

Andalay Solar, Inc.
Form S-1
July 01, 2015

Table of Contents

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

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

4931
(Primary Standard Industrial Classification Code Number)

90-0181035
(I.R.S. Employer Identification No.)

48900 Milmont Dr.
Fremont, California 94538
(408) 402-9400
(Address and telephone number of principal executive offices)

48900 Milmont Drive
Fremont, California 94538
(Address of principal place of business or intended principal place of business)

Copy to:

Leslie Marlow, Esq.
Hank Gracin, Esq.
Gracin & Marlow, LLP
The Chrysler Building
405 Lexington Avenue, 26th Floor
New York, New York 10174
(212) 907-6457
(Name, address and telephone number of agent for service)

Approximate Date of Proposed Sale to the Public: From time to time after the date this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Edgar Filing: Andalay Solar, Inc. - Form S-1

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 424, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated file	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

Table of Contents

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (1)	Amount of registration fee (3)
Common Stock, \$0.001 par value per share	150,000,000	\$0.011	\$1,650,000	\$192

(1) In accordance with Rule 416(a), the registrant is also registering hereunder an indeterminate number of shares that may be issued and resold resulting from stock splits, stock dividends or similar transactions.

(2) Estimated in accordance with Rule 457(c) of the Securities Act of 1933 solely for the purpose of computing the amount of the registration fee based on the closing price of our common stock on June 26, 2015.

(3) Calculated under Section 6(b) of the Securities Act of 1933 as \$0.0001162 of the aggregate offering price.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

THE INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS DECLARED EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JUNE 29, 2015

PRELIMINARY PROSPECTUS

ANDALAY SOLAR, INC.

150,000,000 Shares of Common Stock

This prospectus relates to the offer and resale of up to 150,000,000 shares of our common stock, par value \$0.001 per share, by the selling stockholder, Southridge Partners II LP, a Delaware limited partnership (“Southridge”). All of such shares represent shares that Southridge has agreed to purchase if put to it by us pursuant to, and subject to the volume limitations and other limitation of, the terms of the Equity Purchase Agreement we entered into with them on December 10, 2014 (the “December Equity Purchase Agreement”). On December 11, 2014, we filed a Registration Statement on Form S-1 to register 85,000,000 shares of common stock related to our December Equity Purchase Agreement with Southridge and on January 16, 2015, the Securities and Exchange Commission declared the Registration Statement effective. To date, we have drawn down approximately \$1,055,000 from the sale of 79,273,221 shares of common stock from the December Equity Agreement, and still have available to sell approximately 5.7 million shares of common stock under the December Equity Purchase Agreement if all conditions thereunder are met. Subject to the terms and conditions of the December Equity Purchase Agreement we have the right to “put,” or sell, up to \$5,000,000 worth of shares of our common stock to Southridge, of which approximately \$1,055,000 worth of shares have been sold and approximately \$3,945,000 remains available for sale. This arrangement is also sometimes referred to herein as the “Equity Line.”

For more information on the selling stockholder, please see the section of this prospectus entitled “Selling Security Holder” beginning on page 57.

Southridge may sell any shares offered under this prospectus at prevailing market prices or privately negotiated prices. Southridge is an “underwriter” within the meaning of the Securities Act of 1933, as amended (the “Securities Act”), in connection with the resale of our common stock under the Equity Line. For more information, please see the section of this prospectus titled “Plan of Distribution” beginning on page 59. We will not receive any proceeds from the resale of these shares of common stock offered by Southridge. We will, however, receive proceeds from the sale of shares directly to Southridge pursuant to the Equity Line. When we put an amount of shares to Southridge, the per share purchase price that Southridge will pay to us in respect of the put will be determined in accordance with the formula set forth in the December Equity Purchase Agreement. There will be no underwriter’s discounts or commissions so we will receive all of the proceeds of our sale to Southridge.

We may draw upon the Equity Line periodically during the Term (a “Draw Down”) by delivering to Southridge a written notice (a “Draw Down Notice”) requiring Southridge to purchase a dollar amount in shares of common stock (a “Draw Down Amount”). Southridge has committed to purchase up to \$5,000,000 worth of shares of our common stock over a period of time terminating on the earlier of: (i) July 16, 2016 which date is 18 months from the effective date of the registration statement we filed on December 11, 2014, in connection with the December Equity Purchase Agreement (the “Initial Registration Statement”); or (ii) the date on which Southridge has purchased shares of our common stock pursuant to the Equity Line for an aggregate maximum purchase price of \$5,000,000. In no event may

the shares issuable pursuant to a Draw Down Notice, when aggregated with the shares then held by Southridge on the date of the Draw Down, exceed 9.99% of the Company's outstanding common stock.

The purchase price per share of common stock purchased under the Equity Line will equal 90% of the average of the daily volume weighted average price ("VWAP") during the Valuation Period (the "Purchase Price"). On the date that a Draw Down Notice is delivered to Southridge, we are required to deliver an estimated amount of shares to Southridge's brokerage account equal to 125% of the Draw Down Amount indicated in the Draw Down Notice divided by the closing bid price of our common stock for the trading day immediately prior to the date of the Draw Down Notice ("Estimated Shares"). The Valuation Period begins the first trading day after the Estimated Shares have been delivered to Southridge's brokerage account and have been cleared for trading, and terminates ten days thereafter. At the end of the Valuation Period, if the number of Estimated Shares delivered to Southridge is greater than the shares issuable pursuant to a Draw Down, then Southridge is required to return to us the difference between the Estimated Shares and the actual number of shares issuable pursuant to the Draw Down. If the number of Estimated Shares is less than the shares issuable under the Draw Down, then we are required to issue additional shares to Southridge equal to the difference; provided that the number of shares to be purchased by Southridge may not exceed the number of such shares that, when added to the number of shares of our common stock then beneficially owned by Southridge, would exceed 9.99% of the outstanding number of shares of our common stock.

Table of Contents

We will specify in each Draw Down Notice a minimum threshold market price under which no shares may be sold (the “Floor Price”). The Floor Price shall not be less than 80% of the average of the closing trade prices for the ten (10) trading days ending immediately prior to delivery of the Draw Down

In the event that during a Valuation Period, the closing bid price on any trading day is below the Floor Price (the “Low Bid Price”), Southridge is under no obligation to purchase and we are under no obligation to sell 1/10th of the Draw Down Amount for each such trading day, and the Draw Down Amount will be adjusted accordingly. In the event that during a Valuation Period there exists a Low Bid Price for any three trading days then our obligation to sell and Southridge’s obligation to purchase the Draw Down Amount under a Draw Down Notice will terminate on such third trading day (the “Termination Date”) and the Draw Down Amount shall be adjusted to include only 1/10th of the initial Draw Down Amount for each day during the Valuation Period prior to the Termination Date that the bid price equals or exceed the Low Bid Price.

Our common stock became eligible for trading on the OTCQB on September 6, 2012 and began trading on the OTCPink on May 15, 2015. Our common stock is quoted on the OTCPink under the symbol “WEST”. The closing price of our stock on June 26, 2015, was \$0.011.

You should understand the risks associated with investing in our common stock. Before making an investment, read the “Risk Factors,” which begin on page 3 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June ____, 2015

Table of Contents

TABLE OF CONTENTS

	Page
<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	4
<u>USE OF PROCEEDS</u>	17
<u>DILUTION</u>	18
<u>DETERMINATION OF OFFERING PRICE</u>	19
<u>BUSINESS</u>	23
<u>MARKET PRICE OF COMMON STOCK AND OTHER STOCKHOLDER MATTERS</u>	34
<u>SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS</u>	36
<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION</u>	37
<u>DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS</u>	52
<u>EXECUTIVE COMPENSATION</u>	53
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	56
<u>TRADING MARKET</u>	57
<u>SELLING SECURITY HOLDER</u>	57
<u>RELATIONSHIP BETWEEN THE ISSUER AND THE SELLING SECURITY HOLDER</u>	58
<u>PLAN OF DISTRIBUTION</u>	59
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	60
<u>DESCRIPTION OF SECURITIES</u>	60
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	64
<u>EXPERTS</u>	64
<u>DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES</u>	65
<u>LEGAL MATTERS</u>	65

WHERE YOU CAN FIND MORE INFORMATION

65

PART II

66

Table of Contents

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. This prospectus may be used only where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of securities.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus; it does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus before making an investment decision.

Throughout this prospectus, the terms the “Company,” “Andalay Solar,” “we,” “us,” “our,” and “our company” refer to Andalay Solar, Inc., a Delaware corporation.

Company Overview

Andalay Solar, Inc. and its subsidiaries (Andalay Solar, the Company, we, us or our) is a designer and manufacturer of integrated solar power systems and solar panels with integrated microinverters (which we call AC solar panels). We are engaged in two business segments, (i) we market, sell, design and install systems for residential and commercial customers and (ii) we sell our AC solar panels to solar installers, trade workers and do-it-yourself customers through distribution partnerships, our dealer network and retail outlets. We design, market and sell these solar power systems to solar installers and do-it-yourself customers in the United States, Canada, the Caribbean and South America through distribution partnerships, our dealer network and retail outlets. Our products are designed for use in solar power systems for residential and commercial rooftop customers. Prior to September 2010, we were also in the solar power installation business, but decided to exit that business. During the fourth quarter 2014, we re-entered the solar power installation business. Additionally, we are engaging in a new strategy of licensing our patented products to large module manufacturers and entering into distribution agreements with these manufacturers and large national distributors/installers. This new strategy is less capital intensive and aligns us with companies that have proven track records in the residential solar industry.

In September 2007, we introduced our “plug and play” solar panel technology (under the brand name “Andalay”), which we believe significantly reduces the installation time and costs, and provides superior reliability and aesthetics, when compared to other solar panel mounting products and technology. Our panel technology offers the following features: (i) mounts closer to the roof with less space in between panels; (ii) no unsightly racks underneath or beside panels; (iii) built-in wiring connections; (iv) approximately 70% fewer roof-assembled parts and approximately 50% less roof-top labor required; (v) approximately 25% fewer roof attachment points; (vi) complete compliance with the National Electric Code and UL wiring and grounding requirements. We have seven U.S. patents (Patent No. 7,406,800, Patent No. 7,832,157, Patent No. 7,866,098, Patent No. 7,987,641, Patent No. 8,505,248, Patent 8,813,460 and Patent No. 8,938,919) that cover key aspects of our Andalay solar panel technology, as well as U.S. Trademark No. 3481373 for registration of the mark “Andalay Solar.” In addition to these U.S. patents, we have eight foreign patents. Currently, we have 15 issued patents and nine other pending U.S. and foreign patent applications that cover the Andalay technology working their way through the United States Patent and Trademark Office (“USPTO”) and foreign patent offices.

In February 2009, we began a strategic relationship with Enphase, a leading manufacturer of microinverters, to develop and market solar panel systems with ordinary AC house current output instead of high voltage DC output. We introduced Andalay AC panel products and began offering them to our customers in the second quarter of 2009. Andalay AC panels cost less to install, are safer, and generally provide higher energy output than ordinary DC panels.

Andalay AC panel systems deliver 5-25% more energy compared to ordinary DC panel systems, produce household AC power, and have built-in panel level monitoring, racking, wiring, grounding and microinverters. With 80% fewer parts and 5 – 25% better performance than ordinary DC panel systems, we believe Andalay AC panels are an ideal solution for solar installers and do-it-yourself customers.

Table of Contents

On May 30, 2013, we entered into a supply agreement for assembly of our proprietary modules with Environmental Engineering Group Pty Ltd, (EEG) an assembler of polycrystalline modules located in Australia. In August 2013, we began receiving product from EEG and began shipping product to customers during the third calendar quarter of 2013. In September 2013, we entered into a supply agreement for assembly of our proprietary modules with Tianwei New Energy Co, Ltd., (Tianwei) a panel supplier located in China. We began receiving initial shipments from Tianwei in February 2014, but that supply is now discontinued. On July 16, 2014, we entered into an agreement for supply of solar PV modules with Auxin Solar Inc. These modules are assembled in the United States and we received the first slate of panels in December 2014.

In June 2015, we entered into a licensing agreement with Hyundai Heavy Industries Co., Limited (“Hyundai”), whereby Hyundai will manufacture our frames under license from us. We have agreed to waive royalties under the agreement for a period of time in exchange for Hyundai investing resources to support this license agreement including as it relates to marketing, sales, certification and undertaking the needed modification of their manufacturing facility to produce the Andalay compatible modules. Hyundai has the right but not the obligation to produce Andalay compatible modules under the agreement. We believe that having Hyundai available to produce the Andalay compatible modules will increase our addressable market given the bankability and name recognition of Hyundai among our target customers and intend to achieve and grow revenue by selling the mounting hardware that complements the Andalay compatible modules.

