include those related to revenues, sales returns and allowances, deferred income, inventory valuation, restructuring reserves, asset impairments and income taxes.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Sipex GmbH and Sipex Nippon. All significant intercompany accounts and transactions have been eliminated in consolidation.

Effective January 1, 2004, the Company's fiscal year was changed from a calendar year end to a 52 or 53-week fiscal year, which ends on the Saturday closest to December 31. The first quarter of fiscal year 2006 covered 91 days from January 1, 2006 to April 1, 2006, the second quarter covered 91 days from April 2, 2006 to July 1, 2006, the third quarter covered 91 days from July 2, 2006 to September 30, 2006, and the fourth quarter covered 91 days from October 1, 2006 to December 30, 2006. Hereinafter, the years ended December 30, 2006, December 31, 2005 and January 1, 2005 are also referred to as "2006," "2005," and "2004."

Reverse Stock Split

On January 30, 2007, Sipex's stockholders at a special meeting of stockholders approved a 1-for-2 reverse stock split. The reverse split became effective at 1:31 p.m. Pacific Standard Time on February 23, 2007. The par value of the common stock was not affected by the reverse stock split and remains at $0.01 per share. Consequently, the aggregate par value of the issued common stock was reduced by reclassifying the par value amount of the eliminated shares of common stock to additional paid-in capital in the Company's consolidated balance sheets. The Company has paid cash in lieu of any fractional shares to which a holder of common stock would otherwise be entitled as a result of the reverse stock split. The number of authorized shares of common stock remains unchanged. All shares and per share amounts, including all common stock equivalents (stock options, warrants and convertible

notes) have been restated in the consolidated financial statements and in the notes to consolidated financial statements for all periods presented to reflect the reverse stock split.

Revenue Recognition

The Company recognizes revenue in accordance with Securities Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition." SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured.

Prior to January 1, 2004, the Company entered into arrangements that were not within the original contractual distributor agreements in that the Company allowed return rights and other concessions beyond the levels provided in the distributor agreements. Company management concluded it is unable to reasonably estimate sales returns for arrangements with its distributor; accordingly, effective January 1, 2003, sales and related cost of sales on shipments to distributors are deferred until the resale to the end customer.

Sales to Future Electronics Inc. ("Future"), and a related party, are made under an agreement that provides protection against price reductions of Sipex's products in Future's inventory. In addition, Future has stock rotation rights. Pursuant to these stock rotation rights, Future is permitted on a quarterly basis to return for credit up to 10% of its total purchases during the most recent three-month period. This credit will be reduced to 5% applicable to all purchases made by Future from Sipex starting April 1, 2006.

Additionally, the Company provides Future with a 2% scrap allowance also effective April 1, 2006. As the price of products sold to Future is not fixed or determinable until resold by Future to the end customer, Sipex is using sell-through revenue accounting and deferring recognition of such sales and related cost of goods sold until the product is sold by Future to its customers.

Under sell-through revenue accounting, accounts receivable are recognized and inventory is relieved upon shipment to the distributor as title to the inventory is transferred upon shipment, at which point the Company has a legally enforceable right to collection under normal terms. The associated sales and cost of sales are deferred by recording "deferred income" (gross profit margin on these sales) as shown on the face of the consolidated balance sheet. When the related product is sold by the Company's distributors to their end customers, Sipex recognizes previously deferred income as sales and cost of sales.

For non-distributor customers, the Company recognizes revenue when title to the product is transferred to the customers, which occurs upon shipment or delivery, depending upon the terms of the customer order, provided that persuasive evidence of a sales arrangement exists, the price is fixed and determinable, title has transferred, collection of the resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations. Provisions for returns and allowances for non-distributor customers are provided for at the time product sales are recognized. An allowance for sales returns and allowances for customers is recorded based on historical experience or specific identification of an event necessitating an allowance.

From time to time, Sipex develops custom products for various customers under engineering service contracts culminating in delivery of known functional development samples. The Company recognizes revenue under these agreements upon delivery of known functional development samples as delivery of such represents the culmination of utility of the contract to the customer and agreed to milestones. Sipex recognizes the costs as incurred associated with these contracts and presents such costs as research and development expenses due to the uncertain nature of the development efforts until delivery of the known functional development samples. Certain of these engineering service contracts include payments in advance of delivery of known functional development samples. These payments are recorded in deferred income, other, until the time of delivery of the functional samples.

Research and Development

Research and development costs are expensed as incurred.

Net Loss Per Share

Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based upon the weighted average number of common and common equivalent shares outstanding assuming dilution. Common equivalent shares, consisting of outstanding stock options, convertible debt and warrants, are included in the per share calculations where the effect of their inclusion would be dilutive. As the Company had a net loss in 2006, 2005 and 2004, stock options, warrants, and shares issuable in conversion of debt were excluded from the calculation of diluted net loss per share because the effect of such assumed conversion would be anti-dilutive.

A reconciliation of basic weighted average common shares with diluted weighted average shares is as follows (in thousands):

	2006	2005	2004
Weighted average common shares outstanding — basic	17,807	17,772	16,468
Net effect of dilutive potential common shares outstanding based on the treasury stock method using the average market price	—	—	—
Weighted average common shares outstanding — diluted	17,807	17,772	16,468

Antidilutive potential common shares excluded from the weighted average common shares outstanding for net loss per share calculation are as follows (in thousands, except per-share information):

	December 30, 2006	December 31, 2005	January 1, 2005
Option shares outstanding	3,761	3,259	2,726
Weighted average exercise price of option shares outstanding	$ 5.88	$ 5.74	$11.96
Convertible notes of $30.0 million issued on May 18, 2006 (conversion price at $5.36)	5,597	—	—
Warrants issued on May 18, 2006 with the above convertible notes (exercise price at $6.432)	420	—	—

Concentration of Credit Risk

Financial instruments that potentially subject Sipex to concentrations of credit risk consist primarily of cash equivalents, short-term investments (see below) and accounts receivable. Cash equivalents consist of deposits with, or guaranteed by, major commercial banks, the maturities of which are three months or less on the date of purchase. With respect to accounts receivable, Sipex performs periodic credit evaluations of the financial condition of its customers and typically does not require collateral from them. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historical trends and other information. In addition, management reviews other inherent risks in the portfolio based on current market conditions, the economic environment and the Company's concentration of credit risk.

Concentration of Other Risks

The semiconductor industry is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. The Company's financial results are affected by a wide variety of factors, including general economic conditions worldwide, economic conditions specific to the semiconductor industry, the timely

implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in a rapidly evolving market and reliance on assembly and test subcontractors, third-party wafer fabricators and independent distributors. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times. The Company is exposed to the risk of obsolescence of its inventory depending on the mix of future business. Additionally, the Company utilizes third-party wafer fabricators as sole-source suppliers, primarily Polar, Episil and Silan. As a result, the Company may experience significant period-to-period fluctuations in future operating results because of the factors mentioned above or other factors.

Fair Values of Financial Assets and Financial Liabilities

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying value of bank borrowings approximates fair value as the fixed interest rate was set at the time of borrowing in December 2006. The carrying value of the Company's convertible senior notes was $25.8 million, and the fair value was approximately $62.4 million as of December 30, 2006. The assumptions used for the fair value calculation included the Company's stock price movements, interest rate changes, credit rating changes, timing on re-listing with Nasdaq Global Market, effectiveness on its Form S-1 filing with the SEC and other economic variables (See Note 12).

Short-term Investments

Short-term investments, which primarily consist of highly rated commercial paper with original maturities greater than 90 days, are accounted for under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities" issued by the Financial Accounting Standards Board (FASB). Pursuant to the provisions of SFAS No. 115, the Company has classified its short-term investments as "held to maturity" which represent investments that the Company intends to hold to maturity and are recorded at amortized cost.

Inventories

Inventories are stated at the lower of cost or market. Costs are determined using the first-in, first-out method.

Valuation of Inventories

Sipex writes down the value of its inventories for estimated excess quantities, obsolescence, and/or marketability deficiencies. In addition, the Company writes down inventory costs to the lower of cost or market which becomes the new cost basis. Excess and obsolete inventories are determined by comparing current inventory quantities to current backlog, anticipated future demand and shipment history. The Company also evaluates the net realizable value of inventories to be acquired under purchase commitments with our wafer foundries. If such inventories are also considered to be excess when compared to future demand, we record reserves and charges to cost of sales for these purchase commitments. Lower of cost or market adjustments are determined by reviewing shipments during the quarter as well as quarter beginning backlog and comparing standard cost to anticipated market pricing. In estimating anticipated market pricing, the Company also considers current market conditions, industry performance, distributor inventory levels and sales to end-users and other relevant factors. If actual market conditions become less favorable than those anticipated by management, additional write-downs of inventories may be required in the future. Inventories, which had previously been written down to zero, with an original cost of $1.4 million, $1.0 million and $0.9 million, were sold in 2006, 2005 and 2004, respectively. The Company recorded inventory write-downs for excess and obsolete inventories of $5.0 million, $5.0 million and $8.6 million, during 2006, 2005 and 2004, respectively. In addition, during 2006, the Company recorded $1.4 million of charges to cost of sales for purchase commitments for excess inventories.

Related Parties

Future is a related party and its affiliates own approximately 8.6 million shares or 47% of Sipex's outstanding common stock as of December 30, 2006. Sipex has a distribution agreement that provides for Future to act as the Company's sole distributor for certain products within North America and Europe. Sales to Future are made under an agreement that provides protection against price reduction for its inventory of Sipex's products. The Company recognizes revenue on sales to Future under the distribution agreement when Future sells the products to end customers. Future has historically accounted for a significant portion of the Company's revenues. It is the Company's largest distributor worldwide and accounted for 43%, 44% and 39% of its total net sales for the years ended December 30, 2006, December 31, 2005 and January 1, 2005 respectively.

From time to time, Future provides services and/or incurs expenses on behalf of the Company. The fair value of the unreimbursed expenses and uncompensated services rendered by Future has been recorded in the Company's consolidated financial statements as capital contributions totaling $5,000, $17,000 and $100,000 for the years ended December 30, 2006, December 31, 2005 and January 1, 2005 respectively.

In addition, Sipex incurred expense to Future totaling approximately $23,000 for marketing promotional materials, temporary accounting services and used furniture sold to the Company for the year ended December 30, 2006. Sipex recorded $44,000 of reimbursement expense for marketing promotional materials charged by Future for the year ended December 31, 2005. For the year ended January 1, 2005, no such expenses were recorded.

During February 2004, the affiliates of Future exercised the conversion rights to convert their existing notes into Sipex common stock for an additional 2.3 million shares. On August 5, 2004, the affiliates of Future exercised a warrant to purchase 450,000 shares of Sipex common stock at $5.8916 per share. The warrant was issued to the affiliates of Future in conjunction with the $12 million convertible note issued in 2002, which was converted into Sipex common stock in February 2004. In connection with the warrant exercise, Sipex agreed to modify the standstill restrictions on the affiliates of Future to enable them to hold the lesser of (i) 49% of the Company's issued and outstanding voting capital stock and (ii) 42.5% of the Company's issued and outstanding voting capital stock, measured on a "Fully Diluted Basis," as defined using the following equation: The numerator includes all voting capital stock and securities convertible into or exercisable for voting capital stock held by the affiliates of Future and the denominator is the greater of (i) all shares of the Company's voting capital stock outstanding or issuable upon the exercise or conversion of vested securities convertible into or exercisable for voting capital stock and (ii) 20,000,000 (as adjusted for stock dividends, splits or like transactions). On August 9, 2004, the affiliates purchased 1.25 million shares of Sipex common stock in the open market.

On January 19, 2006, Sipex announced the completion of a $7.0 million private loan financing in which the Company issued a 9% secured note with convertible interest due January 19, 2008 to the affiliates of Future, which could provide these affiliates with the opportunity to obtain additional shares of Sipex common stock. The loan was repaid in March 2006. Sipex incurred interest expense totaling $86,000 related to the $7.0 million note with Future for the year ended December 30, 2006.

As discussed in Note 12, on May 16, 2006, Sipex placed $30.0 million of its 5.5% Redeemable Convertible Senior Notes ("2006 Notes") due 2026 and related warrants in a private placement transaction to accredited investors in reliance on Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). Rodfre Holdings LLC ("Rodfre"), an affiliate of Alonim Investments Inc., Sipex's largest stockholder, and an affiliate of Future, purchased 50% of the 2006 Notes or $15.0 million aggregate principal amount being placed in this offering. The 2006 Notes will mature on May 18, 2026 and bear interest at an annual rate of 5.5% payable semi-annually on May 15 and November 15 of each year, beginning on November 15, 2006. On December 21, 2006, Rodfre paid $2.7 million to exercise its warrant for 419,776 shares of Sipex common stock at $6.432 per share. As of December 30, 2006, the affiliates of Future held 8.6 million shares, or 47% of the Company's outstanding common stock.

Interest expense incurred by Sipex relating to the $15.0 million portion of 2006 Notes sold to Rodfre totaled $936,000 for the year ended December 30, 2006. No interest expense was recorded for the year ended December 31, 2005 as both convertible notes, issued in 2002 and 2003, were extinguished and converted into 2.3 million of the Company's common shares as of February 18, 2004. Sipex recorded interest expense related to the debt with Future totaling $90,000 for the year ended January 1, 2005.

On September 8, 2006, Sipex appointed two executive vice presidents working for Future to its Board of Directors. The Board has determined that both new directors are not independent within the meaning of Rule 4200(a) (15) of the NASDAQ Manual by virtue of their relationships with Future. Accordingly, the Board does not expect to appoint them to any standing committees of the Board. In connection with their appointment as directors, both new directors have agreed to excuse themselves from any Board discussions that relate to transactions between Sipex and Future.

On March 29, 2007, the Company entered into a Securities Purchase Agreement with Rodfre, an affiliate of Future, Sipex's largest distributor worldwide and an affiliate of its largest stockholder (Alonim Investment Inc.), to provide an unsecured promissory note facility of up to $10.0 million. This facility expires, and the borrowings and accrued interest under any notes issued under this facility are due and payable, on June 30, 2008, or upon certain other events such as a change of control. Borrowings under this promissory note facility bear interest of 9% per annum subject to an increased interest rate of up to 20% in case of default or after maturity. This promissory note facility is subordinate to the Company's Loan and Security Agreement with Silicon Valley Bank and to its 5.5% Redeemable Convertible Senior Notes due 2026.

Employee Advances

Included in other current assets is approximately $58,000 and $39,000 due from employees at December 30, 2006 and December 31, 2005, respectively, which consist mainly of amounts due to Sipex related to hiring and relocation costs. These amounts are normally forgiven over employee's service periods as agreed upon between each employee and Sipex.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided by using the straight-line method over their expected useful lives:

	Useful Lives
Building and improvements	25 years (see Note 5)
Machinery and equipment	3-10 years (see Note 3)
Furniture, fixtures and office equipment	3-7 years
Leasehold improvements	Lesser of 10 years or lease term

Restricted Cash

As of December 30, 2006, restricted cash totaled $407,000 consisting of $350,000 held in a certificate of deposit as a guarantee payment to fulfill the terms of a software license agreement and $57,000 as a rental deposit related to the Company's Belgium facility.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Sipex reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is

measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell (See Note 3).

Foreign Currency Translation

Prior to the third quarter of 2004, the functional currencies of the Company's foreign subsidiaries are the local currencies. Effective beginning the third quarter of 2004, based on the Company's reassessment of economic facts and circumstances of its foreign subsidiaries, the functional currencies of the Company's foreign subsidiaries were changed to the U.S. dollar. Gains and losses from transactions denominated in currencies other than the functional currencies of the Company and its subsidiaries are included in operating expenses in the consolidated statements of operations.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Stock-Based Compensation

Adoption of SFAS No. 123R

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123R"), using the modified-prospective transition method. Under this transition method, stock compensation cost recognized beginning January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted or modified on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. In addition, compensation cost to be recognized under SFAS No. 123R considers an estimate of options which will be forfeited prior to vesting.

The Company has elected to adopt the alternative transition method provided in the FASB Staff Position ("FSP") No. FAS 123R-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards" (FSP 123R-3) for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123R. The alternative transition method provides a simplified method to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC Pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123R. SFAS No. 123R prohibits the recognition of a deferred tax asset for an excess tax benefit that has not yet been realized. As a result, the Company only recognizes a benefit from stock-based compensation in paid-in-capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized. In addition, the Company has elected to account for the indirect benefits of stock-based compensation on the research tax credit through the consolidated statement of operations rather than through paid-in-capital.

Prior to adopting SFAS No. 123R, the Company accounted for stock option grants under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees and related interpretations." No compensation expense was recognized when the exercise price of the Company's employee stock options equaled the market price of the underlying stock on the date of the grant. Compensation expense associated with the option repricing in 2005 was recorded up to the date of adoption of

SFAS No. 123R until the options were exercised, cancelled, or otherwise expired, and the expense or benefit for the increase or decrease, respectively, in the fair market value of the Company's common stock in excess of the option's exercise price was recognized immediately for vested options and was recognized over the vesting period using an accelerated method for unvested employee options.

As the Company was not current with its filing with the SEC, employees who terminated from the Company during this period had been unable to exercise their stock options during the contractual 90 days of post-termination exercise period. The Company made a decision effective February 1, 2006 to extend the post-termination exercise period for former employees with approximately 96,000 vested stock options for the year ended December 30, 2006, until the earlier of 1) such date that was ninety (90) days after the date that the former employees were able to freely exercise the options pursuant to a registration statement on Form S-8 filed by the Company or 2) December 31, 2006. As a result, the Company recorded stock-based compensation relating to such extension totaling $177,000 for the year ended December 30, 2006.

In the fourth quarter of 2006, the Company accelerated the vesting of 220,000 stock options for three former directors of its board upon their departures. As a result, the Company recorded additional $138,000 stock-based compensation expense for the year ended December 30, 2006. During the same period, Sipex recorded additional employee stock-based compensation of $137,000 as restructuring expense for accelerating the vesting of 125,000 stock options in lieu of a severance payment made to a senior executive officer.

A summary of the Company's stock option plan activities for the year ended December 30, 2006 is as follows:

	2006			
	Number of Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of year	3,259	$5.74		
Granted	912	6.20		
Exercised	(195)	3.73		
Forfeited or expired	(215)	7.04		
Outstanding at end of year	3,761	$5.88	7.81	$17,518
Vested and expected to vest at December 30, 2006	3,553	$5.91	7.76	$16,587
Exercisable at December 30, 2006	1,867	$6.47	6.83	$ 9,010

Under SFAS No. 123R, stock-based compensation expenses for stock option grants are based on the fair value calculated from a stock option pricing model on the date of grant. The Company has utilized the Black-Scholes single option pricing model to determine the fair value for stock option grants. The fair value of stock option grants issued is recognized as compensation expense on a straight-line basis over the requisite service period, which is the vesting period of the grants. Compensation expense recognized is shown in the operating activities section of the consolidated statements of cash flows. In addition, SFAS No. 123R requires the cash flows resulting from the tax benefits from tax deductions in exercise of the compensation cost recognized (excess tax benefits) to be classified as financing cash flows.

As part of the requirements of SFAS No. 123R, the Company is required to estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized in the period of change and will also impact the amount of stock compensation expenses to be recognized in future periods.

The following table shows total employee and non-employee stock-based compensation expense recognized in the condensed consolidated statements of operations pursuant to SFAS No. 123R (in thousands):

	2006
Cost of sales	$ 343
Research and development	1,219
Marketing and selling	816
General and administrative	1,265
Restructuring (see Note 3)	137
Stock-based compensation expense before income tax effect	3,780
Less income tax effect	—
Stock-based compensation expense after income tax effect	$3,780

At December 30, 2006, there was $167,000 of total compensation cost capitalized in inventory.

As a result of adopting SFAS No. 123R on January 1, 2006, the Company's loss before income taxes and net loss for the year ended December 30, 2006 included 3.7 million of employee stock-based compensation expense. At December 30, 2006, there was a total of $5.2 million unrecognized compensation cost, net of estimated forfeitures, related to non-vested stock option awards which is expected to be recognized over a weighted-average period of approximately 32 months.

During the year ended December 30, 2006, the aggregate intrinsic value of options exercised under the Company's stock option plans was $849,000, determined as of the date of option exercise.

Prior to the Adoption of SFAS No. 123R

Prior to 2006, the Company's stock-based employee compensation plans were accounted for under the recognition and measurement provisions of APB 25. The Company also provided the required pro forma disclosures as required by SFAS No. 123. The ESPP qualified as a non-compensatory plan under APB 25; therefore, no compensation cost was recorded in relation to the discount offered to employees for purchases made under the ESPP.

Pro forma information under SFAS No. 123 for periods prior to the adoption of SFAS No. 123R has not been restated to reflect the effects of implementing SFAS No. 123R. For purposes of this pro forma disclosure, the value of stock options was estimated using the Black-Scholes single option pricing valuation approach with forfeitures recognized as they occur. The following table illustrates the effect on net loss and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock options granted under the Company's

stock option plans and shares issued under the employee stock purchase plan (in thousands, except per-share amounts):

	2005	2004
Net loss as reported	$(38,107)	$(22,748)
Add employee stock-based compensation expense from accelerated stock option vesting and other employee stock option compensation included in reported net loss	60	51
Less employee stock-based compensation expense determined under fair value method	(5,107)	(7,969)
Pro forma net loss	$(43,154)	$(30,666)
Net loss per share		
Basic and diluted — as reported	$ (2.14)	$ (1.38)
Basic and diluted — pro forma	(2.43)	(1.86)

On September 6, 2005, the Company informed the employees that certain options would be repriced to the then current market price of the Company's stock which was $3.80 per share. The repricing applied to all options with an exercise price that was over $3.80 per share but excluded options granted to the Company's CEO and board of directors. The repricing affected 1,227,983 stock options shares for 235 employees. The incremental employee compensation cost of the repricing was approximately $1.1 million calculated using the Black-Scholes stock option pricing model. The incremental employee compensation costs are included in the pro forma amounts above to the extent of vested options and the remaining cost will be recognized over the remaining vesting periods of the related options.

Valuation Assumptions

The fair value of the Company's stock options granted was estimated at the date of grant using the Black-Scholes single option pricing model with the following weighted-averaged assumptions:

	2006	2005	2004
Expected life of options	6 years	4 years	4 years
Volatility	89%	86%	61%
Risk-free interest rate	4.8%	3.9%	3.4%
Dividend yield	—	—	—
Weighted average fair value of options granted	$ 4.68	$ 2.30	$ 5.76

Effective January 1, 2006, the Company has elected to use the "Simplified Method" outlined in SAB 107 to determine the expected term of its stock option grants. The calculation of expected term for previous SFAS No. 123 disclosure fair value estimates was based solely on an analysis of historical exercises of stock options. The Company believes that using the "Simplified Method" provides a better estimate of future exercise patterns. Stock volatility is based upon the Company's historical stock price volatility. The Company considered historical volatility of a period generally commensurate with the expected or contractual term, as applicable, of the share option. The Company continues to use the risk-free rate based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option to be valued. The Company does not currently intend to pay cash dividends. Therefore, the Company has assumed a dividend yield of zero.

No shares were issued under the Company's Employee Stock Option Plan (ESPP) during 2005 and 2006. The fair value of each ESPP share issued during 2004 was estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

	2006	2005	2004
Expected life of options	—	—	0.5 year
Volatility:			
First purchase period	—	—	61%
Second purchase period	—	—	60%
Risk-free interest rate	—	—	2.0%
Dividend yield	—	—	—
Average fair value:			
First purchase period	—	—	$ 2.74
Second purchase period	—	—	$ 2.70

Effect of Recent Accounting Pronouncements

In March 2004, the FASB issued EITF Issue No. 03-1, or EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" which provides new guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. The disclosure requirements are effective for annual periods ending after June 15, 2004. The adoption of EITF 03-1 did not have a material impact on the Company's consolidated financial statements.

In October 2004, the FASB approved EITF Issue 04-10 "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds" which addresses an issue in the application of paragraph 19 of SFAS No. 131, Disclosures about Segments of an Enterprise and related information. EITF 04-10 is effective for fiscal years ending after September 15, 2005. The adoption of this issue did not have a material impact to the disclosures relating to the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 are intended to improve financial reporting by clarifying that abnormal amount of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred beginning on January 1, 2006. The adoption of SFAS No. 151 did not have a material impact on Sipex's consolidated financial statements.

