

Westinghouse Solar, Inc.
Form 424B5
September 30, 2011

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Registration No. 333-156603

PROSPECTUS SUPPLEMENT
(To Prospectus Dated January 30, 2009)

500,000 Shares of Common Stock
Series M Warrants to Purchase 325,000 Shares of Common Stock
325,000 Shares of Common Stock Underlying the Series M Warrants

We are offering 500,000 shares of our common stock (the “Shares”), warrants to purchase 325,000 shares of our common stock at an exercise price of \$0.81 per share (the “Series M Warrants” and together with the Shares the “Units”), and 325,000 shares of common stock underlying the Series M Warrants. Each Unit consists of one share of common stock and a Series M Warrant to purchase 0.65 of a share of common stock at a purchase price of \$0.80 per Unit. The Series M Warrants are exercisable beginning six months after their issuance date and thereafter remain exercisable for a period of five years. Concurrently with the issuance of the Units, we have agreed to amend the provisions of the outstanding Series L Warrants we issued on August 16, 2011, such that the exercise price of the Series L Warrants is reduced to \$0.81 per share. In addition, each of the Series L Warrants is modified so that it is (i) not exercisable for six months from the closing of the initial sale of the Units, and (ii) the expiration date of the warrant is extended such that the warrant is exercisable for five years from the delayed initial exercise date. The outstanding Series L Warrants represent the right to purchase up to an aggregate of 643,564 shares of our common stock.

Our common stock is listed on the NASDAQ Capital Market under the ticker symbol “WEST.” On September 29, 2011, the last reported sale price of our common stock was \$0.82 per share.

As of September 27, 2011, there were 11,379,674 shares of our common stock held by non-affiliates. Based on the \$1.58 per share closing price of our common stock on July 28, 2011, the aggregate market value of our outstanding common equity pursuant to General Instruction I.B.6 of Form S-3 was \$17,979,885. The value of all securities we have offered pursuant to that Instruction in the last 12 calendar months (including those offered hereby) is \$5,762,332.

Our business and an investment in our securities involves risks. These risks are described under the caption “Risk Factors” beginning on page S-3 of this prospectus supplement and page 6 of the accompanying prospectus.

We are offering the Units directly to an institutional accredited investor. There are no placement agents purchasing or selling any of the Units or underlying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

September 30, 2011

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT	Page	PROSPECTUS	Page
Prospectus Supplement Summary	S-1	Table of Contents	2
Risk Factors	S-3	About This Prospectus	3
Disclosure Regarding Forward-Looking Statements	S-12	Prospectus Summary	4
Use of Proceeds	S-13	Securities We May Offer	4
Dividend Policy	S-13	Risk Factors	6
Capitalization	S-14	Disclosure Regarding Forward-Looking Information	6
Dilution	S-15	Use of Proceeds	6
Description of Warrants	S-16	Ratio of Earnings to Fixed Charges	7
Overview of Financial Condition, Liquidity and Capital Resources	S-17	Securities We May Offer	7
Plan of Distribution	S-17	Description of Common Stock and Preferred Stock	7
Legal Matters	S-18	Description of Debt Securities	10
Where You Can Find Additional Information	S-18	Description of Warrants	19
		Description of Units	20
		Plan of Distribution	21
		Where You Can Find Additional Information	23
		Information Incorporated by Reference	23
		Experts	24
		Legal Matters	24

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated or deemed incorporated by reference herein or therein. We have not authorized anyone to provide you with information different from or in addition to that contained in this prospectus supplement, the accompanying prospectus or the documents incorporated or deemed incorporated by reference herein or therein. We are not making an offer to sell or seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

The information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated or deemed incorporated by reference herein or therein is complete and accurate as of their respective dates, and may have changed since those dates.

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a “shelf” registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC. This prospectus supplement describes the specific details regarding this offering, including the price, the amount of Units being offered and the risks of

investing in our securities. The accompanying prospectus provides general information about us, some of which, such as the section entitled “Plan of Distribution,” may not apply to this offering. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement. You should read both this prospectus supplement and the accompanying prospectus together with the additional information about us described in the accompanying prospectus in the section entitled “Where You Can Find Additional Information.” The information incorporated by reference is considered part of this prospectus supplement, and information we file later with the SEC may automatically update and supersede this information.

PROSPECTUS SUPPLEMENT SUMMARY

The items in the following summary are described in more detail in this prospectus supplement, the accompanying prospectus and in the documents incorporated or deemed incorporated by reference herein or therein. This summary provides an overview of selected information and does not contain all of the information that you should consider before investing in the units subject to this offering. Therefore, you should also read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein or therein. All references to “Westinghouse Solar,” “Akeena Solar,” “the Company,” “we,” “us,” “our,” and similar terms refer to Westinghouse Solar, Inc. and its subsidiaries on a consolidated basis.