Prior to September 2010, we were also in the solar power system installation business and we had completed over 4,300 solar power installations for customers in California, New York, New Jersey, Pennsylvania, Colorado and Connecticut since the commencement of our operations in 2001. In early 2009, we closed our non-California offices on the east coast and in Colorado and began distributing our solar power systems to customers outside of California. In September 2010, we made the strategic decision to exit our California solar panel installation business and expand our solar panel distribution network to dealers and other installers in California, by far the largest solar market in the United States. We recently made the decision to re-enter the solar panel installation business on a limited basis, focusing on the geographic region around the San Francisco Bay Area. Our business is now primarily focused on design and manufacturing activities, and sales of our solar power systems to solar installers, trade workers and retailers through distribution partnerships, our dealer network and retail home improvement outlets as well as installation of our panels.

We were incorporated in February 2001 as Akeena Solar, Inc. in the State of California and elected at that time to be taxed as an S corporation. During June 2006, we reincorporated in the State of Delaware and became a C corporation. On August 11, 2006, we entered into a reverse merger transaction (“merger”) with Fairview Energy Corporation, Inc. (“Fairview”). Pursuant to the Merger, our stockholders received one share of Fairview common stock for each issued and outstanding share of our common stock. Our common shares were also adjusted from \$0.01 par value to \$0.001 par value at the time of the Merger. On May 17, 2010, we entered into an exclusive worldwide license agreement with Westinghouse, Inc, which permitted us to manufacture, distribute and market solar panels under the Westinghouse name and in connection therewith, on April 6, 2011, we changed our name to Westinghouse Solar, Inc. On April 13, 2011, we effected a reverse split of our common stock at a ratio of 1 – for – 4. On August 23, 2013, the license agreement with Westinghouse, Inc. was terminated and on September 19, 2013, we changed our name to our current name, Andalay Solar, Inc. and increased the number of authorized shares of common stock to 500,000,000. On June 9, 2015, we increased the number of authorized shares of common stock to 1,250,000,000.

Our Corporate headquarters is located at 48900 Milmont Drive, Fremont, CA 94538. Our telephone number is (408) 402-9400. Additional information about us is available on our website at <http://www.andalaysolar.com>. The information on our web site is not incorporated herein by reference.

Table of Contents

The Offering

Common stock that may be offered by selling stockholder 150,000,000 shares

Common stock currently outstanding 399,153,951 shares

Total proceeds raised by offering

We will not receive any proceeds from the resale or other disposition of the shares covered by this prospectus by Southridge, the selling shareholder. We will receive proceeds from the sale of shares to Southridge. Southridge has committed to purchase up to \$5,000,000 worth of shares of our common stock over a period of time terminating on the earlier of: (i) July 16, 2016, which date is 18 months from the effective date of the Initial Registration Statement; or (ii) the date on which Southridge has purchased shares of our common stock pursuant to the December Equity Purchase Agreement for an aggregate maximum purchase price of \$5,000,000. To date, Southridge has purchased \$1,055,000 worth of shares of common stock from us under the December Equity Purchase Agreement and approximately 5.7 million shares of common stock remain available for sale under the December Equity Purchase Agreement, provided that we meet all of the conditions thereunder. The purchase price to be paid by Southridge will be 90% of the average of the daily VWAP during the Valuation Period. On the date the Draw Down Notice is delivered to Southridge, we are required to deliver an estimated amount of shares to Southridge’s brokerage account equal to 125% of the Draw Down Amount indicated in the Draw Down Notice divided by the closing bid price of the trading day immediately prior to the date of the Draw Down Notice (“Estimated Shares”). The Valuation Period begins on the first trading day after the Estimated Shares have been delivered to Southridge’s brokerage account and have been cleared for trading and terminates on the tenth day thereafter. At the end of the Valuation Period, if the number of Estimated Shares delivered to Southridge is greater than the shares issuable pursuant to a Draw Down, then Southridge is required to return to us the difference between the Estimated Shares and the actual number of shares issuable pursuant to the Draw Down. If the number of Estimated Shares is less than the shares issuable under the Draw Down, then we are required to issue additional shares to Southridge equal to the difference; provided that the number of shares to be purchased by Southridge may not exceed the number of shares that, when added to the number of shares of our common stock then beneficially owned by Southridge, would exceed 9.99% of our shares of common stock outstanding.

Risk Factors

There are significant risks involved in investing in our company. For a discussion of risk factors you should consider before buying our common stock, see “Risk Factors” beginning on page 4.

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk, and you should be able to bear the complete loss of your investment. You should carefully consider the risks described below, the other information in this prospectus when evaluating our company and our business. If any of the following risks actually occur, our business could be harmed. In such case, the trading price of our common stock could decline and investors could lose all or a part of the money paid to buy our common stock.

Risks Relating to Our Business

We will need additional capital in the near future to fund our business, and financing may not be available. If we can find financing our common stock may be greatly diluted. If we cannot find financing to fund the business, we may decide or may be forced to reorganize or to wind down operations.

We expect our currently available capital resources and cash flows from operations to be insufficient to meet our working capital and capital expenditure requirements. Our cash requirements will depend on numerous factors, including the amount of our sales, the timing and levels of products purchased, pricing, payment terms and credit limits from manufacturers, the availability and terms of asset-based credit facilities, the timing and level of our accounts receivable collections, and our ability to manage our business towards profitability.

We expect to need to raise additional funds through public or private debt or equity financings or enter into new asset-based or other credit facilities, but such financings will likely dilute our stockholders. The December Equity Purchase Agreement that we entered into with Southridge Partners II, LP ("Southridge") on December 10, 2014 contains conditions that must be met prior to each funding event and therefore there can be no assurance that such conditions will be met when funding is needed. We cannot assure you that any additional financing that we may need will be available on terms favorable to us, or at all. Our loss of S-3 eligibility in September 2012 due to our Nasdaq delisting and limited availability of authorized and unissued common stock has made it more difficult to raise such funds. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of business opportunities, develop new products or otherwise respond to competitive pressures. If we are not able to raise additional capital, and if we are not able to significantly increase our revenues from operations, we will not have enough funds to continue operations and we may either decide to or may be forced to reorganize or to wind down our operations. If such event were to occur, any equity holdings in the Company would likely be reduced to zero.

We have disclosed a material weakness in our internal control over financial reporting relating to our accounting procedures which could adversely affect our ability to report our financial condition, results of operations or cash flows accurately and on a timely basis.

In connection with our assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, we identified a material weakness in our internal control over financial reporting relating to our accounting process and procedures for the year ended December 31, 2014. For a discussion of our internal control over financial reporting and a description of the identified material weakness, see our Annual Report on Form 10-K for the year ended December 31, 2014-"Management's Report on Internal Control over Financial Reporting" under Item 9A, "Controls and Procedures."

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We have determined that further improvements are required in our accounting processes before we can consider the material weakness remediated. Management's

procedures and testing identified errors that, although not material to the consolidated financial statements, led management to conclude that control deficiencies exist related to various financial disclosures, including derivative valuation and warranty reserves. As a result of these deficiencies, it is reasonably possible that internal controls over financial reporting may not have prevented or detected errors from occurring that could have been material, either individually or in the aggregate.

Table of Contents

A material weakness in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information. While we have taken actions to improve our internal controls in response to the identified material weakness related to certain aspects of our accounting process and procedures, additional work will be needed to address and remediate the identified material weakness. If we are unsuccessful in implementing or following our remediation plan, we may not be able to timely or accurately report our financial condition, results of operations or cash flows or maintain effective internal controls over financial reporting. If we are unable to report financial information timely and accurately or to maintain effective disclosure controls and procedures, we could be subject to, among other things, regulatory or enforcement actions by the SEC, securities litigation, and/or lack of investor confidence, any one of which could adversely affect the valuation of our common stock and could adversely affect our business prospects.

Our loan and security agreement was exchanged for a convertible note, but both the agreement and the convertible note contain many negative covenants and if we trigger those covenants under the agreement we could lose all of our assets.

Our loan and security agreement with Lender and Collateral Services, LLC is secured by all of our assets. The agreement and the convertible note which now evidences the loan contain both affirmative and negative covenants, including covenants regarding incurrence of indebtedness, liens, mergers and acquisitions, subject to materiality and other qualifications and exceptions customary for a credit facility of this size and type. Our obligations under the agreement may be accelerated upon the occurrence of an event of default in accordance with the terms of the Agreement, which includes customary events of default, including payment defaults, the inaccuracy of representations or warranties, cross-defaults related to material indebtedness, bankruptcy and insolvency related defaults, defaults relating to certain other matters, and loss of perfected lien status. If we fail to comply with these covenants or if we fail to make certain payments under the secured loans when due, the Lender could declare our loans in default. If we default on the loan, the Lender has the right to seize our assets that secure the loan, which may force us to suspend all operations.

We have a history of losses and there can be no assurance that we will generate or sustain positive earnings.

For the quarter ended March 31, 2015, and for the years ended December 31, 2014 and 2013, we have incurred net losses from operations. We cannot be certain that our business strategy will ever be successful. Our likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with any emerging business operations. If we fail to address any of these risks or difficulties adequately, our business will likely suffer. Future revenues and profits, if any, will depend upon various factors, including the success, if any, of our expansion plans, marketability of our instruments and services, our ability to maintain favorable relations with manufacturers and customers, and general economic conditions. There is no assurance that we can operate profitably or that we will successfully implement our plans. There can be no assurance that we will ever generate positive earnings.

Our consolidated financial statements have been prepared assuming that we will continue as a going concern.

Our significant operating losses, negative cash flow from operations, and challenges in rapidly securing alternative sources of supply for solar panels, raise substantial uncertainty about our ability to continue as a going concern. The consolidated financial statements for the years ended December 31, 2014 and 2013 do not include any adjustments that might result from the outcome of this uncertainty, and contemplate the realization of assets and the settlement of liabilities and commitments in the normal course of business. The report of our independent registered public accounting firm for the years ended December 31, 2014 and 2013 included an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern in their audit report included herein. If we cannot generate the required revenues and gross margin to achieve profitability or obtain additional capital on acceptable

terms, we will need to substantially revise our business plan or cease operations and an investor could suffer the loss of a significant portion or all of his investment in our company. As a result of our delisting from the Nasdaq Capital Market in September 2012, we are no longer eligible to file new registration statements on Form S-3, which may make it more costly and more difficult for us to obtain additional equity financing. We currently anticipate that we will retain all of our earnings, if any, for development of our business and do not anticipate paying any cash dividends on common stock in the foreseeable future.

We are engaging in a new strategy of licensing our patented products to large manufacturers but have not executed any license agreements

We believe that licensing our products, instead of manufacturing ourselves or through contracted manufacturers, will enable us to operate the business in a less capital intensive manner. We have signed one license agreement and two memorandums of understanding in the first half of 2015 for the licensing of our products. This strategy will be dependent on us also signing distribution agreements with large residential solar installers/distributors. We have not signed any agreements but we are in active discussions with potential partners. If we are not able to accomplish our goal of signing large manufacturers and large installers/distributors, our business will be severely negatively impacted.

Table of Contents

We are dependent upon our key suppliers for the components used in our systems and we must arrange for cost competitive manufacturing of our proprietary solar panels in order to grow our business.

Historically, we obtained virtually all of our components from suppliers in China. These components are specifically manufactured for our patented technology, and we are dependent on these suppliers to provide us with high quality low cost manufactured goods. If these suppliers stopped providing these materials to us, we may have a difficult time in sourcing high quality replacement vendors.

It is critical to the growth of our revenue that our products be high quality while offered at competitive pricing. We believe that we will need to reduce the unit production cost of our products over time to obtain and maintain our ability to offer competitively priced products. Our ability to achieve cost reductions will depend on our ability to maintain favorable supplier contracts and to increase sales volumes so we can achieve economies of scale. We cannot provide assurance that we will be able to achieve any such production cost reductions. If we fail to negotiate better terms and maintain our relationships with our current suppliers or develop new supplier relationships, we may not achieve production cost reductions necessary to competitively price our products, which could adversely affect or limit our sales and growth.