In December 2004, the FASB staff issued FSP FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" (the "FSP") to provide guidance on the application of Statement 109 to the provision within the American Jobs Creation Act of 2004 (the "Act") that provides tax relief to U.S. domestic manufacturers. The FSP states that the manufacturer's deduction provided for under the Act should be accounted for as a special deduction in accordance with Statement 109 and not as a tax rate reduction. A special deduction is accounted for by recording the benefit of the deduction in the year in which it can be taken in the Company's tax return, rather than by adjusting deferred tax assets and liabilities in the period of the Act's enactment (which would have been done if the deduction on qualified production activities were treated as a change in enacted tax rates). The FSP was effective upon issuance. The adoption of the FSP did not have a material impact on the Company's consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of Accounting Principles Board (APB) No. 29, Accounting for Nonmonetary Transactions." SFAS No. 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits, or (2) the transactions lack commercial substance. SFAS No. 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of the standard did not have a material effect on the Company's consolidated financial statements.

In May 2005, FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 establishes new standards on accounting for changes in accounting principles. Pursuant to the new rules, all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. The Statement is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005, with early adoption permitted for changes and corrections made in years beginning after May 2005. Adoption of SFAS No. 154 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In November 2005, the FASB issued FASB Staff Position ("FSP") Nos. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1)," which replaces the measurement and recognition guidance set forth in the Emerging Issues Task Force ("EITF") Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," and codifies certain existing guidance on investment impairment. FSP 115-1 clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell the security has not been made, and also provides guidance on the subsequent accounting for an impaired debt security. FSP 115-1 also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in FSP 115-1 amends SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and is effective for reporting periods beginning after December 15, 2005. The Company adopted the provisions of FSP 115-1 beginning on January 1, 2006, and the adoption did not have a material impact on the Company's financial condition or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," an amendment of FASB Statements No. 133 and 140. SFAS No. 155 will be effective for the Company beginning in the first quarter of 2007. The Statement permits interests in hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation, to be accounted for as a single financial instrument at fair value, with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. The Company is assessing the impact of the Statement.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") as an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS 109"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition of tax benefits previously recognized and additional disclosures for unrecognized tax benefits, interest and penalties. The evaluation of a tax position in accordance with this Interpretation begins with a determination as to whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement for recognition in the financial statements. FIN 48 is effective no later than fiscal years beginning after December 15, 2006, and is required to be adopted by the Company in the first quarter of its fiscal year 2007. The Company is assessing the impact of the adoption of FIN 48.

On September 13, 2006, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108"), "Considering the Effects of Prior Year Misstatements when Quantifying

Misstatements in Current Year Financial Statements," which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for companies with fiscal years ending after November 15, 2006 and is required to be adopted by the Company in its fiscal year ended December 30, 2006. The adoption of SAB 108 did not have a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the Company in the first quarter of its fiscal year 2008. The Company is currently assessing the impact of the adoption of this Statement.

In December 2006, the FASB staff issued FSP EITF Issue No. 00-19-2, "Accounting for Registration Payment Arrangements" which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. This FSP shall be effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the date of issuance of this FSP. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of this FSP, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years. The FSP is required to be adopted by the Company in the first quarter of its fiscal year 2007. Sipex is currently assessing the impact of the adoption of this FSP.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on these items will be reported in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument (with a few exceptions), is irrevocable and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. This Statement is required to be adopted by the Company in the first quarter of its fiscal year 2008. The Company is currently assessing the impact of the adoption of this Statement.

Note 3. Restructuring and Impairment of Fixed Assets

Below is a summary of the activities related to restructuring and impairment of fixed assets (in thousands):

	Facility	Employee Costs	Total Restructuring Costs	Fixed Asset Impairment
Accrual balance, December 31, 2003	$ 1,070	$ —	$ 1,070	$ —
Incurred in 2004	1,826	32	1,858	—
Charges utilized	(1,004)	(32)	(1,036)	—
Deferred rent adjustment	15	—	15	—
Adjustments to accrual	(60)	—	(60)	—
Accrual balance, January 1, 2005	1,847	—	1,847	—
Incurred in 2005	105	766	871	9,377
Charges utilized	(726)	—	(726)	(9,377)
Sub-lease income received	293	—	293	
Adjustments to accrual	(264)	(30)	(294)	
Accrual balance, December 31, 2005	1,255	736	1,991	—
Incurred in 2006	200	1,810	2,010	—
Charges utilized	(818)	(1,481)	(2,299)	(12)
Employee stock options accelerated as severance pay	—	(137)	(137)	—
Sub-lease income received	565	—	565	—
Adjustments to accrual	(209)	(54)	(263)	12
Accrual balance, December 30, 2006	$ 993	$ 874	$ 1,867	$ —

In addition to the restructuring costs incurred above, in the fourth quarter of 2006, the Company incurred $116,000 of facility costs related to the unused fabrication portion of the Company's headquarters facility in Milpitas, California, due to the transfer of wafer fabrication to Silan.

Restructuring

During the third quarter of 2004, Sipex entered into a sublease arrangement for a portion of the facility and decided to relocate the remaining personnel to Milpitas, California. This resulted in Sipex incurring $1.9 million of an additional restructuring accrual which reflected the Company's plan to move the majority of remaining operations to Milpitas, California and consisted of $1.4 million for future lease payments, $447,000 write-off of leasehold improvements and $32,000 for severance payments to 12 employees.

During the year ended January 1, 2005, the Company utilized $1.0 million of restructuring reserves, which primarily included $447,000 of write-off of leasehold improvements, and $463,000 of lease costs associated with the unused portion of its Billerica facility. The Company made additional adjustments to the restructuring for changes to the lease obligation totaling $60,000. For the year ended January 1, 2005, the balance of the restructuring accrual principally consisted of facility lease costs, and is expected to be paid over the next three years. The balance as of the year ended January 1, 2005 is $1.8 million, of which $566,000 was the short-term portion and $1.3 million was long-term portion.

On August 29, 2005, the Board of Directors of Sipex approved a plan to close its wafer fabrication operations located in Milpitas, California and transfer the fabrication to Silan in China to reduce costs and improve operating efficiencies. As a result, the Company recognized total restructuring charges of approximately $871,000 in the

second half of 2005 including severance and retention benefits totaling $766,000 for approximately 70 employees and other exit costs of $105,000. In addition, during the third quarter of 2005, Sipex decided not to transfer the remaining operations in Billerica to Milpitas that was originally anticipated to be completed by the end of 2005. The adjustment to restructuring accrual of $294,000 during 2005 primarily included exiting costs of $213,000, offset by sublease income of $293,000 and $195,000 recorded in the third quarter of 2005 as a reduction to future lease payment obligation for not transferring such remaining operations in Billerica. Sublease income is recorded on a cash basis due to uncertainty of collectibility. The restructuring accrual balance as of December 31, 2005 consisted of short-term portion of $1.4 million and long-term portion of $584,000. The $2.0 million restructuring accrual balance included $1.2 million of facility lease costs to be paid out over the next two years and the remaining portion to be paid out in less than a year.

During the year ended December 30, 2006, for the unused portion of Billerica facility initiated in October 2003, the Company utilized the restructuring accrual totaling $726,000 which was primarily consisted of lease costs. Adjustments to the accrual for the Billerica facility primarily related to sub-lease income of $565,000 recorded on a cash basis due to the uncertainty of collectibility.

During 2006, Sipex incurred additional restructuring costs of $677,000 that related to employee retention payments for the closure of its wafer fabrication operations located in Milpitas, California, announced in August 2005. For employee costs, the Company utilized $1.4 million and recognized an expense accrual adjustment of $54,000. For facility costs related to Milpitas wafer fabrication closure, the Company recognized approximately $200,000 in expense for contract termination in the fourth quarter of 2006 associated with gas usage and service agreements with a vendor. For facility costs related to the Milpitas wafer fabrication closure, restructuring charges utilized during 2006 totaling $91,000 was for facility decontamination.

In the fourth quarter of 2006, the Company introduced a workforce reduction plan involving approximately 75 positions that was implemented in response to its transitioning to a fabless semiconductor company, optical products, reducing dependency on the commodity products and with a goal of improving cost structure. As a result, Sipex recorded total restructuring costs of $1.1 million related to employee severance compensation including $137,000 for accelerating the vesting of stock options in lieu of a severance payment for a senior executive officer. Severance payments of $122,000 were made in December 2006.

As of December 30, 2006, the balance of the restructuring accrual primarily consisted of employee severance costs, contract termination costs and facility lease costs. These costs are expected to be paid over the next 15 months. The balance of the accrual as of December 30, 2006 was $1.8 million of which $1.7 million was the short-term portion and $139,000 was the long-term portion.

Impairment

In the second quarter of 2005, Sipex tested its wafer fabrication asset grouping, for which cash flows from the wafer fabrication operations provide the lowest level of cash flows that are largely independent of the cash flows of other assets and liabilities of the Company, for recoverability in accordance with SFAS No. 144 given that an appraisal indicated the carrying amount of the asset grouping may not be recoverable. An impairment loss of $9.4 million was recognized, representing the difference between the carrying value and the fair value of the wafer fabrication asset grouping which management determined with the assistance of an independent appraisal firm.

In August 2005, the Board of Directors approved terminating the wafer fabrication operations and the sale of the related assets. Also in August 2005, the Company identified a potential buyer, Silan, who would purchase, take title to and be trained to use a substantial portion of its wafer fabrication asset grouping by the end of the third quarter of 2006. Accordingly, the Company continued to use the wafer fabrication assets until September 2006 and recorded depreciation expense based on the estimated remaining useful life at the time of impairment.

The Company recognized an additional impairment loss of $12,000 resulting from the sale of wafer fabrication equipment and machinery in Milpitas, California, in the fourth quarter of 2006. These wafer fabrication assets had been impaired in the second quarter of 2005. Net proceeds from the sale totaled $1.1 million.

Note 4. Inventories

Inventories are as follows (in thousands):

	2006	2005
Raw materials	$ 768	$ 223
Work-in-process	10,518	10,297
Finished goods	4,300	2,880
	$15,586	$13,400

Note 5. Property, Plant and Equipment

Property, plant and equipment are as follows (in thousands):

	2006	2005
Land	$ 5,957	$ 5,957
Building and improvements	23,614	23,614
Machinery and equipment	11,713	13,503
Furniture, fixtures and office equipment	7,454	6,926
Leasehold improvements	357	326
	49,095	50,326
Less accumulated depreciation and amortization	29,982	24,523
	$19,113	$25,803

In September 2005, the Company tested its Milpitas corporate headquarters facility given an appraisal indicated that the carrying amount might not be recoverable. The headquarters facility housed the wafer fabrication operations as well as the sales and marketing department, the research and development department and the corporate administration functions. The Milpitas corporate headquarters facility does not have identifiable cash flows that are largely independent of the cash flows of other assets and liabilities of the Company. Accordingly, the Milpitas corporate headquarters facility, which includes all assets located at the Milpitas facility except for the wafer fabrication asset grouping, is included in the asset grouping which includes all assets and liabilities of the Company. No impairment loss was recognized given the carrying value of all assets and liabilities of the Company was less than the fair value, determined based on the quoted market value of the Company.

In November 2005, the Board of Directors approved the sale of the Company's Milpitas corporate headquarters facility. As a result of this decision, the Company reduced the remaining estimated depreciable life for its headquarters building and related improvements from 25 years to approximately four months (See Note 11 regarding the sale and leaseback arrangement for Sipex's headquarters facility), or through March 2006, the date the Company expected the sale leaseback of the Milpitas corporate headquarters facility would qualify as a sale. This change resulted in an increase in depreciation expense recorded in the fourth quarter of 2005 of $6.5 million (with $4.3 million included in cost of sales) and in the first quarter of 2006 of $6.7 million (with $4.5 million included in cost of sales). In March 2006, the Company revised the remaining depreciable life of the Milpitas corporate headquarters facility (see Note 2) when it was determined that the sale leaseback did not qualify as a sale transaction and was required to be accounted for as a financing transaction.

Note 6. Accrued Expenses

Accrued expenses are as follows (in thousands):

	2006	2005
Accrued compensation and benefits	$2,815	$2,959
Accrued provision for purchase commitment on excess inventories	1,417	—
Accrued interest and related derivative liaility	679	8
Accrued audit fees	574	2,607
Accrued commissions	444	309
Accrued income taxes	340	248
Accrued warranty	259	87
Accrued legal fees	251	365
Accrued royalties	19	185
Other	387	514
	$7,185	$7,282

Note 7. Borrowing Arrangements

On July 21, 2005, Sipex entered into a Loan and Security Agreement (the "Agreement"), as amended, with Silicon Valley Bank, which has an expiration date of September 29, 2007. The Agreement provides for a secured revolving line of credit with aggregate borrowings up to $5,000,000 limited to the available borrowing base (eligible accounts receivable as defined in the Agreement) plus $2,000,000. Available borrowings are further reduced by letters of credit which may be issued under the Agreement on behalf of the Company. Borrowings under the revolving line of credit bear an interest rate, chosen by Company, either at the bank's prime rate or LIBOR rate (depending upon the interest period of one, two or three months selected by Sipex) plus 2.75%. Under the Agreement, Sipex has granted the bank a security interest in all presently existing and later acquired collateral, including but not limited to goods, equipment, inventory, contract rights, and financial assets with the exception of Sipex's headquarters property in Milpitas, California, which was sold in March 2006 (See Note 11). On March 9, 2006, Sipex entered into a sale and leaseback transaction with Mission West Properties, L.P. for its headquarters facility, located at 233 South Hillview Drive in Milpitas, California. Sipex has provided a security deposit of $1,265,000 in the form of an irrevocable standby letter of credit issued to Mission West Properties, L.P. under its $5,000,000 line of credit with Silicon Valley Bank. In respect to financial covenants, the Agreement requires the Company to maintain a minimum liquidity ratio for each quarter ended not less than 2.50:1.00 which is calculated as the sum of (i) unrestricted cash and cash equivalents, short-term marketable securities and 50% of consolidated accounts divided by (ii) the outstanding borrowings from the bank. In addition, Sipex is required to maintain a minimum amount of tangible net worth (as defined in the Agreement) as of the last day of each quarter.

The agreement contains additional affirmative covenants, including, among others, covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. In addition, the agreement contains negative covenants limiting our ability to dispose of assets, change our business plans, be acquired or beneficially owned, merge or consolidate, incur indebtedness, grant liens, make investments, pay dividends, repurchase stock, and pay subordinated debt. The agreement contains events of default that include, among others, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violations of covenants, bankruptcy and insolvency events, any material adverse change, material judgments, cross defaults to certain other indebtedness and seizure of assets. The occurrence of an event of default will increase the applicable rate of interest by 5.0% and would, unless waived by Silicon Valley Bank, result in the immediate payment of all of our obligations under the agreement. As of December 30, 2006, the unused portion of the line of credit was $3,735,000.

As part of the Agreement, in addition to the $5,000,000 secured revolving line of credit, Sipex can borrow under the term loans from September 28, 2006 to December 31, 2006 in an aggregate amount not to exceed $2,000,000. Interest accrues from the date of each term loan at a fixed rate of 9.25%. Each term loan shall be payable in thirty-six (36) equal monthly installments of principal plus accrued interest. When repaid or prepaid, the term loan may not be re-borrowed. As of December 30, 2006, $2,000,000 term loan was outstanding, of which $667,000 was the short-term portion and $1,333,000 was the long-term portion. If Sipex is unable to satisfy the financial covenant requirements and is unable to obtain a waiver from the bank, the Company may be required to repay the outstanding borrowing amounts and/or classify such amounts as short-term bank borrowing.

On January 19, 2006, Sipex announced the completion of a $7.0 million private loan financing in which Sipex issued a 9% secured note with convertible interest due January 19, 2008 to an affiliate of Future (See Note 2). The note was secured by a deed of trust on the Company's headquarters property located in Milpitas, California. Accrued interest on the loan was convertible into Sipex's common stock at the option of the holder on January 19, 2007 and January 19, 2008. The conversion price would be the volume weighted average price for sales of the common stock during the 20 trading days prior to the date of conversion. The holder of the note could require repayment of the note in the event of a change of control of Sipex or the sale of the property subject to the deed of trust. The note was subject to customary events of default. Interest on the note accrued at 9% compounded quarterly and was payable at maturity. The note was subsequently paid off in cash in March 2006.

On March 29, 2007, the Company entered into a Securities Purchase Agreement with Rodfre, an affiliate of Future. This agreement creates a promissory note facility that provides that from time to time the Company may issue to Rodfre up to $10.0 million worth of 9% Unsecured Junior Notes in exchange for cash equal to the principal amounts of each note. The notes have customary events of default, including defaults upon failure to pay interest or principal amounts when due, breach of covenants (with a 15 day grace period), breach of representations and warranties, default on other indebtedness in excess of $1.0 million, or upon insolvency events. The holders of the notes will also have the option of demanding repayment of any outstanding amounts owed pursuant to the notes within 30 days of a change of control of Sipex.

Note 8. Income Taxes

In the accompanying consolidated statements of operations, "Loss before income tax expense (benefit)" includes the following components for the years ended December 30, 2006, December 31, 2005 and January 1, 2005 (in thousands):

	2006	2005	2004
Domestic	$(40,930)	$(37,910)	$(23,019)
Foreign	(179)	(5)	138
Loss before income tax expense (benefit)	$(41,109)	$(37,915)	$(22,881)

Total federal, state and foreign income tax expense (benefit), consists of the following (in thousands):

	2006			2005			2004		
	Deferred	Current	Total	Deferred	Current	Total	Deferred	Current	Total
Federal	$—	$ —	$ —	$—	$ —	$ —	$—	$ —	$ —
State	—	(10)	(10)	—	4	4	—	(14)	(14)
Foreign	—	135	135	—	188	188	—	(119)	(119)
Total expense (benefit)	$—	$125	$125	$—	$192	$192	$—	$(133)	$(133)

The actual tax expense (benefit) differs from the “expected” statutory tax expense as follows (in thousands):

	2006	2005	2004
Tax benefit at statutory rate	$(14,388)	$(13,270)	$(8,008)
State income tax, net of federal income tax expense (benefit)	(10)	4	(14)
Non-deductible expenses	872	40	39
Foreign taxes on branch income and tax rate differential	135	188	(119)
Tax credits	(606)	(928)	(491)
Losses not benefited/change in valuation allowance	14,122	14,158	8,460
Actual tax expense (benefit)	$ 125	$ 192	$ (133)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 30, 2006 and December 31, 2005 are as follows (in thousands):

	2006	2005
Current deferred tax assets:		
Inventories, primarily write-downs not currently deductible	$ 4,127	$ 5,049
Accounts receivable	389	503
Deferred revenue	3,170	3,064
Accrued expenses and reserves not currently deductible	7,944	2,659
Total current deferred tax assets before valuation allowance	15,630	11,275
Valuation allowance — current	(15,630)	(11,275)
Noncurrent deferred tax assets:		
Net operating loss carryforwards	77,083	63,468
Tax credit carryforwards	5,405	5,232
Total noncurrent deferred tax assets before valuation allowance	82,488	68,700
Valuation allowance — noncurrent	(77,033)	(67,810)
Deferred tax liabilities:		
Fixed assets, due to differences in depreciation	(5,455)	(890)
Net deferred tax assets	$ —	$ —

At December 30, 2006, the Company had U.S. net operating loss carry forwards of approximately $207.4 million, which are available to offset future Federal taxable income. These losses expire during the years 2007 through 2026. As of December 30, 2006, a substantial amount of the net operating loss carry forwards are subject to annual limitations as a result of IRC Section 382 ownership changes, which have occurred in prior years.

At December 30, 2006, the Company had Massachusetts and California net operating loss carry forwards of approximately $131.7 million and $73.6 million, respectively. The Massachusetts net operating loss expires during the years 2007 through 2011, while the California net operating loss expires from 2012 through 2016.

The valuation allowance increased by $13.6 million, $13.3 million and $9.6 million for the years ended 2006, 2005 and 2004, respectively. In assessing the net realizable value of deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become taxable. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income over the periods which the deferred tax assets are deductible. Based on these considerations, management believes that it is more likely than not that the deferred tax assets at December 30,

2006 will not be realized in the future. At December 30, 2006, approximately $1.8 million of the valuation allowance was attributable to stock compensation expense for tax purposes, that tax benefit of which, when realized, will be credited to stockholders' equity.

As of December 30, 2006, the Company also had federal and California research and development credit carry forwards of approximately $3.1 million and $3.5 million respectively. The federal credit expires from 2010 to 2026, and the California credit may be carried forward indefinitely. The Company also has approximately $2.1 million of California manufacturer's investment credit carry forwards, which expire from 2007 to 2013, and $0.1 million of Massachusetts investment tax credit carry forwards, which may be carried forward indefinitely.

United States federal income taxes have not been provided for the undistributed earnings of the Company's foreign subsidiaries. These undistributed earnings aggregated $195,000 at December 30, 2006, and it is the Company's intention that such undistributed earnings be permanently reinvested offshore under APB 23. The Company would be subject to additional United States taxes if these earnings were repatriated. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). Among other provisions, the Act includes a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad. We currently do not intend to repatriate foreign earnings under the Act. It is not anticipated that the other provisions of the Act will have a material impact on the Company's effective tax rate.

Note 9. Stockholders' Equity

Issuance of Common Stock to Related Party

In February 2004, the affiliates of Future exercised the conversion rights to convert the first note (sold on September 27, 2002) with an attached warrant and the second note (sold on June 20, 2003) into an aggregate of 2.3 million shares of the Company's common stock. A total of $22.6 million of principal portion of long-term debt, net of $1.2 million in unamortized discount and $0.2 million in unamortized issuance cost, was extinguished. On August 5, 2004, the affiliates of Future exercised the warrant attached to the first note to purchase 450,000 shares of Sipex's common stock at an exercise price of $5.8916 per share for a total of $2,651,000. On December 21, 2006 an affiliate of Future exercised its warrants attached to the 2006 Notes (see Note 12) to purchase 419,776 of the Company's common stock at an exercise price of $6.432 per share for a total of $2,700,000.

Stock Option Plans

Sipex currently maintains five option plans. They are the 1997 Stock Option Plan, 1999 Stock Option Plan, 2000 Non-Qualified Stock Option Plan, 2002 Non-statutory Stock Option Plan and 2006 Equity Incentive Plan under which 0.6 million, 0.6 million, 0.3 million, 1.0 million and 0.8 million shares were reserved for issuance, respectively. The plans generally allow for options which vest ratably over five years from the date of grant for options granted before May 2002 and four years for options granted after April 2002. These options expire ten years from the date of grant. In October 2002, the Board of Directors voted to reduce the number of shares available for issuance under 2000 Non-qualified Stock Option Plan to 335,995. Approximately 3,761,000 stock options were outstanding as of December 30, 2006 for all plans. As of December 30, 2006, approximately 930,000 stock options were available for grant under all plans.

In the fourth quarter of 2006, the Company accelerated the vesting of 220,000 stock options for three former directors of its board upon their departures. As a result, the Company recorded additional $138,000 stock-based compensation expense for the year ended December 30, 2006. During the same period, Sipex recorded additional employee stock-based compensation of $137,000 as restructuring expense for accelerating vesting of 125,000 stock options in lieu of a severance payment made to a senior executive officer.

On August 29, 2005, Sipex's Board of Directors approved the repricing of the employee stock options outstanding under its stock option plans, effective as of the close of business on September 6, 2005 with the exception that options granted pursuant to the Sipex Corporation 1999 Stock Plan and options granted to Sipex's current CEO and directors would not be repriced. In addition, outstanding options with current exercise prices below the fair market value of Sipex's common stock at the close of business on September 6, 2005 will also not be subject to the repricing. As such, approximately 1,228,000 options held by 235 employees, with a weighted-average exercise price of $12.44 were modified on September 6, 2005 to lower the option exercise price to $3.80 which equals to the fair market value of Sipex's common stock at the close of business as disclosed on the "Pink Sheets" on that date. No other changes were made to the terms of the repriced stock options. Compensation expense associated with the option repricing was recorded until the options were exercised, cancelled, or otherwise expired and the expense or benefit for the increase or decrease, respectively, in the fair market value of the Company's common stock in excess of the option's exercise price was recognized immediately for the vested options and over the vesting period using an accelerated method for unvested employee options. For the year ended December 31, 2005, no compensation expense was recorded related to the repriced options as Sipex stock price at the end of the year was lower than the exercise price of the repriced options. The variable accounting associated with the repriced options ceased upon the adoption of SFAS No. 123R, effective January 1, 2006.

During 2005 Sipex recorded $60,000 in stock-based compensation expense due to the extension of the exercise period on a stock option granted to a former executive. During 2004, the Company recorded $44,000 in stock compensation resulting primarily from the accelerated vesting of stock options to former executives at the time of termination.

A summary of Sipex's stock option activity for the years ended December 30, 2006, December 31, 2005 and January 1, 2005 is presented below (in thousands, except per-share amounts).