Overview

We are a designer and manufacturer of solar power systems and solar panels with integrated microinverters (which we call AC solar panels). Our products are designed for use in solar power systems for residential and commercial rooftop customers. We design, market and sell these solar power systems to solar installers, trade workers, major homebuilders and do-it-yourself customers in the United States and Canada through distribution partnerships, our dealer network and retail home improvement outlets. We source our components (such as solar panels and inverters) from manufacturers such as Suntech Power Holdings Co. Ltd. (“Suntech”), Light Way Green New Energy Co., Ltd (“Lightway”) and Enphase Energy (“Enphase”).

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. According to data compiled by the California Energy Commission, the Solar Electric Power Association and the New Jersey Clean Energy Program, we had been one of the largest national integrators of residential and commercial solar electric power systems in the United States over the past four years.

As a result of our extensive installation experience, our team of engineers developed AC solar panels that have the racking, wiring, grounding and inverter built-in. We have received four U.S. patents and four international patents for our technology and we have 22 more U.S. and foreign patents pending.

Customer response to the AC solar panels was very favorable; they preferred the aesthetics, reliability, safety and performance of our integrated solar panels over ordinary solar panels. 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. By mid-2010, it became clear to us that the business and profit potential of the design and manufacturing business was better than that of being an installer. Thus, in September 2010, we made the strategic decision to exit our California solar panel installation business and expand our sales of solar power systems to dealers and other solar installers in California, by far the largest solar market in the United States. Our business is now focused solely on design and manufacturing activities, and sales of our solar power systems to solar installers, trade workers, major homebuilders and retailers through distribution partnerships, our dealer network and retail home improvement outlets.

We were formed as a Nevada corporation on July 29, 2005, under the name Fairview Energy Corporation, Inc., and on August 4, 2006, were reincorporated in the State of Delaware. On August 11, 2006, we consummated a reverse merger (the “Merger”) with a privately-held company called Akeena Solar, Inc. (“Akeena-Private”), pursuant to which the privately-held company, renamed Akeena Corp., became a wholly-owned subsidiary of ours and we renamed our company Akeena Solar, Inc. We had been in the development stage since our inception and had not commenced business operations prior to the Merger. Akeena-Private was incorporated in the State of California on February 23, 2001 under the name Akeena, Inc., and on June 2, 2006, was reincorporated in the State of Delaware under the name

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Akeena Solar, Inc. As a result of the Merger, we succeeded to Akeena-Private's line of business as our sole line of business.

On May 17, 2010, we entered into an exclusive worldwide agreement that permits us to manufacture, distribute and market our solar panels under the Westinghouse name. On July 22, 2010, we announced that we will operate under the name "Westinghouse Solar" and, effective July 23, 2010 at the opening of the market, our stock began trading under the stock symbol "WEST" on the NASDAQ Capital Market. We formally changed our corporate name from "Akeena Solar, Inc." to "Westinghouse Solar, Inc.", effective April 6, 2011.

After the close of business on April 13, 2011, we implemented a 1-for-4 reverse stock split of our common stock. All share numbers and per share amounts presented in this report reflect the implementation of that reverse stock split.

S - 1

Corporate Information

Our corporate headquarters is located at 1475 S. Bascom Ave., Campbell, CA 95008. Our telephone number is (408) 402-9400. Additional information about Westinghouse Solar is available on our website at <http://www.westinghousesolar.com>. The information on our web sites is not incorporated herein by reference.

The Offering

Securities offered by us:

· Common stock	500,000 Shares
· Series M Warrants to purchase common stock	325,000 Warrants
· Shares of common stock underlying the Series M Warrants	325,000 Warrant Shares
Common stock to be outstanding after this offering	14,942,907 Shares (including the 325,000 Warrant Shares and the 500,000 shares of common stock underlying the Units offered hereby, the 643,564 warrant shares and 990,099 shares of common stock underlying units issued on August 16, 2011 and the issuance of 686,600 shares of our common stock as a result of the conversion of 1,317 shares of Series B Preferred).

Use of proceeds

We intend to use the net proceeds for general corporate purposes. General corporate purposes may include capital expenditures, future acquisitions, working capital and repayment of debt.

Series M Warrant terms

The Series M Warrants will be exercisable beginning six months after the date of issuance, and thereafter remain exercisable through and until the date that is five years from the date of initial exercisability (that is March 28, 2017), at an exercise price of \$0.81 per share of common stock.

NASDAQ Capital Market symbol

WEST

Risk factors

See “Risk Factors” and other information included in or incorporated into this prospectus supplement and the accompanying prospectus for a discussion of the factors you should carefully consider before deciding to invest in our securities.