We are currently subject to market prices for the components that we purchase, which are subject to fluctuation beyond our control. An increase in the price of components used in our systems could result in an increase in costs to our customers and could have a material adverse effect on our revenues and demand for our products.

Interruptions in our ability to procure needed components for our systems, whether due to discontinuance by our suppliers, delays or failures in delivery, shortages caused by inadequate production capacity or unavailability, financial failure, manufacturing quality, or for other reasons, would adversely affect or limit our sales and growth. There is no assurance that we will continue to find qualified manufacturers on acceptable terms and, if we do, there can be no assurance that product quality will continue to be acceptable, which could lead to a loss of sales and revenues.

The U.S. Government imposed tariffs on solar panels manufactured in China causing the prices for solar panels to increase. This could cause customer demand for our products to decrease.

In early 2012, a group of solar panel manufacturers with domestic U.S. production facilities requested the U.S. Government to impose tariffs on the import of solar panels manufactured in China, based on allegations of unfair competition and of subsidization of prices for Chinese-made solar panels by the Chinese Government.

On December 31, 2013, SolarWorld America Industries, Inc. requested the U.S. Government to impose tariffs on the import of solar panels manufactured in China with Taiwanese solar cells, based on allegations of unfair competition and of subsidization of prices by the Chinese Government. In December 2014, the U.S. International Trade Commission determined that imports of Chinese panels made with Taiwanese solar cells injure the domestic manufacturing industry. The Commerce Department has found for the complainant in all of the cases, imposing tariffs on Chinese manufacturers of solar panels and tariffs on solar panels made with Taiwanese solar cells.

We anticipate that at least some of our license partners may produce their solar modules in China. The imposition of tariffs on these modules may cause prices to rise, which would generally increase the price of solar power systems, and which may cause a reduction in demand.

We have experienced significant customer concentration in recent periods, and our revenue levels could be adversely affected if any significant customer fails to purchase products from us at anticipated levels.

The relative magnitude and the mix of revenue from our largest customers have varied significantly quarter to quarter. During the three months ended March 31, 2015 and 2014, five customers have accounted for significant revenues, varying by period, to our company: Smart Energy Today (“Smart Energy”), which specializes in helping home owners and business owners become more energy efficient, Helco Electric (“Helco”) a full-service provider of electrical services in southern Oregon, Verengo Solar (“Verengo”), a solar installer based in Southern California, Sustainable Environmental Enterprises (“SEE”), a leading provider of renewable energy and development projects located in New Orleans, Louisiana, and Shoreline Electric (“Shoreline”) a provider of residential and commercial electrical services in Southern California.

Table of Contents

We are continuing to shift our business model, away from manufacturing and towards licensing, design and installation. We had previously exited the installation business, and there is no guarantee that we will be successful in returning to that business.

Our shift to focus on a license, design and installation business model will depend, in large part, on our ability to successfully expand our distribution channels to include authorized dealers in California, as well as elsewhere in North America, and to accelerate the growth of our design and installation business. California is the largest state in the country for solar products, accounting for approximately 50 percent of the U.S. market. Therefore, we continue to pursue developing distribution channel partners in California and North America, as well as installation opportunities in California.

If we are not able to achieve the expansion of our license, design and installation business and meet our revenue growth and cost reduction objectives within the anticipated time frame, or at all, the anticipated benefits and cost savings of our change in strategic focus and our restructuring may not be realized or may take longer to realize than expected, and the value of our common stock may be adversely affected.

Specifically, risks in the operations of our business in order to realize the anticipated benefits of the change to a design and installation business model include, among other things:

- failure to acquire cost competitive solar panels;
- failure to find and develop distribution relationships with new channel partners, particularly in California and the North America market;
- failure to successfully partner with other leading installers in California
- failure to effectively coordinate sales and marketing efforts to communicate the capabilities of our company;
- unpredictability and delays in the timing of projected distribution orders, and resulting accumulation of excess product inventory;
- failure to focus and develop our distribution product and service offerings quickly and effectively;
- failure to successfully develop new products and services on a timely basis that address the market opportunities; and
- unexpected revenue attrition or delays.

In addition, the shift(s) in our business model(s) may result in additional or unforeseen expenses, and the anticipated cost reduction benefits may not be realized.

Our technology may encounter unexpected problems or may not be protectable, which could adversely affect our business and results of operations.

Our technology is relatively new and has not been tested in installation settings for a sufficient period of time to prove its long-term effectiveness and benefits. Problems may occur with products or their underlying components that are unexpected and could have a material adverse effect on our business or results of operations. We have been issued several U.S. and foreign patents that cover our Andalay solar panel technology. We have several other pending patent applications covering Andalay technology. Ultimately, we may not be able to realize the benefits from any patent that is issued.

Because our industry is highly competitive and has low barriers to entry, we may lose market share to larger companies that are better equipped to weather a decline in market conditions due to increased competition.

Our industry is highly competitive and fragmented, is subject to rapid change and has low barriers to entry. Competition in the solar power services industry may increase in the future, partly due to low barriers to entry, as well as from other alternative energy sources now in existence or developed in the future. Increased competition could result in price reductions, reduced margins or loss of market share and greater competition for qualified technical personnel. There can be no assurance that we will be able to compete successfully against current and future competitors. If we are unable to compete effectively, or if competition results in a deterioration of market conditions, our business and results of operations would be adversely affected.

Table of Contents

Our profitability depends, in part, on our success and brand recognition and we could lose our competitive advantage if we are not able to protect our trademarks and patents against infringement, and any related litigation could be time-consuming and costly.

We have registered the “Andalay Solar” trademark with the USPTO related to our panel technology. Use of our trademarks or similar trademarks by competitors in geographic areas in which we have not yet operated could adversely affect our ability to use or gain protection for our brand in those markets, which could weaken our brand and harm our business and competitive position. In addition, any litigation relating to protecting our trademarks and patents against infringement could be time consuming and costly.

We are exposed to risks associated with global economy, which increase the uncertainty of project financing for solar installations and the risk of non-payment from customers.

The continuing tight credit markets are contributing to a slower than anticipated growth in the solar industry, which may worsen if these economic conditions are prolonged or deteriorate further. The market for installation of solar power systems depends largely on commercial and consumer capital spending. Economic uncertainty exacerbates negative trends in these areas of spending, and may cause customers to push out, cancel, or refrain from placing orders, which may reduce our net sales. Difficulties in obtaining capital and adverse market conditions may also lead to the inability of some customers to obtain affordable financing, including traditional project financing and tax-incentive based financing and home equity based financing, resulting in lower sales to potential customers with liquidity issues, and may lead to an increase of incidents where our customers are unwilling or unable to pay for systems they purchase, and additional bad debt expense for us. Further, these conditions and uncertainty about future economic conditions make it challenging for us to obtain equity and debt financing to meet our working capital requirements to support our business, forecast our operating results, make business decisions, and identify the risks that may affect our business, financial condition and results of operations. If we are unable to timely and appropriately adapt to changes resulting from the difficult macroeconomic environment, our business, financial condition or results of operations may be materially and adversely affected.

We may have warranty obligations to SunRun, Inc. that could adversely affect our results of operations.

In connection with our exit from the solar system installation business in California in 2010, Real Goods Solar, Inc. (“Real Goods”) agreed to undertake primary, “first responder” responsibility for future warranty service obligations relating to the approximately 800 installations for SunRun that we have previously completed (the “Andalay Installations”). We retained secondary warranty responsibility on the Andalay Installations, in the event that Real Goods fails to perform the warranty. We agreed to reimburse Real Goods for actual warranty service work completed by Real Goods related to these “first responder” installations. Other than solar panels and inverters that are covered under the manufacturer warranty, we provided our customers for Andalay Installations a 5-year or a 10-year warranty. We have accrued, and included within “Accrued Warranty” in our consolidated balance sheets as of December 31, 2014 and 2013, a liability of approximately \$568,000 and \$1,000,000, respectively, to cover these warranty obligations. That amount is intended to cover both the Andalay Installations and certain installation projects that were assigned to Real Goods. The terms of the Warranty Agreements provided that we establish an escrow account as a source of funds from which to satisfy our obligation to pay Real Goods for its fees and reimburse it for its expenses for warranty work performed by it pursuant to the Warranty Agreements which are not paid to Real Goods from the company directly. In March 2011, we entered into an Escrow Agreement with Real Goods and deposited \$200,000 into an escrow fund. The amount is reflected in “Other assets, net” in our condensed consolidated balance sheets. In November 2014, Real Goods returned \$110,000 of the escrow amount in December 2014 and in June 2015, Real Goods returned the remaining \$90,000 of the escrow amount as part of an agreement whereby Real Goods will no longer have any warranty or other obligations for the Andalay Installations but our obligations will remain instead directly with SunRun. If the actual warranty expenses exceed the amounts we have accrued, we could incur significant unexpected

additional expenses, which would adversely affect our results of operations.

8

Table of Contents

Our success depends on our key personnel, including our executive officers, and the loss of key personnel or the transition of key personnel, including our Chief Executive Officer, could disrupt our business.

Our success greatly depends on the continued contributions of our senior management and other key sales, marketing and operations personnel. These employees may voluntarily terminate their employment at any time. We may not be able to successfully retain existing personnel or identify, hire and integrate new personnel; and we do not have key person insurance policies in place for these employees. Starting on May 7, 2012, Margaret Randazzo, acted as our Chief Financial Officer, a director, and our Chief Executive Officer. On April 22, 2014, Steven Chan assumed the role as our Chief Executive Officer and interim Chief Financial Officer and President after Ms. Randazzo announced her resignation as our Chief Executive Officer and as Chief Financial Officer effective June 30, 2014. There can be no assurance that we will be able to find a suitable candidate to fill the role of a permanent Chief Financial Officer or that there will be a smooth transition. Changes in our key positions can be disruptive and could have a material adverse effect on our operations and business.

If we are unable to attract, train and retain highly qualified personnel, the quality of our services may decline and we may not successfully execute our internal growth strategies.

Our success depends in large part upon our ability to continue to attract, train, motivate and retain highly skilled and experienced employees, including technical personnel. Qualified technical employees periodically are in great demand and may be unavailable in the time frame required to satisfy our customers' requirements. While we currently have available technical expertise sufficient for the requirements of our business, expansion of our business could require us to employ additional highly skilled technical personnel. We expect competition for such personnel to increase as the market for solar power systems expands.

There can be no assurance that we will be able to attract and retain sufficient numbers of highly skilled technical employees in the future including a successor CFO. The loss of personnel or our inability to hire or retain sufficient personnel at competitive rates of compensation could impair our ability to secure and complete customer engagements and could harm our business.

Unexpected warranty expenses or service claims could reduce our profits.

We maintain a warranty reserve on our balance sheet for potential warranty or service claims that could occur in the future. This reserve is adjusted based on our ongoing operating experience with equipment and installations. It is possible, perhaps due to bad supplier material or defective installations, that we would have actual expenses substantially in excess of the reserves we maintain. Our failure to accurately predict future warranty claims could result in unexpected profit volatility.

RISKS RELATING TO OUR INDUSTRY

We have experienced technological changes in our industry. New technologies may prove inappropriate and result in liability to us or may not gain market acceptance by our customers.

The solar power industry (and the alternative energy industry, in general) is subject to technological change. Our future success will depend on our ability to appropriately respond to changing technologies and changes in function of products and quality. If we adopt products and technologies that are not attractive to consumers, we may not be successful in capturing or retaining a significant share of our market. In addition, some new technologies are relatively untested and unperfected and may not perform as expected or as desired, in which event our adoption of such products or technologies may cause us to lose money.

A drop in the retail price of conventional energy or non-solar alternative energy sources may negatively impact our profitability.

We believe that an end customer's decision to purchase or install solar power capabilities is primarily driven by the cost and return on investment resulting from solar power systems. Fluctuations in economic and market conditions that affect the prices of conventional and non-solar alternative energy sources, such as decreases in the prices of oil and other fossil fuels, could cause the demand for solar power systems to decline, which would have a negative impact on our profitability. Changes in utility electric rates or net metering policies could also have a negative effect on our business.

Table of Contents

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

New government regulations or utility policies pertaining to solar power systems are unpredictable and may result in significant additional expenses or delays and, as a result, could cause a significant reduction in demand for solar energy systems and our services. For example, there currently exist metering caps in certain jurisdictions which effectively limit the aggregate amount of power that may be sold by solar power generators into the power grid.

Our business depends on the availability of rebates, tax credits and other financial incentives; reduction, elimination or uncertainty of which would reduce the demand for our products and services.