	2006		2005		2004	
	Number of Shares (In thousands)	Weighted Average Exercise Price	Number of Shares (In thousands)	Weighted Average Exercise Price	Number of Shares (In thousands)	Weighted Average Exercise Price
Outstanding at beginning of year	3,259	$5.74	2,726	$11.96	3,285	$11.02
Granted	912	6.20	1,409	3.70	823	11.31
Exercised	(195)	3.73	(78)	5.92	(689)	6.16
Forfeited or expired	(215)	7.04	(798)	10.14	(693)	12.44
Outstanding at end of year	3,761	$5.88	3,259	$ 5.74	2,726	$11.96
Vested and expected to vest at December 30, 2006	3,553	$5.91				
Exercisable at December 30, 2006	1,867	$6.47				

The following table summarizes information about Sipex's stock options outstanding at December 30, 2006 (in thousands, except number of years and per-share data):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 2.00 - $ 3.36	323	7.62 years	$ 2.89	167	$ 2.54
$ 3.40 - $ 3.40	651	7.85 years	$ 3.40	339	$ 3.40
$ 3.44 - $ 3.78	272	8.76 years	$ 3.60	174	$ 3.58
$ 3.80 - $ 3.80	975	6.50 years	$ 3.80	698	$ 3.80
$ 3.82 - $ 5.20	386	8.81 years	$ 4.10	83	$ 4.14
$ 5.62 - $ 6.90	419	9.50 years	$ 6.28	23	$ 6.72
$ 7.00 - $ 9.14	382	9.17 years	$ 8.43	105	$ 8.81
$ 9.56 - $43.00	331	6.38 years	$16.99	256	$17.96
$56.63 - $56.63	8	3.55 years	$56.63	8	$56.63
$57.50 - $57.50	14	3.59 years	$57.50	14	$57.50
	3,761	7.81 years	$ 5.88	1,867	$ 6.47

Employee Stock Purchase Plan

In January 1996, the Board of Directors approved the 1996 Employee Stock Purchase Plan, pursuant to which Sipex is authorized to issue up to 250,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate. In October 2002, the Board of Directors voted to reduce the number of shares available for issuance under the 1996 Employee Stock Purchase Plan to 200,000 shares. On May 27, 2004, the Company's stockholders approved an increase of 150,000 shares of common stock reserved for grant under such Plan. Under the terms of the Plan, employees can choose to have up to 10 percent of their annual base earnings withheld each year to purchase Sipex's common stock. The purchase price of stock is 85 percent of the lower of its beginning-of-period or end-of-period market price. As of December 30, 2006, approximately 122,000 shares were available for issuance under the Plan.

Note 10. Accrued Warranty

Products are sold with warranties ranging from one to two years depending upon the customers. Reserve requirements are recorded in the period of sale and are based on an assessment of the products sold with warranty and historical warranty costs incurred. The Company also assesses its pre-existing warranty obligations and may adjust the amounts based on actual experience or changes in future expectations.

Changes in Sipex's warranty liability during the years are as follows (in thousands):

	2006	2005	2004
Beginning balance	$ 87	$228	$ 195
Warranty claims	(28)	(60)	(192)
Accruals for the period	200	(81)	225
Ending balance	$259	$ 87	$ 228

Note 11. Lease Financing Obligation

On March 9, 2006, the Company entered into an Agreement for Purchase and Sale of Real Property with Mission West Properties, L.P. The agreement provides for the sale of the Company's headquarters facility, located at 233 South Hillview Drive in Milpitas, California (the "Hillview facility"), to Mission West Properties, L.P. for a price of $13.4 million in cash. The Company incurred commission and selling costs of $0.8 million. The Hillview facility primarily consists of two connected buildings with approximately 95,700 total square feet (which includes 20,000 square feet of Class 10 clean room), 293 on-site surface parking spaces, and the underlying land with improvements and all fixtures attached thereto. Simultaneously, the Company entered into a Standard Form Lease agreement to lease back the Hillview facility from Mission West Properties, L.P. The lease term is 60 months with average lease payments of approximately $1.4 million per year. Further, the Company will have an option to extend the lease for an additional five years when the current term expires.

The Company provides a security deposit of $1.3 million in the form of an irrevocable standby letter of credit issued to Mission West Properties, L.P. under its $5.0 million revolving line of credit with Silicon Valley Bank. The security deposit is held as security for the faithful performance by Sipex for all of the terms, covenants, and conditions prescribed under the lease agreement. Accordingly, the Company has accounted for this sale and leaseback transaction as a financing transaction shown on the condensed consolidated balance sheet as "lease financing obligation." With the initial obligation recorded at $12.6 million which represents net proceeds from the sale of the Hillview facility, no gain or loss was recorded upon the sale. The effective-interest rate for the lease financing obligation is 9.3% which approximates the Company's estimated borrowing rate at that time. Depreciation for the Hillview facility is recorded over the straight-line method for the remaining useful life.

Fiscal year ending December	
2007	$ 1,329
2008	1,368
2009	1,408
2010	1,449
2011	11,454
Total minimum lease payments	17,008
Less: amount representing interest	4,665
Present value of minimum lease payments	12,343
Less: current portion of lease financing obligation	191
Long-term lease financing obligation	$12,152

For the year ended December 30, 2006, interest expense totaled $927,000 for the lease financing obligation.

Note 12. Convertible Senior Notes

Terms and Conditions

On May 18, 2006, Sipex issued $30.0 million of 5.5% Redeemable Convertible Senior Notes due 2026 ("2006 Notes") in a private placement. Rodfre, an affiliate of Future, purchased 50% of the 2006 Notes or $15.0 million aggregate principal amount being sold in this offering. The remainder of the 2006 Notes was purchased by other accredited investors. The Company intends to use the net proceeds of approximately $29.0 million for general corporate purposes.

The 2006 Notes will mature on May 18, 2026 and bear interest at an annual rate of 5.5% payable semi-annually on May 15 and November 15 of each year, beginning on November 15, 2006. Sipex may pay interest in cash or, solely at its option, in shares of its common stock. However, Sipex may only make interest payments in shares of its

common stock if certain conditions in the indenture are met, including, among other things, that a registration statement related to shares issuable under the terms of the 2006 Notes and related warrants as noted below has been declared effective and is available for the resale of any such interest shares, or other exemption from federal securities laws is available for the resale of such interest shares, and that Sipex's common stock is listed on the Nasdaq Global Market, the New York Stock Exchange or another national exchange. In addition, common stock used to pay any such interest will be valued at ninety percent (90%) of the market price of the common stock as of two days prior to the date of payment of such interest.

The 2006 Notes are convertible into Sipex's common stock at any time prior to maturity, initially at a conversion price of $5.36 per share, subject to adjustment upon certain events, including, among other things, dividends, stock splits and recapitalizations. If fully converted, the principal amount of the 2006 Notes would convert into 5,597,015 shares of the Company's common stock.

At any time prior to maturity, the Company may elect to automatically convert some or all of the 2006 Notes into shares of Sipex's common stock if the daily closing price of its common stock exceeds one hundred fifty percent (150%) of the then applicable conversion price (initially $8.04 per share) for 20 trading days during any 30 trading-day period ending within 5 days of the notice of automatic conversion and either (a) a registration statement covering the resale of the common stock issued upon conversion is effective and available for use from the date Sipex notifies the holder of the 2006 Notes of the automatic conversion and Sipex reasonably expects such registration statement to remain effective through and including the earlier of the date of the automatic conversion or the last date on which the registration statement registering the resale of such common stock is required to be kept effective under the terms of the registration rights agreement, or (b) the common stock to be issued upon conversion may be sold pursuant to Rule 144(k) under the Securities Act.

At any time on or after May 21, 2009, Sipex may redeem some or all of the 2006 Notes at 100% of the principal amount plus accrued and unpaid interest to, but excluding, the redemption date. If Sipex elects to redeem the 2006 Notes, it will provide notice of redemption to the holders of the 2006 Notes not less than 20 days and not more than 90 days before the redemption date.

The holders of the 2006 Notes may require Sipex to repurchase the 2006 Notes for cash on May 15, 2011, May 15, 2016 or May 15, 2021, at a price equal to 100% of the principal amount plus accrued and unpaid interest, if any, to, but excluding, the applicable repurchase date.

Upon a change of control or a termination of trading that occurs after such time as Sipex's common stock has been listed for trading on the Nasdaq Global Market, the New York Stock Exchange or other national automated quotation system or securities exchange, the holders of the 2006 Notes may require Sipex to repurchase the 2006 Notes in cash at a price equal to 100% of the principal amount of the 2006 Notes plus accrued and unpaid interest, if any, to, but excluding the applicable repurchase date.

The 2006 Notes contains certain covenants applicable to Sipex, including a covenant restricting the amount of indebtedness that Sipex can incur that is senior or pari passu with the 2006 Notes to an aggregate principal amount of $7.5 million, unless such restriction is waived by holders of over 66⅔% of the principal amount of the 2006 Notes then outstanding. In addition, an event of default would occur under the 2006 Notes for a number of reasons, including the Company's failure to pay when due any principal, interest or late charges on the 2006 Notes, the default and acceleration of indebtedness with the Company's bank and other lenders in amounts greater than $2.5 million, certain events of bankruptcy and its breach or failure to perform certain representations and obligations under the 2006 Notes. Upon the occurrence of an event of default, the Company's obligations under the 2006 Notes may become due and payable in accordance with the terms thereof. Further, the holders of the 2006 Notes have imposed dividend restriction on Sipex.

In conjunction with the issuance of the 2006 Notes, the Company issued warrants to purchase an aggregate of 839,552 shares of its common stock to the accredited investors. Each warrant is exercisable for one share of Sipex's common stock at an initial exercise price of $6.432 per share, subject to adjustment upon certain events, including,

among other things, dividends, stock splits and recapitalizations. The warrants are exercisable (in whole or in part) at any time on or before May 18, 2011, unless earlier terminated by Sipex. On December 21, 2006, Rodfre paid $2.7 million to exercise its warrant for 419,776 of Sipex common stock at $6.432 per share. As of December 30, 2006, the affiliates of Future held 8.6 million shares, or 47% of the Company's outstanding capital stock.

At any time after May 18, 2009, Sipex may terminate the remaining warrants if the closing price of its common stock exceeds 200% of the exercise price for at least 20 trading days during any 30 trading-day period. Such warrants will expire 90 days after the mailing date of the notice of termination. Any unexercised warrants with exercise prices below the then current fair market value as of the date of termination will automatically be deemed exercised in full pursuant to a cashless exercise. Each of the unexercised warrants will expire at 5:00 p.m., New York City time, on May 18, 2011, unless earlier terminated as described above.

As Sipex was not current in its SEC filings by August 15, 2006, Sipex incurred additional interest on the 2006 Notes at an annual rate of 1.5% for the period beginning August 16, 2006 and ending on September 21, 2006, the date that the Company's filings became current. In addition, Sipex's common stock was not listed on the Nasdaq Global Market, the New York Stock Exchange or another national exchange or automated quotation system by December 31, 2006. Sipex will pay additional interest on the 2006 Notes at an annual rate of 1.5% for the period beginning January 1, 2007 through the date that its common stock becomes listed for trading on one of the national exchanges.

As part of the 2006 Note agreements, Sipex also entered into a Registration Rights Agreement (the "Registration Rights Agreement"), pursuant to which Sipex has agreed to file with the SEC a registration statement covering the resale of the 2006 Notes, the warrants and the shares of Sipex's common stock issuable upon conversion of the 2006 Notes and exercise of the warrants no later than August 15, 2006 and to have the registration statement declared effective no later than December 31, 2006. Since Sipex did not file the registration statement by August 15, 2006, Sipex will be required to pay certain "registration delay payments," up to an annual rate of 1.2%, as calculated in the Registration Rights Agreement, with respect to solely the 2006 Notes.

The aforementioned additional interest and registration delay payments are collectively referred as the penalties (the "penalties"). The Company filed all its late Forms 10-K and 10-Q to the SEC by September 21, 2006 and incurred such penalties and recorded additional interest expense of $119,000 relating to the penalties for the year ended December 30, 2006.

Valuation of the 2006 Notes, Beneficial Conversion Feature, Warrants and Penalties

The 2006 Notes were initially recorded during the second quarter of 2006 at $25.4 million representing their face values of $30.0 million, less estimated fair values of the freestanding warrants ($1.6 million), beneficial conversion feature of the 2006 Notes ($1.6 million), derivatives liability relating to the additional interest expense and registration delay penalties ($134,000), and debt issuance costs ($1.2 million). The difference between the initial recorded value and the face value of the 2006 Notes is being amortized to interest expense using the effective interest method through May 2011. The effective interest rate is 9.5% which approximates the Company's estimated borrowing rate.

The estimated fair value of the warrants of $1.6 million is accounted for as a freestanding warrant. The Company also recorded the $1.6 million estimated value of the beneficial conversion feature of the 2006 Notes. The Company applied the guidance from Emerging Issues Task Force, "EITF" Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" in accounting for the 2006 Notes, the accompanying warrants and the value of the beneficial conversion feature. Pursuant to EITF Issue No. 05-04 *"The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,"*, the Company combined the obligation to make registration delay payments and other

interest penalty payments related to listing of the Company's stock with the convertible senior notes for accounting purpose. Furthermore, these penalty obligations have been bifurcated from the combined instruments and accounted for as a derivative. The $134,000 derivative liability for the penalties recorded represents the estimate fair value of such obligation as of the date of issuance of the 2006 Notes relating to the penalties to be incurred in the event certain regulatory filings are not made in a timely manner and in the event of non-timely listing of the stock on an exchange. The fair value of the freestanding warrants and the estimated value of the beneficial conversion feature were recorded to increase the additional paid-in capital while the estimated fair value of the penalties was recorded as a derivative liability.

The issuance costs totaled $1.3 million of which $1.2 million related to debt issuance costs and $71,000 related to warrant issuance costs. The $1.2 million, which includes placement agent fees of $900,000 on the $15.0 million of the 2006 Notes not sold to Future, is being amortized as part of interest expense over a five-year period. The Company reduced additional paid-in-capital by $71,000 related to warrant issuance costs.

For the year ended December 30, 2006, Sipex recorded $452,000, which included $119,000 penalties, as an increase to interest expense resulting from the upward revaluation of the estimated fair value of the derivative liability. The estimated fair value of the derivative liability as of December 30, 2006 was $467,000. For the year ended December 30, 2006, the Company recorded interest expense of $1.5 million under the effective interest method which included $1.0 million for interest at 5.5% and $472,000 for amortization of discounts and debt issuance costs.

Note 13. Employee Benefit Plan

The Company has a defined contribution 401(k) retirement plan, covering substantially all employees. Sipex discontinued its 50% match for contributions made by employees up to 6% of their annual compensation in 2002 and started to contribute again in 2003. During 2004 Sipex discontinued the 50% match again. In July 2005, the Company reinstated the 401(k) matching plan whereby the Company matches 50% of employee contribution of up to 3% of their annual compensation (or maximum of 1.5% of annual salary). Sipex can also make a discretionary contribution to the plan. Employee contributions vest immediately and employer contributions vest ratably over five years. Participants are entitled, upon termination or retirement, to their vested portion of retirement fund assets which are held by a corporate trustee. During 2006, 2005 and 2004, employer contributions to the plan were approximately $223,000, $106,000, and $137,000, respectively.

Note 14. Commitments and Contingencies

Sipex leases facilities under operating leases expiring through 2015. Rent expense was approximately $614,000, $636,000 and $600,000 for the years ended December 30, 2006, December 31, 2005 and January 1, 2005, respectively. During 2006, the Company received approximately $565,000 in sublease income from four tenants at its facility in Billerica, Massachusetts.

Minimum lease payments under operating leases are approximately as follows (in thousands):

2007	$1,201
2008	522
2009	236
2010	168
2011	147
Thereafter	24
Total	$2,298

On August 21, 2003, Sipex announced an exclusive sourcing agreement with PolarFab, a US-based semiconductor foundry. The Company is under obligation to make minimum purchase commitments based on quarterly rolling forecasts extending out to one year. The Company has also agreed to purchase no less than 50% of the rolling forecast on an ongoing basis through the term of this agreement. The initial term of the agreement is five years with renewals on a negotiated basis. As of December 30, 2006, the minimum purchase commitment with PolarFab was approximately $3.7 million for the following twelve months.

On July 2, 2004, the Company entered into an agreement to use certain licensed tools for circuit design and development as well as maintenance support for a total future payment commitment of $2.5 million over the next three and one-half years. The contract requires the Company to deposit 75% of the total commitment in a certificate of deposit account. As of December 30, 2006, the deposit amount was at $350,000, which is included in the accompanying consolidated balance sheet as restricted cash.

On December 20, 2005, Sipex entered into an agreement to use a fast simulator software tool for improvement of its product development. A commitment of future payments including maintenance support fees totaled $467,000 to be paid over the next three years. The agreement expires on December 19, 2008.

On February 27, 2006, Sipex entered into a definitive Master Agreement with Silan. This transaction was related to closing the Company's wafer fabrication operations located in Milpitas, California and that Sipex and Silan would work together to enable Silan to manufacture semiconductor wafers using the Company's process technology. The Master Agreement includes a Process Technology Transfer and License Agreement which contemplates the transfer of eight (8) of the Company's processes and related product manufacturing to Silan. Once Sipex confirms to Silan that the process qualification wafers and product qualification wafers (under a Wafer Transfer Agreement) conform to the Company's specifications, Silan shall commence commercial manufacturing for the Company. Subject to the Company's option to suspend in whole or in part, there is a purchase commitment under the Wafer Supply Agreement obligating Sipex to purchase from Silan an average of at least one thousand (1,000) equivalent wafers per week, calculated on a quarterly basis, for two years. As of December 30, 2006, Silan had not conformed to the Company's specifications relating to the process qualification wafers and product qualification wafers.

In May 2006, Sipex entered into a private label agreement with BCD Semiconductor Manufacturing Limited ("BCD"). The Company is obligated to purchase parts no less than one-third of the amount of the rolling six-month forecast. As of December 30, 2006, the minimum purchase commitment with BCD was $0.4 million for the next six months.

In June of 2006, Sipex entered into an agreement for verification software tools used for IC design. A commitment of future payments including maintenance support fees totaled $489,000 to be paid over the next three years. The agreement expires in June 2009.

As of December 30, 2006, Sipex had future wafer purchase commitment totaling approximately $1.0 million with Episil for non-cancelable purchase orders issued. Currently, the Company does not have a minimum purchase agreement with Episil.

Legal Proceedings

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business including those described below. The Company defends itself vigorously against any such claims. The outcome of certain of these matters below is currently not determinable, and an unfavorable outcome could have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Class Action Securities Litigation

Beginning on or about January 24, 2005, four securities class action suits were filed against the Company's and certain of its current and former officers and directors. All complaints were filed in the United States District Court for the Northern District of California, San Francisco. The captions of the cases were as follows: *Keller v. Sipex Corporation, et al.,* (05-CV-00331) (WHA), *Coil Partners LLC v. Sipex Corporation, et al.,* (05-CV-00392) (WHA), *Levy v. Sipex Corporation, et al.,* (05-CV-00505) (WHA), and *Jacobson v. Sipex Corporation, et al.,* (05-CV-00712) (WHA).

The securities class action suits were filed on behalf of the purchasers of Sipex's common stock in various class periods, beginning on or about April 10, 2003 and ending on January 20, 2005. The plaintiffs in these cases alleged, among other things, violations of sections 10(b) and 20(a) of the Exchange Act, as amended, and Rule 10b-5 promulgated thereunder, and sought unspecified monetary damages and other relief against all defendants. Specifically, the complaints alleged that Sipex and the individual defendants made false or misleading public statements regarding its financial results during the class periods.

On March 25, 2005, four lead plaintiff motions were filed asking the Court to consolidate the class actions. Prior to the hearing on the lead plaintiff motions, the *Levy* and *Keller* plaintiffs voluntarily agreed to dismiss their complaints. On May 12, 2005, the Court consolidated the remaining cases under the caption *In re Sipex Corporation Securities Litigation*, Master File No. 05-CV-00392. Defendants Clyde Ray Wallin and Doug McBurnie were voluntarily dismissed from the action on August 16, 2005, and defendant Phil Kagel was granted a motion to dismiss on November 17, 2005.

On January 18, 2006, the Court preliminarily approved the settlement of the class action lawsuit. The settlement provided for a payment of $6.0 million to the plaintiffs and was entirely funded by proceeds from the Company's directors' and officers' insurance policy. The specific terms for distribution of the settlement fund to class members were disclosed in a notice which was sent to the class members. On April 6, 2006, the United States District Court for the Northern District of California, San Francisco, approved the final settlement of the securities class action lawsuit.

Stockholder Derivative Litigation

On February 8, 2005, a putative stockholder derivative suit was filed in the Superior Court of the State of California, County of San Mateo, on behalf of Sipex against certain of its current and former officers and directors for alleged fiduciary duty violations, gross negligence, unjust enrichment and breach of contract (*Lie v. McBurnie, et al*., CIV444748). On March 25, 2005, a second putative stockholder derivative suit was filed in the Superior Court of the State of California, County of Santa Clara, on behalf of Sipex against certain of its current and former officers and directors for alleged fiduciary duty violations, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment (*Nagdev v. Maghribi, et al*., 105CV038114).

The derivative complaints were based on similar facts and events as those alleged in the securities class action suits. Specifically, the complaints alleged that the individual defendants deliberately damaged Sipex by, among other things, causing the Company to improperly recognize and report revenue, causing Sipex to issue false and misleading statements about its financial results, exposing Sipex to liability for securities fraud, and damaging its reputation.

On April 22, 2005, defendants in the *Lie* derivative action filed a petition with the Judicial Council of California to coordinate the cases in Santa Clara County Superior Court. The petition was granted on July 13, 2005 and the actions had since been coordinated and consolidated before Judge Komar in Santa Clara Superior Court, under the consolidated caption, *Sipex Derivative Cases*, Judicial Council Coordination Proceeding No. 4431, Lead Case No 1-05-CV-038114.

On January 23, 2006, the Court approved the settlement of the stockholder derivative action. The settlement provided for a payment of $300,000 to the plaintiffs, pursuant to the terms of the settlement agreement, and the adoption of certain corporate governance measures and the payment of attorneys' fees and expenses to the derivative plaintiff's counsel, all of which were funded entirely by proceeds from the Company's directors' and officers' insurance policy.

Government Investigations

On February 18, 2005, Sipex announced that the Securities and Exchange Commission (the "SEC") had commenced a formal investigation into the same matters as those that were the subject of Sipex's previously announced internal investigation into the Company's financial and transactional records with regard to revenue recognition for the years ended December 31, 2003 and January 1, 2005. On September 20, 2006, the Company received a notification from the staff of the SEC that the investigation had been terminated, and no enforcement was recommended to the SEC with respect to Sipex.

DiPietro v. Sipex

In April 2003, Plaintiff Frank DiPietro (former CFO of Sipex Corp.) brought an action against Sipex for his severance benefits. Sipex counterclaimed for approximately $150,000 which was owed under a promissory note signed by Mr. DiPietro. In August 2004, Sipex filed two motions for summary judgment (one for Mr. DiPietro's claims against it and one for its counterclaim against Mr. DiPietro under the promissory note). In June 2005, the Middlesex Superior Court granted both Sipex's Motions for Summary Judgment. As a result, Mr. DiPietro was ordered to pay Sipex $149,486 plus costs and interest which has now appreciated to approximately $222,000 as of December 30, 2006. Interest is added to this amount at twelve (12%) percent per year. Mr. DiPietro filed a notice of appeal on July 19, 2005. In addition, the court has required Mr. DiPietro to post a bond in the amount of $150,000. On December 12, 2006, Sipex appeared before the Appeals Court, for oral arguments. Sipex expects to learn of the Court's decision within the next six to twelve months.

Sipex v. Lestina

On or about October 26, 2006, Sipex initiated an arbitration proceeding before the American Arbitration Association against one of its distributors, Lestina International. Sipex's Demand For Arbitration alleges that Lestina breached the Distributor Agreement between Sipex and itself by, inter alia, failing to make timely payments on invoices resulting in a $281,667 unpaid balance, plus interest, owing to Sipex. The Demand also seeks attorneys' fees and costs of suit.

On or about January 15, 2007, Lestina filed an Answer denying the allegations of Sipex's Demand and, at the same time, filed its Cross-Complaint for Damages against Sipex in the same arbitration proceeding. In the Cross-Complaint, Lestina asserts, inter alia, that Sipex breached the Distributor Agreement by failing to fulfill all outstanding orders placed by Lestina prior to that Agreement's termination, and that Sipex committed other acts constituting interference with Lestina's contractual relations and negligent misrepresentation. Lestina seeks damages in an amount according to proof at trial, attorneys' fees and costs.