The total number of shares of common stock outstanding after this offering is based on 11,797,644 shares outstanding as of June 30, 2011 (which includes 200,422 unvested shares of restricted stock granted to our employees), and excludes:

- shares of our common stock that are issuable upon conversion of our Series B 4% Convertible Preferred Stock (the “Series B Preferred”) - at June 30, 2011 there were 3,590 outstanding shares of Series B Preferred, then convertible

into 1,795,000 shares of our common stock based on the original conversion price of \$1.80 per share, and at September 27, 2011 there were 2,273 outstanding shares of Series B Preferred, convertible into 2,557,125 shares of our common stock based on an adjusted conversion price of \$0.80 per share. Since June 30, 2011, 686,600 shares of common stock have been issued upon conversion of 1,317 shares of Series B Preferred.

- 992,254 shares of common stock issuable upon exercise of outstanding stock options at a weighted average exercise price of \$6.08 per share, under our stock plans;
- 3,264,000 additional shares of common stock reserved for issuance under various outstanding warrant agreements, at a weighted average exercise price of \$5.59; and
- 2,305,980 additional shares of common stock reserved for future issuance under our 2006 Incentive Stock Plan.

As a result of the sale of the Units, (i) pursuant to the terms of the outstanding Series B Preferred, the conversion price of the Series B Preferred will be reduced from \$1.01 per share of common stock to become \$0.80 per share of common stock, and (ii) pursuant to the terms of the outstanding Series K Warrants to purchase 1,700,002 shares of common stock, the exercise price per share of those warrants will be reduced from \$1.01 per share of common stock to become \$0.80 per share of common stock.

RISK FACTORS

Risks Relating to Our Business

Investing in our securities involves a high degree of risk. You should consider the following risk factors, as well as other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, before deciding to purchase any shares of our units offered herein. The risks and uncertainties described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks occur, our business, financial condition or results of operations could suffer, the market price of our common stock could decline and you could lose all or part of your investment in our securities.

We may fail to realize some or all of the anticipated benefits of our shift to a design and manufacturing business model in California and throughout North America, which may adversely affect the value of our common stock.

The success of our exit from the solar system installation business in California in September 2010, and our shift to focus exclusively on a design and manufacturing 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 manufacturing business. California is the largest state in the country for solar products, accounting for approximately 50 percent of the U.S. market, and we are only beginning to develop distribution channel partners in California.

If we are not able to achieve the expansion of our design and manufacturing 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 manufacturing business model include, among other things:

- failure to arrange for cost competitive manufacturing of our proprietary solar panels;
- failure to find and develop distribution relationships with new channel partners, particularly in the California market;
- failure to successfully manage existing distribution relationships;
- the loss of key employees critical to the ongoing operation of our business;
- 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 in our business model may result in additional or unforeseen expenses, and the anticipated cost reduction benefits may not be realized.

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; our suppliers are dependent upon the continued availability and pricing of silicon and other raw materials used in solar modules.

We currently obtain virtually all of our solar panels from Suntech and from Lightway, which manufacture panels for us that are built to our unique specifications. On March 25, 2011, we entered into a supply agreement with Lightway, which provides an additional source of supply for our proprietary Westinghouse solar panels and more favorable pricing, however we have just recently begun receiving product shipments from this new source of supply. We currently purchase all of the microinverters used in our AC solar panels from Enphase. Although we believe that our commercial relationship with each of these suppliers is good, and although we had a significant amount of inventory on hand as of June 30, 2011, the sudden loss of either of our current primary component supply relationships could cause a delay in manufacturing and be disruptive to our operations.

S - 3

It is critical to the growth of our revenue that our products can be offered at competitive pricing. We believe that we will need to reduce the unit production cost of our products over time to 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 these 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. We cannot ensure that the prices charged by our suppliers will not increase because of changes in market conditions or other factors 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.

Our suppliers are dependent upon the availability and pricing of silicon, one of the main materials used in manufacturing solar panels. In the past, the world market for solar panels experienced a shortage of supply due to insufficient availability of silicon. This shortage caused the prices for solar modules to increase.

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, 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.

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

In connection with our exit from the solar system installation business in California, 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 or will bring to completion as we transition out of the installation business (the "WS Installations"). We retain secondary warranty responsibility on the WS Installations, in the event that Real Goods fails to perform the warranty. We will 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 WS Installations a 5-year or a 10-year warranty. We have accrued, and included within "Liabilities of Discontinued Operations" in our condensed consolidated balance sheets for June 30, 2011 and December 31, 2010, a liability of approximately \$1.2 million to cover these warranty obligations. That amount is intended to cover both the WS Installations and the Assigned Installations. 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 the \$200,000 into an escrow fund. The amount is reflected in long-term assets of discontinued operations in our condensed consolidated balance sheets. The escrow deposit will be released to us in the amount of \$40,000, or one-fifth of the remaining escrow funds, per year after each of the fifth through the ninth anniversary of the escrow agreement. If Real Goods fails to perform under the assigned warranty coverage, or 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.