Many states offer incentives to offset the cost of solar power systems. These systems can take many forms, including direct rebates, state tax credits, system performance payments and Renewable Energy Credits (“RECs”). Moreover, the federal government currently offers a 30% tax credit for the installation of solar power systems. Businesses may also elect to accelerate the depreciation on their system over five years. Uncertainty about the introduction of, reduction in or elimination of such incentives or delays or interruptions in the implementation of favorable federal or state laws could substantially increase the cost of our systems to our customers, resulting in significant reductions in demand for our services, which would negatively impact our sales.

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

The market for solar power products is emerging and rapidly evolving, and its future success is uncertain. Many factors will influence the widespread adoption of solar power technology and demand for solar power products, including:

- cost effectiveness of solar power technologies as compared with conventional and non-solar alternative energy technologies;
- performance and reliability of solar power products as compared with conventional and non-solar alternative energy products;
- capital expenditures by customers that tend to decrease if the U.S. economy slows; and
- availability of government subsidies and incentives.

If solar power technology proves unsuitable for widespread commercial deployment or if demand for solar power products fails to develop sufficiently, we would be unable to generate enough revenue to achieve and sustain profitability. In addition, demand for solar power products in the markets and geographic regions we target may not develop or may develop more slowly than we anticipate.

Table of Contents

RISKS RELATING TO OUR COMMON STOCK

We were delisted from the Nasdaq Capital Market and there is a limited trading volume for our common stock on the OTCPink.

In September 2012, our common stock was delisted from the Nasdaq Capital Market. Our common stock, which currently trades on the OTCPink, does not have substantial trading volume. As a result, relatively small trades of our common stock may have a significant impact on the price of our common stock and, therefore, may contribute to the price volatility of our common stock. Because of the limited trading volume in our common stock and the price volatility of our common stock, you may be unable to sell your shares of common stock when you desire or at the price you desire. The inability to sell your shares in a declining market because of such illiquidity or at a price you desire may substantially increase your risk of loss.

In addition, the delisting of our common stock from the Nasdaq Capital Market has materially adversely affected our ability to raise capital on terms acceptable to us or at all and could adversely affect institutional investor interest and we anticipate that this situation will continue into the future.

On August 30, 2013, we entered into a securities purchase agreement with Alpha Capital Anstalt ("Alpha Capital") relating to the sale and issuance of a convertible note in the principal amount of \$200,000 that matures August 29, 2015 (the "Convertible Note"). Subsequently, on November 25, 2013 and December 19, 2013, we entered into additional securities purchase agreements with Alpha Capital relating to the sale and issuance of convertible notes in the principal amount of \$200,000 and \$250,000, respectively, which mature on November 25, 2015 and December 19, 2015. On January 27, 2014, we issued a convertible note in the principal amount of \$100,000 that matures January 27, 2016 under the Securities Purchase Agreement we entered into with Alpha Capital on December 19, 2013. In connection with the issuance of the December 19, 2013 convertible note, we also issued 6,250,000 warrants to purchase shares of our common stock at a price of \$0.02 per share. On February 25, 2014, we entered into a Securities Purchase Agreement with the Alpha Capital related to the sale and issuance of a convertible note in the principal amount of \$200,000 that matures February 25, 2016. In connection with the issuance of the February 25, 2014 convertible note, we issued 5,000,000 warrants to purchase shares of our common stock at a price of \$0.02 per share. On March 18, 2014, we entered into a Securities Purchase Agreement we entered into with the Alpha Capital related to the sale and issuance of a convertible note in the principal amount of \$300,000 that matures March 18, 2016. In connection with the March 18, 2014 convertible note, we issued a five-year warrant to purchase 7,500,000 shares of our common stock at an exercise price of \$0.02 per share. Each of the Convertible Notes bear interest at the rate of 8% per annum compounded annually, are payable at maturity and the principal and interest outstanding under the convertible notes are convertible into shares of our common stock, at any time after issuance, at the option of the purchaser, at a conversion price equal to \$0.02 per share, subject to adjustment upon the happening of certain events, including stock dividends, stock splits and the issuance of common stock equivalents at a price below the conversion price. Subject to our fulfilling certain conditions, including beneficial ownership limits, the convertible notes are subject to a mandatory conversion if the closing price of our common stock for any 20 consecutive days commencing six months after the issue date of the convertible notes equal or exceeds \$0.04 per share. During the three months ended March 31, 2015, the remaining outstanding convertible notes in the principal amount of approximately \$520,000, along with accrued interest of \$47,134, were converted into 34,565,577 shares of our common stock.

On November 1 and December 1, 2013, and on January 1, February 1 and March 1, 2014, we issued convertible notes to our financial advisory firm in the principal amount of \$30,000 each for a total of \$150,000, which mature on October 31, November 30 and December 31, 2014, and on January 31 and February 28, 2015, respectively. On April 1, May 1 and June 1, 2014, we issued convertible notes to our financial advisory firm in the principal amount of \$20,000 each, for a total of \$60,000, which mature on March 31, April 30 and May 31, 2015, respectively. On July 1, 2014, we issued convertible notes to our financial advisory firm in the principal amount of \$10,000, which matures on

June 30, 2015. Each of the Convertible Notes bear interest at the rate of 8% per annum compounded annually, are payable at maturity and the principal and interest outstanding under the convertible notes are convertible into shares of our common stock, at any time after issuance, at the option of the purchaser, at a conversion price equal to \$0.02 per share. Unless waived in writing by the purchaser, no conversion of the convertible notes can be effected to the extent that as a result of such conversion the purchaser would beneficially own more than 9.99% in the aggregate of our issued and outstanding common stock immediately after giving effect to the issuance of common stock upon conversion. As of December 31, 2014, convertible notes in the principal amount of \$940,000, along with accrued interest of \$68,319, were converted into 50,439,751 shares of our common stock.

When the investors convert our convertible notes or exercise the warrant, our stockholders are expected to experience dilution in the net tangible book value of their common stock. In addition, the sale or availability for sale of the underlying shares or shares sold pursuant to the December Equity Purchase Agreement in the marketplace could depress our stock price. As a result, the investors could resell the underlying shares immediately upon issuance, which may result in significant downward pressure on the market price of our stock.

Table of Contents

Future sales of common stock by our existing stockholders may cause our stock price to fall.

The market price of our common stock could decline as a result of sales by our existing stockholders of shares of common stock in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate. As of June 26, 2015, we had 399,153,951 shares of common stock outstanding and we had warrants to purchase 22,148,045 shares of common stock and options to purchase 37,034,483 shares of common stock outstanding.

All of the shares of common stock issuable upon exercise of our outstanding vested options will be freely tradable without restriction under the federal securities laws.

Our stock price may be volatile, which could result in substantial losses for investors.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in response to various factors, some of which are beyond our control, including the following:

- decisions by us or our creditors to discontinue operation
- technological innovations or new products and services by us or our competitors;
- announcements or press releases relating to the energy sector or to our business or prospects;
- additions or departures of key personnel;
- regulatory, legislative or other developments affecting us or the solar power industry generally;
- our ability to execute our business plan;
- operating results that fall below expectations;
- volume and timing of customer orders;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in our financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also significantly affect the market price of our common stock.

Our stock is a penny stock and therefore may be less attractive to investors.

Our stock is considered to be a penny stock. The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided

by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

Table of Contents

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with: (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

RISKS RELATING TO OUR COMPANY

Our financial condition does not currently allow for the growth needed to maintain our strategy of licensing solar power systems and re-entering the residential solar installation business.

Our cash on hand and receivables due to us, along with our current expenses, do not permit capital expenditure into the strategic areas of growth in which we believe we need to invest in in order to increase revenue and target towards profitability. If we are not able to increase our revenue and eventually attain profitability, we will run short of funds and may decide to or may be forced to discontinue our operations.

We are continuing to evaluate our inventory levels and may be required to write down certain levels

If financial rules and regulations require, or if we believe it is appropriate under such financial rules and regulations, we may write down the value of certain inventory. If we do write down inventory levels, then our financials may be negatively affected and that may affect our stock price.

We are subject to the reporting requirements of the federal securities laws, which impose additional burdens on us.

We are a public reporting company and, accordingly, subject to the information and reporting requirements of the Exchange Act and other federal securities laws, including compliance with the Sarbanes-Oxley Act of 2002. As a public company, these rules and regulations result in increased compliance costs and make certain activities more time consuming and costly.

Table of Contents

Our Certificate of Incorporation authorizes our board to create new series of preferred stock without further approval by our stockholders, which could adversely affect the rights of the holders of our common stock.

Our Board of Directors has the authority to fix and determine the relative rights and preferences of preferred stock. Our Board of Directors also has the authority to issue preferred stock without further stockholder approval. As a result, our Board of Directors could authorize the issuance of new series of preferred stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock and the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock. In addition, our Board of Directors could authorize the issuance of new series of preferred stock that has greater voting power than our common stock or that is convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing stockholders.

Our recent increase in our authorized shares of common stock and our issuances of convertible notes could result in future dilution of our common stock.

If we sell additional equity or convertible debt securities, those sales could result in additional dilution to our stockholders. In addition, holders of our convertible notes have the right to convert their notes into shares of our Common Stock, subject to a blocker of 9.99% of our outstanding common stock which will result in substantial dilution to our stockholders. In addition, the increase in our number of authorized shares of common stock to 1,250,000,000 in June 2015 allows us to issue many more shares of common stock.

If we issue shares below \$0.01 per share, we will need the consent of Alpha Capital and there is no guarantee that we will get such consent

When we issued to Alpha Capital the convertible note in February 2015, a condition of the note was that we are not permitted to issue shares below \$0.01 without their consent. If under this offering we propose to issue shares below that share price, we will need the consent of Alpha. There is no guarantee that Alpha will provide that consent, or that if they provide consent, that they will not so without an extra cost. If we do not receive their consent, we may not be able to continue to issue stock under this offering.

RISKS RELATING TO THIS OFFERING

Future issuances of common shares may be adversely affected by the Equity Line.

The market price of our common stock could decline as a result of issuances and sales by us, including pursuant to the Equity Line under the December Equity Purchase Agreement, or sales by our existing shareholders, of common stock, or the perception that these issuances and sales could occur. Sales by our shareholders might also make it more difficult for us to issue and sell common stock at a time and price that we deem appropriate. It is likely that the sale of shares by Southridge will depress the market price of our common stock.

Table of Contents

Draw downs under the December Equity Purchase Agreement may cause dilution to existing shareholders.

Under the terms of the December Equity Purchase Agreement, Southridge has committed to purchase up to \$5,000,000 worth of shares of our common stock. From time to time during the term of the December Equity Purchase Agreement, and at our sole discretion, we have and we may continue to present Southridge with a Draw Down Notice requiring Southridge to purchase shares of our common stock. The purchase price to be paid by Southridge will be 90% of the average of the daily Value Weighted-Average Price (“VWAP”) during the Valuation Period. On the date the Draw Down Notice is delivered to Southridge, we are required to deliver an estimated amount of shares to Southridge’s brokerage account equal to 125% of the Draw Down Amount indicated in the Draw Down Notice divided by the closing bid price of the trading day immediately prior to the date of the Draw Down Notice (“Estimated Shares”). The Valuation Period begins the first trading day after the Estimated Shares have been delivered to Southridge’s brokerage account and have been cleared for trading and terminate on the tenth day thereafter. At the end of the Valuation Period, if the number of Estimated Shares delivered to Southridge is greater than the shares issuable pursuant to a Draw Down, then Southridge is required to return to us the difference between the Estimated Shares and the actual number of shares issuable pursuant to the Draw Down. If the number of Estimated Shares is less than the shares issuable under the Draw Down, then we are required to issue additional shares to Southridge equal to the difference; provided that the number of shares to be purchased by Southridge may not exceed the number of shares that, when added to the number of shares of our common stock then beneficially owned by Southridge, would exceed 9.99% of our shares of common stock outstanding. As a result, our existing shareholders will experience immediate dilution upon the purchase of any of the shares by Southridge. The issue and sale of the shares under the December Equity Purchase Agreement may also have an adverse effect on the market price of the common shares. Southridge may resell some, if not all, of the shares that we issue to it under the December Equity Purchase Agreement and such sales could cause the market price of the common stock to decline significantly. To the extent of any such decline, any subsequent puts would require us to issue and sell a greater number of shares to Southridge in exchange for each dollar of the put amount. Under these circumstances, the existing shareholders of our company will experience greater dilution. The effect of this dilution may, in turn, cause the price of our common stock to decrease further, both because of the downward pressure on the stock price that would be caused by a large number of sales of our shares into the public market by Southridge, and because our existing stockholders may disagree with a decision to sell shares to Southridge at a time when our stock price is low, and may in response decide to sell additional shares, further decreasing our stock price. If we draw down amounts under the Equity Line when our share price is decreasing, we will need to issue more shares to raise the same amount of funding.