The arbitration is in its early stages, no discovery has taken place. The arbitration hearing has been set to commence on July 25, 2007. The Company believes that its claims against Lestina have merit and that Sipex has meritorious defenses to the claims alleged by Lestina in the Cross-Complaint, and the Company intends to defend against those claims vigorously.

Other Contingencies

Under the terms and conditions of the Company's sales agreements, Sipex has offered limited intellectual property indemnification to its customers. The indemnity limits the time within which an indemnification claim can

be made and the amount of the claim. It is not possible to determine the maximum potential amount due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular situation. Historically, payments made by the Company for this type of claim have not had a material impact on its operating results or financial position.

Note 15. Valuation and Qualifying Accounts

The Company had the following activities for the allowance for sales returns and allowances and bad debt reserves (in thousands):

	Sales Returns and Allowances	Bad Debt Reserves	Total A/R Allowances
Balances at December 31, 2003	$ 143	$ 200	$ 343
Provisions	1,355	(32)	1,323
Charged to other account	350	—	350
Deductions	(489)	(113)	(602)
Balances at January 1, 2005	1,359	55	1,414
Provisions	1,173	311	1,484
Charged to other account	53	—	53
Deductions	(1,485)	(117)	(1,602)
Balances at December 31, 2005	1,100	249	1,349
Provisions	989	(80)	909
Charged to other account	282	—	282
Deductions	(1,568)	(115)	(1,683)
Balances at December 30, 2006	$ 803	$ 54	$ 857

The increases in sales returns and allowances in 2005 and 2004 primarily reflect added provisions for general and specific future returns and allowances from customers as well as price reductions on the Company's products sold to Future, a related party, under an exclusive distribution agreement. The decrease in sales returns and allowances in 2006 was primarily due to a reduction in the rate of sales returns and allowances.

Note 16. Segment Information and Major Customers

The Company's Chief Executive Officer ("CEO") is considered to be the Company's chief operating decision maker. The Company has organized its operations based on a single operating segment: the development and delivery of high performance analog integrated circuits that are used primarily by original equipment manufacturers operating in the computing, communications and networking infrastructure markets. The CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenues by product family and geographic region for purposes of making operating decisions and assessing financial performance. The disaggregated revenue information reviewed on a product family basis by the CEO includes the interface, power management and optical storage families along with other legacy product families.

The disaggregated information reviewed on a product line basis by the CEO is as follows (in thousands):

	2006	2005	2004
Interface	$44,550	$38,477	$39,622
Power Management	22,780	19,027	21,223
Optical Storage	11,339	14,620	13,824
Other*	81	550	784
Total net sales	$78,750	$72,674	$75,453

* Mainly legacy and other discontinued products.

Although Sipex has operations in Malaysia, China, Taiwan, Japan, South Korea, Germany, Canada and Belgium, substantially all the Company's operations and long-lived assets reside in the United States.

The Company markets its products primarily from its operations in the United States. International sales are made primarily to customers in Asia and Europe. Information regarding the Company's net sales derived from products shipped to different geographic regions is as follows (in thousands):

	2006	2005	2004
United States	$16,078	$14,704	$15,203
China	12,790	8,606	7,085
Japan	12,158	16,859	18,520
Singapore	12,058	9,381	9,391
United Kingdom	11,713	11,137	9,220
Taiwan	5,040	6,253	8,654
Asia, other than Japan, Taiwan, Singapore, and China	4,998	1,604	1,997
Germany	1,426	1,413	1,550
France	602	1,421	2,473
Rest of the World	1,887	1,296	1,360
Total net sales	$78,750	$72,674	$75,453

Major customers who accounted for 10% or more as a percentage of total gross accounts receivable are as follows:

	2006	2005
Future Electronics, Inc., a related party	15%	44%
Jetronic Technology	11%	*%

* Less than 10%

Major customers who accounted for 10% or more as a percentage of total net sales are as follows:

	2006	2005	2004
Future Electronics, Inc., a related party	43%	44%	39%
Microtek, Inc.	*%	10%	17%
Komatsu	11%	*%	*%

* Less than 10%

Note 17. Quarterly Data (Unaudited)

Following are summaries of quarterly consolidated operating results and per share data for the years ended December 30, 2006 and December 31, 2005. Net loss per share is based on the weighted average common and common equivalent shares outstanding during the quarter. Therefore, the total of net loss per share for the four quarters, when added from the following table, may differ from the net loss per share for the respective total years reported elsewhere in this report.

	Quarters Ended			
	December 30, 2006	September 30, 2006	July 1, 2006	April 1, 2006
	(In thousands, except per share data)			
Fiscal 2006				
Net sales	$ 18,859	$21,024	$21,013	$ 17,854
Gross profit (loss)	(516)	6,196	3,866	(195)(2)
Net loss	(14,278)	(6,299)	(6,858)	(13,799)(2)
Net loss per common share — basic and diluted	(0.80)	(0.35)	(0.39)	(0.78)

	Quarters Ended			
	December 31, 2005	October 1, 2005	July 2, 2005	April 2, 2005
	(In thousands, except per share data)			
Fiscal 2005				
Net sales	$ 17,242	$17,373	$ 18,332	$19,727
Gross profit	501 (2)	4,626	3,245	5,377
Net loss	(11,693)(2)	(5,161)	(16,211)(1)	(5,042)
Net loss per common share — basic and diluted	(0.66)	(0.29)	(0.91)	(0.28)

(1) As described in Note 3, in the second quarter of 2005, the Company recognized a $9.4 million impairment charge for its long-lived assets, based upon changes in the planned use for its wafer fabrication assets.

(2) As described in Note 5, in the fourth quarter of 2005, the Company reduced the remaining estimated depreciation life for its headquarters building and related improvements from 25 years to approximately four months based upon its decision to sell the facility, resulting in an increase in depreciation expense of $6.5 million (including $4.3 million included in cost of sales) and in the first quarter of 2006 of $6.7 million (with $4.5 million included in cost of sales).

Note 18. Subsequent Events

On January 30, 2007, Sipex's stockholders at a special meeting of stockholders approved a 1-for-2 reverse stock split. The reverse split became effective at 1:31 p.m. Pacific Standard Time on February 23, 2007. The par value of the common stock was not affected by the reverse stock split and remains at $0.01 per share. Consequently, on the Company's balance sheet, the aggregate par value of the issued common stock was reduced by reclassifying the par value amount of the eliminated shares of common stock to additional paid-in capital in the Company's consolidated balance sheet. The Company has paid cash in lieu of any fractional shares to which a holder of common stock would otherwise be entitled as a result of the reverse stock split. The number of authorized shares of common stock remains unchanged.

On March 29, 2007, the Company entered into a Securities Purchase Agreement with Rodfre, an affiliate of Future, Sipex's largest distributor worldwide and an affiliate of its largest stockholder (Alonim Investment Inc.), to provide an unsecured promissory note facility of up to $10.0 million. This facility expires, and the borrowings and

accrued interest under any notes issued under this facility are due and payable, on June 30, 2008, or upon certain other events such as a change of control. Borrowings under this promissory note facility bear interest of 9% per annum subject to an increased interest rate of up to 20% in case of default or after maturity. This promissory note facility is subordinate to the Company's Loan and Security Agreement with Silicon Valley Bank and to its 5.5% Redeemable Convertible Senior Notes due 2026.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure:***

Not Applicable.

Item 9A. ***Controls and Procedures:***

Evaluation of Disclosure Controls and Procedures for year ended December 30, 2006

We evaluated the design and operating effectiveness of our disclosure controls and procedures as of December 30, 2006, under the supervision and with the participation of our management, pursuant to Rule 13a-15(b) of the Exchange Act. Based on this evaluation, our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, concluded that our disclosure controls and procedures as defined in Rule 3a-15(e) were not effective in ensuring that information required to be included in our periodic SEC filings is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms and is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure, due to certain material weaknesses in our internal controls over financial reporting described in Management's Report On Internal Control Over Financial Reporting in Item 9A of our annual report on Form 10-K for the year ended January 1, 2005 that have not been remediated. To address the material weaknesses in our internal control over financial reporting described below, we performed additional manual procedures and analysis and other post-closing procedures in order to prepare the consolidated financial statements included in this 2006 annual report on Form 10-K. Notwithstanding management's assessment that our disclosure controls and procedures as of December 30, 2006 were ineffective due to the material weaknesses that existed as of January 1, 2005, as described in our annual report on Form 10-K for the year then ended, we believe that the consolidated financial statements contained in this report present fairly our financial condition, results of operations and cash flows for the periods covered thereby in all material respects in accordance with generally accepted accounting principles.

The material weaknesses in our internal control over financial reporting as of January 1, 2005 identified by our management related to the design and operation of controls in the following areas: (i) entity level controls, (ii) revenue accounting, and (iii) financial closing process — use of estimates.

Internal Control over Financial Reporting

For the year ended December 30, 2006, we were not an accelerated filer, and therefore we were not required to make the annual report on internal control over financial reporting required by Item 308(a) of Regulation S-K and our independent registered public accounting firm was not required to issue a separate attestation report on management's assessment of our internal control over financial reporting under Item 308(b).

Changes in Internal Control over Financial Reporting

During fiscal year 2006, our management continued efforts to improve our internal controls over financial reporting, in particular to remediate the material weaknesses reported as of January 1, 2005. Our management believes that these efforts have or are reasonably likely to have, a material improvement on the design and effectiveness of our internal controls over financial reporting and to remediate the material weaknesses. However, as we were not an accelerated filer, and therefore not required to make the annual report on internal control over financial reporting required by Item 308(a) of Regulation S-K and our independent registered public accounting firm was not required to issue a separate report on management's assessment of our internal control over financial reporting under Item 308(b), there can be no assurance that we have fully remediated the material weaknesses reported as of January 1, 2005 or that our internal control over financial reporting is effective.

During the fourth quarter of 2006, we completed a formal review of the foreign locations in which we are doing business, evaluated the appropriate and necessary legal and tax structure for these foreign locations and then initiated the remaining steps to implement such structure and the related internal controls to help ensure compliance with local laws and regulations.

Inherent Limitation on the Effectiveness of Internal Controls

The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the risk of exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate the risk of misconduct completely. Accordingly, any system of internal control over financial reporting can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but we cannot assure that such improvements will be sufficient to provide us with effective internal control over financial reporting.

Item 9B. *Other Information:*

The following description is meant to satisfy our disclosure obligations pursuant to Item 1.01 of Form 8-K with regard to the material contract we entered into on March 29, 2007.

On March 29, 2007, we entered into a Securities Purchase Agreement with Rodfre, an affiliate of Future. The entry into this agreement was approved by our board of directors, including the members of our audit committee. This agreement creates a promissory note facility that provides that from time to time we may issue to Rodfre up to $10 million worth of 9% Unsecured Junior Notes in exchange for cash equal to the principal amounts of each note.

The Unsecured Junior Notes issued under this promissory note facility bear interest of 9% per annum, compounded quarterly, subject to an increased interest rate of up to 15% in case of default or after maturity. An additional 5% interest may also be charged if at the time of a default or after maturity the SEC has not declared effective the registration agreement that we are required to file pursuant to the Registration Rights Agreement dated as of May 16, 2006 that we entered into in connection with the issuance of our 5.5% Redeemable Convertible Senior Notes Due 2026.

This facility expires, and the principal and accrued interest under any notes issued under this facility are due and payable on June 30, 2008. The notes issued under this facility are subordinate to our Loan and Security Agreement with Silicon Valley Bank and to our 5.5% Redeemable Convertible Senior Notes due 2026.

The notes have customary events of default, including defaults upon failure to pay interest or principal amounts when due, breach of covenants (with a 15 day grace period), breach of representations and warranties, default on other indebtedness in excess of $1.0 million, or upon insolvency events. The holders of the notes will also have the option of demanding repayment of any outstanding amounts owed pursuant to the notes within 30 days of a change of control of Sipex.

The holders of the notes will have the option of converting the interest earned on the notes into shares of our common stock at the end of each calendar quarter during the term of this facility. However, this conversion right is contingent upon, and will only be available if, the SEC has declared effective the registration agreement that we are required to file pursuant to the Registration Rights Agreement dated as of May 16, 2006. To the extent that this conversion feature is available, the conversion price will equal to the volume weighted average closing price of our common stock for the 20 trading days prior to the date of conversion; provided, that in no event will this conversion price be less than the conversion price applicable for our 5.5% Redeemable Convertible Senior Notes due 2026.

Upon the continuance of a default under the notes, the holders of the notes will also have the right to convert any part of the principal amount outstanding under the note into shares of our common stock at a conversion price equal to 80% of the 20 trading day weighted average closing price mentioned above. This conversion right is likewise subject to the effectiveness of the registration statement required by the Registration Rights Agreement dated as of May 16, 2007 and also may not be less than the conversion price applicable for our 5.5% Redeemable Convertible Senior Notes due 2026.

The foregoing does not purport to be a complete description of the promissory note facility and is qualified in its entirety by reference to the actual Securities Purchase Agreement, which is attached hereto as Exhibit 10.36 and incorporated herein by reference.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance:***

The information required by this item, with respect to the directors of the registrant and the filing of reports under Section 16(a) of the Securities Exchange Act of 1934, is incorporated by reference from Sipex's definitive proxy statement in connection with its 2007 Annual Meeting of Stockholders, to be filed with the Commission not later than 120 days after the close of the fiscal year ended December 30, 2006, in the table under the captions "Election of Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934."

The board of directors has adopted a Code of Business Conduct and Ethics that is applicable to all of our employees, officers and directors, including our senior executive and financial officers. In addition, the board of directors adopted a Code of Ethics for our principal executive officer and senior financial officers. Each code is intended to deter wrongdoing and promote ethical conduct among our directors, executive officers and employees. Each code is available on our corporate website at www.sipex.com. We intend to satisfy the disclosure requirements under Item 10 of Form 10-K regarding amendment to, or waiver from, each code for any executive officer or director by posting such information on our website at www.sipex.com, provided such method of disclosure is then in compliance with the rules of the Nasdaq Global Market and the rules of the SEC.

Item 11. ***Executive Compensation:***

The information required by this item is incorporated by reference from Sipex's definitive proxy statement in connection with its 2007 Annual Meeting of Stockholders, to be filed with the Commission not later than 120 days after the close of the fiscal year ended December 30, 2006, under the caption "Compensation and Other Information Concerning Directors and Officers."

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters:***

The information required by this item is incorporated by reference from the Company's definitive proxy statement in connection with its 2007 Annual Meeting of Stockholders, to be filed with the Commission not later than 120 days after the close of the fiscal year ended December 30, 2006, under the caption "Securities Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Item 13. ***Certain Relationships, Related Transactions and Director Independence:***

The information required by this item is incorporated by reference from the Company's definitive proxy statement in connection with its 2007 Annual Meeting of Stockholders, to be filed with the Commission not later than 120 days after the close of the fiscal year ended December 30, 2006, under the caption "Certain Transactions."

Item 14. ***Principal Accounting Fees and Services:***

The information required by this item is incorporated by reference from Sipex's definitive proxy statement in connection with its 2007 Annual Meeting of Stockholders, to be filed with the Commission not later than 120 days after the close of the fiscal year ended December 30, 2006, under the caption "Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm."

PART IV

Item 15. ***Exhibits and Consolidated Financial Statement Schedules:***

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. *Consolidated Financial Statements.* The following consolidated financial statements of the Company and Reports of Independent Registered Public Accounting Firm are incorporated in Item 8 of this report.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 30, 2006 and December 31, 2005

Consolidated Statements of Operations for the Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Loss for the Years Ended December 30, 2006, December 31, 2005 and January 1, 2005

Consolidated Statements of Cash Flows for the Years Ended December 30, 2006, December 31, 2005, and January 1, 2005

Notes to consolidated financial statements

2. *Consolidated Financial Statement Schedules.* Consolidated financial statements schedules have been omitted because they are either not required or are included in the consolidated financial statements or the notes thereto.

3. The exhibits listed in the Exhibit Index immediately preceding the Exhibits are filed as a part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 30, 2007.

SIPEX CORPORATION

By: /s/ RALPH SCHMITT

Ralph Schmitt
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Name	Title	Date
/s/ RALPH SCHMITT Ralph Schmitt	Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2007
/s/ CLYDE R. WALLIN Clyde R. Wallin	Chief Financial Officer and Senior Vice President, Finance (Principal Financial and Accounting Officer)	March 30, 2007
/s/ JOHN D. ARNOLD John D. Arnold	Director	March 30, 2007
/s/ DANIEL G. CASEY Daniel G. Casey	Director	March 30, 2007
/s/ BRIAN HILTON Brian Hilton	Chairman of the Board of Directors	March 30, 2007
/s/ PIERRE G. GUILBAULT Pierre G. Guilbault	Director	March 30, 2007
/s/ ALAN KROCK Alan Krock	Director	March 30, 2007
/s/ THOMAS P. REDFERN Thomas P. Redfern	Director	March 30, 2007

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Sipex Corporation dated March 20, 2007.
3.2	Bylaws (incorporated herein by reference from the Company's Registration Statement on Form 8-A file with the Securities and Exchange Commission on October 28, 2003).
3.3	Certificate of Amendment of Bylaws of Sipex Corporation (previously filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on December 5, 2006 and incorporated herein by reference).
4.2	Form of Indemnification Agreement for directors and officers (previously filed as Exhibit 4.2 to the Company's Registration Statement on Form S-1, File No. 333-1328, and incorporated herein by reference).
4.4	Indenture dated May 16, 2006 (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 22, 2006, and incorporated herein by reference).
10.1**	1996 Incentive Stock Option Plan (previously filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1, File No. 333-1328, and incorporated herein by reference).
10.2**	1996 Employee Stock Purchase Plan, as amended (previously filed as Appendix A to the Company's Definitive Notice and Proxy Statement on April 29, 2004, and incorporated herein by reference).
10.3**	1997 Incentive Stock Option Plan (previously filed as Appendix A to the Company's definitive Proxy Statement for the Special Meeting In Lieu Of Annual Meeting Of Shareholders held May 30, 1997, and incorporated herein by reference).
10.4**	Sipex Corporation 1999 Stock Plan (previously filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, No. 1000-27897, and incorporated herein by reference).
10.5**	2000 Non-Qualified Stock Option Plan (previously filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference).
10.6**	2006 Equity Incentive Plan (previously filed as Appendix C to the Company's Definitive Notice and Proxy Statement on October 24, 2006, and incorporated herein by reference).
10.7	Worldwide Authorized Distributor Market Price Agreement dated July 22, 1993, by and between the Company and Future Electronics Incorporated (previously filed as an Exhibit to the Company's Annual report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference).
10.8	Amendment dated October 1, 2002 to Worldwide Authorized Distributor Market Price Agreement dated July 22, 1993, by and between the Company and Future Electronics Inc. (previously filed as Exhibit 10.1 to the Company's Quarterly Report of Form 10-Q for the quarter ended July 1, 2006, and incorporated herein by reference).
10.9	Addendum "A" dated February 7, 2003 to Worldwide Authorized Distributor Market Price Agreement dated July 22, 1993, by and between the Company and Future Electronics Incorporated (previously filed as an Exhibit to the Company's Annual report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference).
10.10*	Amendment dated August 26, 2003 to Worldwide Authorized Distributor Market Price Agreement dated July 22, 1993, by and between the Company and Future Electronics Inc. (previously filed as Exhibit 10.2 to the Company's Quarterly Report of Form 10-Q for the quarter ended July 1, 2006, and incorporated herein by reference).
10.11	Amendment dated September 15, 2003 to Worldwide Authorized Distributor Market Price Agreement dated July 22, 1993, by and between the Company and Future Electronics Inc. (previously filed as Exhibit 10.3 to the Company's Quarterly Report of Form 10-Q for the quarter ended July 1, 2006, and incorporated herein by reference).
10.12	Amendment dated April 25, 2006 to Worldwide Authorized Distributor Market Price Agreement dated July 22, 1993, by and between the Company and Future Electronics Inc. (previously filed as Exhibit 10.4 to the Company's Quarterly Report of Form 10-Q for the quarter ended July 1, 2006, and incorporated herein by reference).
10.13	Amendment dated September 27, 2006 to Worldwide Authorized Distributor Market Price Agreement dated July 22, 1993, by and between the Company and Future Electronics Inc. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 3, 2006, and incorporated herein by reference).

Exhibit Number	Description
10.14	Amendment dated November 1, 2006 to Worldwide Authorized Distributor Market Price Agreement dated July 22, 1993, by and between the Company and Future Electronics Inc. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 7, 2006, and incorporated herein by reference).
10.15**	Letter agreement as of 6/7/05 concerning the terms of the newly appointed Chief Executive Officer Ralph Schmitt (previously filed as Exhibit 99.2 to the Company's Form 8-K filed on June 30, 2005, and incorporated herein by reference).
10.16	Loan and Security Agreement as of 7/21/05, with Silicon Valley Bank (previously filed as Exhibit 99.1 to the Company's Form 8-K filed on 7/25/05, and incorporated herein by reference).
10.17**	Bonus plan as of August 29, 2005, for an executive bonus plan for the remainder of 2005 for certain of its officers (previously filed as Exhibit 99.1 to the Company's Form 8-K filed on September 2, 2005, and incorporated herein by reference).
10.18**	Separation Agreement and General Release as of 9/2/05 with Joseph T. Rauschmayer, Senior Vice President of Operations (previously filed as Exhibit 10.1 to the Company's Form 8-K filed on September 2, 2005, and incorporated herein by reference).
10.19**	Separation Agreement and General Release as of April 26, 2005 with Kevin Plouse (previously filed as Exhibit 10.1 to the Company's Form 8-K filed on September 15, 2005, and incorporated herein by reference).
10.20**	Letter agreement as of September 12, 2005 with Mr. Edward Lam joining Sipex as the new Senior Vice President of Marketing and Business Development (previously filed as Exhibit 10.1 to the Company's Form 8-K filed on September 23, 2005, and incorporated herein by reference).
10.21**	Letter agreement as of October 7, 2005 with Joel Camarda joining Sipex as Senior Vice President of Operations (previously filed as Exhibit 10.1 to the Company's Form 8-K filed on October 12, 2005, and incorporated herein by reference).
10.22	Amendment No. 1 dated October 7, 2005, to the Loan and Security Agreement with Silicon Valley Bank, dated July 21, 2005 (previously filed as Exhibit 10.1 to the Company's Form 8-K filed on October 12, 2005, and incorporated herein by reference).
10.23	Amendment No. 2 dated November 12, 2005 to the Loan and Security Agreement with Silicon Valley Bank, dated July 12, 2005 (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on 11/16/05, and incorporated herein by reference).
10.24	Amendment No. 3 dated January 19, 2006 to the Loan and Security Agreement with Silicon Valley Bank, dated July 12, 2005 (previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on 1/25/06, and incorporated herein by reference).
10.25	Amendment No. 4 dated May 18, 2006 to the Loan and Security Agreement with Silicon Valley Bank, dated July 12, 2005, (previously filed as Exhibit 10.4 to Company's Current Report on Form 8-K filed on 5/22/06, and incorporated herein by reference).
10.26	Amendment No. 5 dated August 1, 2006 to Loan and Security Agreement between Sipex Corporation and Silicon Valley Bank, dated July 12, 2005 (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed 8/7/06, and incorporated herein by reference).
10.27	Amendment No. 6 dated September 28, 2006 to Loan and Security Agreement between Sipex Corporation and Silicon Valley Bank, dated July 12, 2005 (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed 10/4/06, and incorporated herein by reference).
10.28*	Master Agreement between Sipex, Hangzhou Silan Microelectronics Co. Ltd. and Hangzhou Silan Integrated Circuit Co., Ltd., dated as of February 27, 2006 (previously filed as Exhibit 10.1 to the Company Current Report on Form 8-K/A filed on July 26, 2006, and incorporated herein by reference).
10.29	Agreement for Purchase and Sale of Real Property dated March 9, 2006, by and between Sipex Corporation and Mission West Properties, L.P. (previously filed as Exhibit 10.1 to the Company Current Report on Form 8-K filed on March 13, 2006, and incorporated herein by reference).
10.30	Standard Form Lease for 233 Hillview dated March 9, 2006, by and between Sipex Corporation and Mission West Properties, L.P. (previously filed as Exhibit 10.2 to the Company Current Report on Form 8-K filed on March 13, 2006, and incorporated herein by reference).