Impairment charges could reduce our results of operations.

In accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 350, Goodwill and Other Intangible Assets (ASC 350), we test goodwill and other intangible assets with indefinite useful lives for impairment on an annual basis, and on an interim basis if an event occurs that might reduce the fair value of the reporting unit below its carrying value. We also assess the fair value of our inventory and other tangible assets as of the end of each reporting period. As a result of our exit from the installation business, we impaired approximately \$2.0 million for inventory, equipment and other assets no longer needed in our business. We may determine that further asset impairment charges are needed in the future. Although any such impairment charge would be a non-cash expense, further impairment of our tangible or intangible assets could materially increase our expenses and reduce our results of operations.

We are exposed to risks associated with the ongoing financial crisis and weakening 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 and weak global economy are contributing to an ongoing slowdown 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 our customers to push out, cancel, or refrain from placing orders, which may reduce our net sales. Difficulties in obtaining capital and deteriorating 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 Westinghouse Solar. 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.

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

Our Andalay 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 Andalay 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 key claims of our Andalay solar panel technology, and we are asserting claims of infringement of our patent rights in a lawsuit. Lawsuits and re-examination proceedings in the United States or elsewhere could challenge the scope or enforceability of our patent claims. 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.

S - 5

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 believe that the “Westinghouse” name has significant value and recognition in the North American market, and that our “Andalay” brand has gained substantial recognition by customers in certain geographic areas. We have registered the “Andalay” trademark with the United States Patent and Trademark Office. 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.

The success of our business depends on the continuing contributions of Barry Cinnamon and other key personnel who may terminate their employment with us at any time, and we will need to hire additional qualified personnel.

We rely heavily on the services of Barry Cinnamon, our Chief Executive Officer, as well as several other management personnel. Loss of the services of any such individuals would adversely impact our operations. In addition, we believe our technical personnel represent a significant asset and provide us with a competitive advantage over many of our competitors and that our future success will depend upon our ability to retain these key employees and our ability to attract and retain other skilled financial, engineering, technical and managerial personnel. None of our key personnel are party to any employment agreements with us and management and other employees may voluntarily terminate their employment at any time. We do not currently maintain any “key man” life insurance with respect to any of such individuals.

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. 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.

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.

S - 7

Risks Relating to our Common Stock

If our shareholder's equity falls below \$2.5 million or if the trading price of our common stock remains below \$1 per share or we fail to satisfy any other listing criteria, our common stock could be delisted from the NASDAQ Capital Market.

We must meet NASDAQ's continuing listing requirements in order for our common stock to remain listed on the NASDAQ Capital Market. The listing criteria we must meet include, but are not limited to, a minimum bid price for our common stock of \$1.00 per share and a minimum shareholders' equity of \$2.5 million. Effective after the close of business on April 13, 2011, we implemented a reverse split of our common stock at a ratio of 1-for-4. As a result of the reverse stock split, since April 14, 2011 our common stock then traded above \$1 per share. However, as of March 31, 2011, we had approximately \$2.2 million of shareholders' equity and, as of June 30, 2011, our shareholders' equity was \$1.1 million. Failure to meet NASDAQ's continued listing criteria may result in the delisting of our common stock on the NASDAQ Capital Markets.

On July 13, 2011, we received a written notification (the "Staff Determination") from the Listing Qualifications Department of The NASDAQ Stock Market stating that our common stock was subject to delisting from The NASDAQ Stock Market because our stockholders' equity was less than \$2.5 million as required by the listing rules. On August 25, 2011, we had a hearing before The NASDAQ Hearings Panel (the "Panel") to review the Staff Determination. At the hearing, we presented a plan to regain compliance, and requested that the Panel allow us additional time within which to regain compliance.

On September 27, 2011, we received a letter from The NASDAQ Stock Market notifying us that the Panel granted our request that our common stock remain listed on the NASDAQ Stock Market, subject to the following conditions:

- **Stockholders' Equity Requirement** . On or before November 14, 2011, we must (i) file with the Securities and Exchange Commission a quarterly report on Form 10-Q for the quarter ended September 30, 2011, which reflects that our stockholders' equity is in excess of \$2.5 million, and (ii) provide the Panel with updated projections showing continued compliance with the stockholders' equity rule through 2011.
- **Hearings Panel Monitoring** . Until March 30, 2012, we will be under an obligation to notify a Hearings Panel Monitor, designated by the Panel, in the event (i) our stockholders' equity falls below \$2.5 million, or (ii) we fall out of compliance with any other applicable listing requirement. Should we not maintain compliance with the stockholders' equity requirement and we do not qualify for listing under an alternative to such rule during the monitoring period, the Hearing Panel Monitor will promptly conduct a hearing with respect to such deficiency, and we may be subject to delisting on a more expedited basis than would otherwise be the case.