There is no guarantee that we will satisfy the conditions to the December Equity Purchase Agreement.

Although the December Equity Purchase Agreement provides that we can require Southridge to purchase, at our discretion, up to \$5,000,000 worth of shares of our common stock in the aggregate (of which \$3,945,000 remains available for sale to Southridge under the December Equity Purchase Agreement), there can be no assurances given that we will be able to satisfy the closing conditions applicable for each put. Further, there are limitations on the number of shares in that each draw down amount is limited to the lowest closing bid price during the Valuation Period, subject to the floor. In addition, the number of shares to be purchased by Southridge may not exceed the number of shares that, when added to the number of shares of our common stock then beneficially owned by Southridge, would exceed 9.99% of our shares of common stock outstanding. Other conditions include requiring that the registration statement of which this prospectus forms a part remains effective at all times during the term of the December Equity Purchase Agreement, that there is no material adverse change to our business on the date of delivery of a Draw Down Notice and that our common stock continues to trade of the OTCPink. If we fail to satisfy the applicable closing conditions, we will not be able to sell the put shares to Southridge.

There is no guarantee that we will be able to fully utilize the Equity Line.

There are limitations on the number of put shares that may be sold in each put. The number of put shares that Southridge shall be obligated to purchase in a given put shall not exceed the number of shares that, when added to the number of shares of our common stock then beneficially owned by Southridge, would exceed 9.99% of our shares of common stock outstanding. Thus, our ability to access the bulk of the funds available under the December Equity Purchase Agreement depends in part on Southridge's resale of stock purchased from us in prior puts. If with regard to a particular put, the share volume limitation is reached, we will not be able to sell the proposed put shares to Southridge. Accordingly, the Equity Line may not be available at any given time to satisfy our funding needs.

Table of Contents

Sales of put shares under the December Equity Purchase Agreement could result in the possibility of short sales.

Although Southridge has agreed not to enter into any “short sale” (as such term is defined in Rule 200 of Regulation SHO of the Exchange Act), of our common stock, the sale after delivery of a put notice of such number of shares of common stock reasonably expected to be purchased under a put notice is not deemed a “short sale.” Accordingly, Southridge may enter into sales or other arrangements it deems appropriate with respect to shares of our common stock after it receives a put notice under the December Equity Purchase Agreement so long as such sales or arrangements do not involve more than the number of put shares expected to be purchased under the applicable put notice. Any downward pressure on the market price of our common stock due to the issue and sale of common stock under the Equity Line could encourage short sales. If the market price of our common stock decreases during the put period it will reduce the amount paid by Southridge for the put shares. In a short sale, a prospective seller borrows common shares from a shareholder or broker and sells the borrowed common shares. The prospective seller hopes that the common share market price will decline, at which time the seller can purchase common shares at a lower price for delivery back to the lender. The seller profits when the common share market price declines because it is purchasing common shares at a price lower than the sale price of the borrowed common shares. Such sales could place downward pressure on the market price of the common stock by increasing the number of common shares being sold, which could further contribute to any decline of the market price of the common shares.

There is uncertainty as to number of subscription shares and the amount Southridge will pay for the put shares.

The actual number of shares we will issue in any particular put or in total under the December Equity Purchase Agreement is uncertain. Subject to certain limitations in the December Equity Purchase Agreement, we have the discretion to give a put notice at any time throughout the term. The number of shares we must issue after giving a put notice will fluctuate based on the market price of the common shares during the put pricing period. Southridge will receive more shares if the market price of our common stock declines. Since the price per share of each put share will fluctuate based on the market price of our common stock during the put pricing period, the actual amount Southridge will pay for the put shares included in any particular put will decrease if the market price of our common stock declines. We submitted various take-down requests during the first quarter of 2015 pursuant to the terms of the December Equity Purchase Agreement. As of June 26, 2015, 79,273,221 shares had been sold at an average price of \$0.0133 per share, resulting in total proceeds of approximately \$1,055,000 and approximately 5.7 million shares remain available for sale to Southridge under the December Equity Purchase Agreement.

Table of Contents

USE OF PROCEEDS

We will not receive any proceeds from the sale of the common stock by the selling security holder pursuant to this prospectus. All proceeds from the sale of the shares will be for the account of the selling security holder.

We have agreed to bear the expenses relating to the registration of the shares for the selling security holder. We anticipate receiving proceeds from any “puts” tendered to Southridge under the Equity Line. Such proceeds from the Equity Line are intended to be used approximately as follows: to fund our research and development, marketing and advertising, distribution efforts, technology development, product line expansion and enhancement and working capital needs. To date, we have received approximately \$1,055,000 from the sale of 79,273,221 shares of common stock under the December Equity Purchase Agreement.

Table of Contents

DILUTION

Although the fixed offering price of \$0.011 was based on the closing price of our shares of common stock as listed on the OTCPink on June 26, 2015, it may not be the actual sales price of the shares registered hereunder at the time they are sold, if shares were to be sold at such price, investors would experience an immediate and substantial dilution in the projected net tangible book value of the common stock from the price that the investors in our recent private placement offering. The net tangible book value of our common stock as of March 31, 2015 was (\$3,266,502), or (\$0.0088) per share of common stock. Net tangible book value per share is equal to our total tangible assets, less total liabilities, divided by the number of shares of common stock outstanding. If you buy stock registered in this offering at \$0.011 per share, you will pay substantially more than our current common stockholders paid for their shares. The difference between the public offering price per share and the pro forma net tangible book value per share of our common stock after this offering constitutes the dilution to investors in this offering.

The following table illustrates the dilution to the new investors on a per-share basis:

Public offering price		\$	0.011
Net tangible book value per share as of March 31, 2015		\$	(0.0088)
Increase in net tangible book value per share attributable to new investors			0.0053
Net tangible book value per share after offering			(0.0035)
Dilution per share to new investors in this offering		\$	0.0145

The following table sets forth potential shares of common stock at the end of each period presented that are not included in the calculation of diluted net loss per share because to do so would be anti-dilutive:

	March 31, 2015
Stock options outstanding	37,034,483
Unvested restricted stock	—
Warrants to purchase common stock	22,148,045

Table of Contents

DETERMINATION OF OFFERING PRICE

The offering price for the shares sold to Southridge under the put will equal 90% of the average of the daily VWAP during the Valuation Period. To the extent that the disparity between the offering price and market price of the common stock is material, such disparity was determined by our company to be fair in consideration of Southridge establishing a line of credit to facilitate our ongoing operations.

December Equity Purchase Agreement

We entered into the December Equity Purchase Agreement with Southridge on December 10, 2014, which superseded our prior Equity Purchase Agreements that we had entered into on January 23, 2014 and terminated on December 9, 2014. Pursuant to the December Equity Purchase Agreement, Southridge has committed to purchase up to \$5,000,000 worth of our common stock, over a period of time terminating on the earlier of: (i) July 16, 2106, which date is 18 months from the effective date of the Initial Registration Statement; or (ii) the date on which Southridge has purchased shares of our common stock pursuant to the December Equity Purchase Agreement for an aggregate maximum purchase price of \$5,000,000; such commitment is subject to certain conditions, including limitations based on the trading volume of our common stock. The aggregate number of shares issuable by us and purchasable by Southridge pursuant to the December Equity Purchase Agreement is \$5,000,000 worth of stock, which was determined by our board of directors.

As of June 26, 2015, we have received approximately \$1,055,000 from draw downs under the December Equity Purchase Agreement, and still have available approximately \$3,945,000 worth of shares of common stock available for sale under the December Equity Purchase Agreement if all conditions are met. We may draw on the facility from time to time, as and when we determine appropriate in accordance with the terms and conditions of the December Equity Purchase Agreement. The purchase price to be paid by Southridge will be 90% of the average of the daily VWAP during the Valuation Period. On the date the Draw Down Notice is delivered to Southridge, we are required to deliver an estimated amount of shares to Southridge's brokerage account equal to 125% of the Draw Down Amount indicated in the Draw Down Notice divided by the closing bid price of the trading day immediately prior to the date of the Draw Down Notice. The Valuation Period begins the first trading day after the Estimated Shares have been delivered to Southridge's brokerage account and have been cleared for trading and terminate on the tenth day thereafter. At the end of the Valuation Period, if the number of Estimated Shares delivered to Southridge is greater than the shares issuable pursuant to a Draw Down, then Southridge is required to return to us the difference between the Estimated Shares and the actual number of shares issuable pursuant to the Draw Down. If the number of Estimated Shares is less than the shares issuable under the Draw Down, then we are required to issue additional shares to Southridge equal to the difference; provided that the number of shares to be purchased by Southridge may not exceed the number of shares that, when added to the number of shares of our common stock then beneficially owned by Southridge, would exceed 9.99% of our shares of common stock outstanding. As a result, our existing stockholders will experience immediate dilution upon the purchase of any of the shares by Southridge. If we fail to satisfy the applicable closing conditions, we will not be able to sell the put shares to Southridge. Southridge's obligations under the Equity Line are not transferable.

There are put restrictions applied on days between the put notice date and the closing date with respect to that particular put. During such time, we are not entitled to deliver another put notice.

Table of Contents

There are circumstances under which we will not be entitled to put shares to Southridge, including the following:

- we will not be entitled to put shares to Southridge unless there is an effective registration statement under the Securities Act of 1933, as amended (the “Securities Act”), to cover the resale of the shares by Southridge;
- we will not be entitled to put shares to Southridge unless our common stock continues to be publicly traded;
- we will not be entitled to put shares to Southridge if an injunction shall have been issued and remain in force against us, or action commenced by a governmental authority which has not been stayed or abandoned, prohibiting the purchase or the issuance of the shares to Southridge;
- we will not be entitled to put shares to Southridge if we have not complied with our obligations and are otherwise in breach of or in default under, the December Equity Purchase Agreement, our registration rights agreement with Southridge (the “Registration Rights Agreement”) or any other agreement executed in connection therewith with Southridge;
- we will not be entitled to put shares to Southridge to the extent that such shares would cause Southridge’s beneficial ownership to exceed 9.99% of our outstanding shares; and
- we will not be entitled to put shares to Southridge if we take any of the following actions on any trading day after a Draw Down Notice is delivered:
 - (a) subdivide or combine shares of common stock;
 - (b) pay a dividend in shares of common stock or make any other distribution of shares of common stock, except for dividends paid with respect to any series of preferred stock authorized by us, whether existing now or in the future;
 - (c) issue any options or other rights to subscribe for or purchase shares of common stock other than pursuant to the December Equity Purchase Agreement, and other than options or stock grants issued or issuable to directors, officers and employees pursuant to a stock option program, whereby the price per share for which shares of common stock may at any time thereafter be issuable pursuant to such options or other rights shall be less than the closing bid price in effect immediately prior to such issuance;
 - (d) issue any securities convertible into or exchangeable for shares of common stock and the consideration per share for which shares of common stock may at any time thereafter be issuable pursuant to the terms of such convertible or exchangeable securities shall be less than the closing bid price in effect immediately prior to such issuance;
 - (e) issue shares of common stock otherwise than as provided in the foregoing subsections (a) through (d), at a price per share less, or for other consideration lower, than the closing bid price in effect immediately prior to such issuance, or without consideration; or
 - (f) make a distribution of our assets or evidences of indebtedness to the holders of common stock as a dividend in liquidation or by way of return of capital or other than as a dividend payable out of earnings or surplus legally available for dividends under applicable law or any distribution to such holders made in respect of the sale of all or substantially all of our assets (other than under the circumstances provided for in the foregoing subsections (a) through (e)).

The December Equity Purchase Agreement further provides that Southridge is entitled to customary indemnification from us for any losses or liabilities it suffers as a result of any material misrepresentation, breach of warranty or nonfulfillment of or a failure to perform any material covenant or agreement contained in the December Equity Purchase Agreement.