Exhibit Number	Description
10.31	Securities Purchase Agreement, dated as of May 16, 2006, by and among Sipex and the Buyers listed on the Schedule of Buyers (previously filed as Exhibit 10.1 to Company's Current Report on Form 8-K filed on 5/22/06, and incorporated herein by reference).
10.32	Amendment No. 1 dated May 24, 2006 to Securities Purchase Agreement, dated as of May 16, 2006 by and among Sipex and the Buyers listed on the Schedule of Buyers (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 30, 2006, and incorporated herein by reference).
10.33	Registration Rights Agreement, dated as of May 16, 2006, by and among Sipex and the Buyers listed on the Schedule of Buyers (previously filed as Exhibit 10.2 to Company's Current Report on Form 8-K filed on 5/22/06, and incorporated herein by reference).
10.34	Warrant Agent Agreement, dated as of May 16, 2006, between Sipex and Wells Fargo Bank, National Association, as Warrant Agent (which includes the Form of Warrant) (previously filed as Exhibit 10.1 to Company's Current Report on Form 8-K filed on 5/22/06, and incorporated herein by reference).
10.35	Separation Agreement and General Release as of January 15, 2007 with Rick Hawron (previously filed as Exhibit 10.1 to the Company's Form 8-K filed on January 19, 2007, and incorporated herein by reference).
10.36	Securities Purchase Agreement, dated as of March 29, 2007, by and between Sipex and Rodfre Holdings LLC.
12.1	Computation of Ratio of Earnings to Fixed Cost Charges.
21.1	Subsidiaries of the Company (previously filed as an exhibit to the Company's Annual report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference).
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Confidential treatment as to certain portions has been requested pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

** The Exhibits identified above with a double asterisk (**) are management contracts or compensatory plans or arrangements.

EXHIBIT 3.1

RESTATED
CERTIFICATE OF INCORPORATION
OF
SIPEX CORPORATION
a Delaware corporation

SIPEX Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the “General Corporation Law”) hereby certifies as follows:

1. That this corporation was originally incorporated on April 9, 2003 under the name SIPEX Corporation, pursuant to the General Corporation Law.

2. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, the restatements herein set forth have been duly approved by the Board of Directors of SIPEX Corporation.

3. Pursuant to Section 245 of the General Corporation Law, this Restated Certificate of Incorporation (this “Certificate”) restates and integrates provisions of the Amended and Restated Certificate of Incorporation of this corporation filed with the Secretary of State of the State of Delaware (the “Secretary of the State”) on October 28, 2003, the Amendment of the Restated Certificate of Incorporation of this corporation filed with the Secretary of the State on November 30, 2006 and the Amendment of the Restated Certificate of Incorporation of this corporation filed with the Secretary of the State on February 22, 2007.

4. The text of the Amended and Restated Certificate of Incorporation of this corporation is hereby restated in its entirety as follows:

ARTICLE I

The name of this corporation is SIPEX Corporation (the “corporation”).

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE III

The nature of the business or purposes to be conducted by the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware, as the same exists or may hereafter be amended.

ARTICLE IV

The corporation is authorized to issue two classes of stock, to be designated, respectively, “Common Stock” and “Preferred Stock”. The total number of shares which the corporation shall have authority to issue is 61,000,000 consisting of 60,000,000 shares of Common Stock, par value $0.01 per share, and 1,000,000 shares of Preferred Stock, par value $0.01 per share.

Effective 1:31 p.m. Pacific Standard Time on February 23, 2007 (the “Effective Time”), each two shares of Common Stock of the Corporation issued and outstanding shall be combined into one (1) share of fully paid and nonassessable Common Stock of the Corporation, as appropriate, subject to the treatment of fractional shares interests described below. Following the effectiveness of this amendment, the Corporation will evidence the reverse stock split effected by this Article pursuant to procedures adopted by the Corporation.

No fractional shares of Common Stock of the Corporation shall be issued. No stockholder of the Corporation shall transfer any fractional shares of Common Stock of the Corporation. The Corporation shall not recognize on its stock record books any purported transfer of any fractional share of Common Stock of the Corporation.

A holder of common stock at the Effective Time who would otherwise be entitled to a fraction of a share shall, in lieu thereof, be entitled to receive a cash payment in an amount equal to the fraction of a share to which the stockholder would otherwise be entitled multiplied by the average of the closing prices of the Common Stock, for the ten (10) trading days preceding the date that is five (5) trading days before the Effective Time (as adjusted for the reverse stock split effected by this Article) (or if such prices are not available, the average of the last bid and asked prices of the Common Stock on such days (as adjusted for the reverse stock split effected by this Article) or other price determined by the Board of Directors).

The Board of Directors of the corporation (the "Board") is authorized, subject to any limitations prescribed by law, to provide for the issuance of shares of Preferred Stock in series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereof.

Each outstanding share of Common Stock shall entitle the holder thereof to one vote on each matter properly submitted to the stockholders of the corporation for their vote; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation (including any certificate of designation of Preferred Stock relating to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon by law or pursuant to this Certificate of Incorporation (including any certificate of designation of Preferred Stock relating to any series of Preferred Stock).

ARTICLE V

The following provisions are inserted for the management of the business and the conduct of the affairs of the corporation, and for further definition, limitation and regulation of the powers of the corporation and of its directors and stockholders:

A. The business and affairs of the corporation shall be managed by or under the direction of the Board. In addition to the powers and authority expressly conferred upon them by statute or by this Certificate of Incorporation or the Bylaws of the corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the corporation.

B. The directors of the corporation need not be elected by written ballot unless the Bylaws so provide.

C. Any action required or permitted to be taken by the stockholders of the corporation may be taken without a meeting, without prior notice and without a vote, if consents in writing, setting forth the action so taken, shall have been signed by all stockholders entitled to vote on the matter.

D. Special meetings of stockholders of the corporation may be called only by the Chairman of the Board, the Chief Executive Officer, the President, the Board acting pursuant to a resolution adopted by a majority of the Whole Board, and upon the written application, in the manner provided in the Bylaws of the Corporation, of one or more stockholders holding shares in the aggregate entitled to cast not less than 40% of the votes at that meeting. For purposes of this Certificate of Incorporation, the term "Whole Board" shall mean the total number of authorized directors of the corporation whether or not there exist any vacancies in previously authorized directorships.

ARTICLE VI

A. Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the number of directors shall be fixed from time to time exclusively by the Board pursuant to a resolution duly adopted by a majority of the Board. The directors, other than those who may be elected by the holders of any series of Preferred Stock under specified circumstances, shall be classified, with respect to the time for which they severally hold office, into three classes designated as Class I, Class II and Class III, as nearly equal in number as possible, with Class I to be originally elected for a term expiring at the first annual meeting of stockholders to be held after November 30, 2006, Class II to be originally elected for a term expiring at the second annual meeting of stockholders to be held after November 30, 2006, and Class III to be originally elected for a term expiring at the third annual meeting of stockholders to be held after November 30, 2006, with each class to hold office until its successor is duly elected and qualified. At each succeeding annual meeting of stockholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of

stockholders after their election.

B. Subject to the rights of the holders of any series of Preferred Stock then outstanding and unless the Board otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause shall, unless otherwise provided by law or by resolution of the Board, be filled only by a majority vote of the directors then in office, whether or not less than a quorum, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been chosen expires. No reduction in the authorized number of directors shall have the effect of removing any director before such director's term of office expires.

C. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the corporation shall be given in the manner provided in the Bylaws of the corporation.

D. Subject to the rights of the holders of any series of Preferred Stock then outstanding, unless otherwise restricted by statute, by the Certificate of Incorporation or the Bylaws of the corporation, any director, or all of the directors, may be removed from the Board, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of capital stock of the corporation then entitled to vote at the election of directors, voting together as a single class.

ARTICLE VII

The Board is expressly empowered to adopt, amend or repeal any of the Bylaws of the corporation, subject to any limitations and requirements set forth in the Bylaws of the corporation. Any duly authorized adoption, amendment or repeal of the Bylaws of the corporation by the Board shall require the approval of a majority of the Whole Board. The stockholders shall also have power to adopt, amend or repeal the Bylaws of the corporation by an affirmative vote of the holders of at least a majority of the voting power of the then outstanding shares of capital stock of the corporation then entitled to vote at the election of directors, voting as a single class.

ARTICLE VIII

A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (a) for any breach of the director's duty of loyalty to the corporation or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the General Corporation Law of Delaware, or (d) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of Delaware is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of Delaware as so amended.

The corporation shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, she, his or her testator or intestate is or was a director or officer of the corporation (or any predecessor thereof), or serves or served at any other corporation, partnership, joint venture, trust or other enterprise as a director, officer, employee or agent at the request of the corporation (or any predecessor); provided, however, that, except for proceedings to enforce rights to indemnification, the corporation shall not be obligated to indemnify any director or officer (or his or her heirs, executors or personal or legal representatives) in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the corporation. The right to indemnification conferred by this Section 2 shall include the right to be paid by the corporation the expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition. The corporation may indemnify to the fullest extent permitted by law, as now or hereinafter in effect, any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was an employee or agent of the corporation or any predecessor of the corporation or serves or served at any other enterprise as a director, officer, employee or agent at the request of the corporation or any predecessor to the corporation. The rights to indemnification and to the advancement of expenses conferred in this Section 2 shall not be exclusive of any other right which any person may have or hereafter acquire under this Certificate of Incorporation, the Bylaws of the corporation, any statute, agreement, vote of the stockholders of the corporation or disinterested directors of the corporation or otherwise.

Any amendment, repeal or modification of the foregoing paragraph shall not adversely affect any right or protection of a director of the corporation existing at the time of such amendment, repeal or modification.

ARTICLE IX

The corporation reserves the right to amend or repeal any provision contained in this Certificate in the manner prescribed by the laws of the State of Delaware and all rights conferred upon stockholders are granted subject to this reservation.

IN WITNESS WHEREOF, SIPEX Corporation has caused this Restated Certificate of Incorporation to be executed by its Secretary this 20th day of March 2007.

SIPEX CORPORATION

/s/ Clyde R. Wallin
Clyde R. Wallin
Secretary

Exhibit 10.36

SIPEX CORPORATION

as the Company

and

RODFRE HOLDINGS LLC

as the Purchaser

SECURITIES PURCHASE AGREEMENT

Dated as of March 29, 2007

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SCHEDULE

Schedule A Wire Instructions

EXHIBITS

Exhibit A Form of Note
Exhibit B Secretary's Certificate

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (the "Agreement"), dated as of March 29, 2007, by and between Sipex Corporation, a Delaware corporation (the "Company"), and Rodfre Holdings LLC (the "Purchaser"), a Delaware Corporation.

THE PARTIES TO THIS AGREEMENT enter into this Agreement on the basis of the following facts, intentions and understandings:

A. In accordance with the terms and conditions of this Agreement, the Company has agreed to issue and sell, and the Purchaser has agreed to purchase at any time and from time to time from the date hereof until 5:00 p.m., California Time, June 30, 2008, the Company's 9% Unsecured Junior Notes with convertible interest due June 30, 2008 (such note(s), in the form attached hereto as Exhibit A, as the same may be amended, modified or supplemented from time to time in accordance with the terms thereof, each a "Note" or collectively, the "Notes") in an aggregate amount of up to U.S. $10,000,000.00 (the "Principal Amount").

B. Subject to and contingent upon the Securities and Exchange Commission's (the "SEC") declaration of the effectiveness of the Registration Statement that is required to be filed pursuant to Section 2(a) of the Registration Rights Agreement, dated as of May 26, 2006 by and among the Company and the buyers listed on the Schedule of Buyers attached thereto, the annual interest of the Notes shall be, at the option of the Purchaser, convertible into shares of the common stock, $0.01 par value per share (the "Common Stock"), of the Company on the terms set forth in the Notes. The shares of Common Stock issuable upon conversion of the accrued interest on the Notes are referred to herein collectively as the "Conversion Shares." The Notes and the Conversion Shares are referred to herein as the "Securities."

C. This Agreement and the Notes, and each of the other agreements entered into by the parties hereto in connection with the transactions contemplated by this Agreement (the "Transaction") are referred to herein collectively as the "Transaction Documents."

NOW THEREFORE, in consideration of the promises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Purchaser hereby agree as follows:

SECTION 1. Purchase and Sale of Notes

(a) Closing of Notes

(1) Subject to the prior satisfaction (or written waiver) of the conditions set forth in Sections 5 and 6 of this Agreement, the Company shall have the right, from time to time, to issue and sell to Purchaser, and Purchaser agrees to purchase from the Company, one or more Notes in denominations of U.S. $500,000.00 or more, for an aggregate amount not to exceed U.S. $10,000,000.00. Notwithstanding the foregoing, upon notification to the Purchaser of the completion of a Change of Control and/or upon repayment by the Company of all outstanding Notes, pursuant to Section 6(e) of said Notes, the Purchaser shall be entitled to refuse in its sole discretion to purchase any more Notes under this Agreement.

(2) The date and time of the sale of each Note (each a "Closing") shall be at such place and time as the parties may specify(each a "Closing Date"), and shall be subject to the satisfaction (or waiver) at each Closing Date of the conditions set forth in Sections 5 and 6 of this Agreement.

(b) Form of Payment. On each such Closing Date, (i) Purchaser shall pay the Company for the Note to be issued and sold to such Purchaser on such Closing Date, by wire transfer of immediately available funds in accordance with the Company's written wire instructions attached hereto on Schedule A (or such other wire instructions as the Company may provide), and (ii) the Company shall deliver to Purchaser a properly authenticated Note representing the principal amount of the Note , duly executed on behalf of the Company and registered in the name of the Purchaser, that the Purchaser is purchasing from the Company pursuant to this Agreement.

SECTION 2. Purchaser's Representations and Warranties. Purchaser represents and warrants to the Company that as of the date hereof and in respect of each applicable Closing Date:

(a) Investment Purpose. Purchaser is acquiring the Note, and upon conversion of the Note (if applicable) owned by it, Purchaser will acquire the Conversion Shares then issuable upon conversion thereof, for its own account for investment only and not with a view toward, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales or distributions registered or exempted under the Securities Act of 1933, as amended (the "Securities Act").

(b) Accredited Investor Status. Purchaser is and shall remain an "accredited investor" as that term is defined in Rule 501(a) of Regulation D under the Securities Act as of the date of this Agreement.

(c) Reliance on Exemptions. Purchaser understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of the United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and Purchaser's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Purchaser set forth herein and in the Note in order to determine the availability of such exemptions and the eligibility of Purchaser to acquire the Securities.

(d) Information. Purchaser believes it (i) has been furnished with or believes it has had full access to all of the information that it considers necessary or appropriate for deciding whether to purchase the Securities, (ii) has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities, (iii) can bear the economic risk of a total loss of its investment in the Securities and (iv) has such knowledge and experience in business and financial matters so as to enable it to understand the risks of and form an investment decision with respect to its investment in the Securities. Neither such inquiries nor any other due diligence investigations conducted by Purchaser or its advisors, if any, or its representatives shall limit, modify, amend or affect the Company's representations and warranties contained in this Agreement and the Purchaser's right to rely thereon.

(e) No Governmental Review. Purchaser understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities or the fairness or suitability of an investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(f) Transfer or Resale. Purchaser understands that none of the Securities have been or will be registered under the Securities Act or any state securities laws, and the Securities may not be offered for sale, sold, assigned or transferred without registration under the Securities Act or an exemption therefrom and that, in the absence of an effective registration statement under the Securities Act, such Securities may only be sold under certain circumstances as set forth in the Securities Act, it being understood that nothing in this Agreement shall restrict any transfer of Securities to (a) the Company or (b) an affiliate of the holder of such Securities (provided that in the case of (b) above the transferor furnishes the Company with such certifications, legal opinions or other information as the Company may reasonably request to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act).

(g) Legends.

(1) Purchaser understands that, until the later of (i) the end of the holding period under Rule 144(k) of the Securities Act (or any successor provision) and (ii) such time as Purchaser ceases to be an “affiliate” of the Company as such term is defined in Rule 144 of the Securities Act, the Note (and all securities issued in exchange therefor or in substitution thereof, other than Conversion Shares, which shall bear the legend set forth in Section 2(g)(2) of this Agreement, if applicable) shall bear a legend in substantially the following form:

> THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS OR AN EXEMPTION THEREFROM.

The legend set forth above shall be removed and the Company shall issue a new Note of like tenor and aggregate principal amount and which shall not bear the restrictive legends required by this Section 2(g)(1), (i) if, in connection with a sale transaction, such holder provides the Company with an opinion of counsel reasonably acceptable to the Company to the effect that a public sale, assignment, pledge or transfer of the Note may be made without registration under the Securities Act, or (ii) upon expiration of the two-year holding period under Rule 144(k) of the Securities Act (or any successor rule). The Company shall not require such opinion of counsel for the sale of Securities in accordance with Rule 144 of the Securities Act in the event that the Seller provides

such representations that the Company shall reasonably request confirming compliance with the requirements of Rule 144.

(2) Such Purchaser understands that, until the later of (i) the end of the holding period under Rule 144(k) of the Securities Act (or any successor provision) with respect to the Conversion Shares issued upon any conversion of the Note, and (ii) such time as Purchaser ceases to be an "affiliate" of the Company as such term is defined in Rule 144 of the Securities Act, any stock certificate representing Conversion Shares issued upon such conversion of the Note shall bear a legend in substantially the following form unless the Note submitted for conversion, does not bear the legend specified in Section 2(g)(1):

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR AN EXEMPTION THEREFROM.

The legend set forth above shall be removed and the Company shall issue the Conversion Shares without such legend to the holder of the Conversion Shares upon which it is stamped, (i) if such Conversion Shares have been resold or transferred pursuant to a registration statement under the Securities Act, as amended, and the registration statement was effective at the time of such transfer, (ii) if, in connection with a sale transaction, such holder provides the Company with an opinion of counsel reasonably acceptable to the Company to the effect that a public sale, assignment, pledge or transfer of the Conversion Shares may be made without registration under the Securities Act, or (iii) upon the later of (a) expiration of the two-year period under Rule 144(k) of the Securities Act (or any successor rule) and (b) such time as Purchaser ceases to be an "affiliate" of the Company as such term is defined in Rule 144 of the Securities Act. The Company shall not require such opinion of counsel for the sale of Conversion Shares in accordance with Rule 144 of the Securities Act, provided that the Seller provides such representations that the Company shall reasonably request confirming compliance with the requirements of Rule 144.

(3) Purchaser understands that, in the event Rule 144(k) as promulgated under the Securities Act (or any successor rule) is amended to change the two-year period under Rule 144(k) (or the corresponding period under any successor rule), (i) each reference in Sections 2(g)(1) and 2(g)(2) of this Agreement to "two (2) years", the "two-year period" or "two-year holding period" shall be deemed for all purposes of this Agreement to be references to such changed period, and (ii) all corresponding references in the Note shall be deemed for all purposes to be references to the changed period, provided that such changes shall not become effective if they are otherwise prohibited by, or would otherwise cause a violation of, the then-applicable federal securities laws.

(h) Authorization; Enforcement; Validity. The Transaction Documents have been duly and validly authorized, executed and delivered on behalf of Purchaser and are valid and binding

agreements of Purchaser enforceable against Purchaser in accordance with their terms, subject as to enforceability to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and to applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies and except as the indemnification agreements of Purchaser may be legally unenforceable.

(i) Residency. Purchaser is a resident of that country or state specified in its address on the signature page hereto and executed by it.

(j) Additional Acknowledgement. Purchaser acknowledges that it has independently evaluated the merits of the transactions contemplated by this Agreement and the Note and that it has independently determined to enter into the transactions contemplated hereby and thereby.

With the exception of Section 2(h), the Purchaser's representations and warranties made in this Section 2 are made solely for the purpose of permitting the Company to make a determination that the offer and sale of the Note pursuant to this Agreement complies with applicable United States federal and state securities laws and not for any other purpose. Accordingly, other than Section 2(h), the Company should not rely on such representations and warranties for any other purpose.

SECTION 3. Representations, Warranties and Covenants of the Company. The Company hereby represents and warrants to, and covenants with, the Purchaser that as of the date hereof and in respect of each applicable Closing Date subject to such exceptions as set forth in the Company's public reports filed with the SEC (the "SEC Filings") or in a letter from the Company to Purchaser dated as of a Closing Date (the "Disclosure Letter"), which exceptions must be non-material and acceptable to purchaser, acting reasonably:

(a) Organization. The Company is duly organized and validly existing in good standing under the laws of the jurisdiction of its organization. Each of the Company and its subsidiaries listed on Exhibit 21.1 to its Annual Report on Form 10-K for the year ended December 31, 2005 (the "Subsidiaries") has full power and authority to own, operate and occupy its properties and to conduct its business as presently conducted and as described in the Company's most recently filed Annual Report on Form 10-K, including all exhibits, supplements and amendments thereto, and the Company's most recently filed Quarterly Report on Form 10-Q, including all exhibits, supplements and amendments thereto and the Company's current reports on Form 8-K filed since the date of the Company's last Form 10-K or 10-Q, and is registered or qualified to do business and in good standing in each jurisdiction in which the failure to be so qualified would have a Material Adverse Effect, and to the Company's knowledge, no proceeding has been instituted in any such jurisdiction, revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification. As used in this Agreement, "Material Adverse Effect" means any material adverse effect upon (i) the business, financial condition, results of operations, assets, properties or operations of the Company and its Subsidiaries, considered as one enterprise, or (ii) the Company's ability to perform its obligations under this Agreement. No Subsidiary of the Company is a "significant subsidiary" of the Company as such term is defined in Rule 1-02(w) of Regulation S-X.

(b) Due Authorization and Valid Issuance. The Company has all requisite power and authority to execute, deliver and perform its obligations under the Transaction Documents, and the Transaction Documents and the transactions contemplated thereby have been duly authorized by the Company and its Board of Directors and no further consent or authorization by the Company, or its shareholders is required. Each of the Transaction Documents has been validly executed and delivered by the Company and constitutes a legal, valid and binding agreement of the Company enforceable against the Company in accordance with its terms, except as rights to indemnity and contribution may be limited by state or federal securities laws or the public policy underlying such laws, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' and contracting parties' rights generally and except as enforceability may be subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). The Note being purchased by the Purchaser hereunder will, upon issuance pursuant to the terms hereof, be duly authorized, validly issued, fully paid and nonassessable, and shall be free from all liens, claims and encumbrances, except encumbrances or restrictions arising under U.S. federal or state securities laws, with respect to the issuance thereof, and the Purchaser shall be entitled to all the rights set forth therein.

(c) Non-Contravention. The execution, delivery and performance of the Transaction Documents, including without limitation the issuance and sale of the Note to be sold by the Company under the Transaction Documents, the fulfillment of the terms of the Transaction Documents and the consummation of the transactions contemplated thereby, will not constitute a violation of, or default (with the passage of time or otherwise) under (i) any bond, debenture, note or other evidence of indebtedness, lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company or any Subsidiary is a party or by which it or any of its Subsidiaries or their respective properties are bound when such violation, conflict or default, individually, or in the aggregate, would have a Material Adverse Effect, (ii) the articles of organization, by-laws or other organizational documents of the Company or any Subsidiary, or (iii) any law, administrative regulation, ordinance or order of any court or governmental agency, arbitration panel or authority applicable to the Company or any Subsidiary or their respective properties when such violation, conflict or default would have a Material Adverse Effect. In addition, the execution, delivery and performance of the Transaction Documents, including without limitation the issuance and sale of the Note to be sold by the Company under the Transaction Documents, the fulfillment of the terms of the Transaction Documents and the consummation of the transactions contemplated thereby, will not result in the creation or imposition of any lien, encumbrance, claim, security interest or restriction whatsoever upon any of the properties or assets of the Company or any Subsidiary (other than an acceleration of indebtedness pursuant to any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or any indenture, mortgage, deed of trust or any other agreement or instrument to which the Company or any Subsidiary is a party or by which any of them is bound or to which any of the property or assets of the Company or any Subsidiary is subject where such lien or other restriction would not have a Material Adverse Effect). Except for such filings and clearances, if any, as may be required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), no consent, approval, authorization or other order of, or registration, qualification or filing with, any regulatory body, administrative agency, or other

governmental body in the United States or any other person is required for the execution, delivery and performance of the Transaction Documents, including without limitation the valid issuance and sale of the Securities to be sold pursuant to the Transaction Documents, other than such as have been made or obtained, and except for any post-closing securities filings or notifications required to be made under federal or state securities laws. Assuming the accuracy of the representations made by Purchaser in Section 2, the issuance by the Company of the Note is exempt from registration under the Securities Act and the issuance of the Conversion Shares upon conversion the Notes (if applicable), will be exempt from registration under the Securities Act under applicable rules and regulations as currently in effect.

(d) Capitalization. The Company's authorized capital stock as of December 30, 2006 consisted of (i) 60,000,000 shares of Common Stock, $0.01 par value per share, of which 18,389,862 shares are issued and outstanding at December 30, 2006, and (ii) 1,000,000 shares of Preferred Stock, $0.01 par value per share, of which no shares are issued and outstanding at December 30, 2006. The Company has not issued any capital stock since that date other than pursuant to (i) the exercise of stock options granted to the Company's employees and service providers pursuant to employee benefit plans and contract, (ii) upon exercise of outstanding warrants or options disclosed in the SEC Filings, or (iii) upon conversion of the Company's outstanding 5.5% Redeemable Convertible Senior Notes Due 2026 (the "Convertible Notes"). The Company has no stock option or stock purchase plans or other equity incentive plans of any kind other than those described in the SEC Filings. The Conversion Shares that are contingently issuable by the Company pursuant to the Transaction Documents have been duly authorized, and when issued in accordance with the terms of the Transaction Documents, will be duly and validly issued, fully paid and nonassessable and will be free from all taxes, liens and charges with respect to the issuance thereof, with the holder thereof entitled to all rights accorded to holders of Common Stock of the Company, generally. The outstanding shares of capital stock of the Company have been duly and validly issued and are fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and were not issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. Except as set forth herein or in the SEC Filings (including specifically the references to the agreements entered into in connection with the Convertible Notes), there are no (i) outstanding rights (including, without limitation, preemptive rights with respect to issuances by the Company of any securities, including without limitation the Securities, of the Company), warrants or options to acquire, or instruments convertible into or exchangeable for, any unissued shares of capital stock or other equity interest in the Company or any Subsidiary, (ii) contracts, commitments, agreements, understandings or arrangements of any kind to which the Company is a party or of which the Company has knowledge and relating to the issuance or sale of any capital stock of the Company or any Subsidiary, or of any such convertible or exchangeable securities or any such rights, warrants or options, (iii) outstanding securities or instruments of the Company or any Subsidiary that contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to redeem a security of the Company or any Subsidiary, (iv) securities or other instruments containing anti-dilution or similar provisions that will be triggered by the issuance of any of the Securities under this Agreement, or (v) stock appreciation rights or "phantom stock" plans or agreements or any similar plan or arrangement. No further approval or authorization of any

stockholder, the Board of Directors of the Company or others is required for the issuance and sale of the Securities. The Company owns the entire equity interest in each of its Subsidiaries, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest, other than as described in the SEC Filings. The Company has no outstanding indebtedness for borrowed money and no agreement regarding borrowings, other than pursuant to the Convertible Notes and that certain Loan and Security Agreement, dated as of July 21, 2005, as amended (the "SVB Indebtedness"). Except as disclosed in the SEC Filings, there are no shareholder rights plans, stockholders agreements, voting agreements or other similar agreements with respect to the Common Stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(e) Legal Proceedings. There is no material action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company, threatened to which the Company or any Subsidiary is or may be a party or of which the business, property, Common Stock, officers or directors (in their capacities as such) of the Company or any Subsidiary is subject that is not disclosed in the SEC Filings, except where the same would not result, either individually or in the aggregate, in a Material Adverse Effect.

(f) No Violations. Except as disclosed in the SEC Filings neither the Company nor any Subsidiary (i) is in violation of its charter, bylaws, or other organizational document, (ii) is in violation of any law, administrative regulation, ordinance or order of any court or governmental agency, arbitration panel or authority applicable to the Company or any Subsidiary, which violation, individually or in the aggregate, would be reasonably likely to have a Material Adverse Effect, or (iii) is in default (and there exists no condition which, with the passage of time or otherwise, would constitute a default) in any respect in the performance of any bond, debenture, note or any other evidence of indebtedness in any indenture, mortgage, deed of trust or any other agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary is bound or by which the properties of the Company or any Subsidiary are bound, which would be reasonably likely to have a Material Adverse Effect.

(g) Governmental Permits, Etc. Each of the Company and its Subsidiaries has all necessary franchises, licenses, certificates and other authorizations from any foreign, federal, state or local government or governmental agency, department, or body that are currently necessary for the operation of the business of the Company and its Subsidiaries as currently conducted and as described in the SEC Filings except where the failure to currently possess any such franchise, license, certificate or other authorization would not have a Material Adverse Effect.

(h) Intellectual Property. Except as specifically disclosed in the SEC Filings, (i) each of the Company and its Subsidiaries owns or possesses sufficient rights to use all patents, patent rights, trademarks, copyrights, licenses, inventions, mask works, trade secrets, trade names, know-how, moral rights, confidential and proprietary information, compositions of matter, formulas, designs and proprietary rights (collectively, "Intellectual Property") described or referred to in the SEC Filings as owned or possessed by it or that are necessary for the conduct of its business as now conducted or as

described in the SEC Filings, except where the failure to currently own or possess would not have a Material Adverse Effect, and (ii) to the Company's knowledge, neither the Company nor any of its Subsidiaries is infringing, or has received any notice of or has any knowledge of any asserted infringement by the Company or any of its Subsidiaries of, any rights of a third party with respect to any Intellectual Property that, individually or in the aggregate, would have a Material Adverse Effect. To the Company's knowledge, there is no claim, action or proceeding being overtly threatened against, but which has not been made or brought against, the Company or any of its Subsidiaries regarding its Intellectual Property or infringement of other intellectual property rights which could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. To the Company's knowledge, no third party has any ownership right, title, interest, claim in or lien on any of the Intellectual Property and the Company has taken, and in the future the Company will use its reasonable effort to take, all steps reasonably necessary to preserve its legal rights in, and the secrecy of, all the Intellectual Property. To the Company's knowledge, there is no material unauthorized use, infringement or misappropriation of any Intellectual Property of the Company or any of the Subsidiaries by any third party.

(i) Environmental Matters.

(1) Except as would not reasonably be likely to result in a material liability to the Company, no underground storage tanks and no amount of any substance that has been designated by any governmental agency or by applicable federal, state or local law to be radioactive, toxic, hazardous or otherwise a danger to health or the environment, including without limitation, PCBs, asbestos, petroleum, urea-formaldehyde and all substances listed as hazardous substances pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended to date, or defined as a hazardous waste pursuant to the United States Resource Conservation and Recovery Act of 1976, as amended to date, and the regulations promulgated pursuant to said laws, but excluding routine quantities of office and janitorial supplies (a "Hazardous Material"), are present as a result of the actions of the Company, or, to the Company's knowledge, as a result of the actions of a third party, in, on or under any property, including the land and the improvements, ground water and surface water thereof, that the Company or any of its subsidiaries currently owns, operates, occupies or leases, or to the Company's knowledge, were present on any other real property at the time it ceased to be owned, operated, occupied or leased by the Company as a result of the actions of the Company, or to the Company's knowledge as a result of the actions of a third party.

(2) Except as would not reasonably be likely to result in a material liability to the Company (in any individual case or in the aggregate), neither the Company nor any Subsidiary has transported, stored, used, manufactured, disposed of or arranged for the disposal of, released or exposed its employees or others to Hazardous Materials in violation of any federal, state or local law, rule, regulation, treaty or statute in effect before the Closing Date related to protection of human health, safety, and the environment, including natural resources (collectively, "Environmental Laws").

(3) Except as would not reasonably be likely to result in a material liability to the Company, the Company and the Subsidiaries currently hold and are in compliance with all approvals, permits, licenses, clearances and consents required under Environmental Laws for the conduct of the Company's and the Subsidiaries' businesses as currently being conducted.

(4) No action, proceeding, revocation proceeding, amendment procedure, writ, injunction or claim is pending, or to the Company's knowledge, threatened, alleging that the Company or any of the Subsidiaries are in violation of or liable under any Environmental Law.

(j) No General Solicitation; No Integration. Neither the Company nor any other person or entity authorized by the Company to act on its behalf has engaged in a general solicitation or general advertising (within the meaning of Regulation D of the Securities Act) of investors with respect to offers or sales of any of the Securities. The Company has not, directly or indirectly, sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Securities Act) which, to its knowledge, is or will be integrated with the Conversion Shares and/or the Note sold pursuant to this Agreement.

(k) Interested Party Transactions. Except as set forth in the SEC Filings, no officer or director of the Company or the Subsidiaries or any "affiliate" or "associate" (as those terms are defined in Rule 405 promulgated under the 1933 Act) of any such person has had, either directly or indirectly, a material interest in: (i) any person or entity which purchases from or sells, licenses or furnishes to the Company any goods, property, technology, intellectual or other property rights or services; or (ii) any contract or agreement to which the Company is a party or by which it may be bound or affected.

(l) No Material Adverse Change. Since September 30, 2006, the Company has not experienced or suffered events or conditions which have, in the aggregate, caused a Material Adverse Effect.

(m) Compliance. The Company's Common Stock is registered pursuant to Section 12(g) of the Exchange Act, and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act, nor has the Company received any notification that the Securities and Exchange Commission (the "SEC") or the NASD is contemplating terminating such registration.

(n) No Manipulation of Stock. The Company has not taken and will not, in violation of applicable law, take any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the transactions contemplated hereby or the sale or resale of the Conversion Shares.

(o) Company not an "Investment Company". The Company has been advised of the rules and requirements under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Company is not, and immediately after receipt of payment for the Shares will not be, an "investment company" or an entity "controlled" by an "investment company" within the

meaning of the Investment Company Act and shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(p) Brokers or Finders. The Company has not incurred, and shall not incur, directly or indirectly, any liability for any brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement or any transaction contemplated hereby.

(r) Canadian Representations. The Company further represents and warrants to the Purchaser that, as at the date of issuance of the Note, the Company is not a "reporting issuer" (or the equivalent) in any Canadian provincial or territorial jurisdiction.

(s) Employee Benefits Plans. The Company does not currently have a guaranteed pension plan under §§302, 4041, 4042, 4043, 4063, 4065, 4066 and 4068 of ERISA, or a multiemployer plan, under §§4041A, 4202, 4219, 4242, or 4245 of ERISA.

SECTION 4. Covenants

(a) Reasonable Efforts. The parties shall use all reasonable efforts to timely satisfy each of the conditions described in Sections 5 and 6 of this Agreement.

(b) Consents. The Company will use all reasonable efforts to obtain all consents, approvals, authorizations or other orders of, or registration, qualification or filing with, any regulatory body, administrative agency or other governmental body in the United States or any other person that is required for the execution, delivery and performance of the Transaction Documents, including without limitation the valid issuance and sale of the Securities to be sold pursuant to the Transaction Documents. The Purchase will cooperate in good faith in assisting the Purchaser to fulfill this covenant.

(c) Blue Sky Laws. The Company shall take such action at its own cost and expense, as the Company shall reasonably determine is necessary to qualify the Securities for sale to the Purchaser pursuant to this Agreement under applicable federal securities and securities or "blue sky" laws of the states of the United States or obtain exemption therefrom, and shall provide evidence of any such action so taken to each Purchaser.

(d) Reservation of Shares. The Company and the Purchaser shall take all commercially reasonable action necessary to at all times have authorized and reserved for the purpose of issuance, no less than 100% of the number of shares of Common Stock needed to provide for the issuance of the Conversion Shares.

(e) Redemptions and Dividends. For so long as Notes are outstanding, without the prior written approval of the Purchaser, the Company shall not repurchase, redeem, or declare or pay any cash dividend or distribution on, any shares of capital stock of the Company.

(f) Regulatory Filings; Reasonable Efforts.

(A) Regulatory Filings. Each of the Company and Purchaser shall coordinate and cooperate with one another and shall each use all reasonable efforts such that as promptly as practicable after the date hereof, each of the Company and Purchaser shall make all filings reasonably determined by the parties to be required by any governmental entity in connection with the issuance of the Notes and the Conversion Shares (if applicable) and the transactions contemplated hereby, including, without limitation, (i) Notification and Report Forms with the United States Federal Trade Commission (the "FTC") and the Antitrust Division of the United States Department of Justice ("DOJ") if and as required by the HSR Act, (ii) other comparable filings pursuant to the merger notification or control laws of any applicable jurisdiction, as agreed by the parties hereto and (iii) any filings required under the Securities Act, the Securities Exchange Act of 1934, as amended, any applicable state or securities or "blue sky" laws and the securities laws of any foreign country, or any other legal requirement relating to the issuance of the Note and the Conversion Shares. Each of the Company and Purchaser will cause all documents that it is responsible for filing with any governmental entity under this Section 4(f) to comply in all material respects with all applicable legal requirements.

(B) Exchange of Information. The Company and Purchaser each shall promptly supply the other with any information that may be required in order to effectuate any filings or application pursuant to Section 4(f)(i). Except where prohibited by applicable legal requirements, each of the Company and Purchaser shall consult with the other prior to taking a position with respect to any such filing, shall consider in good faith the views of one another in connection with any analyses, appearances, presentations, memoranda, briefs, papers, arguments, opinions and proposals before making or submitting any of the foregoing to any governmental entity by or on behalf of any party hereto in connection with any investigations or proceedings in connection with this Agreement or the transactions contemplated hereby (including under any antitrust or fair trade legal requirement), coordinate with the other in preparing and exchanging such information and promptly provide the other with copies of all filings, presentations or submissions (and a summary of any oral presentations) made by such party with any governmental entity in connection with this Agreement or the transactions contemplated hereby, provided that with respect to any such filing, presentation or submission, each of the Company and Purchaser need not supply the other with copies (or in case of oral presentations, a summary) to the extent that any law, treaty, rule or regulation of any governmental entity applicable to such party requires such party or its subsidiaries to restrict or prohibit access to any such properties or information.

(C) Notification. Each of the Company and Purchaser will notify the other promptly upon the receipt of (i) any comments from any officials of any governmental entity in connection with any filings made pursuant hereto and (ii) any request by any officials of any governmental entity for amendments or supplements to any filings made pursuant to, or information provided to comply in all material respects with, any legal requirements. Whenever any event occurs that is required to be set forth in an amendment or supplement to any filing made pursuant to Section 4(f)(i), the Company or Purchaser, as the case may be, will promptly inform the other of such occurrence and cooperate in filing with the applicable governmental entity such amendment or supplement.

(D) Limitation on Divestiture. Notwithstanding anything in this Agreement to the contrary, nothing contained in this Agreement shall be deemed to require the Company or Purchaser or any subsidiary or affiliate thereof to agree to any divestiture by itself or any of its affiliates of shares of capital stock or of any business, assets or property, or the imposition of any material limitation on the ability of any of them to conduct their businesses or to own or exercise control of such assets, properties and stock.

SECTION 5. Conditions to the Company's Obligation to Close. The obligation of the Company to issue and sell the Notes to the Purchaser at each Closing is subject to the satisfaction, at or before each Closing Date, of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion by providing Purchaser with prior written notice thereof:

(a) Transaction Documents. Purchaser shall have executed each of the Transaction Documents to which it is a party and delivered the same to the Company.

(b) Payment of Purchase Price. Purchaser shall have delivered to the Company the purchase price for the Note being purchased by such Purchaser at the Closing by the Closing Date by wire transfer of immediately available funds pursuant to the wire instructions attached hereto as Schedule A (or such other wire instructions as the Company may provide).

(c) Representations and Warranties; Covenants. The representations and warranties of the Purchaser shall be true, correct and complete in all respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date (which shall be true, correct and complete as of such date)), and the Purchaser shall have performed, satisfied and complied with in all material respects the covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by such Purchaser at or prior to the Closing Date.

SECTION 6. Conditions to Purchaser's Obligation to Purchase. The obligation of Purchaser hereunder to purchase the Note from the Company at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for Purchaser's sole benefit and may be waived by Purchaser at any time in its sole discretion by providing the Company with prior written notice thereof:

(a) Transaction Documents. The Company shall have executed each of the Transaction Documents and delivered the same to the Purchaser.

(b) Representations and Warranties; Covenants. The representations and warranties, as qualified by the SEC Filings and any Disclosure Letters, of the Company shall be true, correct and complete in all respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date (which shall be true, correct and complete as of such date)) and the Company shall have performed, satisfied and complied with in all respects the covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by the Company at or prior to the Closing

Date. The Purchaser shall have received a certificate, executed by the principal financial officer of the Company, dated as of the Closing Date, to the foregoing effect.

(c) Reservation of Common Stock. As of the Closing Date, the Company shall have reserved out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of the interest on the Notes, 100,000 shares of its Common Stock and shall have sufficient authorized and unissued shares of Common Stock to reserve such amount.

(d) Good Standing Certificates. The Company shall have delivered to Purchaser a certificate evidencing the incorporation and good standing of the Company in Delaware issued by the Secretary of State of Delaware as of a date within ten days of the Closing Date and a certified copy of the Company's articles of organization, certified by the Secretary of State of Delaware, as of a date within ten days of the Closing Date.

(e) Secretary's Certificate. The Company shall have delivered to such Purchaser a certificate of the Secretary of the Company, in the form attached hereto as Exhibit B and dated as of the Closing Date, certifying as to adoption without subsequent modification or amendment of the form of resolutions of the Board of Directors of the Company consistent with Section 3(b) of this Agreement and certifying as to the Company's certification of incorporation and by-laws, each as in effect at the Closing.

(f) Filings; Authorizations. The Company shall have made all filings under all applicable federal and state securities laws necessary to consummate the issuance of the Securities pursuant to this Agreement in compliance with such laws, except for any filings that may be made after the Closing.

(g) No Injunctions. No temporary restraining order, preliminary or permanent injunction or other order or decree, and no other legal restraint or prohibition shall exist which prevents or arguably prevents the consummation of the transactions contemplated by the Transaction Documents, nor shall any proceeding have been commenced or threatened with respect to the foregoing.

(h) No Material Adverse Effect. Between the time of execution of this Agreement and the Closing Date, no Material Adverse Effect shall occur or become known (whether or not arising in the ordinary course of business).

(i) Approval by the Company's Board of Directors. The Transaction Documents shall have been approved by the Board of Directors of the Company, in the form hereof and, if attached as an Exhibit hereto, in the form so attached, at a general or special meeting in accordance with Company by-laws, and other requirements.

SECTION 7. Miscellaneous

(a) Governing Law; Jurisdiction; Waiver of Jury Trial. This Agreement shall be deemed to be a contract made under the laws of the State of Massachusetts, and for all purposes shall be, governed by, and considered in accordance with, the law of the State of Massachusetts. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in Massachusetts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

(b) Counterparts. This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other parties hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(c) Headings. The headings of this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(d) Entire Agreement. This Agreement, the Notes and the documents referenced herein and therein constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement and the Notes supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(e) Amendments. This Agreement may not be modified or amended except pursuant to an instrument in writing signed by the Company and Purchaser.

(f) Waivers. No provision of this Agreement may be amended or waived other than by an instrument in writing signed by the Company and the Purchaser. No consideration shall be

offered or paid to any person to amend or consent to a waiver or modification of any provision of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

(g) Expenses. The Company and Purchaser shall bear their own legal and other expenses with respect to this Agreement and the transactions contemplated hereby.

(h) Notices. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile, provided that such notice is also delivered via regular mail; or (iii) 1 Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

Sipex Corporation
233 South Hillview Drive
Milpitas, CA 95035
Telephone: (408) 934-7547
Facsimile: (408) 935-7678
Attention: Ray Wallin, CFO

with a copy to:

Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, CA 94304
Telephone: (650) 493-9300
Facsimile: (650) 493-6811
Attention: Robert G. Day

If to Purchaser, to its address and facsimile number set forth on the signature page hereto executed by it, with copies to such Purchaser's representatives as set forth thereon, or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party 5 days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent, waiver or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission, or (C) provided by a courier or overnight courier service shall be rebuttal evidence of personal service, receipt by facsimile, receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

(i) Conflicts. To the extent that any provision of this Agreement or the Notes is determined, by a court of competent jurisdiction, to conflict with the provisions of that certain Securities Purchase Agreement dated as of

May 16, 2006 by and among the Company and the individuals listed on the Schedule of Buyers attached thereto, the parties agree that such conflicting provision of this Agreement shall be void and of no effect such that this Agreement will not conflict with the Securities Purchase Agreement, but only for so long as such conflict, if any, shall subsist.

(j) Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby, including a Subordination Agreement between the Purchaser and Silicon Valley Bank.

(k) Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(l) Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

(m) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Purchaser. Purchaser may assign its rights under this Agreement to any person or persons to whom the Purchaser assigns or transfers any Securities, provided that such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions hereof that apply to the Purchaser.

(n) Survival. The representations and warranties of the Company and the Purchaser contained in Sections 2 and 3 of this Agreement and the agreements and covenants set forth in Sections 3, 4 and 5 of this Agreement shall survive until such time as no Securities remain outstanding. Purchaser shall be responsible only for its own representations, warranties, agreements and covenants hereunder.

(o) Publicity. On or promptly following the Closing Date, the Company shall file a Form 8-K describing the terms of the transactions contemplated by the Transaction Documents in the form required by the Securities Exchange Act of 1934, as amended, and attaching the material Transaction Documents (including all attachments, the "8-K Filing"). Subject to the foregoing, neither the Company nor Purchaser shall issue any press releases or any other public statements with respect to the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of Purchaser (although the Purchaser shall be consulted by the Company in connection with any such press release prior to its release and shall be given the opportunity to review its contents), to make any press release or other public disclosure with respect to such transactions (i) in substantial conformity with the 8-K Filing and contemporaneously therewith and (ii) as is required by applicable law and regulations. Each of the

Company and the Purchaser shall have the right to approve before issuance any press releases or any other public statements by the other party with respect to the transactions contemplated by the Transaction Documents.

(p) Remedies. Purchaser and each holder of the Securities shall have all rights and remedies set forth in the Transaction Documents and all rights and remedies which such holders have been granted at any time under any other agreement or contract and all of the rights which such holders have under any law. Any person having any rights under any provision of this Agreement shall be entitled to enforce such rights to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights granted by law. Furthermore, the Company recognizes that in the event that it fails to perform, observe, or discharge any or all of its obligations under this Agreement, any remedy at law may prove to be inadequate relief to the Purchaser. The Company therefore agrees that the Purchaser shall be entitled to seek temporary and permanent injunctive relief in any such case without the necessity of proving actual damages and without posting a bond or other security.

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IN WITNESS WHEREOF, the parties have caused this Securities Purchase Agreement to be duly executed as of the date first written above.

"COMPANY"

SIPEX CORPORATION

By: /s/ Ralph Schmitt
Name: Ralph Schmitt
Title: Chief Executive Officer

[Signature of the Purchaser on Following Page]

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

"PURCHASER"

RODFRE HOLDINGS LLC

By: /s/ Joseph Prudente
(signature of authorized representative)

Name: Joseph Prudente

Its: Director

Address: 41 Main Street, Bolton, MA, 01740

Telephone: (978) 779-3000

Fax: (978) 779-3050

Tax I.D. or SSN: 47-0935666

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

EXHIBIT A

FORM OF NOTE

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS OR AN EXEMPTION THEREFROM.

THIS SECURITY IS SUBORDINATED TO THE EXTENT SET FORTH IN THE SUBORDINATION AGREEMENT DATED AS OF THE DATE HEREOF BY THE COMPANY, LENDER AND SILICON VALLEY BANK AS PER SECTION 5 HEREOF.

SIPEX CORPORATION

9% UNSECURED JUNIOR NOTE WITH CONVERTIBLE INTEREST DUE JUNE 30, 2008

No. 2006-1 [*TBD – up to an aggregate amount of U.S. $10,000,000*]

SECTION 1. Security.

This Security is a duly authorized 9% Unsecured Junior Note with contingently convertible interest due June 30, 2008 of Sipex Corporation, a Delaware corporation (the "Company"). Capitalized terms used and not otherwise defined herein, shall have the respective meanings given to those terms in Section 10 hereof.

SECTION 2. Principal Amount and Interest.

(a) The Company for value received, hereby promises to pay to the order of Rodfre Holdings LLC ("Lender"), or its registered assigns, the principal sum of [*TBD – (up to an aggregate amount of U.S. $10,000,000)*] (the "Principal Amount") on June 30, 2008 (the "Final Maturity Date") or on such earlier date as this Security may become due and payable, as set forth herein. The Company shall have the option to pay any portion of the principal at any time prior to the Final Maturity Date. Subject to other provisions of this Security, which may result in increases to the applicable interest rate, the Company also undertakes to pay to the Holder, interest, at the rate of 9% per annum ("Interest") compounded quarterly, before default and/or maturity, and payable on the Final Maturity Date and the lower of (i) 15% per annum or (ii) the maximum rate allowed by applicable law, compounded quarterly, after default and/or maturity. Interest shall accrue as and from the date that the purchase price of this Security is paid by the Lender to the Company (or to an agreed upon escrow agent, as the case may be).

On each of June 30, 2007, September 30, 2007, and December 31, 2007, and March 31, 2008, the accrued Interest for the quarterly period ending on that date shall be compounded and thereafter Interest shall accrue on the sum of the Principal Amount and

the amount of Interest accrued during such quarterly period and each previous quarterly period (if any) described in this paragraph. The sum total of the Principal Amount and the Conversion Account Balance shall constitute the "Adjusted Principal Amount".