Table of Contents

The December Equity Purchase Agreement also contains representations and warranties of each of the parties. The assertions embodied in those representations and warranties were made for purposes of the December Equity Purchase Agreement and are subject to qualifications and limitations agreed to by the parties in connection with negotiating the terms of the December Equity Purchase Agreement. In addition, certain representations and warranties were made as of a specific date, may be subject to a contractual standard of materiality different from what a stockholder or investor might view as material, or may have been used for purposes of allocating risk between the respective parties rather than establishing matters as facts.

Pursuant to the terms of the December Equity Purchase Agreement we paid Southridge a commitment fee of 1,000,000 shares of our common stock (having a value of \$17,900 based upon the closing price of our common stock on January 8, 2015), of which 500,000 shares of our common stock were issued to Southridge on January 16, 2015, the date that the Initial Registration Statement and the remaining 500,000 shares of common stock were issued on February 10, 2015, the date that we delivered our first Draw Down Notice to Southridge. None of the commitment fees were included in the Initial Registration Statement and none are included in the 150,000,000 shares of common stock being registered under the registration statement of which this prospectus forms a part.

Southridge has agreed that any time prior to the termination of the December Equity Purchase Agreement neither it nor any of its affiliates shall engage in or enter into, directly or indirectly, any short-sale of our common stock or any hedging transaction that establishes a net short position in our common stock.

Table of Contents

Dilutive Effects

Under the December Equity Purchase Agreement, the purchase price of the shares to be sold to Southridge will be at a price equal to 90% of the lowest closing bid price during the Valuation Period. The table below illustrates an issuance of shares of common stock to Southridge under the December Equity Purchase Agreement for a hypothetical draw down amount of \$50,000, assuming the lowest closing bid price during the Valuation Period of \$0.011 per share.

Draw Down Amount	Price to be Paid by Southridge	Number of Shares to be Issued
\$50,000	\$45,000	4,545,455

By comparison, if the lowest closing bid price during the Valuation Period was \$0.01 per share, the number of shares that we would be required to issue in order to have the same draw down amount of \$50,000 would be greater, as shown by the following table:

Draw Down Amount	Price to be Paid by Southridge	Number of Shares to be Issued
\$50,000	\$45,000	5,000,000

Accordingly, there would be dilution of an additional 454,545 shares issued due to a lowering of the stock price by \$0.001 per share. In effect, if we are interested in receiving a fixed funding amount, a lower price per share of our common stock means a higher number of shares to be issued to Southridge in order to receive that fixed funding amount, which equates to greater dilution of existing stockholders. The effect of this dilution may, in turn, cause the price of our common stock to decrease further, both because of the downward pressure on the stock price that would be caused by a large number of sales of our shares into the public market by Southridge, and because our existing stockholders may disagree with a decision to sell shares to Southridge at a time when our stock price is low, and may in response decide to sell additional numbers of shares, further decreasing our stock price.

The actual number of shares that will be issued to Southridge under the Equity Line will depend upon the market price of our common stock at the time of our puts to Southridge

Table of Contents

Likelihood of Accessing the Full Amount of the Equity Line

Notwithstanding that the Equity Line is in an amount of \$5,000,000, we anticipate that the actual likelihood that we will be able access the full \$5,000,000 (minus the approximately \$1,055,000 already drawn) is low due to several factors, including that our ability to access the Equity Line is limited by share volume restrictions and impacted by our stock price. If the price of our stock remains at \$.011 per share, the sale of all of the shares registered in this prospectus will result in our sale of \$1,650,000 of the \$5,000,000 (minus the approximately \$1,055,000 already drawn) in this registration statement. Our use of the Equity Line will continue to be limited and restricted if our share trading volume and/or and market price of our stock continue at their current levels or decrease further in the future from the volume and stock prices reported over the past year.

The 150,000,000 shares which we determined to register in this registration statement, represents approximately 38% of our public float (after subtracting the holdings of insiders and controlling stockholders) and utilizes \$1,650,000 (or approximately 41.8%) of the remaining \$3,945,000 available under the Equity Funding Facility, based on the closing price of our common stock of \$0.011 on June 26, 2015. If the market price of our stock should increase above \$0.02 per share then the 150,000,000 shares registered hereby would enable us to use an additional portion to the extent of the rise in the market price above \$0.02. Conversely, if the market price of our stock should decrease for any reason, then the 150,000,000 shares registered hereby would enable us to use less than \$1,650,000 to the extent of the decline in our market price below \$0.011. If the market price of our stock would increase to \$0.0292 a share, then at \$0.0292 per share, if we were able to sell all 150,000,000 shares we would receive \$3,945,000 in proceeds. During the first quarter 2015 and during 2014, the closing price for our stock has ranged from \$0.01 to \$0.04 per share and has been at \$0.013 for a large portion of March 2015 through June 2015, \$0.02 for a larger portion of July 2014 through February 2015 the first quarter of 2015, and \$0.03 per share for a large portion of the months of February through June 2014. While we believe our stock price is currently undervalued at \$0.013 and that our prior issues with our supplier, which had directly and adversely impacted our operations and since been resolved, will no longer be a drag on our stock performance, no assurance can be given that the volume and/or market price of stock will increase (and/or not decline) from current levels to permit us to utilize the full amount of the Equity Line. Our daily trading volume for the last several months has been to a large extent in excess of 1,000,000 shares. For us to utilize the full remaining \$3,945,000 through the sale of all 150,000,000 shares being registered our stock price would need to increase to close to \$0.0292 a share. If we are able to sell all 150,000,000 shares of common stock at a price per share below \$0.0292, we may consider registering additional shares for sale under the Equity Line. If we are unable to fully use the Equity Line we will need to find alternative sources of funding or we may need to scale back our operations until such time as we have sufficient revenue to support increased operations. We currently have insufficient cash to operate our business at the current level for the next twelve months and insufficient cash to achieve our business goals. We require additional working capital to fund purchases of solar panels and microinverters and to cover our payroll and lease expenses. During the first nine months of 2014 we had limited sales revenue due to a changing business model and raised \$677,000 through sales under our prior equity line that we terminated in December 9, 2014. Through June 26, 2015, we raised approximately \$1,055,000 from sales under the December Equity Purchase Agreement. If we are unable to use our Equity Line there can be no assurance that alternative sources of funding will be available upon acceptable terms.

BUSINESS

Andalay Solar, Inc. and its subsidiaries (Andalay Solar, the Company, we, us or our) is a designer and manufacturer of integrated solar power systems and solar panels with integrated microinverters (which we call AC solar panels). We design, market and sell these solar power systems to solar installers and do-it-yourself customers in the United States, Canada, the Caribbean and South America through distribution partnerships, our dealer network and retail outlets. Our products are designed for use in solar power systems for residential and commercial rooftop customers. Prior to September 2010, we were also in the solar power installation business, but decided to exit that business. During the

fourth quarter 2014, we re-entered the solar power installation business. Additionally, we are engaging in a new strategy of licensing our patented products to large module manufacturers and entering into distribution agreements with these manufacturers and large national distributors/installers. This new strategy is less capital intensive and aligns us with companies that have proven track records in the residential solar industry.

In September 2007, we introduced our “plug and play” solar panel technology (under the brand name “Andalay”), which we believe significantly reduces the installation time and costs, and provides superior reliability and aesthetics, when compared to other solar panel mounting products and technology. Our panel technology offers the following features: (i) mounts closer to the roof with less space in between panels; (ii) no unsightly racks underneath or beside panels; (iii) built-in wiring connections; (iv) approximately 70% fewer roof-assembled parts and approximately 50% less roof-top labor required; (v) approximately 25% fewer roof attachment points; (vi) complete compliance with the National Electric Code and UL wiring and grounding requirements. We have seven U.S. patents (Patent No. 7,406,800, Patent No. 7,832,157, Patent No. 7,866,098, Patent No. 7,987,641, Patent No. 8,505,248, Patent No. 8,813,460, and Patent No. 8,938,919) that cover key aspects of our Andalay solar panel technology, as well as U.S. Trademark No. 348565 3 for registration of the mark “Andalay Solar.” In addition to these U.S. patents, we have eight foreign patents. Currently, we have 15 issued patents and nine other pending U.S. and foreign patent applications that cover the Andalay technology working their way through the USPTO and foreign patent offices.

Table of Contents

In February 2009, we began our strategic relationship with Enphase, a leading manufacturer of microinverters, to develop and market solar panel systems with ordinary AC house current output instead of high voltage DC output. We introduced Andalay AC panel products and began offering them to our customers in the second quarter of 2009. Andalay AC panels cost less to install, are safer, and generally provide higher energy output than ordinary DC panels. Andalay AC panels deliver 5-25% more energy compared to ordinary panels, produce safe household AC power, and have built-in panel level monitoring, racking, wiring, grounding and microinverters. With 80% fewer parts and 5 – 25% better performance than ordinary DC panels, we believe Andalay AC panels are an ideal solution for solar installers and do-it-yourself customers.

We are engaged in two business segments, (i) we market, sell, design and install systems for residential and commercial customers and (ii) we sell our AC solar panels to solar installers, trade workers and do-it-yourself customers through distribution partnerships, our dealer network and retail outlets. Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by management in deciding how to allocate resources and in assessing performance.

On May 7, 2012, we announced the execution of an agreement and plan of merger with CBD Energy Limited, an Australian corporation (CBD), which contemplated a merger in which CBD would become our parent company. The targeted completion of the merger was repeatedly delayed and on July 18, 2013 we terminated the merger. During such merger delays, our supply relationships had been disrupted, leading to a significant decline in our revenue and the implementation of significant cost reductions, including the lay-off of employees during the time we pursued the merger. Since the termination of the merger, we have been committed to focus our attention on rebuilding our core business, expanding our current product offering and exploring strategic opportunities.

On May 30, 2013, we entered into a supply agreement for assembly of our proprietary modules with Environmental Engineering Group Pty Ltd, (EEG) an assembler of polycrystalline modules located in Australia. In August 2013, we began receiving product from EEG and began shipping product to customers during the third calendar quarter of 2013. In September 2013, we entered into a second supply agreement for assembly of our proprietary modules with Tianwei New Energy Co, Ltd., (Tianwei) a panel supplier located in China. We began receiving initial shipments from Tianwei in February 2014.

On July 16, 2014, we entered into an agreement for supply of solar PV modules with Auxin Solar Inc. These modules are assembled in the United States and we received the first slate of panels in November 2014.

In June 2015, we entered into a licensing agreement with Hyundai, whereby Hyundai will manufacture our frames under license from us. We have agreed to waive royalties under the agreement for a period of time in exchange for Hyundai investing resources to support this license agreement including as it relates to marketing, sales, certification and undertaking the needed modification of their manufacturing facility to produce the Andalay compatible modules. Hyundai has the right but not the obligation to produce Andalay compatible modules under the agreement. We believe that having Hyundai available to produce the Andalay compatible modules will increase our addressable market given the bankability and name recognition of Hyundai among our target customers and intend to achieve and grow revenue by selling the mounting hardware that complements the Andalay compatible modules.

Prior to September 2010, we were also in the solar power system installation business and we had completed over 4,300 solar power installations for customers in California, New York, New Jersey, Pennsylvania, Colorado and Connecticut since the commencement of our operations in 2001. In early 2009, we closed our non-California offices on the east coast and in Colorado and began distributing our solar power systems to customers outside of California. In September 2010, we made the strategic decision to exit our California solar panel installation business and expand our solar panel distribution network to dealers and other installers in California, by far the largest solar market in the United States. However, we recently made the decision to re-enter the solar panel installation business. Our business

is now focused on design and manufacturing activities, and sales of our solar power systems to solar installers, trade workers and retailers through distribution partnerships, our dealer network and retail home improvement outlets as well as installation of our panels.

Table of Contents

We are engaged in two business segments, (i) we market, sell, design and install systems for residential and commercial customers and (ii) we sell our AC solar panels to solar installers, trade workers and do-it-yourself customers through distribution partnerships, our dealer network and retail outlets. Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by management in deciding how to allocate resources and in assessing performance.

We were incorporated in February 2001 as Akeena Solar, Inc. in the State of California and elected at that time to be taxed as an S corporation. During June 2006, we reincorporated in the State of Delaware and became a C corporation. On August 11, 2006, we entered into a reverse merger transaction with Fairview Energy Corporation, Inc. (“Fairview”). Pursuant to the merger, our stockholders received one share of Fairview common stock for each issued and outstanding share of our common stock. Our common shares were also adjusted from \$0.01 par value to \$0.001 par value at the time of the Merger. On May 17, 2010, we entered into an exclusive worldwide license agreement with Westinghouse, Inc, which permitted us to manufacture, distribute and market solar panels under the Westinghouse name and in connection therewith, on April 6, 2011, we changed our name to Westinghouse Solar, Inc. On April 13, 2011, we effected a reverse split of our common stock at a ratio of 1 – for – 4. On August 23, 2013, the license agreement with Westinghouse, Inc. was terminated and on September 19, 2013, we changed our name to our current name, Andalay Solar, Inc. and increased our number of authorized shares of common stock to 500,000,000. On June 9, 2015, we increased the number of authorized shares of common stock to 1,250,000,000.