The amount due and payable on the Final Maturity Date or on the date of any redemption pursuant to Section 4 shall be the Adjusted Principal Amount, as applicable, adjusted to reflect any portion of the Conversion Account Balance (as defined below), which the Holder has converted or elected to convert into Common Stock.

(b) Interest shall be computed on the basis of a 365 day year, and actual days elapsed. Interest shall be payable in U.S. Dollars to the Holder in whose name this Security was registered at the close of business on the Final Maturity Date.

(c) Payment of the Principal Amount of and Interest accrued on this Security shall be made upon the surrender of this Security to the Company, at the office designated by the Company for delivery of notices pursuant to Section 11(a) hereof (the "Designated Office"), in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

(d) Payment of the Principal Amount, and Interest, shall be made by wire transfer of immediately available funds to the Holder entitled thereto in accordance with the wire transfer instructions provided by the Holder to the Company at least three Business Days prior to the Final Maturity Date.

SECTION 3. Conversion.

For purposes of calculating the amount of Interest available to be converted in accordance with this Section 3, Interest accruing under Section 2(a) (including compounded interest) shall be credited on a daily basis to a notional account (the "Conversion Account"). Subject to the Registration Statement Effectiveness Restriction, on June 30, 2007, September 30, 2007, December 31, 2007, March 31, 2008, and again on June 30, 2008 (each a "Conversion Date"), the Holder shall have the right to convert, on each such occasion, any and all Interest then credited to the Conversion Account (the "Conversion Account Balance") into Common Stock of the Company. The following terms and conditions set forth in this Section 3 shall also be applicable to the conversion of the Conversion Account Balance.

(a) (1) Subject to the Registration Statement Effectiveness Restriction and compliance with applicable laws, including but not limited to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, if and to the extent that the same may be applicable, the Holder of this Security may convert the Conversion Account Balance (or any portion thereof) into Common Stock at the Conversion Price then in effect. The number of shares of Common Stock into which all or any portion of the Conversion Account Balance may be converted upon any such conversion shall be a number of shares equal to the quotient (rounded down to the nearest whole share) obtained by dividing (A) the then Conversion Account Balance or portion thereof being converted by (B) the Conversion Price then in effect; provided, however, that in no event

may the Holder convert a portion of the Conversion Account Balance that would result in the issuance of shares of Common Stock in excess of 19.9% of the total number of shares of Common Stock outstanding immediately prior to conversion.

Subject to the other provisions of this Agreement pertaining to adjustment of the Conversion Price (as defined below), the rate at which the Conversion Account Balance may be converted into Common Stock (the "Conversion Price") shall be equal to the volume weighted average Closing Price of the Common Stock, for the twenty Trading Days immediately preceding the Conversion Date; provided, however, that in no event shall the Conversion Price ever be less than the applicable "Conversion Price" of those certain 5.5% Convertible Senior Notes Due 2026 issued by the Company on May 18, 2006. To convert Conversion Account Balance or any portion thereof, the Holder hereof shall, not less than five (5) nor more than thirty (30) days prior to the applicable Conversion Date: (x) send by facsimile (or otherwise deliver) a copy of the fully executed conversion notice in the form attached as Exhibit A hereto (the "Conversion Notice") to the Company, and (y) pay any transfer taxes or other applicable taxes or duties, if any, required in connection with the issuance of shares of Common Stock in the name of someone other than the Holder. Upon receipt by the Company of a facsimile copy of a Conversion Notice from the Holder, the Company shall as soon as practicable, but in any event on or before the second Business Day following the date of receipt of the Conversion Notice, send, via facsimile (or otherwise deliver), a confirmation to the Holder and the transfer agent for the Common Stock stating that the Conversion Notice has been received, the date upon which the Company expects to deliver the Common Stock issuable upon such conversion and the name and telephone number of a contact person at the Company regarding the conversion. The Company shall not be obligated to issue shares of Common Stock upon a conversion unless the Holder complies with the foregoing requirements set forth in this paragraph.

On or prior to the third Business Day after any Conversion Date (the "Share Delivery Date"), the Company shall issue and deliver to the Holder or its nominee (x) that number of shares of Common Stock issuable upon conversion of the portion of the Conversion Account Balance being converted and (y) if applicable, cash in lieu of any fractional shares pursuant to Section 3(a)(5). If the Company's transfer agent is participating in DTC's Fast Automated Securities Transfer program, and so long as the certificate for the Common Stock to be issued upon conversion of the Conversion Account Balance is not required to bear a legend and the Holder is not then required to return such certificate for the placement of a legend thereon and the Holder has provided the Company with the information required by DTC relating to the DTC account of the Holder or such Holder's nominee, the Company shall cause its transfer agent to electronically transmit the Common Stock issuable upon conversion of the Conversion Account Balance to the Holder by crediting the account of the Holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system. If the aforementioned conditions for a DTC Transfer are not satisfied, the Company shall deliver to the Holder physical certificates representing the Common Stock issuable upon conversion of the Conversion Account Balance. Further, even if the aforementioned conditions to a DTC Transfer are satisfied, the Holder may instruct the Company in writing to deliver to the

Holder physical certificates representing the Common Stock issuable upon conversion in lieu of delivering such shares by way of DTC Transfer.

(2) The Holder, as such, is not entitled to any rights of a holder of Common Stock until the Holder has converted all or a portion of the Conversion Account Balance into Common Stock, and only to the extent all or a portion of the Conversion Account Balance is deemed to have been converted into Common Stock pursuant to this Section 3.

(3) The Conversion Account Balance shall be deemed to have been converted immediately prior to the close of business on the Conversion Date, and at such time the rights of the Holder of this Security as the Holder hereof shall cease with respect to the portion of the Conversion Account Balance converted on such Conversion Date, and the Person or Persons entitled to receive the shares of Common Stock issuable upon conversion shall be deemed to be a stockholder of record as of the Conversion Date.

(4) N/A.

(5) The Company will not issue fractional shares of Common Stock upon conversion of all or a portion of the Conversion Account Balance. In lieu thereof, the Company will pay an amount in cash for the current market value of the fractional shares. The current market value of a fractional share shall be determined (calculated to the nearest 1/1000th of a share) by multiplying the Conversion Price by such fractional share and rounding the product to the nearest whole cent.

(6) The Company shall, if the Holder so elects, deliver the Common Stock issuable upon conversion of all or a portion of the Conversion Account Balance to any third party designated by the Holder, subject to compliance with Sections 3(e) and 11(b) hereof.

(b) N/A.

(c) In case at any time after the date hereof:

(1) N/A.

(2) the Company shall authorize the granting to the holders of its Common Stock generally of rights or warrants to subscribe for or purchase any shares of capital stock of any class (or of securities convertible into shares of capital stock of any class) or of any other rights;

(3) there shall occur any reclassification of the Common Stock of the Company (other than a subdivision or combination of its outstanding Common Stock, a change in par value, a change from par value to no par value or a change from no par value to par value), or any merger, consolidation, statutory share exchange or combination to which the Company is a party and for which approval of any stockholders of the Company is required, or the sale, transfer or conveyance of all or substantially all of the assets of the Company; or

(4) there shall occur the voluntary or involuntary dissolution, liquidation or winding up of the Company;

(5) the Company shall cause to be provided to the Holder of this Security in accordance with Section 11(a), at least 20 days (or 10 days in any case specified in clause (2) above) prior to the applicable record or effective date hereinafter specified, a written notice (which notice shall not include any material non-public information) stating:

(A) the date on which a record is to be taken for the purpose of such dividend, distribution, grant of rights or warrants, or, if a record is not to be taken, the date as of which the holders of shares of Common Stock of record to be entitled to such dividend, distribution, rights or warrants are to be determined; or

(B) the date on which such reclassification, merger, consolidation, statutory share exchange, combination, sale, transfer, conveyance, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, merger, consolidation, statutory share exchange, sale, transfer, dissolution, liquidation or winding up.

At any time prior from the date of such notice to the applicable record or effective date on which any of the foregoing events is to occur, the Holder shall have the right to convert the Conversion Account Balance into Common Stock, and all other provisions of this Security pertaining to conversion of the Conversion Account Balance on a Conversion Date shall apply *mutatis mutandis* to such conversion.

(d) The Company shall ensure the reservation of sufficient shares of Common Stock to allow the conversion of the Conversion Account Balance. The Company covenants that all shares of Common Stock that may be issued upon conversion of the Conversion Account Balance will upon issue be free from preemptive rights and validly issued, fully paid and nonassessable.

(e) Except as provided in the next sentence, the Company will pay any and all taxes (other than taxes on income) and duties that may be payable in respect of the issue or delivery of Common Stock upon conversion of the Conversion Account Balance. The Company shall not, however, be required to pay any tax or duty that may be payable in respect of any transfer involved in the issue and delivery of Common Stock in a name other than that of the Holder of this Security, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such tax or duty, or has established to the reasonable satisfaction of the Company that such tax or duty has been paid.

(f) If any of following events occur:

(1) any reclassification or change of the outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par

value to par value, or as a result of a subdivision or combination), as a result of which holders of Common Stock shall be entitled to receive Capital Stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock;

(2) any merger, consolidation, statutory share exchange or combination of the Company with another Person as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock; or

(3) any sale or conveyance of the properties and assets of the Company as, or substantially as, an entirety to any other Person as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock.

(4) Then the Company or the successor or purchasing entity, as applicable, shall execute with the Holder of this Security a supplemental agreement providing that the Conversion Account Balance shall be convertible into the kind and amount of shares of capital stock and other securities or property or assets (including cash) that such Holder would have been entitled to receive upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance had the Conversion Account Balance been converted into Common Stock immediately prior to such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance assuming the Holder, as a holder of Common Stock, did not exercise its rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance (provided that, if the kind or amount of securities, cash or other property receivable upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance is not the same for each of the shares of Common Stock in respect of which such rights of election shall not have been exercised ("Non-Electing Share"), then for the purposes of this Section 3(f) the kind and amount of securities, cash or other property receivable upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance for each Non-Electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-Electing Shares). Such supplemental agreement shall provide for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 3. If, in the case of any such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance, the stock or other securities and assets receivable thereupon by a holder of Common Stock includes shares of stock or other securities and assets of a person other than the successor, purchasing or transferee entity, as applicable, in such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance, then such supplemental agreement shall also be executed by such other person and shall contain such additional provisions to protect the interests of the Holder as the Board of Directors shall reasonably consider necessary by reason of the foregoing.

The above provisions of this Section 3(f) shall apply to successive or a series of related reclassifications, changes, mergers, consolidations, statutory share exchanges, combinations, sales and conveyances.

(g) The Company: (i) will use its reasonable best efforts to effect all registrations with, and obtain all approvals by, all governmental authorities that may be necessary under any United States federal or state law (including the Securities Act, the Exchange Act and state securities and Blue Sky laws) for the Common Stock issuable upon conversion of the Conversion Account Balance to be lawfully issued and delivered as provided herein, and thereafter publicly traded (if permissible under the Securities Act) and qualified or listed as contemplated by clause (ii) (it being understood that the Company shall not be required to register the Common Stock issuable on conversion of the Conversion Account Balance under the Securities Act); and (ii) will use its reasonable best efforts to list the Common Stock required to be issued and delivered upon conversion of the Conversion Account Balance within 30 calendar days after each applicable Conversion Date, on each national securities exchange on which outstanding Common Stock is listed or quoted at such time of such delivery, or if the Common Stock is not then listed on any national securities exchange, to qualify the Common Stock for quotation on the Nasdaq Stock Market or such other inter-dealer quotation system, if any, on which the Common Stock is then quoted.

(h) In the event that the Registration Statement that is required to be filed pursuant to Section 2(a) of the Registration Rights Agreement, dated as of May 26, 2006 by and among the Company and the buyers listed on the Schedule of Buyers attached thereto is not declared effective by the Commission prior to the date upon which the Holder becomes entitled to convert the principal amount of this Security into Common Stock of the Company, the applicable Interest rate shall be increased by five percentage points (5%) (or such lesser amount if necessary to prevent a violation of law), as of such date, until such Registration Statement has been declared effective.

SECTION 4. Rights of the Holder upon a Change of Control.

(a) Conversion Rights and Repayment.

(1) In the event that a Change of Control shall occur at any time prior to the Final Maturity Date, the Holder of this Security shall have the right (each such right, a "Change of Control Right"), at the Holder's sole discretion, but subject to the provisions of Sections 4(b) and 4(c) and to the Registration Statement Effectiveness Restriction: (i) to convert any portion of the Conversion Account Balance into Common Stock at the Conversion Price then in effect, on the terms and conditions of Section 3 and/or (ii) to elect to require that the Company (or its successor) repay the entire outstanding Principal Amount and accrued interest, and upon such election, to be notified by the Company (or its successor) no later than five (5) business days following such Change of Control that the Company shall repay the Principal Amount and accrued Interest to the Holder within thirty (30) calendar days of the effective date of Change of Control.

(b) No sooner than 15 days nor later than 10 days prior to the expected date of consummation of a Change of Control, but in no event prior to the public announcement of such Change of Control, the Company shall deliver written notice thereof via facsimile and overnight courier to the Holder a "Change of Control Notice". The Change of Control Notice shall include a form of Conversion Notice and a form of Notice of Election to Require Redemption, to be completed by the Holder and delivered to the Company pursuant to this Section 4(b), and shall state the following:

(1) that it is a Change of Control Notice pursuant to this Section 4;

(2) the events causing the Change of Control and the expected date of such Change of Control; and

(3) the procedures with which such Holder must comply to exercise its right to have the Conversion Account Balance converted and/or this Security repurchased pursuant to Section 4(a), including the date by which the completed Conversion Notice or Notice of Election to Require Repayment and this Security must be delivered to the Company in order to have the Conversion Account Balance converted or this Security redeemed by the Company pursuant to Section 4(a), the address for delivery, the Conversion Price then in effect and any adjustments thereto, the amount of accrued and unpaid interest thereon as of the expected date of consummation of such Change of Control, and that this Security as to which a Conversion Notice has been given may be converted.

No failure by the Company to give the foregoing Change of Control Notice shall limit the Holder's right to exercise its rights pursuant to Section 4(a).

(c) To exercise a Change of Control Right pursuant to Section 4(a), a Holder must deliver to the Company, at its Designated Office on or prior to the close of business on the Business Day prior to the date on which the Change of Control is consummated, the following:

(1) a completed Conversion Notice, the form of which is contained in Exhibit A hereto, and/or a completed Notice of Election to Require Repayment, the form of which is contained in Exhibit B hereto; and

(2) this Security, with, if the Company so requires, due endorsement by, or a written instrument of transfer, in form satisfactory to the Company duly executed by, the Holder or such Holder's attorney duly authorized in writing.

(d) In the event that the Holder becomes entitled to convert the Conversion Account Balance pursuant to this Section 4, the Conversion Price shall be the average of the closing price of the Company's Common Stock for the twenty (20) trading days immediately preceding the announcement by the Company of the change of control; provided, however, that in no event shall the Conversion Price ever be less than the applicable "Conversion Price" of those certain 5.5% Convertible Senior Notes Due 2026 issued by the Company on May 18, 2006.

SECTION 5. Subordination

(a) This Security and all rights of payment and indebtedness evidenced by this Security are hereby expressly subordinated both in security and right of payment to the prior payment in full in cash of the Company's obligations to Silicon Valley Bank. pursuant to the terms of Loan and Security Agreement, dated as of July 21, 2005, as amended, between the Company and Silicon Valley Bank (the "SVB Facility") and of the Company's obligations pursuant to its 5.5% Convertible Senior Notes Due 2026 issued by the Company on May 18, 2006. For the avoidance of doubt, no payment or prepayment shall be made by the Company to the Holder with respect to the indebtedness evidenced by this Security unless and until the Company shall have satisfied all of its obligations to Silicon Valley Bank pursuant to the SVB Facility and to the Holders of the 5.5% Convertible Senior Notes Due 2026 issued by the Company on May 18, 2006 pursuant to such notes. Subject to the Registration Statement Effectiveness Restriction, the foregoing subordination shall not adversely affect or preclude the exercise by the Holder of any and all conversion rights granted hereunder.

SECTION 6. Covenants of the Company.

(a) The Company covenants and agrees that it will duly and punctually pay or cause to be paid the Principal Amount, and the interest accrued thereon at the times and in the manner provided for herein.

(b) Unless otherwise permitted herein, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence and the rights (charter and statutory) of the Company and each of its Subsidiaries; provided, however, that the Company shall not be required to preserve any such right with respect to a Subsidiary if the Company shall determine in good faith that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries as a whole and that the loss thereof is not disadvantageous in any material respect to the Holder.

(c) The Company covenants and agrees that it shall, at all times during the term hereof and until the Final Maturity Date:

(1) provide the Holder, within one (1) business day of the release of same to Silicon Valley Bank, with a copy of any certificate issued by the Company in respect of its compliance with financial covenants including, but not limited to, any underlying financial ratios and compliance calculations;

(2) provide the Holder, within (1) business day of the release of same to the Trustee (as defined in the Indenture described hereafter), with any notice given, pursuant to Section 5.10 (a) or (b) of that certain Indenture dated as of May 16, 2006 in relation to the Company's 5.5% Convertible Senior Notes due 2026; and

(3) within one (1) business day of acquiring knowledge of a default under any material contract or of circumstances that may result in material adverse changes to the Company's financial position, the Company shall notify the Holder, in writing, of the specific nature of such default and/or circumstances and of the expected impact of same upon the Company.

(d) The Company and its Affiliates, shall not, without the prior approval of the Holder, which may be withheld at the Holder's discretion acting reasonably and in good faith, enter into any contracts or agreements, or subscribe any obligations, the result of which would be to increase existing Indebtedness, or create new Indebtedness and/or charge, mortgage or otherwise encumber the Company's property.

(e) The Company and its Affiliates shall not, without the prior written consent of the Lender, enter into any contract for the borrowing of money, or sale of debt instruments, or raise money by way of venture capital, or issuance of securities, either in a public or private placement, unless the proceeds thereof are first allocated to the repayment of this Security, or other senior Indebtedness of the Company; provided that in the latter case; (i) such new borrowing shall not be upon terms and conditions that are less favourable to the Company and its Affiliates, in any material respect, than those of such senior Indebtedness; and (ii) such new borrowings shall not actually increase the total amount of senior Indebtedness of the Company.

(f) The Company and its Affiliates shall not, without the prior written consent of the Holder, enter into any contract for the borrowing of money, or sale of debt instruments, or raise money by way of venture capital, or issuance of securities, either in a public or private placement, unless the proceeds thereof amount to at least the aggregate amount of this Security and all other Securities purchased pursuant to the Purchase Agreement.

Nothing herein is to be construed as precluding or limiting the ability of the Company to avail itself of or borrow under the SVB Facility.

SECTION 7. Events of Default.

(a) "Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order):

(1) the Company defaults in the payment of the Principal Amount, and/or interest accrued thereon, (a "Defaulted Payment"), when the same becomes due and payable;

(2) the Company fails, to perform or observe in any material respect any material term, covenant or agreement contained in this Security or the Purchase Agreement and, in any case, the default continues for a period of 15 days after written notice of such failure, requiring the Company to remedy the same, shall have been given to the Company by the Holder or in the event of a material breach of any representations or warranties of the Company in this Security or the Purchase Agreement;

(3) the Company or any Subsidiary of the Company (A) fails to make any payment at maturity, including any grace period, in respect of any obligation for borrowed money evidenced by an Instrument (other than this Security) in an outstanding principal amount in excess of $1,000,000 and such failure continues without such Indebtedness having been discharged within 15 days or (B) defaults with respect to any Instrument, which default permits or results in the acceleration of Indebtedness represented by such Instrument (other than this Note) in an amount in excess of $1,000,000 without such default or acceleration having been cured, waived, rescinded or annulled within 15 days;

(4) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company or any Subsidiary of the Company in an involuntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company or any Subsidiary of the Company bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company or any Subsidiary of the Company, under any applicable U.S. federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or any Subsidiary of the Company or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 30 consecutive days; or

(5) the commencement by the Company or any Subsidiary of the Company of a voluntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by the Company or any Subsidiary of the Company, to the entry of a decree or order for relief in respect of the Company or any Subsidiary of the Company in an involuntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Company or any Subsidiary of the Company, or the filing by the Company or any Subsidiary of the Company of a petition or answer or consent seeking reorganization or relief under any applicable U.S. federal or state law, or the consent by the Company or any Subsidiary of the Company to the filing of such petition or to the appointment of or the taking of possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or any Subsidiary of the Company, or the making by the Company or any Subsidiary of the Company of an assignment for the benefit of creditors, or the admission by the Company or any Subsidiary of the Company in writing of its inability to pay the Company's or any Subsidiary of the Company's debts generally as they become due, or the taking of corporate action by the Company or any Subsidiary of the Company expressly in furtherance of any such action.

A default under clause (2) above is not an Event of Default until the Holder notifies the Company of the default and, if applicable, the Company does not cure such default (and such default is not waived) within the time specified in clause (2) above after actual receipt of such notice. Any such notice must specify the default, if applicable demand that it be remedied, and state that such notice is a "Notice of Default".

(b) If an Event of Default (other than an Event of Default specified in Sections 7(a)(4) or 7(a)(5) hereof with respect to the Company) occurs and is continuing, the Holder, by written notice to the Company, may declare due and payable, in whole or in part, in its unfettered and absolute discretion, the Principal Amount, as well as any interest accrued on this Security to the date of payment. Upon a declaration of acceleration, such Principal Amount (or part thereof, as the case may be) and accrued and unpaid interest to the date of payment, shall be immediately due and payable.

Upon the occurrence and during the continuance of any Event of Default, in addition to and without limitation of the other rights of the Holder hereunder, and subject to the Registration Statement Effectiveness Restriction:

(1) all Conversion Rights in respect of accrued Interest shall immediately and automatically become exercisable and the provisions of this Security pertaining to adjustment of the Conversion Price and corresponding number of Conversion Rights shall apply *mutatis mutandis*; and

(2) Upon the occurrence and during the continuance of any Event of Default, in addition to and without limitation of the other rights of the Holder hereunder, and subject to the Registration Statement Effectiveness Restriction, the Holder shall have the right to convert any part of or the entire amount of the then outstanding principal amount into common stock of the Company, at a conversion rate that shall be 80% of the average closing price of the Company's Common Stock for the twenty (20) trading days immediately preceding the date of the Conversion Notice; provided, however, that in no event shall this conversion rate ever be less than the applicable "Conversion Price" of those certain 5.5% Convertible Senior Notes Due 2026 issued by the Company on May 18, 2006. In addition, in no event shall the conversion of the outstanding principal amount result in the issuance of shares of Common Stock in excess of 19.9% of the total number of shares of Common Stock outstanding immediately prior to conversion. In such event, the provisions of Section 3, which deal with conversion, shall apply to such conversion of the Principal Amount of this Security *mutatis mutandis*.

If an Event of Default specified in Section 7(a)(4) or 7(a)(5) occurs with respect to the Company, the Principal Amount and accrued and unpaid interest on this Security shall become and be immediately due and payable, without any declaration or other act on the part of the Holder.

(c) If an Event of Default with respect to this Security occurs and is continuing, the Holder may pursue any available remedy by proceeding at law or in equity (including a decree of specific performance and/or other injunctive relief) to collect the Defaulted Payment or interest or any other amount due and payable on this Security or to enforce the performance of any provision of this Security.

(d) Notwithstanding any other provision in this Security, the Holder of this Security shall have the right, which is absolute and unconditional, to receive payment of the Principal Amount and accrued interest on or after the respective due dates, to convert the Conversion Account Balance in accordance with Section 3 or to bring suit for the enforcement of any such payment and/or the right to convert the Conversion Account Balance, and such rights shall not be impaired or affected adversely without the consent of the Holder. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by the Holder and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof).

(e) If the Holder of this Security has instituted any proceeding to enforce any right or remedy under this Security and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Holder, then and in every such case, subject to any determination in such proceeding, the Company and the Holder shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Holder shall continue as though no such proceeding had been instituted.

(f) Except as otherwise provided herein, no right or remedy conferred in this Security upon the Holder is intended to be exclusive of any other right or remedy available to the Holder under this Security and the Purchase Agreement, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

(g) The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim to take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Security; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Holder hereof, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 8. Consolidation, Merger, Etc.

(a) The Company shall not consolidate with or merge into any other Person or, directly or indirectly, convey, transfer, sell or lease its properties and assets as, or substantially as, an entirety to any Person unless:

(1) In the event that the Company shall consolidate with or merge into another Person or convey, transfer, sell or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance, transfer or sale, or which leases, all or substantially all of the properties and assets of the Company shall be a corporation, partnership, limited liability company or other business entity organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia, which shall, prior to or upon the consummation of such transaction, expressly assume, if other than the Company, by an agreement supplemental hereto, executed and delivered to the Holder of this Security in form reasonably satisfactory to the Holder, the due and punctual payment of the Principal Amount of and any interest on this Security and the performance or observance of every covenant of this Security on the part of the Company to be performed or observed, including without limitation the Conversion Rights provided herein; and

(2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing.

(b) Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer, sale or lease of all or substantially all of the properties and assets of the Company in accordance with Section 8(a), the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer, sale or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Security with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Security.

SECTION 9. N/A

SECTION 10. Definitions. Unless otherwise defined in this Security, the following capitalized terms shall have the following respective meanings when used herein:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control", when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Board of Directors" means the board of directors of the Company or any authorized committee of the board of directors.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which the banking institutions in the State of New York are authorized or obligated by law or executive order to close or be closed.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interest in (however designated) equity of such Person, but excluding any debt securities convertible into such equity.

A "Change of Control" shall be deemed to have occurred if any of the following occurs after the date hereof:

(1) the consolidation, merger or other business combination (including, without limitation, a reorganization or recapitalization) of the Company with or into another Person (other than (A) a consolidation, merger or other business combination (including, without limitation, reorganization or recapitalization) in which holders of the Company's voting power immediately prior to the transaction continue

after the transaction to hold, directly or indirectly, the voting power of the surviving entity or entities necessary to elect a majority of the members of the board of directors (or their equivalent if other than a corporation) of such entity or entities, or (B) pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company);

(2) the sale or transfer of all or substantially all of the Company's assets; or

(3) the consummation of a purchase, tender or exchange offer made to and accepted by the holders of more than 50% of the outstanding shares of Common Stock (other than a purchase or tender or exchange offer made by the Company or any of its subsidiaries that does not result in the transaction constituting a "Rule 13e-3 transaction" for purposes of Rule 13e-3 under the Exchange Act).

"Closing Date" means the date of the closing of the purchase and sale of this Security pursuant to the Purchase Agreement.

"Closing Price" means, as of any date, the last reported sales price per share of Common Stock on such date or, in case no such reported sale takes place on such date, the average of the reported closing bid and asked prices in either case on the Nasdaq Stock Market (the "NSM") or, if the Common Stock is not quoted on the NSM, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if the Common Stock is not quoted on the NSM or listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices of such security on the over-the-counter market on the day in question as reported by the OTC Bulletin Board or the Pink Sheets, LLC, or a similar generally accepted reporting service or, in case such prices are not so available, the average of the closing bid and asked prices, as furnished by any two members of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose. If the Closing Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder, provided that any dispute as to such Closing Price shall be determined by the Company and the Holder in accordance with Section 11(d).

"Commission" means the United States Securities and Exchange Commission, or any other federal agency at the time administering the Securities and Exchange Act of 1934, as amended, or the Securities Act, whichever is the relevant statute for the particular purpose.

"Common Stock" means any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which is not subject to redemption by the Company.

“Convertible Securities” shall mean any evidences of indebtedness, shares (other than Common Stock) or other securities convertible into or exchangeable for Common Stock.

“Defaulted Payment” has the meaning set forth in Section 7(a)(1) hereof.

“Exchange Act” means the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.

“fair market value” shall, except as otherwise specifically defined elsewhere, mean, if there is a current market for the asset, debt or transaction in question, the amount that a willing buyer would pay a willing seller in an arm’s length transaction or, in the absence of a current market value for such asset, debt or transaction, the amount determined in good faith by an independent third party jointly selected by the Holder and the Company.

“Final Maturity Date” has the meaning set forth in Section 2(a) hereof.

“Holder” means the person in whose name this Security is registered on the Note Register.

“Indebtedness” means, with respect to any Person, at any date of determination (without duplication):

(a) all obligations and other liabilities (contingent or otherwise) of such Person for borrowed money (including obligations of the Company in respect of overdrafts, foreign exchange contracts, currency exchange agreements, interest rate protection agreements, and any loans or advances from banks, whether or not evidenced by notes or similar instruments) or evidenced by bonds, debentures, notes or similar instruments (whether or not the recourse of the lender is to the whole of the assets of such Person or to only a portion thereof),

(b) all reimbursement obligations and other liabilities (contingent or otherwise) of such Person with respect to letters of credit, bank guarantees or bankers’ acceptances,

(c) all obligations and liabilities (contingent or otherwise) in respect of leases of such Person required, in conformity with generally accepted accounting principles, to be accounted for as capitalized lease obligations on the balance sheet of such Person,

(d) all obligations of such Person (contingent or otherwise) with respect to an interest rate swap, cap or collar agreement or other similar instrument or agreement,

(e) all direct or indirect guaranties or similar agreements by such Person in respect of any obligations or liabilities (contingent or otherwise) of such Person to purchase or otherwise acquire or otherwise assure a creditor against loss in respect of, indebtedness, obligations or liabilities of another Person of the kind described in clauses (a) through (d),

(f) any indebtedness or other obligations described in clauses (a) through (e) secured by any mortgage, pledge, lien or other encumbrance existing on property which is owned or held by such Person, regardless of whether the indebtedness or other obligation secured thereby shall have been assumed by such Person and

(g) any indebtedness or other obligation resulting from "off-balance" sheet financing, or any such transaction; and

(h) any and all deferrals, renewals, extensions and refunding of, or amendments, modifications or supplements to, any indebtedness, obligation or liability of the kind described in clauses (a) through (g).

(i) any partnership obligations of such Person, of the kind described in clauses (a) through (h).

"Instrument" means any bond, debenture, note or similar instrument.

"Note Register" means the register or other ledger maintained by the Company that records the record owners of this Security.

"Person" or "person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

"Purchase Agreement" means the Securities Purchase Agreement entered into between the Company and the initial holder of this Security relating to the sale and purchase of this Security.

"Registration Statement Effectiveness Restriction" means that prior to the Commission's declaration of the effectiveness of the Registration Statement that is required to be filed pursuant to Section 2(a) of the Registration Rights Agreement, dated as of May 26, 2006 by and among the Company and the buyers listed on the Schedule of Buyers attached thereto, no amounts outstanding pursuant to this Note will be convertible into equity securities of the Company.

"Security" means this Convertible Secured Note, as amended, replaced, or supplemented from time to time, initially issued on March •, 2007.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Share Delivery Date" has the meaning set forth in Section 3(a)(1) hereof.

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"Trading Day" means, with respect to any security, a day during which trading in the security generally occurs on the Nasdaq Stock Market or, if the security is not quoted on the Nasdaq Stock Market, on the principal other national or regional securities exchange on which the security then is listed or, if the security is not listed on a national or regional securities exchange, on the principal other market on which the security is then traded; provided, however, that "Trading Day" shall not include any day during which trading in the security is suspended for more than three hours between 9:30 a.m. (New York time) and 4:00 p.m. (New York time).

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

SECTION 11. Miscellaneous.

(a) The Company will give prompt written notice to the Holder of this Security of any change in the location of the Designated Office. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Security must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile, provided that such notice is also delivered by regular mail; (iii) two (2) Business Days after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

Sipex Corporation
233 South Hillview Drive
Milpitas, CA 95035
Telephone: (408) 934-7500
Facsimile: (408) 935-7678
Attention: Ray Wallin, Chief Financial Officer

with a copy to:

Wilson Sonsini Goodrich & Rosati, P.C.
650 Page Mill Road
Palo Alto, California 94304
Telephone: (650) 493-9300
Facsimile: (650) 493-6811
Attention: Robert G. Day

If to the Holder:

Rodfre Holdings LLC
c/o Joe Prudente
Future Electronics Corp.
41 Main Street
Bolton, MA, 01740

With a copy to:

Future Electronics Inc.
237 Hymus Blvd.
Pointe Claire, Quebec
H9R 5C7
Telephone: (514) 694-7710 Ext: 2986
Facsimile: (514) 694-7515
Attention: Guy Lavergne, Esq.
Associate General Counsel

or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party 5 days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent, waiver or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission, or (C) provided by a courier or overnight courier service shall be rebuttal evidence of personal service, receipt by facsimile, or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

(b) (1) The transfer of this Security is registrable on the Note Register upon surrender of this Security for registration of transfer at the Designated Office, duly endorsed by, or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company duly executed by, the Holder hereof or such Holder's attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees. Such Securities are issuable only in registered

form without coupons in denominations of $500,000 (or such lesser remaining amount after all possible issuances in denominations of $500,000). No service charge shall be made for any such registration of transfer, but the Company may require payment of a sum sufficient to recover any tax or other governmental charge payable in connection therewith in the event that the Holder requests that this Security or the Common Stock issuable hereunder be issued in the name of someone other than the Holder. Prior to due presentation of this Security for registration of transfer, the Company and any agent of the Company may treat the Person in whose name this Security is registered as the owner thereof for all purposes, whether or not this Security be overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

(2) This Security and the Common Stock issuable upon conversion of the Conversion Account Balance have not been registered under the Securities Act, or the securities laws of any state or other jurisdiction. Neither this Security nor the Common Stock issuable upon conversion of the Conversion Account Balance nor any interest or participation herein may be reoffered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of (a "Transfer") in the absence of such registration or unless such transaction is exempt from, or not subject to, registration. The Holder by its acceptance of this Security or the Common Stock issuable upon conversion of the Conversion Account Balance agrees that it shall not offer, sell, assign, transfer, pledge, encumber or otherwise dispose of this Security, other than for conversions pursuant to the terms hereof, or any portion thereof or interest therein. and then (other than with respect to a Transfer pursuant to a registration statement that is effective at the time of such Transfer) only to (a) the Company or (b) an Affiliate of the Holder and in the case of (b) above in which the transferor furnishes the Company with such certifications, legal opinions or other information as the Company may reasonably request to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

(3) Upon presentation of this Security for registration of transfer at the Designated Office accompanied by (i) certification by the transferor that such transfer is in compliance with the terms hereof and (ii) by a written instrument of transfer in a form approved by the Company executed by the Holder, in person or by the Holder's attorney thereunto duly authorized in writing, and including the name, address and telephone and fax numbers of the transferee and name of the contact person of the transferee, such Security shall be transferred on the Note Register, and a new Security of like tenor and bearing the same legends shall be issued in the name of the transferee and sent to the transferee at the address and c/o the contact person so indicated. Transfers and exchanges of this Security shall be subject to such additional restrictions as are set forth in the legends on this Security and to such additional reasonable regulations as may be prescribed by the Company as specified in Section 11(b)(2) hereof. Successive registrations of transfers as aforesaid may be made from time to time as desired, and each such registration shall be noted on the Note register.

(4) Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Security, and in the case of loss, theft or destruction, receipt of indemnity reasonably satisfactory to the Company and upon

surrender and cancellation of this Security, if mutilated, the Company will deliver a new Security of like tenor and dated as of such cancellation, in lieu of such Security.

(5) The Holder represents that it is an "accredited investor" within the meaning of Rule 501(a) of the Securities Act. The Holder has been advised that this Security and the Common Stock issuable upon conversion of the Conversion Account Balance have not been registered under the Securities Act, or any state securities laws and, therefore, cannot be resold unless it is registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. The Holder is aware that the Company is under no obligation to effect any such registration or to file for or comply with any exemption from registration. The Holder has not been formed solely for the purpose of making this investment and is acquiring the Security for its own account for investment, and not with a view to, or for resale in connection with, the distribution thereof.

(6) Such Holder understands that:

(A) until the end of the holding period under Rule 144(k) of the Securities Act (or any successor provision), this Security (and all securities issued in exchange therefor or in substitution thereof, other than the shares of Common Stock issuable upon conversion of the Conversion Account Balance, which shall bear the legend set forth in Section 11(b)(6)(B) of this Security, if applicable) shall bear a legend in substantially the following form:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS OR AN EXEMPTION THEREFROM.

The legend set forth above shall be removed and the Company shall issue a new Security of like tenor and aggregate principal amount, and which shall not bear the restrictive legend required by this Section 11(b)(6)(A), (i) if, in connection with a sale transaction, the Holder provides the Company with an opinion of counsel reasonably acceptable to the Company to the effect that a public sale, assignment, pledge or transfer of this Security may be made without registration under the Securities Act, or (ii) upon expiration of the applicable two-year holding period under Rule 144(k) of the Securities Act (or any successor rule). The Company shall not require such opinion of counsel for the sale of this Security in accordance with Rule 144 of the Securities Act in the event that the Holder provides such representations that the Company shall reasonably request confirming compliance with the requirements of Rule 144;

(B) until the end of the holding period under Rule 144(k) of the Securities Act (or any successor provision), any stock certificate representing such shares of Common Stock shall bear a legend in substantially the following form unless, in the case of shares of Common Stock issued upon conversion of the Conversion Account Balance, the Security submitted for conversion is not required to bear the legend specified in Section 11(b)(6)(A):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR AN EXEMPTION THEREFROM.

The legend set forth above shall be removed and the Company shall issue a stock certificate evidencing such shares of Common Stock, as the case may be, without such legend to the holder of the stock certificate evidencing such shares of Common Stock and upon which such legend is stamped, (i) if such shares of Common Stock have been resold or transferred pursuant to the registration statement contemplated by the Purchase Agreement and the registration statement was effective at the time of such transfer, (ii) if, in connection with a sale transaction, such holder provides the Company with an opinion of counsel reasonably acceptable to the Company to the effect that a public sale, assignment, pledge or transfer of the shares of Common Stock may be made without registration under the Securities Act, or (iii) upon expiration of the applicable two-year holding period under Rule 144(k) of the Securities Act (or any successor rule). The Company shall not require such opinion of counsel for the sale of such shares of Common Stock in accordance with Rule 144 of the Securities Act, provided that the Seller provides such representations that the Company shall reasonably request confirming compliance with the requirements of Rule 144; and

(C) in the event Rule 144(k) as promulgated under the Securities Act (or any successor rule) is amended to change the two-year holding period under Rule 144(k) (or the corresponding holding period under any successor rule), (i) each reference in Sections 11(b)(6) of this Agreement to "two-year holding period" shall be deemed for all purposes of this Agreement to be references to such changed period, and (ii) all corresponding references in this Security shall be deemed for all purposes to be references to the changed period, provided that such changes shall not become effective if they are otherwise prohibited by, or would otherwise cause a violation of, the then-applicable federal securities laws.

(7) Neither this Security nor any term hereof may be amended or waived orally or in writing, except that any term of this Security may be amended and the observance of any term of this Security may be waived (either generally or in a particular instance and either retroactively or prospectively), upon the approval of the Company and the Holder; provided, however, that the Company may, without the consent of the

Holder, amend the Security for the purpose of (i) surrendering any right or power conferred upon the Company, (ii) providing for Conversion Rights of Holder if any reclassification or change of the Common Stock or any consolidation, merger or sale of all or substantially all of the Company's assets occurs, (iii) providing for the assumption of the Company's obligations to the Holder in the case of a merger, consolidation, conveyance, transfer or lease, or (iv) reducing the Conversion Price, provided that the reduction will not adversely affect the interests of the Holder.

(c) In any case in which the date of maturity of, the date of payment of any interest on this Security will not be a Business Day, then payment of such interest on or Principal Amount of this Security need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date of maturity or date of payment, as the case may be, and no interest shall accrue for the period from and after such date.

(d) In the case of a dispute as to the determination of the Closing Price, the Conversion Price, the fair market value of assets (other than cash or securities), or the arithmetic calculation of any shares of Common Stock to be issued hereunder, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within one Business Day from the manifestation of such dispute to the Holder. If the Company and the Holder are unable to agree upon such determination or calculation of the Closing Price, the Conversion Price or the fair market value of assets (other than cash or securities), or the arithmetic calculation of any shares of Common Stock to be issued hereunder, as the case may be, within one Business Day of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within 10 Business Days, submit via facsimile (a) the disputed determination of Closing Price, the Conversion Price or the fair market value of assets (other than cash or securities) to an independent, reputable investment bank selected by the Holder and approved by the Company or (b) the disputed arithmetic calculation of any shares of Common Stock to be issued hereunder to the Company's independent, outside accountant. The Company shall make reasonable efforts to cause the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than 15 Business Days from the date it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error. The fees and expenses of the accountant or investment bank, as the case may be, shall be paid by the party whose calculation or determination is, on a percentage basis, the least closest to that determined by the accountant or investment bank; provided, however, that if each of the amounts originally determined or calculated by the Company and the Holder are at least equal to 80% of the amount calculated or determined by the accountant or investment bank but not more than 120% of the amount calculated or determined by the accountant or investment bank, then the Company and the Holder will each pay one half of the fees and expenses of such accountant or investment bank.

(e) If (a) this Security is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the

Holder otherwise takes action to collect amounts due under this Security or to enforce the provisions of this Security or (b) there occurs any bankruptcy, reorganization, receivership of the Company or other proceedings affecting Company creditors' rights and involving a claim under this Security, then the Company shall pay the reasonable costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including but not limited to reasonable attorneys fees and disbursements.

(f) THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MASSACHUSETTS.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this Security to be duly executed.

Dated: March •, 2007

SIPEX CORPORATION

By: ______________________________

Name: ______________________________

Title: ______________________________

RODFRE HOLDINGS LLC

By: ______________________________

Name: ______________________________

Title: ______________________________

EXHIBIT A

CONVERSION NOTICE

The undersigned holder of this Security hereby irrevocably exercises the Conversion Rights granted pursuant to this Security and does hereby convert the amount of the Conversion Account Balance below designated, into Common Stock in accordance with the terms of this Security, and directs that such shares, be delivered to and be registered in the name of the undersigned unless a different name has been indicated below. If shares of Common Stock are to be registered in the name of a Person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Dated: ______________________________

RODFRE HOLDINGS LLC

By: ______________________________

Name: ______________________________

Title: ______________________________

If shares are to be registered in the name of a Person other than the holder, please print such Person's name and address:

____
Name

____
Address

____
Social Security or other Taxpayer Identification Number, if any

Amount of accrued interest: $__________

EXHIBIT B

NOTICE OF ELECTION TO REQUIRE PAYMENT

Pursuant to Section 4(a)(2) of the this 9% Convertible Unsecured Junior Note Due 2008 dated March •, 2007 of Sipex Corporation (the "Security"), the undersigned holder of this Security hereby irrevocably exercises the option to require redemption and repayment of the principal amount of this Security, together with all accrued interest thereon for which Conversion Rights have not been exercised, on the day on which the Change of Control (as defined in this Security) is consummated and directs that such check for such payment be delivered to the undersigned unless a different name has been indicated below.

Dated: ______________________________

RODFRE HOLDINGS LLC

By: ______________________________

Name: ______________________________

Title: ______________________________

If a check is to be delivered in the name of a Person other than the holder, please print such Person's name and address:

____
Name

____
Address

____
Social Security or other Taxpayer Identification Number, if any

EXHIBIT B

SECRETARY'S CERTIFICATE

SIPEX CORPORATION

SECRETARY'S CERTIFICATE

March 29, 2007

Reference is made to that certain Securities Purchase Agreement (the "**Agreement**") dated as of March 29, 2007 by and among Sipex Corporation, a corporation organized under the laws of the State of Delaware (the "**Company**"), and Rodfre Holdings LLC. All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement. This Certificate is being delivered to satisfy the conditions precedent set forth in Section 6(e) of the Agreement.

I, Clyde R. Wallin, do hereby certify that I am the Secretary of the Company, and that, as such, I am authorized to execute this certificate on behalf of the Company, and do hereby further certify that:

1. Attached hereto as Exhibit A is a true and complete copy of the Restated Certificate of Incorporation of the Company, (the "**Certificate**"), certified by the Secretary of State of Delaware on March 26, 2007 as in effect on the date thereof. No document with respect to an amendment to the Certificate has been filed in the office of the Secretary of State of Delaware since March 26, 2007, and no action has been taken by the Company since such date in contemplation of any such amendment or the dissolution, merger, or consolidation of the Company, other than as contemplated by the Agreement.

2. Attached hereto as Exhibit B is a true and complete copy of the Amended and Restated Bylaws of the Company as in full force and effect on the date hereof. No action has been taken by the stockholders or directors of the Company in contemplation of any amendment to such bylaws.

3. Attached hereto as Exhibit C is a true and complete copy of the resolutions duly adopted by the Board of Directors of the Company as of March 29, 2007 authorizing the execution, delivery and performance by the Company of the Agreement and the other Transaction Documents and the consummation of the transactions contemplated thereby. Such resolutions have not been amended, modified or rescinded since their adoption and remain in full force and effect as of the date hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, I have hereunto signed my name as of March 29, 2007.

/s/ Clyde R. Wallin
Clyde R. Wallin, Secretary of the Company

[Signature Page to the Secretary’s Certificate]

EXHIBIT A

Restated Certificate of Incorporation

EXHIBIT B

Amended and Restated Bylaws

<u>EXHIBIT C</u>

Board Resolutions

SCHEDULE A

WIRE INSTRUCTIONS

ACCOUNT NAME:	[Deutsche Bank Securities]
THE BANK:	[Allfirst Bank Baltimore MD]
ACCOUNT NUMBER:	[068-87-618]
ABA/TRANSIT NUMBER:	[052000113]
FOR FURTHER CREDIT TO:	[Sipex Corporation Account# 210-71019-13]

EXHIBIT 12.1

The following table sets forth our ratio of earnings to fixed charges on a historical basis for the periods indicated:

Ratio of Earnings to Fixed Charges
(In thousands)

	Year Ended				
	2002	2003	2004	2005	2006
Loss before income taxes	$(47,542)	$(39,489)	$(22,881)	$(37,915)	$(41,109)
Plus fixed charges:					
Interest expense	260	1,135	194	35	3,046
Estimated interest within rental expense	196	163	75	100	115
	456	1,298	269	135	3,161
Adjusted loss before income taxes	(47,086)	(38,191)	(22,612)	(37,780)	(37,948)
Fixed charges	(456)	(1,298)	(269)	(135)	(3,161)
Deficiency of earnings to fixed charges	$(47,542)	$(39,489)	$(22,881)	$(37,915)	$(41,109)
Ratio of earnings to fixed charges	N/A(2)	N/A(2)	N/A(2)	N/A(2)	N/A(2)

---

(1) For purposes of calculating the ratio of earnings to fixed charges, "earnings" is the amount resulting from adding the following items: (a) Loss before income taxes and (b) fixed charges. "Fixed charges" means the sum of (i) interest expensed including amortization of discounts related to indebtedness and (ii) an estimate of the interest within rental expense.

(2) Earnings, as defined, were insufficient to cover fixed charges by $47,542,000, $39,489,000, $22,881,000, $37,915,000 and $41,109,000 for years ended 2002, 2003, 2004, 2005 and 2006, respectively.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-06123, 333-32329, 333-31410, 333-61560, 333-73880, 333-116368 and 333-138737 on Form S-8 of our report dated March 30, 2007, relating to the consolidated financial statements of Sipex Corporation (which expresses an unqualified opinion on the consolidated financial statements and includes an explanatory paragraph relating to the adoption of the Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*", effective January 1, 2006), appearing in this Annual Report on Form 10-K of Sipex Corporation for the year ended December 30, 2006.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
March 30, 2007

EXHIBIT 31.1

Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Ralph Schmitt, certify that:

1. I have reviewed this annual report on Form 10-K of Sipex Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ralph Schmitt

Ralph Schmitt
Chief Executive Officer
March 30, 2007

EXHIBIT 31.2

Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Clyde R. Wallin, certify that:

1. I have reviewed this annual report on Form 10-K of Sipex Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Clyde R. Wallin

Clyde R. Wallin
Chief Financial Officer and Senior Vice President, Finance
March 30, 2007

EXHIBIT 32.1

Exhibit 32.1 Section 906 OF Sarbanes-Oxley Act — CERTIFICATION OF CHIEF EXECUTIVE OFFICER

SIPEX CORPORATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Sipex Corporation (the “Company”) on Form 10-K for the period ended December 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ralph Schmitt, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This written statement is being furnished to the Securities and Exchange Commission as an exhibit accompanying such Report and shall not be deemed filed pursuant to the Securities Exchange Act of 1934.

/s/ Ralph Schmitt
Ralph Schmitt
Chief Executive Officer
March 30, 2007

EXHIBIT 32.2

Exhibit 32.2 Section 906 OF Sarbanes-Oxley Act — CERTIFICATION OF CHIEF FINANCIAL OFFICER

SIPEX CORPORATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Sipex Corporation (the "Company") on Form 10-K for the period ended December 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clyde R. Wallin, Senior Vice President, Finance, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This written statement is being furnished to the Securities and Exchange Commission as an exhibit accompanying such Report and shall not be deemed filed pursuant to the Securities Exchange Act of 1934.

/s/ Clyde R. Wallin

Clyde R. Wallin
Chief Financial Officer and Senior Vice President, Finance
March 30, 2007