Our corporate headquarters is located at 48900 Milmont Drive, Fremont, CA 94538. Our telephone number is (408) 402-9400. Additional information about us is available on our website at <http://www.andalaysolar.com>. The information on our web site is not incorporated herein by reference. The information on our website is not incorporated herein by reference.

Strategy

Our philosophy is simple: “we believe that producing clean electricity directly from the sun is the right thing to do for our environment and economy.” Since our founding, we have concentrated on serving the solar power needs of residential and commercial customers tied to the electric power grid.

The solar power industry is rapidly evolving, but is still at an early stage and is highly fragmented. The prospects for long-term worldwide demand for solar power have attracted many new solar panel manufacturers, as well as a multitude of design/integration companies. We expect the commodity manufacturing segment of the industry to consolidate as more solar panel manufacturing capacity comes online.

The solar power industry is evolving and worldwide demand for residential and commercial solar systems continues to grow rapidly. More manufacturers of solar panels and mounting systems have entered the market and competition is increasingly intense in developing products and solutions which enable lower and lower-cost installations.

Accordingly, our strategy has evolved and now primarily focuses on the following:

- Developing and commercializing our solar panel technology optimized for the residential and commercial markets.
- Introducing our patented solar panel technology to the marketplace primarily through licensing agreements with bankable, top tier panel manufacturers, rather than our previous strategy of manufacturing under our own brand name via OEM suppliers.

- Focusing on growing top line revenue and gross margins from the sale of our proprietary mounting hardware.
- Reducing installation costs and improving the aesthetics and performance of solar systems compared to ordinary, commercially available solar equipment.
- Re-entering the solar power installation business in California in order to showcase best-practices for installation of our products and thereby accelerate the adoption of our products into the marketplace.

Management believes the strategy articulated above leverages the Company's strengths under the current market conditions.

Table of Contents

Industry

Electric power is used to operate businesses, industries, homes and offices and provides the power for our communications, entertainment, transportation and medical needs. As our energy supply and distribution mix changes, electricity is likely to be used more for local transportation (electric vehicles) and space/water heating needs.

According to a 2014 report from the U.S. Energy Information Administration (http://www.eia.gov/energy_in_brief/article/renewable_electricity.cfm), electricity in the U.S. is generated from the following: coal – 39%, natural gas – 27%, nuclear – 19%, oil – 1%, with renewable energy contributing 13%. “Renewable Energy” typically refers to non-traditional energy sources, including hydroelectric, wind and solar energy. Due to continuously increasing energy demands, we believe the electric power industry faces the following challenges:

- **Limited Energy Supplies.** The primary fuels that have supplied this industry, fossil fuels in the form of oil, coal and natural gas, are limited. Worldwide demand is increasing at a time that industry experts have concluded that supply is limited. Therefore, the increased demand will probably result in increased prices, making it more likely that long-term average costs for electricity will continue to increase.
- **Generation, Transmission and Distribution Infrastructure Costs.** Historically, electricity has been generated in centralized power plants transmitted over high voltage lines, and distributed locally through lower voltage transmission lines and transformer equipment. As electricity needs increase, these systems will need to be expanded. Without further investments in this infrastructure, the likelihood of power shortages (“brownouts” and “blackouts”) may increase.
- **Stability of Suppliers.** Since many of the major countries who supply fossil fuel are located in unstable regions of the world, purchasing oil and natural gas from these countries may increase the risk of supply shortages and cost increases.
- **Environmental Concerns and Climate Change.** Concerns about global warming and greenhouse gas emissions has resulted in the Kyoto Protocol, various states enacting stricter emissions control laws and utilities being required to comply with Renewable Portfolio Standards, which require the purchase of a certain amount of power from renewable sources. Currently, within the U.S., there are approximately 30 states with established RPS standards.

Solar energy is the underlying energy source for renewable fuel sources, including biomass fuels and hydroelectric energy. By extracting energy directly from the sun and converting it into an immediately usable form, either as heat or electricity, intermediate steps are eliminated. We believe, in this sense, solar energy is one of the most direct and unlimited energy sources.

Solar energy can be converted into usable forms of energy either through the photovoltaic effect (generating electricity from photons) or by generating heat (solar thermal energy). Solar thermal systems include traditional domestic hot water collectors (DHW), swimming pool collectors, and high temperature thermal collectors (used to generate electricity in central generating systems). DHW thermal systems are typically distributed on rooftops so that they generate heat for the building on which they are situated. High temperature thermal collectors typically use concentrating mirror systems and are typically located in remote sites.

Table of Contents

Anatomy of a Solar Power System

Solar power systems convert the energy in sunlight directly into electrical energy within solar cells based on the photovoltaic effect. Multiple solar cells, which produce DC power, are electrically interconnected into solar panels. A typical 250 watt solar panel may have 60 individual solar cells. Multiple solar panels are electrically wired together. The number of solar panels installed on a building are generally selected to meet that building's annual electrical usage, or selected to fill available un-shaded roof or ground space.

Ordinary solar power systems have solar panels that are electrically wired to a central inverter, which converts the power from DC to AC and interconnects with the utility grid. The following diagram schematically shows an ordinary DC solar power system:

Andalay Solar AC-ready panels integrate micro-inverters that produce AC power, eliminating the need for a central inverter. The following diagram schematically shows a typical Andalay Solar AC solar power system.

Table of Contents

Solar Electric Cells. Solar electric cells convert light energy into electricity at the atomic level. The conversion efficiency of a solar electric cell is defined as the ratio of the sunlight energy that hits the cell divided by the electrical energy that is produced by the cell. By improving this efficiency, we believe solar electric energy becomes competitive with fossil fuel sources. The earliest solar electric devices converted about 1%-2% of sunlight energy into electric energy. Current solar electric devices convert 5%-25% of light energy into electric energy (the overall efficiency for solar panels is lower than solar cells because of the panel frame and gaps between solar cells), and current mass produced panel systems are substantially less expensive than earlier systems. Effort in the industry is currently being directed towards the development of new solar cell technology to reduce per watt costs and increase area efficiencies.

Solar Panels. Solar electric panels are composed of multiple solar cells, along with the necessary internal wiring, aluminum and glass framework, and external electrical connections. Although panels are usually installed on top of a roof or on an external structure, certain designs include the solar electric cells as part of traditional building materials, such as shingles and rolled out roofing. Solar electric cells integrated with traditional shingles is usually most compatible with masonry roofs and, while it may offset costs for other building materials and be aesthetically appealing, it is generally more expensive than traditional panels. Our design integrates racking wiring and grounding components directly into the panel resulting in an integrated solution that reduces by 80%, the amount of rooftop solar components resulting in a solar power system that reduces the amount of field assembly, thereby increasing reliability and performance, while providing a better looking design.

Inverters. Inverters convert the DC power from solar panels to the AC power used in buildings. Grid-tie inverters synchronize to utility voltage and frequency and only operate when utility power is stable (in the case of a power failure these grid-tie inverters shut down to safeguard utility personnel from possible harm during repairs). Inverters also operate to maximize the power extracted from the solar panels, regulating the voltage and current output of the solar array based on sun intensity. Our solution can incorporate an integrated micro-inverter, or DC optimizer, on each panel which improves system performance, is safer for installers and homeowners, and reduces the amount of installation labor.

Monitoring. There are two basic approaches to access information on the performance of a solar power system. DC systems with central inverters collect the solar power performance data from the central inverter and then transmit that data to a digital hardware display and/or to dedicated monitoring devices connected to the internet. AC systems utilizing microinverters collect the solar power performance data of each panel and transmit panel-level and combined system data via the internet to a centralized database. AC system data on the performance of each panel and total system can then be accessed from any device with a web browser, including personal computers and cell phones.

Net Metering. The owner of a grid-connected solar electric system may not only buy, but may also sell, electricity each month. This is because electricity generated by the solar electric system can be used on-site or fed through a meter into the utility grid. Utilities are required to buy power from owners of solar electric systems (and other independent producers of electricity) under the Public Utilities Regulatory Policy Act of 1978 (PURPA). When a home or business requires more electricity than the solar power array is generating (for example, in the evening), the need is automatically met by power from the utility grid. When a home or business requires less electricity than the solar electric system is generating, the excess is fed (or sold) back to the utility and the electric meter actually spins backwards. Used this way, the utility serves as a backup to the solar system similar to the way in which batteries serve as a backup in stand-alone systems.

Table of Contents

Solar Power Benefits

The direct conversion of light into energy offers the following benefits compared to conventional energy sources:

- **Economic** — Once a solar power system is installed, the cost of generating electricity is fixed over the lifespan of the system. There are no risks that fuel prices will escalate or fuel shortages will develop. In addition, cash paybacks for systems range from 5 to 25 years, depending on the level of state and federal incentives, electric rates, annualized sun intensity and installation costs. Solar power systems at customer sites generally qualify for net metering to offset a customer's highest electric rate tiers, at the retail, as opposed to the wholesale, electric rate.
- **Convenience** — Solar power systems can be installed on a wide range of sites, including small residential roofs, the ground, covered parking structures and large industrial buildings. Solar power systems also have few, if any, moving parts and are generally guaranteed to operate for 20-25 years resulting, we believe, in low maintenance and operating costs and reliability compared to other forms of power generation.
- **Environmental** — We believe solar power systems are one of the most environmentally friendly ways of generating electricity. There are no harmful greenhouse gas emissions, no wasted water, no noise, no waste generation and no particulates. Such benefits continue for the life of the system.
- **Security** — Producing solar power improves energy security both on an international level (by reducing fossil energy purchases from hostile countries) and a local level (by reducing power strains on local electrical transmission and distribution systems).
- **Infrastructure** — Solar power systems can be installed at the site where the power is to be used, thereby reducing electrical transmission and distribution costs. Solar power systems installed and operating at customer sites may also save the cost of construction of additional energy infrastructure including power plants, transmission lines, distribution systems and operating costs.

We believe escalating fuel costs, environmental concerns and energy security make it likely that the demand for solar power systems will continue to grow. The federal government, and several states, have put a variety of incentive programs in place that directly spur the installation of grid-tied solar power systems, so that customers will “purchase” their own power generating system rather than “renting” power from a local utility. These programs include:

- **Rebates** — to customers (or to installers) to reduce the initial cost of the solar power system, generally based on the size of the system. Many states have rebates that can substantially reduce initial costs.
- **Tax Credits** — federal and state income tax offsets directly reducing ordinary income tax. There is currently a 30% federal tax credit for solar power systems.
- **Accelerated Depreciation** — solar power systems installed for businesses (including applicable home offices) are generally eligible for accelerated depreciation.

- Net Metering — provides a full retail credit for energy generated.
- Feed-in Tariffs — are additional credits to consumers based on how much energy their solar power system generates. Feed-in Tariffs set at appropriate rates have been successfully used in Europe to accelerate growth.
- Renewable Portfolio Standards — require utilities to deliver a certain percentage of power generated from renewable energy sources.
- Renewable Energy Credits (RECs) — are additional credits provided to customers based on the amount of renewable energy they produce.
- Solar Rights Acts — state laws to prevent unreasonable restrictions on solar power systems. California's Solar Rights Act has been updated several times in past years to make it easier for customers of all types and in all locations to install a solar power system.
- PPA's — Power Purchase Agreements, or agreements between a solar power system purchaser and an electricity user under which electricity is sold/purchased on a long-term basis.
- Leases — in which the solar equipment is owned by a third party entity and repaid over time by the host customer.

Table of Contents

Challenges Facing the Solar Power Industry

We believe the solar power industry faces three key challenges:

- **Customer Economics** — In many cases, the net (after applicable incentives) cost to customers for electricity produced by a solar power system at the customer’s site is comparable to conventional, utility-generated power. We believe lower equipment (primarily solar panels) and installation costs would reduce the total cost of a system and increase the potential market for solar power.
- **System Performance and Reliability** — We believe that a design that incorporates factory assembly of an integrated solar power system versus field assembly provides a more reliable solution. A system with these characteristics will deliver improved system performance and allow the customer to achieve the shortest possible payback.
- **Aesthetics** — We believe that customers prefer solar panels that blend into existing roof surfaces with fewer shiny parts, mounted closely to the roof surface and have more of a “skylight” appearance than the traditional rooftop metal framed solar panels raised off the roof.

Competition

The integrated solar panel design industry is in its early stages of development and is highly fragmented, consisting of many large and small companies. In the United States, there are many small residential solar installers, and a few large ones with dominant market share, including Solar City, Verengo, and Vivint. In October 2013, Solar City acquired Zep Solar, which also competes in the integrated solar panel design business.

We believe the principal competitive factors in the integrated solar panel design industry and solar power installation industry include:

- Quality;
- Price;
- Aesthetics;
- Time saving;
- Long-term operations and malignance cost;
- Installation cost; and
- Company reputation

We believe that our competitive advantages as a designer of integrated solar panels include:

- **Integrated DC and AC Panels Dramatically Reduce Installation Costs.** Our technology significantly reduces the installation complexity, parts and costs, as well as providing superior reliability and aesthetics for customers when compared to other solar panel mounting products and technology. In 2007, we introduced our DC panels, which offer the following advantages to our customers: (i) low profile panel design looks like a beautiful, energy producing skylight and eliminates unsightly racking and exposed wires; (ii) built-in wiring connections that improve reliability; (iii) 70% fewer roof-assembled parts and 50% less roof-top labor required; (iv) 25% fewer roof attachment points; (v) complete compliance with the National Electric Code and UL wiring and grounding requirements. In 2009 we introduced our AC panels, which deliver 5-25% more energy compared to ordinary DC panel systems, produce household AC power and have built-in panel level monitoring, racking, wiring, grounding and microinverters. With 80% fewer parts and 5 – 25% better performance than ordinary DC panel systems, we believe our AC panels are an ideal solution for solar installers, trade workers and do-it-yourself customers.
- **Proprietary Technology.** We have received seven U.S. patents and seven international patents for our technology, and have nine more U.S. and foreign patents pending.
- **Brand Recognition.** We are working to rapidly expand our distribution business and sales of our Andalay Solar Power Systems. We are seeking to emphasize that our solar panels are faster, more reliable and easier to install than other products on the market today.

Table of Contents

Our Services and Products

We are active in the solar power industry as a designer and installer of solar power systems. We specify the design of integrated solar panels and contract with existing, experienced solar panel manufacturers for the supply of solar panels. We help these manufacturing partners source unique components of our panels (typically microinverters and special frame hardware).

Our Solar Panel Technology

Based on our previous experience as a solar power installer, we believe we understand certain areas in which costs for installations can be significantly reduced. In September 2007, we introduced a new “plug and play” solar panel technology, originally launched under the brand name Andalay, which we believe significantly reduces the installation time and costs, as well as providing superior reliability and aesthetics, when compared to other solar panels.

Installation costs for a solar power system are generally proportional to the area of panels installed. Thin film and amorphous solar cell technologies, although offering solar panels that are less expensive on a cost per watt basis, are generally less efficient (producing fewer watts per square foot) and correspondingly more expensive to install. Therefore, we believe that our technology becomes even more useful for the new generation of less expensive but lower efficiency solar panels. Our panel technology is generally applicable to all framed rooftop solar cell technologies, including silicon, amorphous silicon, thin film and concentrators.

Customers

We design, market and sell to solar installers and do-it-yourself customers across the United States, Canada, Mexico, the Caribbean and South America through distribution partnerships, our dealer network and retail outlets. Our products are designed for use in solar power systems for residential and commercial rooftops customers. Our Authorized Dealer program provides installation companies with the opportunity to differentiate themselves from ordinary solar installers through product and program offerings we extend exclusively to our established Dealers. Our dealers benefit from the ability to leverage our brand, and leverage critical marketing support to help them grow their business.

Suppliers

Historically, we obtained virtually all of our solar panels from Suntech and Lightway, however we no longer order from these suppliers. In September 2013, we entered into a supply agreement for assembly of our proprietary modules with Tianwei a panel supplier located in China. We did receive product from Tianwei in February 2014 but that supply is now discontinued. In July 2014 we entered into a supply agreement with Auxin Solar for supply of their “Assembled in the USA” solar panels and we received the initial delivery of such panels in December 2014. Pursuant to our agreement with Enphase, they provide us with micro-inverters. We purchase small assembly, racking and packaging components from a variety of domestic and foreign suppliers.

Sales and Marketing

Our sales and marketing program incorporates a marketing mix of print, web, social and other media advertisements as well as participation in industry trade shows and individual discussions with prospective dealers. As we onboard dealers under our sales and marketing program, we rely on the skill of our sales team. We regularly evaluate the effectiveness of our sales team and marketing efforts using sales management software and make tactical marketing and sales changes as indicated to achieve and maintain cost effectiveness.

Table of Contents

Intellectual Property

Andalay Solar Panel

We have seven U.S. patents (Patent No. 7,406,800, Patent No. 7,832,157, Patent No. 7,866,098, Patent No. 7,987,641, Patent No. 8,505,248, Patent 8,813,460 and Patent No. 8,938,919) that cover key aspects of our Andalay solar panel technology, as well as U.S. Trademark No. 3481373 for registration of the mark “Andalay Solar.” In addition to these U.S. patents, we have eight foreign patents. Currently, we have nine other pending U.S. and foreign patent applications that cover the Andalay technology working their way through the USPTO and foreign patent offices.

The following table provides a summary of our patents:

Country of issuance	Patent Number	Date of Expiration
United States	8,813,460	September 20, 2027
United States	7,406,800	May 18, 2024
United States	7,832,157	May 18, 2024
United States	7,866,098	May 18, 2024
United States	7,987,641	May 18, 2024
United States	8,505,248	March 13, 2028
United States	8,938,919	September 21, 2027
Mexico	274,182	May 18, 2024
China	200580015652.1	May 18, 2024
Canada	2,566,296	May 18, 2024
Japan	4790718	May 18, 2024
EPO (Validated in France, Germany and the United Kingdom)	2118935	September 21, 2027
Japan	5175354	September 21, 2027
Australia	2005248343	May 18, 2024
South Korea	10-1497298	

Trademarks

We have registered with the United States Patent and Trademark Office the trademark “Instant Connect” (Reg. No. 4,290,244 and 4,290,245) for the designation of our patented “plug and play” solar panel.

We have also registered the trademarks “Double Your Power” and “Andalay Solar” with the USPTO for two goods classes: providing computer software for photovoltaic systems for evaluating electric consumption, determining system sizing, estimating electrical output, estimating customer costs, and estimating financial life cycle savings, for use by consumers and businesses; and, installation of renewable energy systems, namely photovoltaic systems composed of solar panels, inverters, racks and electrical controls. Additionally, we have applications currently pending with the United States Patent and Trademark Office to expand the goods classes for “Double Your Power” and “Andalay Solar.”

Table of Contents

From May 2010 until August 2013, we had been marketing our AC solar panels under the Westinghouse Solar brand, for which had licensed exclusive rights from Westinghouse Electric Corporation; however that license was terminated on August 23, 2013. We now market our products under the Andalay Solar brand.

Employees

As of June 26, 2015, we had 10 employees, of which 3 were sales and marketing employees, 3 were general and administrative employees, 3 were operations employees and 1 was a research and development employee. Seven employees were full-time employees and three were part-time. Our employees are not party to any collective bargaining agreement and we have never experienced an organized work stoppage. We believe our relations with our employees are good.

Property

Our principal executive offices and warehouse premises are located at 48900 Milmont Drive, Fremont, California 94538. On April 17, 2015, we entered into a sublease for 1,500 square feet of office space and 2,000 square feet of warehouse storage space for \$4,250 per month. The lease began when we initially occupied the new facilities on May 8, 2015 and the term will run for 12 months, expiring on May 30, 2016, after which it will be month-to-month.

We consolidated our executive offices with our warehouse premises effective January 1, 2014.

Legal Proceedings

On May 1, 2012, Suntech America, Inc., a Delaware corporation (Suntech America), filed a complaint for breach of contract, goods sold and delivered, account stated and open account against us in the Superior Court of the State of California, County of San Francisco. Suntech America alleged that it delivered products and did not receive full payment from us. On July 31, 2012, we and Suntech entered into a settlement of this dispute. Because of our inability to make scheduled settlement payments, on March 15, 2013, Suntech entered a judgment against us in the amount of \$946,438. As of March 7, 2014, Suntech has not sought to enforce its judgment. As of December 31, 2014 and 2013, we have included in our consolidated balance sheet a balance due to Suntech America of \$946,438.

On February 9, 2015, the law firm of Snell & Wilmer LLP filed suit against us in California Superior Court, County of Orange. The complaint alleges that we have failed to pay Snell & Wilmer fees due to that firm in connection with prior patent prosecution litigation, in an amount of no less than \$808,202, plus interest. We are defending against this action and a court date is set for January 2016.

We are also involved in other litigation from time to time in the ordinary course of business. In the opinion of management, the outcome of such proceedings will not materially affect our financial position, results of operations or cash flows.

Table of Contents

MARKET PRICE OF COMMON STOCK AND OTHER STOCKHOLDER MATTERS

Our common stock was quoted on the OTCQB Marketplace from September 6, 2012 to May 15, 2015, when it started trading on the OTCMKTS. From August 2010 to September 2012, we were traded on the NASDAQ Capital Market under the symbol WEST, from September 2007 until July 2010, we were traded under the symbol AKNS, and from August 2006 through August 2007, our common stock was quoted on the OTC Bulletin Board under the symbol AKNS.OB. Prior to that date, there was no active market for our common stock.

Our common stock is currently quoted on the OTCPink, which is sponsored by FINRA, which is a tier of the OTC Markets Group. The OTC Markets Group is a network of security dealers who buy and sell stock. The dealers are connected by a computer network that provides information on current “bids” and “asks,” as well as volume information. Our shares are quoted on the OTCPink under the symbol “WEST.”

The following table sets forth the range of high and low bid quotations for our common stock for each of the periods indicated as reported by the OTCQB/OTCPink. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Fiscal Year Ending December 31, 2015

Quarter Ended	High \$	Low \$
March 31, 2015	\$ 0.02	\$ 0.01

Fiscal Year Ending December 31, 2014

Quarter Ended	High \$	Low \$
December 31, 2014	\$ 0.02	\$ 0.01
September 30, 2014	\$ 0.03	\$ 0.01
June 30, 2014	\$ 0.04	\$ 0.02
March 31, 2014	\$ 0.05	\$ 0.02

Fiscal Year Ending December 31, 2013

Quarter Ended	High \$	Low \$
December 31, 2013	\$ 0.05	\$ 0.02
September 30, 2013	\$ 0.05	\$ 0.02
June 30, 2013	\$ 0.06	\$ 0.02
March 31, 2013	\$ 0.13	\$ 0.03

Holders

The last reported sale price of our common stock on the OTCMKTS Marketplace on June 26, 2015, was \$0.011 per share. As of June 26, 2015, we estimate we had approximately 12,000 shareholders, of which 30 are record holders of our common stock.

Table of Contents

Dividends

We have not declared or paid any cash dividends on our common stock and do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. We currently expect to retain future earnings, if any, for the development of our business. Dividends may be paid on our common stock only if and when declared by our board of directors.

Penny Stock

Our stock is considered to be a penny stock. The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with: (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

Table of Contents

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for issuance under equity compensation plans (excluding outstanding options and restricted stock awards)
Equity compensation plans approved by stock holders:			
2006 Stock Incentive Plan	37,034,483	\$ 0.03	8,551,550
Equity compensation plans not approved by stock holders		—\$	—

At our Annual Meeting of Stockholders held on June 9, 2015, our stockholders approved and adopted an amendment to our 2006 Incentive Stock Plan, increasing the number of shares of our common stock reserved for issuance under the Plan from 50,000,000 to 125,000,000.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

We are a designer and manufacturer of integrated solar power systems and solar panels with integrated microinverters (which we call AC solar panels). We design, market and sell these solar power systems to solar installers and do-it-yourself customers in the United States, Canada, the Caribbean and South America through distribution partnerships, our dealer network and retail outlets. Our products are designed for use in solar power systems for residential and commercial rooftop customers. Prior to September 2010, we were also in the solar power installation business, but decided to exit that business. During the fourth quarter 2014, we re-entered the solar power installation business. Additionally, we are engaging in a new strategy of licensing our patented products